Jonni Marie Fonseca, EA & Allan S. Boress, CPA
2021 Year-End Tax Planning Letter

Dear Clients and Friends:

What a year it's been! So far, we have had to cope with a global pandemic, extreme political division and a series of natural disasters—just to mention a few noteworthy occurrences. These events have complicated tax planning for individuals and small business owners.

What's more, new legislation enacted the last couple of years has had, and will continue to have, a significant impact. First, the Coronavirus Aid, Relief, and Economic Security (CARES) Act addressed numerous issues affected by the pandemic. Following soon after, the Consolidated Appropriations Act (CAA) extended certain provisions and modified others. Finally, the American Rescue Plan Act (ARPA) opens up even more tax-saving opportunities in 2021.

And we still might not be done. New proposed legislation is currently being debated in Congress. If another new law is enacted before 2022, it may require you to revise your year-end tax planning strategies.

This is the time to assess your tax outlook for 2021. By developing a year-end plan, you can maximize the tax breaks currently on the books and avoid potential pitfalls.

Keeping all that in mind, we have prepared the following **2021 Year-End Tax Letter**. We challenge you to find another accounting firm that offers more ideas to have their clients save money on taxes. The letter is divided into four sections:

Executive Summary

Part 1: 19 Ideas for Immediate Tax Savings for YOU
Part 2: 14 Tax Planning and Savings Ideas for Your Business
Part 3: 7 Tax Planning and Savings Ideas for Your Investments
Part 4: 2 Warnings for Business Owners

Be aware that the concepts discussed in this letter are intended to provide only a general overview of year-end tax planning. It is recommended that you contact us with any questions.

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Part 1: Immediate Tax Saving Ideas for Individuals (for 2021)

Tax Saving Idea #1: Open and fund a Health Savings Account

An HSA is a great way to save money on your 2021 taxes now! Unfortunately, most people don't understand the concept, and that's where we come in. We want you to keep more money in your pocket than send it to those folks in Washington.

An HSA is merely a savings account that you pay your medical bills (not your health insurance) out of. Examples: dentist, co-pays, eyeglasses, doctor visits, prescriptions, etc.

You will get a $1 deduction for each dollar invested.

The moment you put money into an HSA, it becomes a tax deduction! And, if there are unused dollars in the account at the end of the year, it rolls over to the following year(s). We have clients with 5 figures in their HSAs from previous years just waiting in case they need it for an emergency.

And, the money in your HSA can be invested in a money market fund or in mutual funds. HSAs earn money while they are not being used - and you get a tax deduction when you put money in them.

Many clients use healthequity.com as an HSA bank (they have videos, tutorials, etc.). The HSA bank gives you a debit card, and when you go to the doctor, dentist, etc. and have to cough up a co-pay, pay for a visit, or for a prescription, you give them the card and they charge their fee against it – just like a regular debit card except you get a tax deduction! You can electronically setup transfers from your personal checking account to the HSA so you can transfer money at any time. It's a snap.

HSA owners can choose to save up to $3,600 for an individual and $7,200 for a family (HSA holders 55 and older get to save an extra $1,000 which means $4,600 for an individual and $8,200 for a family) - and these contributions are 100% tax deductible from gross income. Multiply your contribution by your tax bracket (say, 24%) and you can see the fabulous tax savings from opening an HSA. A family maxing out their HSA (parents not over 55) in the 24% tax bracket **would save $1,728 in income taxes without spending any money!!!** What a country!

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You can make HSA contributions for 2021 until April 15, 2022.

Note! If you are covered by a "low deductible health insurance plan" at work, or are on Medicare, an HSA is not an option. HSAs are okay if you have a "high deductible" plan. Here is the definition per the IRS:

For calendar year 2021, a "high deductible health plan" is defined under § 223(c)(2)(A) as a health plan with an annual deductible that is not less than $1,400 for self-only coverage or $2,800 for family coverage, and the annual out-of-pocket expenses (deductibles, co -payments, and other amounts, but not premiums) do not exceed $7,000 for self-only coverage or $14,000 for family coverage."

Thus, it is indeed possible to have an HSA if you are a family and have a deductible on your health insurance of $2,800 or more.

Year-end action*: Go online and look for "open HSA account" on google. You will find dozens of financial institutions where you can open an HSA immediately and save taxes in 2021. If covered by a health insurance plan at work, ask HR if it is a "high deductible health plan".*

Tax Saving Idea #2: Maximize your 401 (k) and IRA contributions immediately!

If you are tired of overpaying taxes, maximize your 401(k) plan contributions by year-end to boost retirement savings. The maximum contribution for 2021 is $19,500 ($26,000 if you are 50 or older).

Example: If you are in the 24% tax bracket (meaning the last dollar is taxed at that rate – not unusual for our clients) you will save 24 cents in taxes for every dollar you sock away in your 401k plan! That would work out to a tax savings of almost $4,700 if you contribute $19,500 to your 401(k) by year end (and a larger savings if you are in a higher tax bracket, as many of our clients are).

Forget what the employer matches! That's great, but if you are putting away, for example, $5,000 because they match that amount, *you are losing on the tax savings of almost $3,500* if you do not contribute up to the maximum deferral of $19,500 ($26,000 if age 50 or older).

Note: this money is not lost or untouchable; if you must get your hands on it, you can borrow against your plan (if the plan allows it) without incurring negative tax consequences (penalties and taxes) unless you leave your job. We do not recommend borrowing against one's 401(k) as a matter of course, but you can get your hands on it without paying taxes. Note: If you leave your

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job with unpaid loans against your 401K, the loan amount **becomes immediately taxable.**

Here's another huge benefit of a "deferred compensation" plan: the money you invest grows tax free until you take it out. Your money can grow exponentially if you aren't paying tax on the growth as time progresses.

