2021 Year-End Strategic Planning Considerations
Approach the New Year with Controlled Focus

This year may prove pivotal regarding the implementation of strategies to strengthen your wealth management plan, minimize its tax exposure, and preserve your family business and legacy. While there may be uncertainty regarding specific strategies and the "rules of engagement" ahead, the following considerations may provide an opportunity to enhance your wealth plan and **focus on the things within your control.**

Monitor the Prospect of Tax Reform (and Plan Based Upon 2021 Rules)

The prospect of tax reform has been a continual theme in conjunction with legislation focused on national infrastructure. President Biden signed the $1.2 trillion Infrastructure Investment and Jobs Act (e.g. "The Bipartisan Infrastructure Bill") into law on November 15, 2021. The House of Representatives passed a $2 trillion dollar bill expected to expand numerous healthcare, education and social services (e.g. "The Build Back Better Bill") on November 19, 2021. This bill is currently being assessed in the U.S. Senate to determine if all provisions qualify to be passed through budget reconciliation process. There is a significant likelihood that the Build Back Better Bill, as passed, will likely be subject to modification as it begins review in the Senate.

Previously, per the House's larger budget proposal on September 13, 2021, changes included an increase of the top marginal income tax bracket to 39.6% and long-term capital gains on investments to 25% for individuals earning greater than $400,000 and married couples filing jointly greater than $450,000. Long-term capital gains increases were also proposed to be retroactive to September 13, 2021 while marginal income tax changes would be effective as of January 1, 2022. There was also a proposed increase in the federal corporate tax rate as well as a reduction in the federal estate tax exemption to $6,000,000 per individual.

The House modified its tax proposal in association with the bill passed on November 19, 2021 . The previous recommended changes from September 13th are eliminated from the current House bill and, in turn, minimizes the risk of adoption. Included, but not limited, in the House of Representative's proposal is the application of the Net Investment Income Tax, (i.e. the 3.8% Affordable Care Act tax), to active income generated by "S" Corporations and partnerships, a 5% surtax applied to incomes of $10,000,000 and greater, an additional 3% surtax applied to incomes of $25,000,000 and greater, and eliminating after-tax 401(k)/IRA contributions to be converted to a Roth IRA as of January 1, 2022 (a.k.a., the elimination of the "back door Roth IRA conversion").

We will continue to monitor the prospect of tax reform and provide further guidance as the possibility of legislative passage becomes clearer.

Maximize Retirement Contributions

Maximizing contributions to a qualified retirement plan provides an opportunity for current tax deferral. The annual contribution limit for 401(k) plans increased to $19,500 in 2021. For individuals over the age of 50, there is a $6,500 "catch-up" allowance, which increases the 401(k) contribution limit to $26,000. The amount you can contribute to an Individual Retirement Account (IRA) remained at $6,000 in 2021 (with a $1,000 "catch-up" for individuals over the age of 50 - increasing the contribution limit to $7,000). The age limit for Traditional and Roth IRA annual contributions has been removed pursuant to the SECURE Act. Be aware, your IRA contribution may not be deductible, depending on your adjusted gross income (AGI).

Measure the Impact Inflation May Have on Your Wealth Plan

A predominant financial issue in 2021 has been the advent of increased inflation. Monthly inflation rates have consistently risen above 5% for a significant part of the year. Although many economists believe current inflation is transitory, its impact may be significant whether its presence is short or long-term. Specifically, increases in the cost of goods and services results in higher expenses to sustain lifestyle needs and wants. Higher levels of inflation over an extended period of time may impact the probability of long-term financial success. Inflation is often characterized as the "silent stressor" and "invisible tax" on retirement assets. To determine if inflation does pose a risk to your wealth planning goals, think about "stress testing" your wealth plan to determine the potential impact. Consider a purchase power analysis regarding cash holdings to determine if it is practical to hedge inflation with a different investment strategy correlated with your overall goals and objectives.

Engage in Tax Loss Harvesting

Many investors can offset taxable gains in their portfolios using a strategy of tax loss harvesting. The implementation of a tax loss harvesting strategy may provide multiple benefits, including: (i) offset of capital gains and losses to minimize income tax exposure; and (ii) tactical adjustment of your investment portfolio to reflect changes to personal goals and market conditions. A full review of your investment portfolio in conjunction with your wealth plan can help determine if there are tax-harvesting opportunities.

Leverage Your Current Annual and Lifetime Gifting Exemptions

Even in an uncertain environment regarding future taxes, the strategic use of current annual and lifetime gift tax exemptions and exclusions may provide an impactful outcome regarding your legacy aspirations. In 2021, the annual exclusion gift limit is $15,000 each to an unlimited number of recipients. Spouses may combine their exclusions for a $30,000 gift. These gifts may be made directly to individuals or specific types of trusts for the benefit of others designed for this purpose. The gifts can also be comprised of non-cash assets, including stocks and bonds, ownership interests in real estate and businesses.

As mentioned previously, both the federal estate and gift tax exemption may be affected by tax reform. In addition, some common trust strategies using a so-called Grantor Trust structure may be likewise impacted. Grantor Trusts comprise many of the most common estate tax saving strategies often used by estate planners today. Under current law, if you have more than enough assets to maintain your lifestyle, there may still be time to use a Grantor Trust in your estate plan. If you believe you are in a position to shift wealth to the next generation, please consider using all – or part – of your lifetime gift tax exemption ($11,700,000 per person in 2021) to remove assets from your taxable estate this year. Act sooner rather than later since any tax changes impacting this decision are not effective until enacted, or not until January 1, 2022. If you are not comfortable making large outright gifts or giving up significant assets, consider using one of the estate compression strategies, such as a Spousal Lifetime Access Trust (SLAT), to indirectly maintain access to cash flow through your spouse, or consider selling assets in exchange for a promissory note of equivalent value. This is one way to maintain cash flow while shifting future appreciation to the next generation. To the extent you believe one or more of these strategies might be appropriate for your circumstances, it is advised you have an immediate discussion with your estate planning attorney and tax counsel to help you make that determination.

Consider Philanthropic Planning Ideas

A $300 "above the line" deduction individually ($600 for married couples filing jointly) for cash contributions to charitable organizations and churches is allowed in 2021 pursuant to an extension of the CARES Act legislation regarding charitable gifts. This deduction is available whether a taxpayer itemizes deductions or not. The 60% adjusted gross income (AGI) limit for individual charitable deductions has been suspended for certain cash gifts made outright to public charities. There can also be added tax benefits to alternatively donating appreciated stocks and other assets with built in gains. Just remember, gifts other than cash to public charities are subject to different AGI limitations. What if you have a large IRA and have reached the age of minimum distributions? Under current law you can ask your IRA custodian or trustee to send cash to your favorite charity and count the distribution toward your RMD. Besides an outright gift to a public charity, you might consider exploring the option to use a donor advised fund, community foundation, or private family foundation. There are also different types of charitable trusts that could help you achieve philanthropic objectives.

Conclusion

While several events in 2021 have provided uncertainty regarding strategic planning, as we approach year end, there are numerous strategies still available to help you achieve personal and financial objectives by enhancing your overall wealth plan. Our local Private Wealth Management teams look forward to discussing these and other ideas to achieve your financial goals.

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