

2021 Tax Planning Guide

The CARES Act and other government measures have made this a unique tax year, and our 2021 Tax Planning Guide can help you understand some of the key items to consider. Remember, tax planning, not simply tax preparation, is the way to optimize your financial picture.

Standard Deduction:

- \$12,550 Single / \$25,100 MFJ / \$1300 bonus for >65 or blind

Itemized Deductions:

- Medical Expenses: >7.5% of AGI
- Mortgage Interest: \$750,000 mortgage limit; \$1 million prior to 2018
- State/Local Taxes: \$10,000 limit
- Charitable Donations
 - Donor Advised Funds to bunch donations
 - Appreciated stock donations to avoid capital gains tax
 - Deduct up to 100% of AGI for 2021 only

Key Credits:

- Child Tax Credit (<\$150,000 AGI MFJ): \$3,000/child under 18, \$3,600/child under 6
- Child Tax Credit (<\$400,000 AGI MFJ): \$2,000/child under 18
- Child & Dependent Care Credit (<\$125,000 AGI): 50% of dependent care costs up to \$4,000/child, max \$8,000. 20% of costs for household AGI <\$400,000.

Other Individual Tax Deduction/Savings Opportunities:

- IRA Contributions: \$6,000 (plus \$1,000 catchup over 50)
- 401(k) Contributions: \$19,500 (plus \$6,500 catchup over 50)
- SEP IRA Contributions: smaller of \$58,000 or 25% of employee compensation (deadline return due date, including extension)
- Health Savings Account Contributions: \$3,600 Single / \$7,200 Family (deadline 4/15/22)
- 529 Education Plan Contributions: no annual limit; state deductions vary
- Qualified Charitable Distributions: IRA distributions tax-free if paid directly to charity

Business Tax Deduction/Savings Opportunities:

- 100% Bonus Depreciation
- Section 179 Expense: \$1,050,000 dollar limitation
- Pass-Through Entity Tax Deduction: MD and some other states (NY, CT, NJ)
- Section 199A (Pass-Through) Deduction: up to 20% of Qualified Business Income
 - Potentially limited if taxable income >\$164,900 Single / \$329,800 MFJ
- Business Meals 100% Deductible (if provided by restaurant, 2021 and 2022 only)
- Office in Home Deduction: must have portion of home used exclusively for business
- Employee Retention Credit – can request in advance and can apply retroactively
 - 2020: up to \$5,000/employee max credit; 50%+ revenue reduction
 - 2021: up to \$7,000/employee max credit/quarter; 20%+ revenue reduction for eligible quarter

Planning Suggestions for Potential Tax Legislation:

- Accelerate Income into 2021 (potential tax increases for >\$400K Single/\$450K MFJ)
- ROTH Conversions in 2021 (potential tax increases, limitations on future conversions)
- Sell Appreciated Assets in 2021 (potential capital gains tax increases)
- Estate Tax Planning / Gifting in 2021 (significant potential decrease in estate exemption)