Roth 401K's versus Traditional 401K's?

We get lots of questions about how one should contribute to their 401K: should it be the traditional contribution, or a Roth contribution?

A "traditional" contribution is one where you are getting a tax break on what you invest in the plan (see above example). Yes – you get a beautiful tax deduction by investing in your traditional 401K, but you will pay income tax on it when you take it out. A "Roth" contribution gets you NO TAX ADVANTAGE when you contribute (you don't save any taxes), but you will not pay tax when you remove the money.

So – what should you do? We have seen numerous studies where comparisons are made between these two options. And… nothing we have seen definitively says do one or the other to maximize your tax savings and investments. Thus, many taxpayers split their 401K contributions if they would like to contribute to a "Roth" plan and then save taxes by putting some money in a "Traditional" plan.

If you believe taxes will increase in the future, you might consider a Roth 401k if it is offered by your employer, as you would be saving more in taxes THEN, than if you saved money at today's (historically low) tax rates.

What about IRA's?

Similarly, you need to max out your IRA up to $6,000 (add $1,000 if over 50). And, if you are employed, you can open a spousal IRA for your honey with the same benefits and limits up to $6,000 (add $1,000 if over 50). You have until April 15, 2022 to open and IRA for 2021. Note: There are very important limitations on investing in IRA's if you or a spouse are already covered by a qualified plan at work (a 401K, 403B, etc). Contact us first to make sure you qualify.

Note – if you make too much money to open a DEDUCTIBLE IRA for 2021, you may qualify for something called a "back-door Roth IRA." This is where you make a contribution to an IRA, THAT YOU CANNOT DEDUCT. Thus, it becomes a non-deductible IRA (which must be notated on your tax return). This IRA did not get you a tax deduction in 2021, but because it is an

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IRA, you can convert it to a Roth IRA immediately (which you could not have done if you had merely taken out a Roth IRA.) Confused yet?

Year-end action: Max out your 401K plan and/or IRAs to save on 2021 taxes

Tax Saving Idea #3: Education Deductions and Tax Credits

The tax law provides certain tax benefits to parents of children in college, but within limits. Currently, you may still deduct one of two higher-education credits.

For 2021, you may claim either the American Opportunity Tax Credit (AOTC) or the Lifetime Learning Credit (LLC). The maximum AOTC is $2,500 and is available for qualified expenses paid for each student. Conversely, the maximum LLC is $2,000 and is available only on a per-family basis. Thus, the AOTC is usually preferable to parents. Both credits are subject to phase-outs based on modified adjusted gross income (MAGI).

Qualified expenses generally include tuition, related expenses (e.g., student activity fees) and books, as well as supplies and equipment (laptops, iPads, etc.) if they are required to be paid directly to the school. But room and board, health insurance and certain other fees do not qualify.

Very important for upper-income taxpayers: Often, taxpayers make too much money to get these education deductions or credits, and they are lost. If you decide to have us do your taxes for 2021 or 2022, rest assured that we will try to get this deduction/credit for you - or on your child's tax return - depending on how the family benefits most.

Year-end action: Pay qualified expenses for next semester by the end of the year. Generally, the costs will be eligible for either credit in 2021, even though the semester does not begin until 2022.

Tax Saving Idea #4: Make More Cash Contributions to Charities (If you Itemize)

Uncle Sam is very generous with other people's money. It's time you cashed in! Most people don't realize how much Uncle Sam kicks in when they donate to church or other qualified organizations. A cash contribution of $1,000 at the end of the year saves someone $320 in taxes if they are in the 32% tax bracket.

There are plenty of worthy causes for individuals to donate to in 2021, including disaster aid relief. Besides helping out victims, itemizers are eligible for generous tax breaks.

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TAX TACTIC: Step up your charitable giving at the end of the year. Then you can reap the tax rewards on your 2021 return. This includes amounts charged to your credit card in 2021 that you do not actually pay until 2022.

Under the CARES Act, and then extended through 2021 by the CAA, the annual deduction limit for monetary donations is equal to 100% of your adjusted gross income (AGI). Theoretically, you can eliminate your entire tax liability through charitable donations.

Conversely, if you donate appreciated property held longer than one year (i.e., long-term capital gain property), you can generally deduct an amount equal to the property's fair market value (FMV). But the deduction for short-term capital gain property is limited to your initial cost. In addition, your annual deduction for property donations generally cannot exceed 30% of your AGI.

Tip: If you do not itemize deductions, you can still write off up to $300 of your monetary charitable donations. The maximum has been doubled to $600 for joint filers in 2021

Tax Saving Idea #5: Make Non-Cash Contributions to Charities (If you itemize)

In addition to cash contributions, you can also deduct NON-CASH contributions. We have discussed with many of you the importance of donating used clothing, furniture, household items to Salvation Army, etc. *This is FREE MONEY as you are saving taxes by donating items you have no further need of*.

Example: You have a men's shirt in your closet in excellent condition. It has been rarely worn as you didn't like it. Uncle Sam will give you a tax deduction of $12.60 if it is in excellent condition. In the 32% tax bracket, you just saved $3.78 in taxes for something sitting in your closet. How about a man's suit in excellent condition? Worth $63 in deductions. We have compiled a list created by the Salvation Army and the IRS delineating values for almost every item in your home at very generous deductions. Just email us at tax@allancpa.com and we will shoot you a copy, or simply go to our secure portal and click "public" and then "tools" for your own copy.

