



Greetings....we are quickly coming to the end of another unique and challenging year. We hope that you and your families have remained safe and healthy in these trying times. Nonetheless, it is time to be thinking about year-end tax planning as well as preparing for 2022 and beyond. The 2021 tax rules are very similar to many of the rules for tax year 2020, but we anticipate significant changes to be coming for 2022. Congress will likely not pass new tax legislation until early 2022. Please take a few moments to review this summary and please consult with us on any impact regarding your particular situation.

- **Tax Rates** – As in years past, planning for your marginal tax rate continues to be the most solid tax planning strategy. For singles, the cut-off from the lowest 12% bracket to the 22% bracket is \$40,525 of taxable income (income after deductions). For married filers, the cut-off is \$81,050 (income after deductions). For income over \$523,600 for singles and \$628,300 for marrieds, the highest rate bracket remains 37%. Taxpayers whose income exceeds \$200K single and \$250K married are still liable for an additional 0.9% Medicare tax on wages as well as a 3.8% Net Investment Tax on investment earnings.
- **Itemized Deductions** – Many taxpayers are now utilizing the \$25,100 (married) or \$12,550 (single) standard deduction, however, it is still prudent to accumulate your itemized deductions just in case you can itemize (medical expenses, state, local and property taxes, charitable donations and mortgage interest expense).
- **Medical Expenses** – Medical expenses (to include: long-term care costs) remain deductible subject to the 7.5% of AGI limitation. Health insurance, Medicare and supplemental insurance are included as part of this deduction.
- **Taxes** – State and local income taxes, sales taxes and real estate taxes are still capped at an annual \$10,000 maximum deduction per year.
- **Mortgage Interest** – Mortgage interest on a mortgage secured by the principal and/or second residence remains deductible on indebtedness of up to \$750,000. (\$1,000,000 for homes that were mortgaged prior to 12/16/17 or under binding contract before such date and closed by April 1, 2018). Please consider a refinance of your mortgage with the current record-low interest rates.
- **Investment Interest** – Investment interest expense (i.e., margin interest) remains deductible as an itemized deduction.
- **Home Equity Interest** – Home equity interest is not deductible unless it can be proven that the debt incurred was used to buy, build or substantially improve your home. If you used the home equity line to pay off credit card bills or buy a vehicle, etc., the interest is not deductible.

- **Charitable Donations** – The above the line deduction remains for 2021 of up to \$300 of charitable donations for singles and has increased to \$600 for married couples regardless of whether you can itemize. In order to benefit from additional charitable donations as an itemized deduction, you may want to consider strategies such as moving two years of charitable giving in to one year, donating appreciated stocks, maximizing non-cash contributions, utilization of qualified RMD donations from your IRA, etc. Make certain you are giving to a recognized IRS Section 501-c(3) charity in order to secure your tax deduction.
- **Economic Stimulus – Round 3** – If you did not receive your \$1,400 (per eligible person) economic stimulus check, we will be able to retrieve the payment through the 2021 tax filing. Note, the stimulus payment is not considered taxable income.
- **Unemployment Benefits** – If you received unemployment benefits at the state or federal level keep in mind that these benefits are taxable and in some cases could result in lost credits and deductions (e.g., earned income credit, etc).
- **IRS Identity Theft** – Identity theft, fraud and scams continue to be at an all-time high. Should you receive a notice from the IRS or a call or email from someone representing they are from the IRS please DO NOT provide any information to them. The IRS does NOT initiate contact via email or telephone. Additionally, more and more taxpayers are being issued a 6-digit IP PIN number to help mitigate identify theft. If you receive an IP PIN, please ensure that you provide it to us for filing purposes or the return will reject.
- **Alimony** – For divorces that finalized after December 31, 2018, alimony is no longer a tax deduction to the payor and is no longer taxable to the payee.
- **Estate Tax and Gift Tax** – The federal gift and estate tax exemption is currently set at \$11.7 million per person in 2021. The annual gift tax exclusion is \$15,000 per year per donee. Gifts in excess of this amount require an annual gift tax filing with the IRS due April 15. Portability is still a major issue to consider.
- **Required Minimum Distributions on IRAs** – Owners of Traditional IRA's are not required to take a mandatory distribution until Age 72 (formerly age 70.5). And in 2020, all RMD requirements were waived, but that is not the case for 2021.
- **Qualified Charitable Gifting from IRA** - IRA owners that are eligible to take a RMD may also make tax-free qualified distributions to a charity directly from their IRA. This is a key planning point under the current tax law as itemized deductions are harder to achieve and can be a great planning opportunity.
- **Capital Gains and Qualified Dividends** – There remains a huge opportunity for the federal 0% capital gain. This is open to you if you are in the 10% or 12% tax bracket. The 15% rate on both long-term capital gains and qualified dividends remains in effect, if you are in the 22% bracket or above. There is still a higher 20% capital gain rate for taxpayers in the highest tax brackets.
- **Health Savings Accounts (H.S.A.)** – Consider having a H.S.A. if you have a high deductible health insurance policy (\$1,400 or more for singles and \$2,800 for families). This can provide beneficial deductions for your out-of-pocket medical expenses. The 2021 contribution limits are \$3,600 for singles and \$7,200 for a family. Contributions must be made by April 15, 2022. Catch-up contributions of

