

# HELPFUL TIPS FOR ISSUES AFFECTING 2021

**Education Credit** – Since the American Opportunity credit for higher education expenses is only allowed in the first four calendar years for each eligible student, taxpayers may benefit from prepaying the education expenses for an academic period beginning in the first three months of the next year. This is especially important when you consider that most students enter college in the last half of the first eligible tax (calendar) year and qualify for the credit with only half a year's expenses during the first year. Working out a payment plan where the tuition is prepaid under the three-month rule in each of the eligible years would more evenly spread the tuition over the four years.

**Avoiding Underpayment Penalties Strategy** – Most high-income taxpayers and those who might end up with higher-than-normal income because they are likely to receive extraordinary taxable income should consider paying 110% of their prior year's tax to meet the safe harbor for avoiding an underpayment penalty. And then, no matter how much they end up owing for the year, they will not need to pay up until the April due date. However, this exception requires the prepayments to be made evenly and to be paid in a timely manner by quarter; underpayments generally can't be made up later and still qualify for the safe harbor. But, since withholding is treated as being paid evenly throughout the year (unless the taxpayer elects actual withholding amounts), the estimated tax shortfall of the even-payments-by-quarter requirement can be made up by having extra withholding at the end of the year.

**Spousal IRA Strategy** – If one spouse works and the other does not, tax law allows the non-working spouse to base his or her contribution to an IRA on the working spouse's income. This tax benefit is frequently overlooked when spouses have been working for years and basing their individual contributions on their own income, and then one of the spouses retires. Even if the working spouse has a pension plan at work and his or her income precludes making a deductible IRA contribution, the non-working retired spouse may still make a contribution based on the working spouse's income. Spousal contributions can also be made to Roth IRAs if joint income does not exceed IRS limits.

**Required Minimum Distributions (RMDs) Resume** – As one of the COVID-19 relief measures enacted by Congress in 2020, individuals were allowed to skip RMDs from their retirement plans and IRAs, but only for 2020. For 2021, RMDs will once again have to be taken, but due to another law change, the age at which RMDs must begin is now 72, up from 70½.

**Recontributing Coronavirus-Related 2020 Distributions** – A taxpayer, spouse or dependent who was diagnosed with COVID-19, or experienced adverse financial consequences as a result of being quarantined, furloughed or laid off, or had work hours reduced due to the coronavirus, was unable to work due to lack of child care, or the business they owned or operated closed or had reduced hours due to the virus, were eligible to take a distribution from their IRA or retirement plan of up to \$100,000 in 2020 without an early withdrawal penalty. The tax on the qualified distribution did not have to be paid all in 2020 but could be spread one-third in each of 2020, 2021 and 2022. Further, any amount of the distribution can be re-deposited to the IRA or a qualified plan in one or more re-contributions over the 3-year period beginning on the day after the date of the qualified distribution. This provides a way to replenish the retirement account, and the tax already paid on the redeposited amount will be refundable by amending the return for the year that the tax was paid.

**Qualified Charitable Distributions (QCD)** – With the substantial amount currently allowed as the standard deduction, many taxpayers no longer

itemize their deductions and thus get no tax benefit from making charitable contributions. However, individuals age 70½ or older can annually transfer up to \$100,000 from their IRAs to qualified charities. Here is how this provision, if utilized, works:

- (1) The IRA distribution is excluded from income;
- (2) The distribution counts toward the taxpayer's required minimum distribution for the year; and
- (3) The distribution does NOT count as a charitable contribution deduction.

By excluding the distribution, a taxpayer lowers his or her adjusted gross income (AGI), which helps for other tax breaks (or punishments) that are pegged at AGI levels, such as medical expenses when itemizing deductions, passive losses, and taxable Social Security income. In addition, non-itemizers essentially receive the benefit of a charitable contribution to offset the IRA distribution.

**Caution:** There is no longer an age limit for making IRA contributions, so if a taxpayer age 70½ or older makes a non-taxable QCD, then the non-taxable amount must be reduced by any deductible IRA contributions made for the year.

**Medical Expenses** – Starting in 2021, the threshold above which unreimbursed medical expenses are deductible as an itemized deduction increases from 7.5% to 10% of AGI. However, self-employed taxpayers can deduct health insurance premiums they pay for themselves and their dependents, even when taking the standard deduction or when the medical expenses do not exceed the AGI threshold for itemizing. Also, don't overlook including long-term care and Medicare B and D premiums.

**Electric Car Credit** – A non-refundable tax credit for as much \$7,500 is allowed when purchasing a plug-in electric motor vehicle. However, that credit begins to phase out once each manufacturer's sales reach 200,000 vehicles. Three of the more popular plug-in electric vehicles have reached the phaseout, so no credit will apply in 2021 for Tesla, Chevrolet and Cadillac electric vehicles.

**Alimony** – As a reminder, for divorce decrees finalized after 2018, alimony is no longer deductible by the payer or taxable to the recipient. This change has no effect on divorce decrees entered into before 2019 that are unmodified, for which alimony continues to be deductible by the payer and taxable to the recipient.