Also, if you have property that you have owned more than one year that has GONE UP in value (e.g. stock), you can usually deduct the property's CURRENT FAIR MARKET VALUE if contributed to a qualified charity. For example, you bought a share of stock for $10 and now it is worth $50. If you donate it DIRECTLY to a qualified charity, you get a $50 tax deduction. If you sold it, and then donated it, you would pay tax on the gain ($6) negating a good portion of the tax savings from the contribution.

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And – if you keep track of the miles you drive related to any qualified charitable activity, there is a deduction for that as well. Just let us know, and we can take it.

Year-end action: Step up charitable giving at year-end. For instance, if you charge a charitable gift by credit card in December, it is deductible on your 2021 return, even if you don't pay until January or later. Conversely, if you expect to be in a higher tax bracket in 2022 than 2021, you might postpone large gifts to 2022 when they will be more tax-beneficial. (We are NOT condoning the use of credit cards.)

Tax Saving Idea #6: Use the Child Tax Credit

ARPA provides several key enhancements to the Child Tax Credit (CTC) for the 2021 tax year.

TAX TACTIC: Take full advantage of the latest rules for the CTC. Notably, ARPA includes the following changes that may benefit your family.

* The maximum credit increases from $2,000 to $3,000 for a qualifying child ($3,600 for qualifying children under age six).

* The definition of a qualifying child expands to include children under age 18 at the end of the year (up from age 17).

* The credit is fully refundable. Previously, only $1,400 was refundable.

* Although the credit begins to phase out at lower income levels, taxpayers adversely affected by these new ranges can elect to claim the $2,000 credit under the prior rules.

Finally, the IRS began making advance payments of the CTC during the second half of the year. But you may choose not to receive advance payments (or you can stop now).
Tip: Do not forget that the advance payments will be reflected on your 2021 return. This may result in a smaller tax refund than you were expecting.

Tax Saving Idea #7: Take Advantage of the Medical Deduction

The tax law allows you to deduct qualified medical and dental expenses above 7.5% of AGI. This threshold was recently lowered from 10% of AGI. What's more, the latest change is permanent.

To qualify for a deduction, the expense must be for the diagnosis, cure, mitigation, treatment or prevention of disease or payments for treatments affecting any structure or function of the body.

However, any costs that are incurred to improve your general health or well-being, or expenses for cosmetic purposes, are nondeductible.

TAX TACTIC: If you expect to itemize deductions and are near or above the AGI limit for 2021, accelerate non-emergency expenses into this year, when possible. For instance, you might move a physical exam or dental cleaning scheduled for January to December. The extra expenses are deductible on your 2021 return.

Note that you can include expenses you pay on behalf of a family member—such as a child or elderly parent—if you provide more than half of that person's support.

Tip: The medical deduction is not available for expenses covered by health insurance or other reimbursements.

Tax Saving Idea #8: Take a deduction for (nearly) worthless securities

Have you got stocks with zero value on your stockbroker account statement? (We do…) Maybe you bought an internet stock years ago and it went out of business. It's worth nothing to sell, but Uncle Sam will let you save big tax dollars by declaring it on your tax return as worthless. Just let us know what the stock is, when you bought it, and what you paid (should all be available from your broker). Then we can deduct up to $3,000 a year until it is used up. Multiply $3,000 times your tax bracket (say, 32%) and you get your savings (e.g., $960). See – that stock wasn't worthless after all!

Year-end action: Call your broker and sell off those worthless stocks. If they tell you there isn't a market for them, make sure we know about it so we can take it on your 2021 return.

Tax Saving Idea #9: Sell loser stocks if you have reaped capital gains this year

Similarly, you need to consider selling loser stocks this year if you have taken capital gains (or could, if you sold some winning stocks). Most people hold onto losers and sell winners, not realizing they could pay zero tax possibly by simply selling some of their losers to the amount of the gain of the winners. Example: You have $10,000 in profit on Apple stock you bought this year. You have Alcatel/Lucent stock you have lost $10,000 on. Sell them both and pay zero tax – just like the uber-rich do!

Year-end action: See what losers you can sell to negate your winners this year.

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Tax Saving Idea #10: Sell Stocks that have Gone up in 2021

We expect taxes to increase significantly. Based on what the current administration wants, you could pay twice the amount of tax on sales of securities in 2022. Right now, in 2021, there are the lowest capital gains taxes ever. And, the market has risen this year, so you might want to sell some of your winners just to pay lower taxes than if you sold next year.

Tax Saving Idea #11: Buy a Car this Year to Save on Taxes, if You Itemize

Big ticket items like cars, boats, RVs, airplanes (!), and motorized golf carts are given special treatment and we get to take an extra tax deduction for sales tax on those items.

Year-end action: consider buying a new or used car for yourself or your spouse, or any other dependent and reap a sales tax deduction if you itemize.

Tax Saving Idea #12: Charitable Contributions from IRAs

How it works: You take $2,500 from your IRA and have the IRA transfer it to a qualified charity directly. Why is it great? Well, there is always charitable giving, which is wonderful, and you save the penalties in removing the money from the IRA by getting it to the charity directly. Also, for those over 70 ½, it is a great way to make your Required Minimum Distribution from your regular IRA.

Tax Saving Idea #13: Family Income-splitting

Family income-splitting is often used by the wealthy, but you can, too. It is even more meaningful in 2021. The top tax rate is 37% while the rate for taxpayers in the lowest income tax bracket is 10%. Thus, the tax rate differential between you and a low-taxed family member, like your child, could be 27%, could be as much as 3.8% more due to the Medicare surtax for folks who make over $200,000 (Single Adjusted Gross Income) or $250,000 (Married AGI).

Year-end action: Shift interests in income-producing property, such as securities, to other family members through direct gifts or trusts. Remember, however, that you are giving up control over those assets.

