VWG WEALTH MANAGEMENT
A Hightower Company

Year-End Planning

The complex financial environment of 2021 only further adds to the often-complex process of year-end tax planning, retirement funding, and gifting. VWG is here to help. Here is a checklist of topics and specific strategies that should serve as a catalyst for conversations with our team.

Tax Planning

- [ ] Review your payroll tax withholding for 2021 to ensure you are having enough (but not too much) federal and state taxes taken from your paycheck for 2022. Access a simple IRS withholding estimator: (https://www.irs.gov/individuals/tax-withholding-estimator).

- [ ] Ensure that you have taken any 2021 required minimum distributions (RMDs) from IRAs, 401(k)s, and inherited IRAs.

- [ ] Although tax planning usually focuses on reducing taxable income, certain individuals may want to maintain or even increase taxable income for 2021. Those in lower tax brackets should consider taking IRA distributions, or even consider doing Roth IRA conversions. Federal tax rates are historically low. Regardless of the outcome of current legislative efforts, it appears that tax rates for medium and higher income households will be higher in the future. Those in lower tax brackets should consider taking IRA distributions or making a Roth IRA conversion.

- [ ] Maximize Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs). Review your current benefits and options, particularly for those whose employers' plans are in the open enrollment period for next year. HSAs (associated with high-deductible health plans), can also be used to expand salary deferral as a savings vehicle that can be used in later years or in retirement. Your contributions are tax-deductible, and these funds can be invested for tax-free growth if used for future healthcare expenses. Since funds placed in an HSA will stay with you forever, regardless of whether you change employers or insurance, any unused money rolls over and continues to grow until you use it for medical expenses.

2021 HSA contribution limits

The IRS announced an increase in health savings account (HSA) contribution limits for the 2021 tax year. Here is what you need to know about the HSA contribution limits for the 2021 calendar year:

- An individual with coverage under a qualifying high-deductible health plan (deductible not less than $1,400) can contribute up to $3,600 – up $50 from 2020 – for the year to their HSA. The maximum out-of-pocket has been capped at $7,000.
- An individual with family coverage under a qualifying high-deductible health plan (deductible not less than $2,800) can contribute up to $7,200 – up $100 from 2020 – for the year. The maximum out-of-pocket has been capped at $14,000.

And remember, if you are age 55 or older, you can contribute an additional catch-up contribution of $1,000 per year. If your spouse is also 55 or older, he or she may establish a separate HSA and make a "catch-up" contribution to that account.

Funding and Taking Distributions from Retirement Accounts

- [ ] If still working, confirm that you have made the 401(k) maximum contribution this year. The maximum contribution is $19,500 for the year, with a catch-up contribution of $6,500 for those age 50 and older. Self-employed individuals have further options in which they could defer larger amounts of earnings. These actions have the dual benefit of increasing your retirement savings and potentially reducing this year's tax liability.

- [ ] Employed individuals should maximize their contributions to Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs). HSAs (associated with high-deductible health plans), can also be used to expand salary deferral as a savings vehicle that can be used in later years or in retirement. Your contributions are tax-deductible, and these funds can be invested for tax-free growth if used for future healthcare expenses.

- [ ] 2021 could be an opportune time for converting IRAs or pre-tax 401(k) funds to Roth IRAs. Although conversions generate immediate taxable income, federal tax rates will likely rise in the future. There is proposed legislation that will exclude high income earners from making Roth IRA conversions in the future. Certain estate planning strategies favor leaving Roth IRAs to non-spousal beneficiaries. "Understanding Roth IRA Conversions as a Tax Planning Strategy" was discussed in depth in our September Ponderings and Musings (link)

Charitable Gifts and Tax-Smart Gifting Strategies

- [ ] Start planning your year-end charitable donations now. Many swaths of our society, and the charitable organizations that support them have been severely impacted by the pandemic. They need all of our help. Keep records of all donations. For larger gifts, consider gifting highly appreciated stocks, funds or other assets instead of cash.

- [ ] The CARES Act allows an 'above-the-line' charitable deduction for all taxpayers who do not itemize their deductions. This temporarily supersedes 2018's State and Local ("SALT") tax law change. All who are inclined and qualify should consider making a $300 charitable contribution.

- [ ] Taxpayers who expect to claim the standard deduction in 2021 can consider "bunching" multiple years of charitable gifts into one year so that they can qualify for a tax deduction. If one is nearing retirement and expects to be in a lower tax bracket in the future, "bunching" now can provide greater tax savings. "Bunching" charitable contributions can also be used to help offset taxable income generated from making a Roth IRA conversion. Large "lump" contributions can be placed into a Donor Advised Fund (DAF), from which you can easily disperse smaller "grants" to multiple IRS-approved public charities at your discretion over the coming years.

- [ ] For 2021, those age 70 1/2 and older may consider making a charitable contribution to a qualified charity directly from their IRA. This qualified charitable distribution (QCD) is limited to $100,000. A QCD counts toward satisfying your required minimum distributions (RMDs) for the tax year, but is not deemed to be taxable income. This approach is an extremely efficient method of gifting for those charitably inclined.

Family Gifting

- [ ] Consider year-end gifting to family members. The 2021 annual gift tax exclusion for individuals is $15,000. That means that the maximum a husband and wife can gift to a single person in one year is $30,000. The $15,000 annual gift limit can be exceeded if payment for an individual's medical expenses is made directly to the provider. This applies only to deductible medical costs, care and services, medical insurance, and prescription medicine.

- [ ] If you intend on making a very large gift to a child - for example helping with a home down payment - consider spreading your gifting between the end of this year and the beginning of next year. A special 529-exclusion allows five years' worth of gifts — up to $75,000 for single or $150,000 for married couples — to be contributed at once, provided that no other gifts are made within the next five-year period. For further information on 529 savings accounts, please reference our article in September 2019 Ponderings & Musings. (link)

Estate Planning

- [ ] The House Ways & Means Committee tax proposal had included reducing the current $11.7 million estate-tax exemption to an inflation adjusted $5,000,000 exemption (presently about $6.02 million) after 12/31/21. The status of possible changes to a multitude of items in the tax code – including estate tax exemptions, Roth conversions, life insurance, income tax rates, and SALT deductions – are fluid on an almost daily basis. VWG's recommendation is to watch the legislative events unfolding over the coming weeks very closely. As always, reach out to us for how these events and law changes may impact your specific financial and planning situation.

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