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Dear Clients and Friends,

Here are 10 tax tips for 2021 to beef up your savings and minimize the amount of income tax you'll pay.

With the winter holidays looming, the clock is ticking for taxpayers who want to minimize what they will pay next spring.

Here are 10 tax tips for 2021 to beef up your savings and minimize the amount of income tax you'll pay:

- Make 401(k), and HSA contributions.
- Schedule your RMD for 2021.
- Convert money from a traditional IRA to a Roth IRA.
- Contribute to a 529 Plan.
- Hold off on mutual fund purchases.
- Harvest your capital losses.
- Pick up capital gains if you're in a low tax bracket.
- Harvest losses on cryptocurrency.
- Donate cash to a charity.
- Meet with your tax advisor.

1. Make 401(k) and HSA Contributions

People can make tax-deductible contributions to traditional IRAs and health savings accounts up to April 15 of next year. However, the door closes on Dec. 31 for 401(k) contributions. There's no way to make additional contributions (after the new year).

Taxpayers with a qualified high-deductible family health insurance plan can deduct up to $7,200 in contributions to a health savings account in 2021. Individuals with self-only coverage can deduct $3,600. Those age 55 or older are eligible for an additional $1,000 catch-up contribution.

Tax-deductible contributions to a traditional 401(k) are capped at $19,500 for 2021. Workers age 50 and older can make an additional $6,500 in catch-up contributions.

2. Schedule Your RMD for 2021

Normally, retirees who have a traditional 401(k) or IRA must take a required minimum distribution each year once they reach age 72. Depending on the size of a person's retirement account, this distribution can be sizable and result in a significant tax bill.

Last year, the Coronavirus Aid, Relief, and Economic Security (CARES) Act waived RMDs, but they are required again this year. If you haven't already taken your RMD, make sure you do that before the end of the year. If you don't take it, you'll get a 50% penalty

3. Convert Money From a Traditional IRA to a Roth IRA

Withdrawals from traditional IRAs are taxed in retirement, but distributions from Roth IRAs are tax-free. Plus, Roth IRAs don't have required minimum distributions, which can also be beneficial for those looking to reduce taxes in retirement.

Fortunately, the government allows you to convert money from traditional accounts to Roth accounts to get these benefits. When money is converted from a traditional to a Roth account, taxes must be paid on the converted amount.

With some concerned about rising tax rates, it may best to not delay making any planned conversions.

4. Contribute to a 529 Plan

Families with children can use 529 plans to prepare for college expenses and save on their state income taxes next spring. Most states offer a state income tax deduction for contributions made by residents to a state-sponsored plan. However, a handful of states may allow a deduction for contributions to any 529 plan. While there is no federal tax deduction for 529 contributions, money in these plans grows tax-free and can be withdrawn tax-free when used for qualified education expenses.

5. Hold Off on Mutual Fund Purchases

People should be wary of buying mutual funds at this time of year if they will be held in a taxable account. It being November, it's an active time of the year for capital gains distributions.

You could get hit with a bill for year-end dividends even if you just purchased shares, and, essentially, you'll be paying taxes on a profit you didn't actually see. To avoid paying additional taxes, consult with a broker before making a purchase to find out when distributions are made.

6. Harvest Your Capital Losses

If you own stocks that have lost money, you can sell them and deduct up to $3,000 on your federal taxes. That money can offset gains on other stocks or be applied to regular income taxes.

Just be careful not to violate the wash-sale rule, which would disallow the deduction. This rule states you cannot purchase the same or a substantially similar stock within 30 days before or after the sale.

7. Pick Up Capital Gains if You're in a Low Tax Bracket

The end of the year is also a good time for some people to sell stocks that have appreciated significantly in value. This can be a particularly good strategy for those in the 10% and 12% tax brackets since their capital gains tax may be zero. The stocks can then be repurchased, which resets the basis and minimizes the amount of tax to be paid on future gains.