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Also, be aware of the "kiddie tax." Unearned income (dividends, interest, capital gains, royalties, etc.) above $2,000 received in 2021 by a child younger than 19 or a full-time student younger than 24 is generally taxed at the top marginal tax rate of the child's parents. Thus, if you're contemplating a shift of income-producing property to your child, don't forget to take the kiddie tax into account.

Tax Saving Idea #14: Buying Back Stocks

You might want to sell some of your winning stocks, pay some capital gains taxes, and *repurchase them immediately*.

If you sell a loser stock, and rebuy it or something similar in 30 days, the IRS dismisses the transaction as if it didn't exist and you get no tax benefit. But – if you have stocks with built in capital gains, you might want to sell them in 2021 if you have less income this year than to be expected in 2022, thus locking in more beneficial capital gain rates.

Tax Saving Idea #15: Pay Real Estate Taxes Now

You can pay your real estate taxes before the end of the year if you want to take that deduction in 2021. If you do not think you have enough to itemize, or want to wait until 2021, just pay the real estate tax in January, 2022.

Tax Saving Idea #16: Avoid Penalties and Interest

Make sure you have paid in enough estimated taxes if you think you will owe on April 15, 2022. You may be liable for an "estimated tax penalty" if you fail to pay enough tax through any combination of withholding or quarterly installments.

But you can avoid the penalty by paying enough to satisfy a "safe harbor" of 90% of current tax liability or 100% of the previous year's tax liability (110% if your AGI was above $150,000). Note – if you have not paid in estimated taxes throughout the year, you may get hit with a penalty even if paid in by the specified time. Unfortunately, for those clients who have unexpected increases in income, there could be a penalty for not paying in throughout the year, even if this increase in income wasn't predictable (Uncle Sam doesn't care that you don't have a crystal ball; he just wants his money).

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Tax Saving Idea #17: Have You Been "Stiffed"?

Personal Bad Debts may save you taxes: You may have loaned money to your Uncle Louie because he was being chased by the mob. But, he went right back to his old habits; he may even have declared bankruptcy. Thus, you are convinced you've been shafted. Is there a tax deduction for that? Yessiree! All you have to do is chronicle your attempts to recoup your loan (write down dates of phone calls, letters, etc.). Just let us know about the bad debt and we will take it on your tax return.

Tax Saving Idea #18: Use the Enhanced Dependent Care Credit

Under ARPA, the maximum credit for a taxpayer with an AGI of $125,000 or less is $4,000 for one child and $8,000 for two or more children. The maximum is $1,600 or $3,200, respectively, if your AGI exceeds $183,000.

Tax Saving Idea #19: Empty Out Your FSA Account

Empty out your flexible spending accounts (FSAs) for healthcare or dependent care expenses if you will have to forfeit unused funds under the "use-it-or-lose it" rule. However, due to recent changes, your employer's plan may provide a carryover to next year of up to $550 of funds or a 2½-month grace period or both.

Part 2: Tax Planning and Savings Ideas for Your Business

Tax Saving Idea #20: Repairs and Improvements

From a tax perspective, there is a difference between "repairs" and "improvements." While expenses spent on making repairs are currently deductible, the cost of improvements to business property must be capitalized. The IRS issued new regulations in 2013 clarifying the distinctions between repairs and improvements.

As a general rule of thumb, a repair keeps property in efficient operating condition while an improvement prolongs the life of the property, enhances its value, or adapts it to a different use. For example, fixing a broken window is a repair, but the addition of a new wing to a business building is treated as an improvement.

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Year-end action: You still have time to schedule minor repairs to be made before the end of the year. The deductions can offset taxable income of your business in 2021.

Tax Saving Idea #21: Section 179 Deductions

Under Section 179 of the tax code, a business may currently deduct, or "expense," the cost of qualified property placed in service during the year, up to a maximum amount. With the passage of the 2017 tax cuts, the deduction is now a massive $1,050,000 for 2021, meaning you could purchase up to $1 million dollars of qualified property and write it off immediately. Note – this huge deduction is likely to go away in any new tax legislation in 2022.

Make sure that the property is actually placed in service in 2021 to qualify for a current deduction. Note that the Section 179 deduction is available for used, as well as new, business equipment.

ear-end action: Buy equipment you need before the end of 2021 to be able to write the whole thing off in 2021. This could lower your taxes considerably. However! Do not buy something just to save taxes! Yes, you will save money on your taxes – but you will save only the amount based on your tax bracket. Note that there are special limits for depreciation on vehicles, so you might want to contact us first if considering this for a tax savings.

Example: You buy the $5,000 color 3 Dimensional copier you have wanted ever since you saw it on Star Trek.. If you are in the 28% bracket, you will save $1,600 on your taxes. BUT! You are still out of pocket $3,400!

Also note: If we are your CPA/EAs, then this is something we judge and implement for you based on your specific situation as it relates to your current taxable income and future expectations. We might write off equipment in the current year, or depreciate it based on what we think will benefit you the most when we do your tax return.

But, believe us when we say that *most other CPAs and EAs and miscellaneous tax preparers do not give this a thought*, often NOT taking Section 179 and saving the client taxes when they could have. Rather, other tax preparers often depreciate the smallest item over 5 or 7 years to CREATE ADDITIONAL WORK ON FUTURE TAX RETURNS for themselves with the accompanying higher fees.

Not us; we treat your taxes and finance as our own.

