

Your Guide to Year-End Financial Planning: A 10-Point Checklist

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From the hope that came with reopening to the disappointment of another COVID-19 resurgence, 2021 is panning out to be another roller-coaster year. With the fourth quarter upon us, one routine remains consistent: it's time to start organizing your finances for the new year. New rules related to the pandemic, coupled with tax and retirement changes that carried over from last year, means there's a lot to consider. This checklist highlights some key points to help guide you as you get started.

1) Boost Your Retirement Contributions

Workplace accounts. Are you maximizing contributions to your workplace plan? If not, now's the time to think about increasing your contribution to take full advantage of any employer match benefit. For 2021, the maximum employee deferral for 401(k), 403(b), and 457 accounts is \$19,500, and individuals ages 50 and older can defer an additional catch-up of \$6,500. For SIMPLE IRAs, the deferral remains \$13,500 and the catch-up is \$3,000.

Traditional IRA. Maxing out your contributions to a traditional IRA is another option. The SECURE Act repealed the maximum age for contributions, so individuals ages 70 and a half and older who earned income in 2021 can contribute to a traditional IRA. Modified adjusted gross income (MAGI) limits for contributions to traditional and Roth IRAs increased in 2021, so be sure to [review MAGI eligibility thresholds](#). The maximum contribution amount to a traditional or Roth IRA remains \$6,000 with a \$1,000 catch-up for clients ages 50 and older.

2) Use FSA Dollars and Make HSA Contributions

Note that in 2020, the IRS relaxed certain use-or-lose restrictions for Flexible Spending Accounts (FSAs) that remain in effect this year. Employers can extend the grace period for unused FSAs up to 12 months in 2021. In addition, if you have a dependent care FSA, you can save as much as \$10,500 in 2021.

If you have a high deductible health plan (HDHP), now is a good time to explore maximizing your Health Savings Account (HSA) contributions. In 2021, the maximum contribution for an individual HSA is \$3,600, and the maximum for a family HDHP is \$7,200. If you're age 50 or older you can contribute an additional \$1,000. We're happy to discuss prorated contributions with you if you had an HDHP for part of 2021.

3) Manage Your Marginal and Capital Gains Tax Matters

If you're on the threshold of a tax bracket, you may be able to put yourself in the lower one by deferring some income to 2022. Here are a few thresholds to keep in mind:

- **37 percent marginal tax rate:** Taxable incomes exceeding \$523,600 (individual), \$628,300 (married filing jointly), \$523,600 (head of household), and \$314,150 (married filing separately)
- **20 percent capital gains tax rate:** Taxable incomes exceeding \$445,851 (individual), \$501,601 (married filing jointly), \$473,751 (head of household), and \$250,801 (married filing separately)
- **3.8 percent surtax on investment income:** The lesser of net investment income or the excess of MAGI greater than \$200,000 (individual), \$250,000 (married filing jointly), \$200,000 (head of household), and \$125,000 (married filing separately)
- **0.9 percent additional Medicare tax:** W-2 earnings and self-employment income above the same MAGI thresholds as the investment income surtax (For clients with W-2 earnings above the MAGI thresholds, total Medicare taxes will be 2.35 percent; for self-employed clients, total Medicare taxes will be 3.8 percent.)

4) Pay Attention to American Rescue Plan (ARP) Details

This statute, signed into law by President Biden in March 2021, changed the Child Care Tax Credit and the Child and Dependent Care Credit (for 2021 only). It also changed the taxation of unemployment compensation and canceled student debt.

- **Child Tax Credit:** In July 2021, the IRS began issuing 50 percent of this credit in six monthly advanced payments. Payments are based on 2020 income, so if your income increased in 2021, keep in mind you may need to reconcile the advanced payments. Be sure to review your [eligibility for the credit](#).
- **Child and Dependent Care Credit:** In 2021, the credit is fully refundable. If your family earns less than \$125,000 annually, you may claim a 50 percent refundable credit on care expenses of \$8,000 for one child or dependent or expenses of \$16,000 for two or more children or dependents.
- **Unemployment compensation:** In 2020, \$10,500 of unemployment benefits were exempt from income tax. This exemption does not apply in 2021, so if you received benefits but didn't have taxes withheld, it's possible you may owe taxes.
- **Canceled student debt:** Under the ARP, you won't owe taxes on student loans that are canceled or forgiven between 2021 and 2025. This relief applies to both federal and private loans.

5) Rebalance Your Portfolio

Reviewing your capital gains and losses may reveal tax planning opportunities, such as harvesting losses to offset capital gains.

6) Make Your Charitable Giving Payoff

The CARES Act above-the-line deduction was extended to 2021, meaning you can deduct up to \$300 per person (\$600 if you file jointly) for cash charitable contributions. If you itemize, the deduction of up to 100 percent for all cash charitable contributions is available in 2021. (**Please note:** This deduction doesn't apply to cash contributions made to donor-advised funds or private, nonoperating foundations).

Qualified charitable distribution (QCD) rules haven't changed, so if you're older than 70 and a half, you can make a QCD of up to \$100,000 directly to a charity; if you're married and filing jointly, you may exclude up to \$100,000 donated from each of your and your spouse's IRA.

7) Form a Plan for Stock Options

If you hold stock options, it's a good idea to develop a strategy for managing your current and future income. As part of this, be sure to have your tax advisor prepare an alternative minimum tax (ATM) projection. Keep in mind, ATM exemption limits increased in 2021 to \$73,600 for single tax filers and \$114,600 for married joint filers. If you're thinking about exercising incentive stock options, you may want to wait until January 2022 if, depending on your ATM projections, there's any tax benefit to waiting.

8) Prepare for Estimated Taxes and RMDs

- Under the SECURE Act, if you reached age 70 and a half after January 1, 2020, you can wait until you turn 72 to start taking RMDs. RMDs are required in 2021.
- If you took coronavirus-related distributions (CRDs) from your retirement plan, we can review the repayment option you chose in 2020. Remember, the choice not to repay all of a CRD in 2020 is irrevocable.
- If you took a 401(k) loan after March 27, 2020, you'll also need to establish a repayment plan and confirm the amount of accrued interest.

9) Adjust Withholding and Prepare for Student Loan Repayment

If you think you may be subject to an estimated tax penalty, consider asking your employers (via Form W-4) to adjust your withholding to cover shortfalls. The [IRS tax withholding calculator](#) can help you with your estimates.

Student loan payments, which the CARES Act paused in March 2020, are scheduled to resume in February 2022. If you reduced other debt during this period, you'll need to adjust your monthly cash flow to include upcoming student loan payments.

10) Assess Your Estate Plans

Year-end is always a good time to review and update your estate plan to make sure it's still in line with

your goals and accounts for any change in circumstances. Depending on your net worth, establishing a defective grantor trust, spousal lifetime access trust, or irrevocable life insurance trust may be an effective strategy to reduce your estate tax exposure. In addition, take the time to update your beneficiary designations and review trustee appointments, power of attorney provisions, and health care directives.

Rely on Us as a Resource

It's not too early to get a jump on planning—and even though your situation is unique to you, this high-level checklist can be a great starting point. Please feel free to contact us to talk through the issues and deadlines that affect you. We're also happy to collaborate with your CPA, attorney, and other professionals you work with to help ensure you're prepared for the coming year.

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