

# Top 10 Year-end Tax Planning Strategies for 2021



**WEBINAR**

*November 3, 2021*

# Introduction

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*Partner*



# Legislative Update



# Potential Tax Changes Being Considered

- Increased top individual rate
- Surtaxes imposed on high AGI
- Increased corporate tax rate
- Limitation on Sec 199A (QBI)
- Retirement account changes
- Increased top capital gains rate
- Estate tax changes
- Excess business losses disallowed
- International changes
- Expansion of 3.8% NII Tax



**Sean R. O'Connell**

# Polling Question

# Meet Our Panelists



**Sean R. O'Connell**  
*CPA/PFS, CGMA*  
*Partner, Tax*



**Jeffrey G. Williams**  
*CPA*  
*Partner, Tax*



**Edward T. Yoder**  
*CPA*  
*Partner, Tax*



**Nicholas A. Perrine**  
*CPA*  
*Partner, Credits & Incentives Team Leader*

# Employers



Edward T. Yoder

# #10 Employee Retention Credits

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# ERC – What Is It?

- Employee Retention Tax Credit is a **refundable tax credit** against certain employment taxes
- CARES Act, credit was **50%** of qualified wages up to \$10,000 **per year** for the period of March 12, 2020 through December 31, 2020
- Previously only available to employers that did not apply for a Payroll Protection Program loan
- Consolidated Appropriations Act of 2021, passed December 21, 2020 increased credit to **70%** of qualified wages up to \$10,000 **per quarter** beginning January 1, 2021 to June 30, 2021
- American Rescue Plan Act, passed March 11, 2021, extended to December 31, 2021



# Eligible Employers and Organizations

## Who can qualify for the ERC?

- Carry on a trade or business with employees during 2020 or 2021, AND
  - ✓ *Experience a full or partial government shutdown, OR*
  - ✓ *Suffer a significant decline in gross receipts, OR*
  - ✓ *Qualify as a Recovery Startup Business*
- ✓ *2020 Large employer over 100 full-time Employees*
- ✓ *2021 Large employer over 500 full-time employees*
- ✓ *50% decline in gross receipts for any quarter of 2020 as compared to 2019*
- ✓ *20% decline in gross receipts for any quarter of 2021 as compared to 2019*

# Recovery Startup Business

## New category in American Rescue Plan Act (ARPA)

- Recovery Startup Business
  - ✓ *An employer who began carrying on a trade or business after 2/15/2020,*
  - ✓ *Whose average annual gross receipts for prior three-year period does not exceed \$1,000,000, and*
  - ✓ *Who does not qualify for the Employee Retention Credit through a decrease in gross receipts or government shutdown order*
- An RSB is automatically eligible for the Employee Retention Credit
  - ✓ *Maximum credit: \$50,000 per quarter*
  - ✓ *Only for Q3 and Q4 of 2021*



# Claim Employee Retention Credits



# Business Owners



Nicholas A. Perrine

# #9

## Research & Development Credits

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# Claim Research & Development Credit

- What is the R&D Tax Credit?
- A tax credit provided by the IRS to companies that focus on:
  - ✓ *Creative new or innovative products*
  - ✓ *Improving existing product*
  - ✓ *Developing processes, patent, prototypes, or software*
- R&D needs to attempt to discover technological information lacking to the taxpayer who is trying to develop or improve a business component's functionality, performance, reliability, or quality
- How much is the R&D Tax Credit?
  - ✓ *Benefit is generally between 6 and 8 cent to every qualified dollar*
  - ✓ *Dollar-for-dollar reduction in the company's federal tax liability*

# Business Owners



Edward T. Yoder

## #8 Maximize QBI Deduction

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# Qualified Business Income Deduction