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Tax Saving Idea #22: Write off Business Bad Debts

During difficult times, your business may have difficulty obtaining payments for goods or services it provides. At least you may be able to salvage some tax relief for business bad debts on a 2021 tax return **ONLY IF you are an ACCRUAL BASIS TAXPAYER.** Most of our clients are not, so if you are considering this, contact us at tax@allancpa.com

Year-end action: Step up your collection activities before 2021. For instance, you may issue a series of dunning letters to debtors before the end of the year. If you are still unable to collect the unpaid amount, you may be able to write it off as a business bad debt.

Generally, business bad debts are deducted from taxable income in the year they become worthless. To qualify as a business bad debt, a loan or advance must have been created or acquired in connection with your business operation and result in a loss to the business entity if it cannot be repaid.

Finally, keep detailed records of all your collection activities—including letters, telephone calls, e-mails and efforts of collection agencies—in your files. This documentation can help support your position based on the worthlessness of the debt if the IRS ever challenges the bad debt deduction.

Tax Saving Idea #23: Review your Retirement Plan

Self-employed people have a few options when it comes to retirement plans:

- SEP-IRAs,
- SIMPLE IRAs, and
- 401(k) plans.

SIMPLE IRAs and 401(k) plans **need to be established or set up during the calendar year, even if the plan is funded retroactively next year**. (SIMPLE plans need to be established before October 1, while 401(k) plans need to be established by December 31st.)

Claim the New, Improved Retirement Plan Start-Up Tax Credit **of Up to $15,000**

By establishing a new qualified retirement plan (such as a profit-sharing plan, 401(k) plan, or defined benefit pension plan), a SIMPLE IRA plan, or a SEP, you can qualify for a non-refundable tax credit that's the greater of

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- $500 or
- the lesser of (a) $250 multiplied by the number of your non-highly compensated employees who are eligible to participate in the plan, or (b) $5,000.

The credit is based on your "qualified start-up costs," which means any ordinary and necessary expenses of an eligible employer that are paid or incurred in connection with

- the establishment or administration of an eligible employer plan, or
- the retirement-related education of employees with respect to such plan.

Claim the New Automatic Enrollment $500 Tax Credit for Each of Three Years ($1,500 Total)

The SECURE Act added a nonrefundable credit of $500 per year for up to three years beginning with the first taxable year beginning in 2021 or later in which you, as an eligible small employer, include an automatic contribution arrangement in a 401(k) or SIMPLE plan.

The new $500 auto contribution tax credit is in addition to the start-up credit and can apply to both newly created and existing retirement plans. Further, you don't have to spend any money to trigger the credit. You simply need to add the auto-enrollment feature.

Year-end action: *Review your current plan to see if the plan and your funding levels are appropriate for your needs for the year to come.* If you have questions, we can refer you one of our vetted financial advisers.

Tax Saving Idea #24: Capture Business Start-up Costs

The tax law allows a small-business owner to claim a first-year deduction of up to $5,000 for qualified start-up costs. Any remaining expenses that qualify must be amortized over 180 months. However, the $5,000 write-off is phased out on a dollar-for-dollar basis for start-up costs exceeding $50,000.

Generally, start-up costs are expenses that would normally be deductible as business expenses. This includes investigatory expenses such as the following:

- An analysis or survey of potential markets, products, labor supply, transportation facilities, etc.
- Advertisements for the opening of the business
- Salaries and wages for employees who are being trained and their instructors

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- Travel and other necessary costs for securing prospective distributors, suppliers, or customers or clients
- Salaries and fees for executives and consultants or for similar professional services

Note: Previously, you had to make a proactive election to currently deduct start-up costs. But this tax treatment is now automatic. All you have to do is ensure that your 2021 tax return is filed in a timely fashion.

Year-end action: Make sure that you are officially open for business before the end of the year. Otherwise, you will not be entitled to the current $5,000 deduction in 2021. The actual event that triggers an opening will vary according to the type of business you are operating and the particular circumstances.

Tax Saving Idea #25: Buy Business Supplies before 12/31/21

Purchase routine business supplies before the end of the year. Your company can generally deduct the costs in 2021 even if the supplies will not be used until 2022. If you pay for business expenses with a credit card, the expenses are deductible in 2021, even though you will pay the bill in 2022. **We are NOT condoning the use of credit cards;** as your CPA and EA, we are offering an idea on how to save taxes in 2021.

If you are a sole proprietor, the day you charge a purchase to your credit card is the day the expense is deductible. Therefore, consider using your credit card to buy office supplies and other business necessities.

If you operate your business as a corporation, and if the corporation has a credit card in the corporate name, the same rule applies: the date of charge is the date of deduction for the corporation.

But if you operate your business as a corporation and you are the personal owner of the credit card, the corporation must reimburse you for it to realize the tax deduction. Thus, submit your expense report and have your corporation make its reimbursements to you before midnight on December 31.

Also, if you are a cash basis taxpayer (95% of our clients are; if in doubt email us) - you can prepay a month's rent for 2022 on your office/warehouse, etc and deduct it in 2021.

Tax Saving Idea #26: Do Business Travel This Year Instead of 2022

A company may deduct 100% of business travel costs and 100% of meal expenses if the trip is primarily for business purposes. To increase your current deduction, accelerate trips planned for 2022 into 2021. ***Note that a company can deduct 100% of the cost of a holiday party as long as the entire workforce is invited. The current meals deduction of 100% is for 2021 and 2022. We have no idea what the administration will propose moving forward.***

Tax Saving Idea #27: Purchase a Vehicle for the Business

Here's an easy question: Do you need more 2021 tax deductions? If yes, continue on. Next easy question: Do you need a replacement business vehicle? If yes, you can simultaneously solve the first problem (needing more deductions) and the second problem (needing a replacement vehicle), but you need to get your vehicle in service on or before December 31, 2021.

