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2021: Year in review

Tax and financial planning items to consider

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- ▶ American Rescue Plan Act (enacted March 2021); Consolidated Appropriations Act (enacted December 2020)
 - ▶ New rounds of economic impact payments (EIPs)
 - ▶ Changes to the child tax credit
 - ▶ Individuals who do not itemize their deductions can take a charitable deduction of up to \$300 (\$600 for joint filers).
 - ▶ You must take a required minimum distribution (RMD) if you are age 72 by the end of the year (or age 70½ if you reach that age before Jan. 1, 2020).
 - ▶ Unemployment compensation: There is no longer a \$10,200 exclusion.

Key individual tax considerations from recent tax legislation

Review 2021 withholdings and estimated tax payments

- ▶ May still have time to adjust withholdings from wages or retirement distributions
- ▶ Reminder: Fourth quarter individual tax estimates are due Jan. 18, 2022
- ▶ Avoid unwanted surprises next April
- ▶ Avoid penalties for underpaying taxes



Individual income tax brackets for 2021

Rate	Single	Married filing jointly (and surviving spouses)	Head of household	Married filing separately
10%	Up to \$9,950	Up to \$19,900	Up to \$14,200	Up to \$9,950
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$14,201 to \$54,200	\$9,951 to \$40,525
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$54,201 to \$86,350	\$40,526 to \$86,375
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,351 to \$164,900	\$86,376 to \$164,925
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,901 to \$209,400	\$164,926 to \$209,425
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,401 to \$523,600	\$209,426 to \$314,150
37%	\$523,601+	\$628,301+	\$523,601+	\$314,151+

Dividend and capital gains rates for 2021

Qualified dividends and capital gains tax rate	Single filers	Joint filers	Head of household	Married filing separately
0%	Up to \$40,400	Up to \$80,800	Up to \$54,100	Up to \$40,400
15%	\$40,401 to \$445,850	\$80,801 to \$501,600	\$54,101 to \$473,750	\$40,401 to \$250,800
20%	\$445,851+	\$501,601+	\$473,751+	\$250,801 +

- ▶ \$12,550 for single and married filing separately filers
- ▶ \$18,800 for heads of household
- ▶ \$25,100 for joint filers and surviving spouses
- ▶ \$1,350 additional if over age 65 or blind (\$1,700 if using single or head of household filing status)

2021 standard deduction

- ▶ More people working from home due to the pandemic can cause state tax consequences and additional filing requirements.
- ▶ Make note of a possible credit for taxes paid in other states.
- ▶ For individual taxpayers, a deduction for state income and local property taxes is capped at \$10,000 (\$5,000 for married taxpayers filing separately).
- ▶ Note certain states may have an entity level state and local tax cap workaround.

State and local tax issues

Cryptocurrency or virtual currency transactions

- ▶ Virtual currency transactions are becoming more common and, therefore, are being scrutinized more from the IRS. Form 1040 has a question on the first page regarding virtual currency.
- ▶ 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 receipt of virtual currency in exchange for goods/services, generally has tax consequences.

Review of net investment income tax (NIIT)

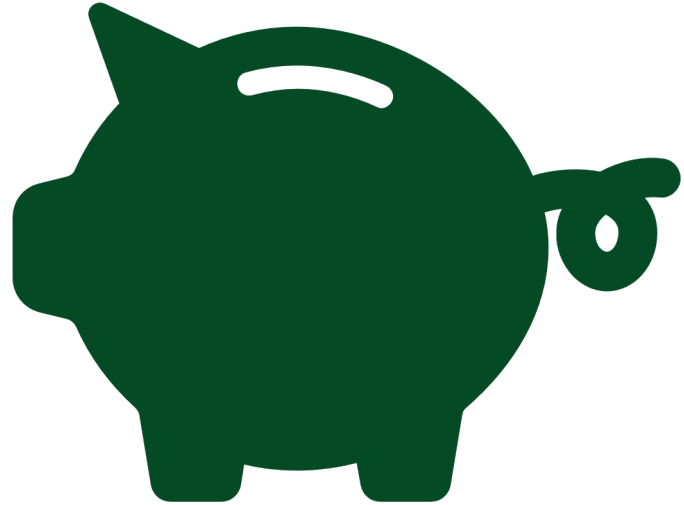
- ▶ Additional 3.8% tax on certain investment items such as:
 - ▶ Capital gains
 - ▶ Interest
 - ▶ Dividends
 - ▶ Net rental and royalty income
 - ▶ Income from passive activities
- ▶ Affects individuals, estates and trusts with income above certain thresholds

