

2021 Tax Planning Checklist

Over the last year, we experienced a global pandemic, an economy-shaking quarantine, a presidential election, and a cascade of legislation that affected the tax picture and retirement planning. With so many changes, here's a look at what you may need to think about when preparing your taxes this year.

Income Tax Planning

Tax-Loss Harvesting

Tax-loss harvesting is a strategy in which investors sell low-performing, taxable investments and use the losses to offset gains, thereby lowering their taxable earnings. If you're facing an unusually high-income year or you had tremendous losses, this might be a good strategy. A lot of people engage in tax-loss harvesting at the end of the year, however, you should be watching out for these opportunities all year long.

529 Plans

A 529 is a tax-advantaged savings plan that can be used for qualified educational expenses. Money that goes into a 529 is deductible in most states, and you can fully fund 529 plans for yourself, kids and grandkids. Check with your state to see what the rules are for tax benefits in your state.

HSA/FSA

A Health Savings Account (HSA) is a tax-advantaged account used to pay for qualified health care needs; money in the account rolls over from year to year. HSAs can be used as long-term investment vehicles so you can save for retirement health care costs in a tax-advantaged manner. You do need to be in a high deductible health care plan to be eligible to contribute. A Flexible Savings Account (FSA) is also a tax-advantaged account, but the balance doesn't roll over every year. As an exception, a new COVID-19 relief bill allows unused balances to be rolled from 2020 to 2021. FSAs could be set up for either health care costs or dependent care, such as daycare costs.

Charitable Giving

Qualified Charitable Distributions

After age 70.5 you can send distributions from an IRA directly to a qualified charity – the distribution will not be treated as taxable income and it can offset any RMDs that year. This is called a QCD, and an individual can do up to \$100,000 a year. RMDs were canceled for 2020, though, so you may not have participated in the QCD option this last year. The QCD is still a valuable gifting strategy if you wanted to give to charity in a tax-efficient manner.

Religious Tithing

Did you give to your faith community (church, synagogue, etc.) last year? Make sure you have your donations recorded. Most houses of worship offer some kind of yearly statement.

Non-Profit Donations

Make sure you have these records as well. Contact the organization for an updated record.

Charitable Remainder Trusts

Charitable remainder trusts are a tax-exempt way to leave assets to beneficiaries for a certain period of time before giving the rest to charity. Make sure your trust is updated according to your income and set up correctly, and that you're taking full advantage of the tax opportunities.

Qualified Charitable Cash Donations

Qualified charitable cash donations up to \$300 can be deducted as an above the line deduction per the CARES Act for 2020. This was extended for 2021 and expanded a bit. Single filers can deduct up to \$300 and married filing jointly can deduct \$600 for cash gifts to charity in 2021.

Retirement Planning

Traditional IRA

Contributions to your IRA can be made until April 15 to count for 2020, the limit is \$6,000 (\$1,000 catch-up for those over 50).

Roth IRA Considerations

Remember your contribution toward your Roth IRA counts toward the overall \$6,000 total for IRA accounts but can still be made up until April 15, 2021, and still be treated as a 2020 contribution.

401(k)

Make sure you account for your contributions in 2020, which must be made in the calendar year. However, your 2021 contribution limit is \$19,500 for 401(k) salary deferrals (\$6,500 catch-up for those over 50), so plan accordingly this year.

Estate Planning/Transfers

\$15,000 annual gift tax exclusion 2021

This is the amount you can give away every year without incurring taxes. Talk with your advisor about using this exclusion strategically in your estate plan. The amount is per person, so it is \$30,000 for a couple in 2021.

Lifetime Exemption Amount/Estate Exemption Amount

This is set at \$11.7 million for 2021, which is a total of lifetime and estate. Exceed this amount in transferring wealth and you'll start incurring up to 40% estate taxes.

Wills and Trusts

Do you have your wills and trusts updated? Now is a good time to double-check your beneficiaries and think about certain tax implications, especially with the SECURE Act mostly going into effect in 2020, which often requires retirement accounts to be distributed in 10 years or less if inherited by a non-spouse beneficiary.

2021 Concerns

Required Minimum Distributions Will Start Back Up

If you are of RMD age (72), these distributions will start up again. They will start up again on inherited accounts as well.

Inherited Accounts

The SECURE Act requires many inherited retirement accounts to be fully depleted in 10 years. 2020 was the first year these new rules started to apply, so 2021 is the first year in which the 10-year SECURE Act clock starts to run. Make sure you account for this in your financial plan.

Coronavirus-Related Distributions

The CARES Act lifted the 10% penalty for withdrawals from retirement accounts before age 59.5 for COVID 19-related distributions. This was an aggregate amount up to \$100,000 taken within the calendar year of 2020, but you can retroactively apply for the exception if you took a distribution in 2020 and met the other qualifications.

Expanded Retirement Plan Loans

Loan provisions from retirement plans have been relaxed considerably for those in qualified disaster areas or experiencing a loss from the disaster (meant to include COVID and other disasters). This allows up to the lesser of 100% of the vested account balance or \$100,000 to be borrowed rather than the 50% or \$50,000 ceiling in the past.

This guide is designed to provide accurate and authoritative information on the subjects covered. It is not, however, intended to provide specific legal, tax, or other professional advice. For a comprehensive review of your personal situation, always consult with a tax or legal advisor.

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