up to \$1,000 per year are allowed for folks age 55 or older. People enrolled in Medicare can't contribute to H.S.A's.

- **Conversions to Roth IRAs** – Once again for 2021, traditional IRAs can be converted to Roth IRAs without earnings restrictions. This can be a very solid strategy if you have excess room in the 12% tax bracket to absorb the conversion. If you expect your tax rate to be higher in retirement than the rate you will pay on the conversion, this can be very advantageous to complete now.
- **Electric Vehicle Credit** – Presently the federal income tax credit ranges from \$2,500 to \$7,500. It applies only to the purchase of new electric cars and is subject to various limitations.
- **Child Tax Credits** - In January 2022, the IRS will send you Letter 6419 to provide the total amount of advance Child Tax Credit payments that were disbursed to you during 2021. Please keep this letter regarding your advance Child Tax Credit payments and provide us with a copy of it. We will need to refer to this letter when we prepare your 2021 tax return.
- **Medicare Part B Premium Increase** – Monthly Medicare Part B Premiums for 2022 will increase to \$170.10 per month for filers if their joint income for 2020 exceeded \$182,000 and \$91,000 for singles.
- **Solo 401k Plan** – If you are self-employed with no employees a “Solo K” can give you the ability to defer up to \$58,000 of income per year.
- **Virtual Currency** – If you deal in virtual currency, please be aware that virtual currency transactions are taxable and must be reported to the IRS.
- **Foreign Bank Accounts** – If you have any bank accounts located in foreign countries, make sure that you are reporting this to us annually as separate reporting of these accounts is required and penalties for non-compliance are very significant.

SELECTED BUSINESS ITEMS FOR 2021

- **Paycheck Protection Program Loans** – **If you received a PPP loan in 2021 and you were forgiven of the loan by the SBA, the loan forgiveness will NOT be considered taxable income.**
- **Employee Retention Credit** – The employee retention credit ended on September 30, 2021. It was supposed to cease at year-end, but Congress retroactively terminated it early.
- **Asset Purchases - Bonus Depreciation** – Businesses can deduct 100% of the cost of assets with useful lives of 20 years or less that are put into service during 2021. This includes: machinery, equipment, land improvements and some farm structures. Leasehold improvements to commercial building interiors can be eligible as well. Please note that for state tax this may not apply.
- **Section 179 Expensing Deduction** - For 2021, you may be able to expense up to \$1,050,000 of qualifying property placed in service – new or used. The amount phases out as you exceed \$2,590,000 in total assets placed in service during the year. Buyers of certain SUVs weighing between 6,000-14,000 lbs can deduct up to \$25,000 through this election. **Important note: to qualify for a 2021 Section 179 election, the asset must be placed in service (meaning you must physically have it and utilize it for business) by December 31 – with no exception.**

