

2021 YEAR-END TAX PLANNING GUIDE

HIGHLIGHTS

- Pending Build Back Better Act – What to Consider
- The Power of “Bunching” Deductions
- The New Electric Vehicle Credit
- Business Meals 100% Deductible
- CJBS Tax Tips

YEAR-END TAX PLANNING AND WHY IT MATTERS

With just a few weeks remaining in 2021, individuals and businesses are well-advised to consider their tax planning before the year ends. We understand that year-end planning can feel daunting, but it's a crucial way to improve your financial wellbeing. Not only does it allow you to put in place tax-saving strategies for the longer term, it could also help you reap tangible benefits in the short term. That's especially true this year with tax rules set to change at the end of 2021 or in early 2022.

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Last month, the House of Representatives passed the Build Back Better Act, a \$1.75 trillion bill designed to advance a key piece of the Biden administration's economic agenda. There is still some uncertainty about when the bill will pass in the Senate and become law, so we will update readers accordingly, but it is going to mean increases in social spending to fund numerous health, education, and welfare programs. That will involve a slew of tax changes in addition to those introduced by the earlier American Rescue Plan Act (ARPA).

It's important to understand what these changes could mean for you and what steps to take in the final weeks of 2021 to minimize any tax impacts of Build Back Better. We have set out some of the key highlights and opportunities to consider and hope it serves as a helpful resource for your year-end tax planning. For ease of use, this guide is divided into recommendations for both businesses and individuals.

INDIVIDUAL TAXES

The basic idea behind tax planning strategy is to minimize the amount of tax you pay, either by reducing taxable income or increasing the amount of deductions. As current tax rules are set to change, it makes sense to be proactive about the timing of income and deductions where possible.

INCOME TAX: HIGH EARNERS SHOULD CONSIDER ACCELERATING 2022 EARNINGS TO 2021

In tax years beginning after 2021, the current version of the Build Back Better Act will bring an additional tax of 5% on the modified adjusted gross income (MAGI) exceeding:

- \$10 million for joint filers, single filers, or head of household.
- \$5 million for married taxpayers filing separately.
- \$200,000 for estates and trusts.

Higher earners will also face an additional 3% tax. This applies to the MAGI of joint filers, single filers, or head of households earning more than \$25 million (\$12.5 million for married taxpayers filing separately, \$500,000 for estates and trusts).

CJBS Tax Tip

Taxpayers who expect their incomes to exceed these thresholds in 2022 should bring forward as much of that income to 2021 as possible. You can do this by paying bonuses early or by distributing more income from pass-through entities in 2021 rather than next year. If your income will not

exceed these thresholds, our best advice remains to defer income to 2022 on the basis that further tax increases then are very unlikely.

MAXIMIZING DEDUCTIONS: THE POWER OF “BUNCHING”

It's common sense to maximize deductions from your taxable incomes, but standard deduction amounts, which can be taken with no questions asked, are relatively high. For 2021, the figures are:

- \$25,100 for joint filers
- \$18,800 for heads of households
- \$12,550 for all other filers. This means for many taxpayers it is not worth itemizing deductions.

One strategy that makes it worthwhile for some taxpayers is “bunching.” Charitable contributions and (elective but non-cosmetic) medical expenses can be bunched into one year rather than spread over two or more. For example, someone who did not donate to charity in 2020 because of uncertainty over the pandemic might choose to donate double their normal amount by year-end 2021 or in 2022, which could take them over the standard deduction amount. (Ideally, bunching is planned out two or three years in advance, as part of a longer-term tax planning strategy.)

It should also be noted that the Taxpayer Certainty and Disaster Tax Relief Act of 2020 allows taxpayers who do not itemize deductions to add an above-the-line charitable contribution deduction of \$300 (\$600 for married individuals filing joint returns in 2021). This special deduction applies to 2021 only, regardless of income level.

CJBS Tax Tip

If you had an increase in income in 2021, consider setting up a donor-advised fund (DAF), which can help accelerate your bunching strategy and maximize the charitable deduction against your high-income year. Contributions to this fund can be directed to a charity of your choice at any later date.

- Teachers can claim a deduction of as much as \$250 for classroom expenses, including personal protective equipment used to prevent the spread of Covid-19.

BUSINESS TAXES**ENERGY CREDITS: WAIT UNTIL 2022 FOR THAT NEW ELECTRIC VEHICLE**

The Build Back Better Act will increase the tax credit available for buying a plug-in electric vehicle from up to \$7,500 to \$12,500, as long as the vehicle and batteries are made in U.S. facilities meeting certain labor standards. It will also eliminate the current limitation on the amount available to buy vehicles from particular manufacturers, a limitation that means tax credits are currently unavailable for cars made by Tesla and General Motors. This means you can save up to \$5,000 (or even \$12,500 in the case of certain brands) by waiting until 2022 to purchase such a vehicle.

OTHER STRATEGIES

There are a number of additional year-end tax planning strategies that apply in any given year. Some of these include:

- Maximizing education credits by claiming credit for tuition paid in 2021, even if the academic period does not begin until the end of March 2022.
- Reducing your adjusted gross income (AGI) by increasing your 401(k) contributions or IRA contributions through April 18, 2022.

BUSINESS MEALS: 100% DEDUCTIBLE

Most restaurants that were closed or takeout-only earlier in the pandemic are now offering dine-in service. That's great news for our business clients because meals are now 100% deductible in 2021 instead of 50%, and the same applies to employee shift meals. This temporary deduction is available for tax years 2021 and 2022 to help stimulate the restaurant industry.

For easy reference, here's what the 100% meal deduction covers:

- Employee shift beverages and meals at the restaurant
- In-office meals
- Meals during a seminar or conference
- Business travel meals
- Client business meals

DEPRECIATION AND EXPENSING: NOW IS A GOOD TIME TO BUY MACHINERY AND EQUIPMENT

Favorable depreciation and expensing limitations included in the Tax Cuts and Jobs Act still apply. One hundred percent first-year bonus depreciation applies to machinery and equipment purchased in 2021, while Sec. 179

expensing has a generous investment limitation of \$2,620,000 for 2021, with a dollar limitation of \$1,050,000.

CJBS Tax Tip

These provisions do not only apply to 2021, but you might want to take advantage sooner rather than later, especially if you are looking to expand your business operations.

R&D EXPENSES: ACCELERATE COSTS FOR IMMEDIATE DEDUCTIONS

The Tax Cuts and Jobs Act changed the rules so that after 2021, research and development costs could not be deducted in the same year but would have to be amortized over five or ten years.

CJBS Tax Tip

Provisions of the Build Back Better Act delay the amortization requirement until 2026, but it may still be a good idea to accelerate R&D costs where possible in order to take advantage of the immediate deduction that's still available.

A FINAL NOTE

Tax changes in 2022 will affect some taxpayers more than others and in different ways, depending on your income, assets, and type of employment or business. As always, the CJBS team is on hand to help our existing and new clients understand what these changes could mean for you, and how to navigate the nuances of year-end tax planning to help you achieve your goals.