



Floyd, Malito & Company, Inc.



Certified Public Accountants

975 E. Nerge Road, Ste N60
Roselle, IL 60172

Phone: 630-912-2920
Fax: 630-757-4242

Dear Client:

With year-end approaching, it is time to start thinking about moves that may help lower your tax bill for this year and next. This year's planning is more challenging than usual due to the uncertainty surrounding pending legislation that could, among other things, increase top rates on both ordinary income and capital gains.

If proposed tax increases do pass, the highest income taxpayers may have significant tax savings by pulling income into 2021 to be taxed at currently lower rates, and deferring deductible expenses until 2022, when they can be taken to offset what would be higher-taxed income.

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all of them will apply to you, but you (or a family member) may benefit from many of them. We can narrow down specific actions when we meet to tailor a particular plan for you. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves might be beneficial:

- Required minimum distributions RMDs from an IRA or 401(k) plan (or other employer-sponsored retirement plan) have not been waived for 2021, as they were for 2020. If you were 72 or older in 2020 you must take an RMD during 2021. Those who turn 72 this year have until April 1 of 2022 to take their first RMD but may want to take it by the end of 2021 to avoid having to double up on RMDs next year.
- If you are age 70 or older by the end of 2021, and especially if you are unable to itemize your deductions, consider making 2021 charitable donations via qualified charitable distributions from your traditional IRAs. These distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040. However, you are still entitled to claim the entire standard deduction.
- Pending legislative changes to the 3.8% net investment income tax NIIT proposed to be effective after this tax year would subject high income (e.g., phased-in starting at \$500,000 on a joint return; \$400,000 for most others) S shareholders, limited partners, and LLC members to NIIT on their pass-through income and gain that is not subject to payroll tax. Accelerating some of this type of income into 2021 could help avoid NIIT on it under the potential 2022 rules, but would also increase 2021 MAGI, potentially exposing other 2021 investment income to the tax.
- Long-term capital gain from sales of assets held for over one year is taxed at 0%, 15% or 20%, depending on the taxpayer's taxable income. Pending legislation proposes a max 25% rate for high income earners.

- Higher-income individuals must be wary of the 3.8% surtax on certain unearned income. The surtax is 3.8% of the lesser of: (1) net investment income (NII), or (2) the excess of MAGI over a threshold amount (\$250,000 for joint filers or surviving spouses, \$125,000 for a married individual filing a separate return, and \$200,000 in any other case).
- Postpone income until 2022 and accelerate deductions into 2021 if doing so will enable you to claim larger deductions, credits, and other tax breaks for 2021 that are phased out over varying levels of AGI. These include deductible IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances.

- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2021 deductions even if you don't pay your credit card bill until after the end of the year.
- Some taxpayers won't be able to itemize because of the high basic standard deduction amounts that apply for 2021 (\$25,100 for joint filers, \$12,550 for singles and for marrieds filing separately, \$18,800 for heads of household). You can itemize medical expenses that exceed 7.5% of your AGI, state and local taxes up to \$10,000, your charitable contributions, plus mortgage interest deductions on a restricted amount of debt, but these deductions won't save taxes unless they total more than your standard deduction. In addition to the standard deduction, you can claim a \$300 deduction (\$600 on a joint return) for cash charitable contributions.

- If you were in a federally declared disaster area, and you suffered uninsured or unreimbursed disaster related losses, keep in mind you can choose to claim them either on the return for the year the loss occurred (in this instance, the 2021 return normally filed next year), or on the return for the prior year (2020), generating a quicker refund.
- If you were in a federally declared disaster area, you may want to settle an insurance or damage claim in 2021 to maximize your casualty loss deduction this year.

- If you become eligible in December of 2021 to make HSA contributions, you can make a full year's worth of deductible HSA contributions for 2021.
- Make gifts sheltered by the annual gift tax exclusion before the end of the year if doing so may save gift and estate taxes. The exclusion applies to gifts of up to \$15,000 made in 2021 to each of an unlimited number of individuals. You can't carry over unused exclusions to another year.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

Very truly yours,

Floyd, Malito & Company, Inc.