



2021 Year-End Planning

The end of the year is approaching quickly, and with that in mind we are sending a friendly reminder to clients to review their tax planning checklist.

Build Back Better Act

The US House of Representatives recently passed President Biden's domestic spending package and it is now being discussed in the Senate. Assuming passage, the bill's provisions will come into effect January 1, 2022. However, many of the earlier provisions raising individual income tax rates and capital gains rates have been eliminated from the most recent version. The top tax rate will remain unchanged at 37% and capital gains will remain taxed at a maximum rate of 20%. Perhaps the most widely felt change will be the increase in the SALT (state and local tax) deduction from \$10k to \$80k. You can visit www.taxfoundation.org for a full breakdown of the legislation. Please note that as of this writing, these provisions are still being debated.

Investment Portfolio

Our clients have enjoyed significant gains in the stock market this year, with the US indices continuing their steady march into record territory. As your investment advisor, we will review your portfolio before year-end for opportunities to tax loss harvest any positions that are at a loss in taxable accounts. We encourage you to review your investments held elsewhere for potential tax loss harvesting opportunities. Additionally, now may be a good time to review your target asset allocation with your advisor, update your risk preferences, and make any portfolio adjustments. As usual, there is a \$3,000 deduction limit for realized investment losses. Capital losses in excess of \$3,000 can be carried forward and used against gains in future years (or used to offset \$3,000 in income per year).

Annual Gifting to Family and Charities

For 2021 you can gift up to \$15,000 per recipient without incurring gift taxes. If you file jointly, the gift tax exclusion is \$30,000 per recipient (\$15k for each spouse). This is a great way to reduce the size of your taxable estate and it does not count against your lifetime estate tax exclusion. For charitable giving you may want to consider donating highly appreciated securities, rather than cash, as you will not be subject to capital gains when the securities are sold. If you are not sure which philanthropic cause you wish to support, you can always open a Donor-Advised Fund (DAF). A DAF allows you to make a tax-deductible contribution that can be paid out later to the charities of your choice. Donating highly appreciated securities allows for a tax deduction for the full market value of the securities in the current tax year, while avoiding the capital gains tax that would be associated with selling them. Note that it is always helpful to consult a tax professional when doing charitable contributions of any kind as there may be some deductibility limits that could impact your own situation.

IRA, HSA, and Retirement Plan Contributions

Plan to make your 2021 IRA or Roth IRA contributions prior to April 15, 2022. Contribution limits for

2021 are \$6,000 per person (\$7,000 if you are age 50 or older). If your income level prohibits you from making direct Roth IRA contributions, you may consider making “back door” contributions through a Roth conversion. Please talk to your advisor if you would like to explore that option. A Roth conversion should also be considered if you are in a lower tax bracket today than anticipated in future years. You can also contribute to a custodial Roth IRA for a minor (so long as they have employment income equal or greater to the contribution amount).

Individuals with health insurance coverage under a qualifying high-deductible plan can contribute up to \$3,600 to an HSA (Health Savings Account) for 2021. For individuals with family coverage the contribution limit is \$7,200. Again, contributions must be made by April 15, 2022.

Are you on track to maximize your employer retirement plan deferrals? The limit for employee contributions to 401(k) plans is \$19,500 for 2021 (plus an additional \$6,500 for those 50 or older). For 2022, the employee deferral limit will be raised to \$20,500.

Required Minimum Distributions

If you are age 72 or older, you must take your required minimum distribution from your traditional IRAs and 401(k)s by December 31. If you miss the deadline, the penalty is 50% of the amount that should have been distributed. Your advisor or client service associate at Garde Capital will reach out to you, if they haven't already, to notify you of any required minimum distributions and assist in processing them. If you don't need the money from your RMD and want to avoid paying the associated income taxes, you can make a Qualified Charitable Distribution of up to \$100,000 directly from your IRA to a qualified charity instead. The distribution counts toward your RMD and is income tax free (but it is not eligible for a charitable deduction).

529s and Trusts

Consider making contributions to 529 college savings accounts for 2021. Contributions are not tax deductible at the federal level, but may be at the state level up to certain limits. If you live in a state with income taxes, you can check the local 529 deduction at: finaid.org/savings/state529deductions/.

Trusts reach the highest tax brackets more quickly than individuals, so consider making beneficiary distributions before year-end to reduce income taxable to the trust as much as possible. Consult your advisor or trust administrator for guidance on this issue.

As always, please contact your advisor with any questions or if you need assistance in addressing year-end tax planning needs.

In the spirit of the season, we wish to express a heart-felt “Thank You” to all our clients for their continued business and for the great relationships we've cultivated over the years. We wish you all a happy holiday season and a prosperous new year!

Sincerely,
Garde Capital, Inc.