- ▶ Alternative tax system that parallels the regular federal tax (with different rates and rules for deductions)
- ▶ How does it work?
 - ▶ Adds back certain non-taxable income and removes some deductions
 - ▶ Re-computed income is multiplied by the applicable rate (26% or 28%) = tentative minimum tax
- ▶ Higher of tentative minimum tax or regular tax is paid
- ▶ Tax law changes increased the exemption amounts.
- ▶ Complex calculation

Review of alternative minimum tax (AMT)

Retirement planning

- ▶ **401(k)/403(b)** — \$19,500 + \$6,500 for 50 and over
- ▶ **IRA** — \$6,000 + \$1,000 for 50 and over
- ▶ **Roth IRA** — Income limits on contributing, but can convert retirement funds to a Roth
- ▶ **SEP IRA** — Contributions based on self-employed income



- ▶ 2021 estate tax exemption: \$11.7 million
- ▶ Increase in exemption is temporary
- ▶ 2021 gift tax annual exclusion: \$15,000
- ▶ Estate planning is more than minimizing estate taxes.
 - ▶ Updating documents
 - ▶ Repurposing insurance
 - ▶ Privacy
 - ▶ Asset protection

Estate and gift taxes

Education tax benefits

American opportunity tax credit

- ▶ Up to \$2,500 annually per eligible student for first four years of post-secondary school (income thresholds apply)

Lifetime learning credit

- ▶ Up to \$2,000 annually per eligible student for post-secondary school expenses (income thresholds apply)

Section 529 plans

- ▶ Tax-advantaged savings plan to encourage saving for future education costs
- ▶ Used for college/university education costs
- ▶ Can be used to pay up to \$10K per year per beneficiary for tuition at any public, private, or religious elementary/secondary school

Charitable contribution reminders

- **NEW:** Individuals who do not itemize can take a charitable deduction of up to \$300 (\$600 for joint filers).
 - Such contributions must be made in cash or check
 - Must be made to a qualified charity and must have proof of payment
- Cash or non-cash contributions of \$250 or more
 - Need “contemporaneous written acknowledgment” from the charity
- Non-cash contributions over \$500
 - Need details of donee organization, items donated, cost, value and more (see Form 8283)
- Non-cash contributions, including non-publicly traded stock worth over \$5,000
 - Need a qualified appraisal
- Clothing and household items
 - Must be in good used condition or better

Reminder about due dates (for calendar year-end taxpayers)

**March
15**

(Extension
available to
September 15)

- **Form 1065
(Partnership)**
- **Form 1120S
(S corporation)**

**April
15**

(Extension
available to
October 15)

- **Form 1040
(Individual)**
- **FinCEN Form 114
(Foreign bank
reporting)**

**April
15**

(Extension
available to
October 15)

- **Form 1120
(C corporation)**

**April
15**

(Extension
available to
September 30)

- **Form 1041
(Trust and estate)**

Top tax updates for businesses

Employee retention credit

Family and sick leave credits

Small Business Association (SBA) relief programs

Business meals 100% deduction for food and beverages provided by a restaurant

- ▶ Savings Incentive Match Plan for Employees (SIMPLE)
- ▶ Simplified Employee Pension (SEP) plans
- ▶ Profit-sharing plans
- ▶ A variety of 401(k) plans
- ▶ For new plans – consider small employer pension plan start-up credit

Small
businesses —
saving for
retirement

Protect yourself from fraud

- **Individuals**

- Protect your information.
- Shred your mail.
- Don't let "phishing" or other phone or email scams fool you.
- Check your credit report regularly.
- Consider obtaining an IP PIN from the IRS.

- **Businesses**

- Develop/update your security plan.
- Only collect what you need for as long as you need it.
- Secure your network.
- Train and restrict access.
- Audit regularly.

www.identitytheft.gov

<https://www.irs.gov/pub/irs-pdf/p4557.pdf>

Looming potential legislation: “Build Back Better” agenda

- Potential increase in taxes/surtaxes for high-income individuals
- Potential changes to corporate tax and international provisions
- Potential changes related to retirement plans
- Potential estate planning impacts
- **Continuously changing what’s in and what’s out of the proposed legislation**

Planning opportunities

**Complexity =
possible savings
opportunities**

**Consider
evaluating tax
structure.**

**A CPA can
provide tax and
financial planning
services.**

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