Even if you're not in the lowest tax brackets, you may want to sell winning stocks to reset the basis if you're also harvesting losses. Another reason to sell investments at this time of year is to rebalance your portfolio.

8. Harvest Losses on Cryptocurrency

A loophole in the law means people who own cryptocurrency should consider harvesting those losses in 2021. Right now, the wash sale rule does not apply to cryptocurrencies.

That means investors can sell cryptocurrency for a loss and then immediately buy the same currency without it affecting their ability to deduct the loss. As with other investments, cryptocurrency losses can be used to offset capital gains or regular income taxes.

However, the Build Back Better proposal is poised to close this loophole so it's in your best interest claim losses now if you can.

9. Donate Cash to a Charity

Deducting charitable donations has traditionally been a popular way to reduce tax liability, but not everyone can do so. Normally, you need to itemize to deduct any charitable contributions, that can be hard to do with the 2021 standard deduction set at $12,550 for single taxpayers and $25,100 for married couples filing jointly.

However, the CARES Act included a provision to allow taxpayers to write off up to $300 in charitable contributions on their 2020 return even if they weren't able to itemize. That deduction is back for 2021 and has been increased to $300 per person so a married couple, filing jointly, is eligible for an up to $600 deduction.

To claim the deduction, your gift must be a cash donation, but gifts to donor-advised funds do not qualify.

10. Meet With Your Tax Advisor

November is a good month to meet with a tax advisor. They have finished their October tax filings and may have time in their schedule before the busy tax season starts after the first of the year.

An advisor can help pinpoint end-of-tax-year strategies to reduce taxable income through retirement contributions or itemized deductions. That, in turn, may be key to ensuring households remain eligible for some income-based tax incentives such as student loan interest deductions. If you don't regularly use a tax professional, running numbers through tax software can be just as beneficial.

5 Things to do Right Now:

Now is a good time to review your investment portfolio and your overall financial plans to ensure you're doing all you can to maximize your savings and reduce your tax bill. If you wait until after the holidays to reassess your finances, you could miss out on opportunities that disappear at year end.

Here are five end-of-year tax-smart portfolio tips to consider implementing right now:

1. Maximize your retirement savings

A tax tip you may already know: Contributions to tax-deferred retirement accounts—such as a 401(k)—reduce your taxable income and provide tax-deferred growth until retirement.[1] The end of the year is a good time to re-evaluate your overall savings, do a portfolio checkup, and determine if you can bump up what you're putting away for retirement.

You can also make lump-sum contributions from an annual bonus to give your savings a boost. And remember, if your employer offers matching contributions, don't leave free money on the table. It's a good idea to contribute enough to meet your employer's full match and take advantage of those additional funds.

If you're currently in a lower tax bracket and you're likely to be in a higher tax bracket when you retire (a lot of younger people fall into this category), consider making contributions to a Roth IRA or Roth 401(k). Though contributions to Roth accounts are made with after-tax dollars, that money can grow tax free. And when you retire, you won't have to pay taxes on the withdrawals.[2]

A retirement savings tip for those who are self-employed or business owners is to consider making contributions to a tax-deferred retirement account such as a SEP-IRA, SIMPLE IRA or individual 401(k). These contributions will lower your taxable income and could help you stay under the phase-out limitations for the 20% deduction on pass-through income.[3]

2. Consider a Health Savings Account (HSA)

Another option to consider when doing a portfolio checkup is an HSA. If your employer offers an HSA—and you qualify to contribute to one—this can be a tax-smart way of setting aside money for qualified medical expenses.[4] HSAs offer a triple tax advantage: You pay no federal taxes on your contributions,[5] no federal taxes on investment earnings[6] and no taxes on withdrawals as long as the money is used for qualified medical expenses.[7]

If you're fortunate enough not to have to many medical expenses, are 65 or over and have money left over in your HSA during retirement, you can use that money to pay for living expenses—the only caveat being, you'll have to pay taxes on the withdrawals when they're not just for medical expenses.