- **Qualified Business Income (QBI) Deduction** – Businesses may be entitled to a deduction of up to 20% of their qualified business income from a qualified trade or business. The QBI is very complex and tax planning strategies can directly affect the amount of the deduction, so planning and analysis is of the utmost importance.
- **Consider Hiring Family** – If you decide to hire family members, pay a reasonable salary for the work actually performed. You may be able to provide tax-deductible fringe benefits as well as save on payroll taxes. This strategy can be beneficial to shift income to lower tax brackets.
- **Retirement Plans** – Consider setting up a retirement plan for your business – Simple IRA, SEPs, 401(k)s – There are many options and these plans can be key significant tax liability savings. In certain cases, up to \$58,000 of income can be sheltered from taxation through these plans.
- **Credit Cards** - Keep in mind that business expenditures incurred on a major credit card (not a store card) are deductible in the year in which they are incurred.

PLANNING IDEAS: You may be able to reduce your taxes by controlling the payment of deductible expenses and the timing of the collection of income. Several strategies to consider may include:

- **State and Local Taxes** - Pay all state and local income taxes (4th Qtr Estimated Payments) and full-year real estate taxes prior to the end of the year (by 12/31/21). Postmark validation required.
- **Maximize your contributions to employer-sponsored retirement plans and IRAs – this is so important and can be so beneficial from a deduction standpoint.**
- **Education** - It may be beneficial to pay 2022 tuition in 2021 to take advantage of the American Opportunity Tax Credit worth up to \$2,500 per student to cover the cost of tuition, fees and course materials paid during the taxable year. **Form 1098-T is required from the college for the tax filing – typically the student has access to this through the college website – we must receive this form.**
- **Charitable Donations.** Make year-end donations to qualified charitable organizations. Use your credit card or mail your check as late as December 31.
- **Medical Expenses** – Try to bunch medical expenses. For example, trying to pay medical bills in one year bunched together instead of two years can give you a better chance of exceeding the thresholds.
- **Section 529** – College Savings Plan Contributions must be made by 12/31/21. **Consider a one-time gift of up to \$75,000 to a 529 plan for college planning.**
- **Please contact us to see if you have a capital-loss carry-forward from 2020 and make your investment advisor aware of it before year-end for utilization of losses against capital gain income. This can be a key planning strategy.**
- **Keep good mileage logs.** The 2021 standard mileage rate for business is 56 cents per mile. Please provide us with copies of your mileage logs for our records as the IRS is requesting these on a frequent basis and requires a sufficient log be kept.

- **Plan Beneficiaries** – review your retirement plan and life insurance beneficiaries to ensure that no changes are necessary – VERY IMPORTANT ANNUALLY.
- **W-4** Complete a new Form W-4 for your employer to adjust tax withholding.

IMPORTANT FIGURES FOR 2021/2022

SOCIAL SECURITY LIMIT FOR WAGE EARNERS FOR 2022: \$147,000

RETIREMENT PLAN CONTRIBUTION LIMITS*:

	<u>YEAR 2021</u>	<u>YEAR 2022 (estimated)</u>
IRA(REG/ROTH)	\$6,000	\$6,000
SIMPLE IRA	\$13,500	\$14,000
401K/403B/SEP	\$19,500	\$20,500

**NOTE: IF YOU ARE OVER AGE 50, YOU ARE ELIGIBLE TO CONTRIBUTE ADDITIONAL CATCHUP AMOUNTS DEPENDENT ON THE TYPE OF PLAN– PLEASE CALL FOR DETAILS.*

In closing, we wish all of you a Happy New Year. It has been our pleasure of assisting you in this trying year and always. Tax organizers will be mailed out in early January. We are looking forward to seeing you again this year and will continue to offer the opportunity to do meetings by way of Zoom along with in-person.. We would also encourage you to utilize our drop box on the driveway side of our building for any after-hour drop-offs. If you have any questions, please contact our office.

Yours very truly,

All of us at Boal and Associates CPAs

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