**Health Insurance Penalty** – The ACA penalty for not being insured no longer applies at the federal level. But some states have instituted a penalty.

**Cryptocurrency Transactions** – Beware! The IRS continues to have cryptocurrency on its radar and is ramping up enforcement programs. Cryptocurrency (virtual currency) is treated as property, and every time it is sold or used, the gain or loss from the transaction must be computed and reported in the same manner as a stock transaction.

**Qualified Opportunity Funds (QOFs)** – Taxpayers can defer capital gains into QOFs, with tax on the gain deferred until 12/31/26 or when the QOF is sold, whichever is earlier.

**Solar Credit** – A federal credit for the purchase and installation costs of a residential solar system is fading away. After being 30% of the cost for several years through 2019, the credit amount dropped to 26% in 2020 and will be 22% for systems completed in 2021, the final year of the credit.

**PPP Loan Forgiveness** – Many small business owners applied for and received SBA Payroll Protection Program Loans in 2020, and some or all of the loan may be forgiven if the loan funds were used for payroll and certain operating expenses during the COVID-19 pandemic. A borrower needs to apply for forgiveness through their lender or the lender servicing the loan. The forgiveness application must be submitted within 10 months after the end of the loan covered period or loan payments must begin.

## \$1 LUMP SUM AT VARIOUS RATES (FUTURE VALUE OF \$1, COMPOUNDED ANNUALLY)

Interest Rate	5 Yrs	10 Yrs	15 Yrs	20 Yrs	25 Yrs	30 Yrs
2%	1.104	1.219	1.346	1.486	1.641	1.811
4	1.217	1.480	1.801	2.191	2.666	3.243
6	1.338	1.791	2.397	3.207	4.292	5.743
8	1.469	2.159	3.172	4.661	6.848	10.063
10	1.611	2.594	4.177	6.727	10.835	17.449

**Example:** If you invest \$10,000 at an interest rate of 6%, at the end of 30 years you will have \$57,430 (\$10,000 multiplied by 5.743).

## \$1 PER YEAR AT VARIOUS RATES (FUTURE VALUE, COMPOUNDED ANNUALLY)

Interest Rate	5 Yrs	10 Yrs	15 Yrs	20 Yrs	25 Yrs	30 Yrs
2%	5.310	11.17	17.64	24.78	32.67	41.38
4	5.416	12.006	20.024	29.778	41.646	56.085
6	5.637	13.181	23.276	36.786	54.865	79.058
8	5.867	14.487	27.152	45.762	73.106	113.283
10	6.105	15.937	31.772	57.275	98.347	164.494

**Example:** If you put \$1,000 at the end of each year in an investment paying 6% a year compounded annually, at the end of the 30th year, you will have \$79,058 saved (\$1,000 x 79.058).

## LIFE EXPECTANCY\*

Current Age	Remaining Years	Current Age	Remaining Years
25	57.0	55	28.6
30	52.2	60	24.2
35	47.3	65	20.0
40	42.5	70	16.0
45	37.7	75	12.5
50	33.1	80	9.5

Assume a planned retirement age of 60. Based on average statistics, you will need to accumulate retirement assets by age 60 to last for 24.2 yrs. \* Life expectancy rates based on the IRS Unisex Single Life Tables.

## TAXABLE-EQUIVALENT YIELD OF MUNICIPAL BONDS BASED ON VARIOUS FEDERAL INCOME TAX BRACKETS

Tax Bracket	Tax-Free Yield								
	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0
10	2.2	2.8	3.3	3.9	4.4	5.0	5.6	6.1	6.7
12	2.3	2.8	3.4	4.0	4.5	5.1	5.7	6.3	6.8
22	2.6	3.2	3.8	4.5	5.1	5.8	6.4	7.1	7.7
24	2.6	3.3	3.9	4.6	5.3	5.9	6.6	7.2	7.9
32	2.9	3.7	4.4	5.1	5.9	6.6	7.4	8.1	8.8
35	3.1	3.8	4.6	5.4	6.2	6.9	7.7	8.5	9.2
37	3.2	4.0	4.8	5.6	6.3	7.1	7.9	8.7	9.5

**Example:** A taxpayer in the 24% tax bracket would have to purchase a taxable investment yielding more than 3.3% to outperform a 2.5% tax-free investment.

### DISCLAIMER

The information provided is an abbreviated summary of tax and financial information for the 2021 tax year and only includes law changes through November 2020. Pending or future tax legislation and regulations could alter contents of this brochure. The accuracy and completeness of this information is not guaranteed. Specific questions relating to your specific tax or financial situation should be directed to your tax and financial advisor.

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## 2021 TAX CALENDAR

January 15	4th Quarter 2020 Estimate Due
April 15	FBAR Form Due
April 15	2020 1040 or Extension Due
April 15	1st Quarter 2021 Estimate Due
June 15	2nd Quarter 2021 Estimate Due
August 2	Pension Plan (Form 5500) Returns Due (calendar yr plans)
September 15	3rd Quarter 2021 Estimate Due
October 15	2020 1040 Extension Returns Due



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