If your vehicle has a GVWR (Gross Vehicle Weight Rating) MORE than 6,000 pounds, you can write off 100% of the business cost (using bonus depreciation) if you buy it and place it in service on or before December 31, 2021.

If your vehicle has a GVWR (Gross Vehicle Weight Rating) LESS than 6,000 pounds, with a purchase price of $58,100 or more, you can write off up to $18,100 in 2021 if you buy it and place it in service on or before December 31, 2021. Of course, you can buy a vehicle for less than $58,100 and still have a huge deduction – the $58,100 is the max you can depreciate to write off in 2021.

Here is a list of vehicles that might qualify for this tax deduction*:

Audi Q7
BMW X5, X6
Cadillac XT5, XT6, Escalade
Chevrolet Silverado, Suburban, Tahoe, Traverse
Ford Expedition, Explorer, F-150 and larger
GMC Acadia, Sierra, Yukon
Honda Pilot 4WD, Odyssey
Lexus GX460, LX570
Lincoln MKT AWD, Navigator
Mercedes-Benz G550, GLS, GLE, Metris, Sprinter
Nissan Armada, NV 1500, NVP 3500, Titan

Tesla Model X
Toyota 4Runner, Landcruiser, Sequoia, Tundra

**Note: Qualifying for a deduction will depend on stated use, vehicle GVW (which varies with trim packages and options), and more. Please consult with your accountant regarding the eligibility of any particular vehicle.*

Tax Saving Idea #28: Postpone Compensation to 2022

When it makes sense, defer compensation, such as year-end bonuses to 2022 (pay the money next year). An accrual-basis company (@ 5% of our clients) may deduct year-end bonuses in 2021 if the bonuses are paid within 2½ months of the close of 2021 (but not for bonuses paid to business owners who own more than 50% of the stock of the corporation).

This is a decision for you to make. As stated twice already, we believe taxes will go up in 2021. If you do not, then this is a solid strategy for you.

Tax Saving Idea #29: Bill Your Clients in 2022 for 2021 Sales

When it makes sense and you can afford to wait for the money, don't bill your clients/customers until January, 2022. If you are a "cash basis taxpayer" as 95% of our business clients are, by postponing the billing and collections until 2021, you save the amount of tax you would have paid on the money if you had received it in 2021.

This is a decision for you to make. As stated already, we believe taxes will go up in 2022. If you do not, then this is a solid strategy for you.

Tax Saving Idea #30: Grab That Office-in-Home Deduction

Make sure to set aside a specific room or space to take an Office in Home if you work primarily from your house. We have mentioned this to almost all of our clients over the years, but want to reiterate the benefits of the Office in Home deduction. With "OIH", you get to deduct a percentage of your total expenses of running your home (utilities, repairs and maintenance, etc.). Thus, *you get a tax deduction for expenses you must pay for anyway.* That means Uncle Sam will let you save real tax dollars, right into your pocket by qualifying and claiming this deduction. This space or room must be utilized ONLY to conduct your business,

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not have your kid play games on the computer or have your brother-in-law Billy Bob crash at your house when he comes down from Chicago because it is too cold up there. Nor can you answer personal email from an office-in-home or do online personal shopping. ANYTHING unrelated to your business immediately destroys the office-in-home deduction.

Note: This does NOT apply if you are a w-2 employee who works from home. There are NO deductions for people who work from home that are employed by someone else.

Tax Saving Idea #31: Put Your Kids to Work!

Hire your kid to save tax dollars: Tired of giving out allowances to your kid(s)? Maybe they need to learn the value of work and earning money (what a concept)? Hire them for your business (as long as it is a legitimate job they are performing). For example, Allan hired his 10-year old son years ago to be his IT guy. Yes, they had computers back then; the little monster knew more about computers than Allan did and he certainly wasn't doing much around the house to help out. And – the monster was in a LOWER TAX BRACKET than Dad, so the FAMILY paid less income taxes in total. Now Allan's son is getting ready to hire his little monsters, too and lower his income taxes!

Tax Saving Idea #32: Set Up an S Corp for your Business

Consider moving your business taxes to an S Corp. Here is another item we discuss with clients that most other tax preparers do not. Our goal is to save you money legitimately, not merely getting the return done as fast as possible. If you have a business, and it turns a profit, and it is not an S Corp, you will be paying income tax AND SELF-EMPLOYMENT TAX OF 15.3% on every dollar of profit. Therefore, without an S Corp, you might be paying upwards of 40% tax on your profits! If we turn your business into an S Corp, and you hire yourself as an employee paying a reasonable wage, we can generally save a substantial portion of the self-employment taxes you would otherwise pay, often saving clients thousands of dollars a year. If you file for S Corp status by March 15, 2022, you would have it for the entire year of 2022 going back to January, 2022. If you filed now, you would be able to carry S Corp status back 2 and one-half months.

Tax Saving Idea #33: Use the Employee Retention Credit

Employee Retention Credit

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Many business operations have been disrupted by the COVID-19 pandemic. At least recent legislation provides tax incentives for keeping workers on the books during these uncertain times.

TAX TACTIC: When it makes sense, retain your top workers as long as you can. The CARES Act authorized an employee retention credit (ERC) to offset some of the cost.

Under the CARES Act, the ERC was equal to 50% of the first $10,000 of qualified wages per quarter, for a maximum credit of $5,000 per worker. The CAA extended availability of the credit into 2021 with certain modifications, including a maximum ERC of $14,000 per worker per year. Now ARPA authorizes a maximum credit of $28,000 per worker for 2021. I

In addition, ARPA allows businesses that started up after February 15, 2020 and have an average of $1 million or less in gross receipts to claim a credit of up to $50,000 per quarter.