3. Give to a favorite charity for tax savings

The end of the year is a time when many people think about charitable giving. As with other aspects of your finances, it's important for charitable giving to be part of a broader financial plan, and it's a great option you can consider when doing a year-end portfolio review.

One way to maximize the tax benefits of charitable giving is to concentrate your giving into a high-tax year.

By giving a large amount one year and not the next, you could maximize your itemized deductions in that year and take the new increased standard deduction the next year.[8] Giving appreciated assets in this manner is a great way to maximize your charitable giving deduction, and a donor-advised fund (DAF) could be used to facilitate that gift.

If you're age 70½ or older, you could also consider donating up to $100,000 directly to a charity from your IRA, using a qualified charitable distribution (QCD). A QCD allows you to take money directly from your IRA and give it to a qualified charity without having to recognize that withdraw as income on your tax return. In addition, if you're subject to required minimum distributions (RMD), a QCD can be used to cover all or a portion of your annual RMD.

4. Gift assets to your loved ones

Each year you're allowed to give up to $15,000 to any number of people without having to pay a gift tax. Using this gifting strategy can allow you to transfer a large amount of wealth to your loved ones tax free and without eating into your gift and estate tax exemption. Those gifts can be used for any number of financial goals, including funding a grandchild's 529 college savings plan or helping a loved one make a down payment on a new house.

5. Rebalance your portfolio in a tax-smart way

When you're considering a portfolio review, you have to remember that the market is constantly changing, which can skew your asset allocation from its original target. Over time, assets that have gained in value will account for more of your portfolio, while those that have declined will account for less. This can leave you exposed to unintended risk if the market environment should suddenly change. That's where rebalancing your portfolio comes in—and it can be an especially important task for people nearing or in retirement, who might be more sensitive to market volatility.

Rebalancing involves selling positions that have exceeded your target allocation and moving the proceeds to positions that have become under-represented. Each time you sell a position, a taxable event occurs. That's where tax planning comes into play.

With a bit of planning, you can help reduce the tax impact of rebalancing by using a strategy called tax-loss harvesting. Investors have a tendency to avoid selling anything at a loss, but there can be a significant tax benefit to selling a losing position if you have capital gains to offset. Those losses can be used to reduce your capital gains all the way to zero and if you have more losses than gains, you can even offset up to $3,000 of your ordinary income each year. Tax-loss harvesting can also serve as a motivation to sell underperforming investments or to re-diversify overly concentrated stock positions.

The end of the year is a good time to take a look at your portfolio allocation and make sure it's aligned to your goals and risk tolerance.

The bottom line

There are many things to consider in terms of your portfolio as the year comes to an end. If you want to have a strong handle on your finances now and in the future, remember to follow the above year-end tips.

1. For 2021, the maximum employee 401(k) contribution is $19,500. If you're age 50 or older, you are allowed to contribute an additional $6,500 in catch-up contributions, for a total of $26,000.

2. For Roth accounts, you must be over the age of 59 ½ and have held the account for 5 years before withdrawals of income are tax free.

3. The 20% deduction (IRC 199A) is available to owners of pass-through entities such as sole proprietors, partnerships and S-corporations. There are numerous limitations and rules related to this deduction, so be sure to meet with a tax professional well before year end to go over your specific situation.

4. In 2021, the contribution limit is $3,600 for HSAs linked to self-only health insurance coverage and $7,200 for HSAs linked to family coverage. People age 55 or older may contribute an additional $1,000 in either scenario.

5. HSA contributions are not deductible in several states, including California and New Jersey. Check with your tax advisor for specific tax advice.

6. State taxes may vary.

7. See IRS Publication 502 for a list of these expenses.

8 The standard deduction was increased by the Tax Cuts and Jobs Act (TCJA) which passed in 2017. The new standard deduction is in effect from 2018 to 2025. For more information on this and other changes from the TCJA, see this article.