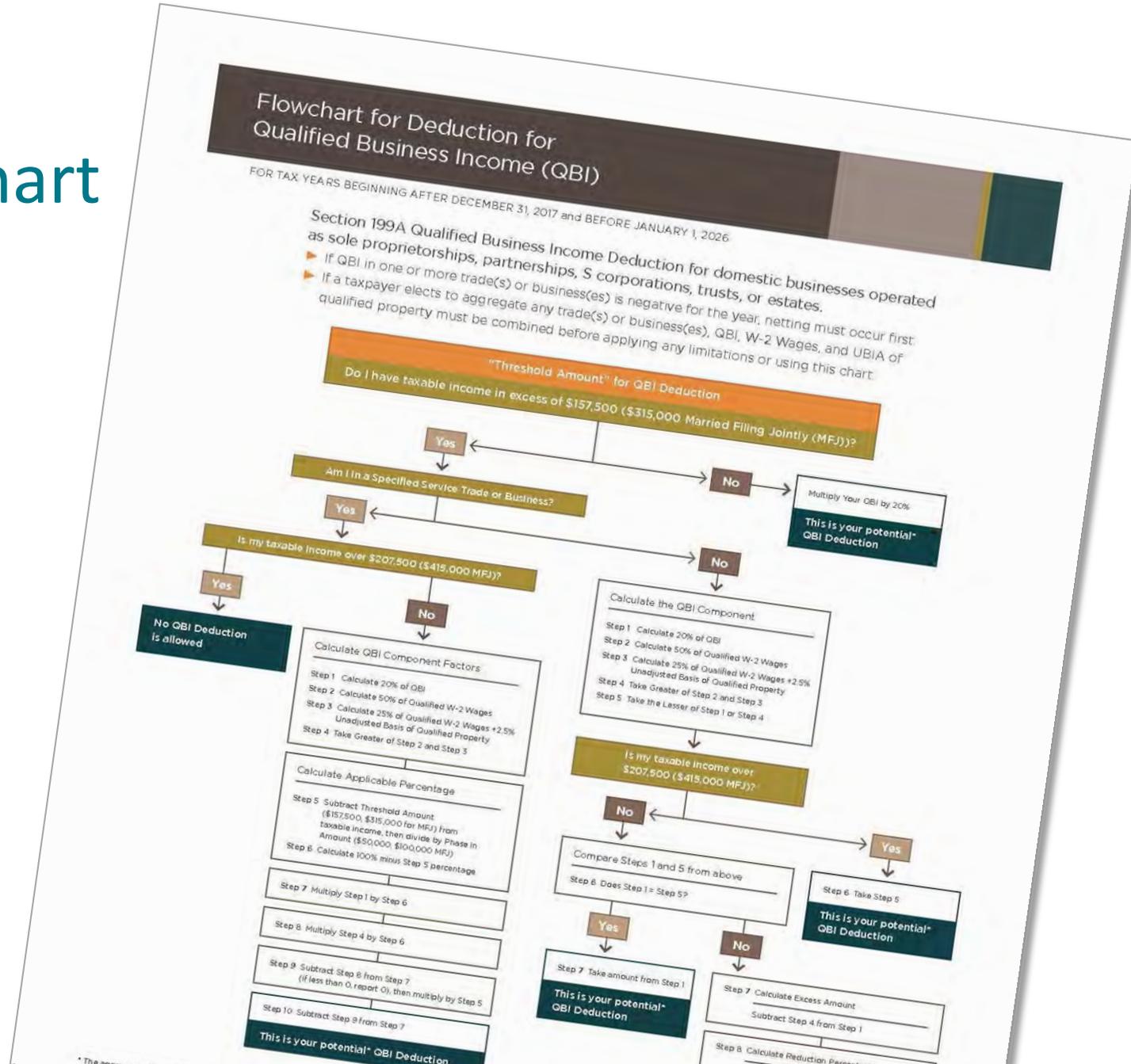
- Up to 20% deduction of Qualified Business Income
  - ✓ Schedule C – Sole proprietors
  - ✓ 1065 – Partnerships
  - ✓ 1120S – S-Corporations
  - ✓ Limited Liability Companies
- Specified Service Trade or Business (SSTB)
  - ✓ Health, Law, Accounting, Actuarial Sciences, Performing Arts, Consulting, Athletics, Financial Services, Investing, Trading, or
  - ✓ Any business where the principal asset is the reputation or skill of one or more of the employees or owners