Tip: It is possible that the ERC will be extended again, but it is currently set to expire after 2021.

Part 5: Tax Planning and Savings Ideas for Your Investments

Tax Saving Idea #34: Harvesting Capital Gains and Losses

Capital gains and losses are used to offset each other. If you have a net loss, the excess may offset up to $3,000 of ordinary income. Any remaining loss is carried over to next year.

Traditionally, investors focus on "harvesting" capital losses from securities sales before year-end to offset prior gains. Conversely, if you are showing a net capital loss, you might realize capital gains at the end of the year that will be offset by prior losses.

For 2021, a net long-term capital gain is generally taxed at a maximum rate of 15%, but it is 20% for those in the top ordinary income tax bracket. Short-term capital gains are taxed at ordinary income rates.

Year-end action: In recent years, there has been more focus on harvesting capital gains. Significantly, a 0% capital gains tax rate applies to taxpayers in the lowest two regular income tax brackets of 10% and 15%. Even if your capital gains push you into a higher tax bracket, you still benefit from the 0% rate on the portion of the gains up to the top income threshold for the 15% tax bracket.

Tax Saving Idea #35: Try to Avoid the 3.8% Medicare Surtax

Beginning in 2013 in order to help pay for ObamaCare, the 3.8% Medicare surtax applies to the lesser of your "net investment income" (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. (Don't hurt your brain trying to figure this out. That's our job as your CPA/EA).

Basically, if you make too much money (according to the genius politicians who make those determinations) you will be paying added tax on investment income (income from stocks, bank accounts, rent, etc.).

Year-end action for 2021: Take steps to reduce exposure to the 3.8% surtax. For instance, depending on your situation, you might use one or more of the following techniques.

- Add municipal bonds ("Munis") to your portfolio
- Establish a charitable remainder trust (CRT). With a CRT, you qualify for a current tax deduction while the income is sheltered from the surtax.
- Consider an investment in a tax-deferred annuity that "leapfrogs" your highest-earning years when the 3.8% surtax is likely to apply.

Of course, these decisions should not be made in a vacuum. Coordinate tax-related tax-saving strategies with other financial aspects. Discuss these with your financial planner or one we can refer.

Tax Saving Idea #36: Converting Roth IRAs to Traditional IRAs

There are two main types of Individual Retirement Accounts (IRAs): traditional IRAs and Roth IRAs. In brief, contributions to traditional IRAs are generally tax deductible in the year made, but future distributions are taxed at ordinary income rates (when you take the money out).

Conversely, Roth IRA contributions are never tax deductible, but qualified distributions from a Roth in existence five years are 100% tax-free. This includes distributions made after age 59½, on account of death or disability. Other distributions may be taxable under special rules.

Year-end action: Consider converting some or all of the funds in a traditional IRA to a Roth. The transfer is currently taxable, but can provide future tax-free benefits. You might be in a relatively low tax bracket for 2021, and can save a bundle on taxes later on. This is especially

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important if you expect to be in a higher tax bracket in the next few years, or after retirement. Or, if you think taxes might go up in the future (highly likely).

Please discuss this with us before you do it, as Roth Conversions might make you subject to the 3.8% Medicare Tax mentioned above. You might be best off converting portions of your IRA portfolio over several years to avoid the added 3.8% tax. Talk to us and we can run some numbers if you are considering doing this.

Tax Saving Idea #37: Avoiding Required Minimum Distributions Penalties

As a general rule, you must receive "required minimum distributions" (RMDs) from qualified retirement plans and IRAs after attaining age 72 (this was new in 2020 due to Covid). The amount of the distribution is based on life expectancy tables.

If you turn 72 in 2021, you MUST make your first RMD by April 1, 2022 to avoid RMD PENALTIES OF 50%.

Tax Saving Idea #38: Minimizing or Eliminating Estate and Gift Taxes

Recently, we had a beloved client die intestate (without a will). What a mess… It takes months to get the smallest determination made in the probate process if you don't have a valid Florida will.

Year-end action: It is vital (!) that you have a current FLORIDA will. Would you want the State of Florida and some attorneys to determine who gets what? Now is a good time to update your estate plan to reflect current Florida and US Law, as well as for possible tax ramifications.

You will need a qualified attorney who can help you in this regard. Also, ensure that your estate plan reflects the latest developments in tax law. For instance, the American Tax Relief Act permanently retains the portability provision for married couples, so wills and trusts may be revised to take this into account. Seek guidance from an estate tax attorney.

Currently, the tax law provides a reunified estate- and gift-tax exemption of $11.7 million and a top 40% estate-tax rate. Note: the new administration has stated that they want to eliminate that exemption and raise estate tax rates to 50% or higher and lower the exemption dramatically (we're talking millions).

Under the portability provision for a married couple, the unused portion of the estate-tax exemption of the first spouse to die may be carried over to the estate of the surviving spouse. This tax break is now a permanent part of the tax code.

Might be a really good idea to see an estate tax attorney to see what you can gift away in 2021. We can refer you to one our clients have used successfully.

Also, as we have discussed with many of you, now is a good time to consider a "Living Trust." These trusts allow your assets to skip probate court when one dies. Your estate will save thousands of dollars and get the proceeds immediately instead of possibly waiting years while the estate sits in probate court. Talk to an estate tax attorney about these.

In any event, be aware that you still may reduce the size of your taxable estate through a series of lifetime gifts to family members. Under the annual gift-tax exclusion, you can give each recipient up to $15,000 in 2021 without filing a gift tax return (form 709). The annual exclusion is doubled to $30,000 for joint gifts by a married couple. Of course, you can gift much more up to your lifetime exemption, but a gift tax return is required if the gift is greater than $15,000 for the year.

