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Re: Year-end tax and financial planning letter for individuals

As we wrap up 2021, it's important to take a closer look at your tax and financial plans. This year likely brought challenges and disruptions that significantly impacted your personal and financial situation — a continued global pandemic, several significant natural disasters, new tax laws and political shifts. Now is the time to take a closer look at your current tax strategies to make sure they are still meeting your needs and take any last-minute steps that could save you money.

We're here to help you take a fresh look at the health of your tax and financial well-being. Please contact us at your earliest convenience to discuss your situation so we can develop a customized plan. In the meantime, here's a look at some issues to consider as we approach year-end.

## **Key tax considerations from recent tax legislation**

Many tax provisions were implemented under the American Rescue Plan Act that was enacted in March 2021. This act aimed to help individuals and businesses deal with the COVID-19 pandemic and its ongoing economic disruption. Also, some tax provisions were passed late in December 2020 that will impact this filing season. Below is a summary of the highlights in recent tax law changes to help you plan.

### Economic impact payments (EIPs)

The American Rescue Plan Act created a new round of EIPs that were sent to qualifying individuals. As with last year's stimulus payments, the EIPs were set up as advance payments of a recovery rebate tax credit. If you qualified for EIPs, you should have received these payments already. However, if the IRS owes you more, this additional amount will be captured and claimed on your 2021 income tax return and we can help you plan for any modification now.

If you received an EIP as an advance payment, you should receive a letter from the IRS. Keep this for record-keeping purposes to help us determine any potential adjustment.

### Child tax credit

As part of the American Rescue Plan Act, there were many important changes to the child tax credit, such as the credit:

- Amount has increased for certain taxpayers
- Is fully refundable (meaning taxpayers will receive a refund of the credit even if they don't owe the IRS)
- May be partially received in monthly payments
- Is applicable to children age 17 and younger

The IRS began paying half of the credit in advance monthly payments beginning in July — some taxpayers chose to opt out of the advance payments, and some may have complexities that require additional analysis. We'll be here to help you navigate any questions to make sure you get the best benefit for your family.

### Charitable contribution deductions

Individuals who do not itemize their deductions can take a deduction of up to \$300 (\$600 for joint filers). Such contributions must be made in cash and made to qualified organizations. Taxpayers who itemize can continue to deduct qualifying donations. In addition, taxpayers can claim a charitable deduction up to 100% of their adjusted gross income (AGI) in 2021 (up from 60%). There are many tax planning strategies we can discuss with you in this area.

### Required minimum distributions (RMDs)

RMDs are the minimum amount you must annually withdraw from your retirement accounts (e.g., 401(k) or IRA) if you meet certain criteria. For 2021, you must take a distribution if you are age 72 by the end of the year (or age 70½ if you reach that age before Jan. 1, 2020). Planning ahead to determine the tax consequences of RMDs is important, especially for those who are in their first year of RMDs.

### Unemployment compensation

Another thing to note that's different in 2021 is the treatment of unemployment compensation. There is no exclusion from income. The \$10,200 income tax exclusion that a taxpayer may have

received in 2020 is no longer available in 2021. We can help you plan for any potential impacts of this change.

### **State tax obligations related to teleworking arrangements**

The pandemic has spawned changes in how people work, and more people are permanently working from home (i.e., teleworking). Such remote working arrangements could potentially have tax implications that should be considered by you and your employer.

### **Fraudulent activity remains a significant threat**

Our firm takes data security seriously and we think you should as well. Fraudsters continue to refine their techniques and tax identity theft remains a significant concern. Beware if you:

- Receive a notice or letter from the IRS regarding a tax return, tax bill or income that doesn't apply to you
- Get an unsolicited email or another form of communication asking for your bank account number, other financial details or personal information
- Receive a robocall insisting you must call back and settle your tax bill

Make sure you're taking steps to keep your personal financial information safe. Let us know if you have questions or concerns about how to go about this.

### **Virtual currency/cryptocurrency**

Virtual currency transactions are becoming more common. There are many different types of virtual currencies, such as Bitcoin, Ethereum and non-fungible tokens (NFTs). The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services, or holding such currencies as an investment, generally has tax impacts. We can help you understand those consequences.

### **Additional tax and retirement planning considerations**

We recommend you review your retirement situation at least annually. That includes making the most of tax-advantaged retirement saving options, such as traditional IRAs, Roth IRAs and company retirement plans. It's also advisable to take advantage of health savings accounts (HSAs) that can help you reduce your taxes and save for your future. We can help you determine whether you're on target to reach your retirement goals.

Here are a few more tax and financial planning items to discuss with us:

- Let us know about any major changes in your life such as marriages or divorces, births or deaths in the family, job or employment changes, starting a business and significant expenditures (real estate purchases, college tuition payments, etc.).
- Consider tax benefits related to using capital losses to offset realized gains — and move any gains to the lowest tax brackets, if possible.
- Make sure you're appropriately planning for estate and gift tax purposes. There is an annual exclusion for gifts (\$15,000 per donee, \$30,000 for married couples) to help save on potential future estate taxes.
- Consider Sec. 529 plans to help save for education; there can be income tax benefits to do so, and we can help you with any questions.
- Consider any updates needed to insurance policies or beneficiary designations.
- Discuss tax consequences of converting traditional IRAs to Roth IRAs by 12/31 annually.
- Let's review withholding and estimated tax payments and assess any liquidity needs.

### **Looming potential tax legislation**

With potential tax changes looming as Congress debates proposals in President Biden's "Build Back Better" agenda, there remains uncertainty in how this will impact taxpayers. As legislation continues to evolve, and if it passes, we'll contact you to discuss how changes impact your tax and financial plan.

### **Year-end planning equals fewer surprises**

There are many other opportunities to discuss as year-end approaches. And, many times, there may be strategies such as deferral or acceleration of income, prepayment or deferral of expenses, etc., that can help you save taxes and strengthen your financial position.

Whether it's working toward retirement or getting answers to your tax and financial planning questions, we're here for you. Please contact our office today at 303-683-7171 or [galbert@albertcpa.com](mailto:galbert@albertcpa.com) to set up your year-end review. As always, planning ahead can help you minimize your tax bill and position you for greater success.

Sincerely,

Garry L Albert CPA PC