# Qualified Business Income Deduction

- No QBI deduction for SSTBs over the phase-out limit
- All other trades or businesses, QBI is limited to the lesser of:
  - ✓ 20% of QBI; or
  - ✓ the greater of 50% of W2 wages, or
  - ✓ 25% of W2 wages and 2.5% of Unadjusted Basis in Assets of qualified property

2021 Taxable Income	Threshold	Phase-out
Single filers	\$164,900	\$214,900
Joint filers	\$329,800	\$429,800

# PBMares' QBI Flowchart



# Maximize Benefits



Jeffrey G. Williams

## #7 Optimize Retirement Plans

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# Optimize Retirement Plans

- IRAs, Roth IRAs, SEPs (extended due dates) Qualified Plans
- Solo 401(K)
- RMDs again in 2021

# Triple Tax Free



Jeffrey G. Williams

# #6 Health Savings Account

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# Health Savings Account



- Participant in High Deductible Health Plan
- Maximum deferral for 2021 - \$3,600 self/\$7,200 family
- Triple Tax Free
  - ✓ Contributions to the plan are deductible
  - ✓ Earnings are completely tax free
  - ✓ Distributions are not taxable if used for qualified medical expenses
- Common mistakes made by Taxpayers
  - ✓ Using the balance for current medical expenses
  - ✓ Not investing the account balance

# Individuals Taking Standard Deductions



Edward T. Yoder

## #5 Bunch Itemized Deductions

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# Bunch Itemized Deductions

- Standard deduction

Single; Married Filing Separately

\$12,550

Married Filing Jointly

\$25,100

Head of Household

\$18,800

## Exceed the threshold by:

- Bunching Medical Expenses
- Bunching Charitable Donations
- Donating Appreciated Property
- Donor Advised Funds

**TAX DEDUCTIONS:**



For Those Anticipating Higher Future Rates



Nicholas A. Perrine

# #4 Convert to Roth IRA

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# Convert to Roth IRA

- Roth Conversions
- Re-characterization
- Roth option in 401K



# For Those With 2021 Capital Gains



Nicholas A. Perrine

## #3 Reduce Capital Gains

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# Reduce Capital Gains

- Harvest Capital Losses
- Like Kind Exchanges –  
Real Estate Only!
- Qualified Opportunity Zones

# High Net Worth Families



Jeffrey G. Williams

## #2 Transfer Property to Trust

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# Transfer Properties to Trust

- Avoid Estate Tax
- Protect Assets from Creditors
- Avoid Probate
- Estate exemption going back to \$6,000,000?
- Trust Types
  - ✓ Grantor Trust
  - ✓ Irrevocable Life Insurance Trust (ILIT)
  - ✓ Spousal Lifetime Access Trust (SLAT)



# Business Owners



Jeffrey G. Williams

# #1 Buy Business Property

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## Purchase equipment by year-end for 179 and bonus depreciation maximization

- Higher 179 limits and 100% bonus
- Roofs, HVACs, security/alarm systems eligible for 179
- New and used equipment eligible for bonus depreciation
- Higher depreciation limits for SUVs/Trucks over 6,000 GVWR



- Review building renovation costs for QIP opportunities
- Watch state depreciation rules for expense addbacks
- Review expenses in light of repair regulations
- Watch placed in service rules, especially on buildings

# Polling Question

# Questions?



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# Upcoming Webinars

## **Challenges and Opportunities for Not-for-Profits**

December 1, 2021

Visit: [www.pbmares.com/resources/webinar-series](http://www.pbmares.com/resources/webinar-series)





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