Tax Saving Idea #39: Make Sure Your Investments are Tax-Advantaged

As we have mentioned to many of you over the years, consider investments in dividend-paying stocks, mutual funds that are focused on capital gains, and funds that concentrate on municipal and other non-taxable income. These types of income have certain advantaged tax rates (which means they are taxed at a lower rate than the normal income tax rates).

As with net long-term capital gains, the maximum tax rate on qualified dividends received in 2021 is generally 15% (20% for certain high-income taxpayers) while lower-income taxpayers may benefit from a 0% rate. If interested, please discuss with your financial adviser. If you like, we can refer one to you. And, municipal bond interest is federal income tax free (you would be paid a lower rate than on a typical bond or CD, but you would pay no income tax).

Tax Saving Idea #40: Spread Out Withdrawals from IRAs and 401k's

If you are retired and drawing social security, *consider taking withdrawals every year from your IRAs and 401Ks, rather than taking it out all at once*. It will save you potentially tens of

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thousands of dollars in taxes if you pull out $10,000, $20,000 or even $30,000 a year from your traditional IRA or 401k accounts, rather than to take a huge sum out all at once.

Often, our retired clients are in MUCH lower tax brackets than when they were working. Unfortunately, many older taxpayers do not tap into their IRA's or 401K's until there is a medical emergency or to help out a child, etc.

Taking large sums out of your IRA's and 401K's can elevate you into the highest tax brackets costing you huge amounts of dollars in added taxes than if they took it out piecemeal.

If you are planning to sell investment property (such as rental property), consider selling it on the installment basis. If payments are received over two years or more, you can defer tax until payment is received. In addition, by dividing payment among several years, you may effectively reduce the tax owed on a sale to just tap into your retirement plans gradually.

Part 6: Warnings for Business Owners!!!

Our clients have run into 2 serious problems this year and we want to address them first:

1) Renew Your LLC on Time

If you have an LLC for your business or property, YOU MUST PAY THE ANNUAL FEE of about $150 **BEFORE MAY 1, 2022, or pay a $400 penalty**. This annual fee is erroneously called the Annual Report. Many of our clients have discovered that their LLCs were dissolved, without being notified… Don't let it happen to you! **Go to sunbiz.org after 1-1-2022 and pay your annual fee.**

2) You MUST FILE FORM 1099

File Form 1099 for people who work for you as independent contractors. The IRS is really cracking down on this. We can do that for you electronically, and it is very reasonable. These have to be filed **BEFORE 1-31-2022.** The penalties for not filing are potentially horrendous.

If you are in business, and utilize ANY individual to perform services for your business, if they are not an employee and you are paying them $600 or more, YOU MUST FILE FORM 1099 NEC for them (changed from 1099 MISC for 2021). The IRS is going full-force to enforce this rule, as so many independent contractors do not claim income. AND – YOU ARE THE ONE WHO IS GOING TO GET HURT by not filing.

IT IS NOT UP TO THE CONTRACTOR/EMPLOYEE as to whether or not they want to be treated as an independent contractor! There are a series of test the IRS uses to decide

whether or not someone should be considered an employee or not. Please see https://www.allancpa.com/general/employer-vs-subcontractor-test/ for a complete breakdown on those tests.

NOTE: it is common for independent contractors to not pay estimated taxes. Thus, when tax time comes, they owe huge amounts of money. Sometimes, they will decide to stick the employer with the bill – you. All they have to do is file SS-8 and claim that you should have withheld taxes for them, but did not. Guess whose side Uncle Sam ALWAYS takes (in our experience)? So – by incorrectly treating someone as an independent contractor instead of an employee, not only do you get stuck paying the payroll taxes you wanted to avoid, but get slapped with a 100% - plus penalty on top of it. BE CAREFUL WITH independent contractors.

CONCLUSION

This year-end tax-planning letter is based on the prevailing federal tax laws, rules and regulations. Of course, it is subject to change, especially if major tax reform provisions are enacted before the end of the year. Finally, remember that the letter is intended only as a general guideline. Your personal circumstances will likely require greater examination.

From our families to yours: May this be the most joyous of Christmas or Hanukkah Seasons and may you be blessed with a healthy, safe and prosperous 2022.

Jonni Marie Fonseca, Enrolled Agent (and Expert Mommy)

Allan S. Boress, CPA, FCPA

This year-end tax-planning letter is published for our clients, friends and professional associates. It is designed to provide accurate and authoritative information with respect to the subject matter covered. Before any action is taken based on this letter, it is essential that competent, individual, professional advice be obtained.

Our Mission

Thank you for trusting us with your taxes. If you are new to us, we can only promise to treat your taxes – and finances – as our own. That's why we don't let anything out of the office that hasn't been prepared and reviewed multiple times – to make sure you pay the least amount of tax – legally.

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Our mission is to have our clients pay the least amount of taxes – legally.

This Tax Planning Letter includes updating you on things you should know and consider doing before the end of 2021 to save on taxes, and some ideas for 2022.

In 2021, from our internal surveys, @87% of self-prepared returns had errors and over 82% of other tax preparer's returns had mistakes. In contrast, TWO *of our tax returns has been returned by the IRS in the last 13 years.*

Often, we see returns prepared by other tax professionals that miss deductions or tax credits and it costs the taxpayer unnecessary tax dollars (because it isn't the preparer's money - it is yours). ***Not us: we fight for our clients.***

New Branding

Effective January 1, 2022, expect to see all of our communications coming from Wise Tax, Inc. as we re-brand the firm. Our phone # stays the same, but our email addresses will all be from @wise-tax.com.

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