



Planning for 2021 Tax Year



Professional services include:

- Tax Compliance
- Audit & Assurance
- Litigation Support
- Estate & Gift
- Succession Planning
- Valuation
- IRS Representation
- Family Foundations
- Bookkeeping & Accounting

Our mission is to provide our clients with exceptional services by taking initiative to be proactive advisors. We pride ourselves in developing tailored strategies to meet the specific needs of our clients.

We have a diverse commercial and individual accounting, auditing, tax and business consulting practice.

Our partners and staff are available to meet the needs of our clients and offer to meet with owners and management periodically throughout the year to discuss plans and to consult on a broad range of financial and business topics.



Proposed Changes to Tax Law for Year 2021

On September 13, 2021, the House Ways and Means Committee released draft legislative text for proposed tax changes to be incorporated into the budget reconciliation bill, also known as the “Build America Back Better Act”. Unless noted otherwise, all proposed tax changes would go into effect for tax years beginning after December 31, 2021. In anticipation of the next tax preparation season, we hope that this newsletter will alert you to proposed changes in the tax laws that may affect your taxes. Hopefully, this information on the latest developments and legislative outlook will help you identify areas for further discussion about ways to save taxes and accomplish your estate planning goals.

Proposed Changes for Individuals

Tax rate increase: the proposal would increase the top marginal tax rate to 39.6% (43.4% including net investment income tax). This rate would apply for married individuals filing jointly with taxable income over \$450,000; to single filers with taxable income over \$400,000, and to trusts and estates with taxable income over \$12,500.

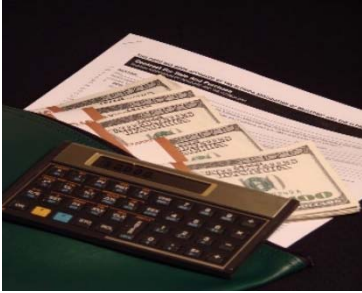
Increased tax rate on capital gains: the proposal would increase the top tax rate on capital gains to 25% (28.8% including net investment income tax). This rate would apply once taxable income exceeds \$450,000 for married individuals filing jointly or \$400,000 for single filers. This proposed change would go into effect for any sale entered into after September 13, 2021.

High income surcharge: the proposal would impose a surtax equal to 3% of the taxpayer’s modified adjusted gross income in excess of \$5,000,000.

Expansion of net investment income tax: the proposal would subject passthrough income derived in the ordinary course of trade or business to the 3.8% surtax, regardless of material participation. This proposal would apply to single taxpayers with greater than \$400,000 in taxable income and married taxpayers with greater than \$500,000 in taxable income.

Limitation of Qualified Business Income deduction: the proposal would set a maximum allowable deduction at \$500,000 for joint filers, \$400,000 for individual filers, and \$10,000 for trusts and estates.

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Executive and Family Office Accounting Services

For some businesses and family groups, a fulltime financial accounting specialist may not be practical. We provide a solution: services at your residence or corporate location tailored to meet your needs.

- **Bookkeeping** - from after-the-fact reconciliation of bank statements and recording of transactions to drafting and executing checks, tracking accounts receivable/payable, receiving payments and making deposits for our clients
- **Tax & Payroll Services** - state sales tax reporting, household and corporate payroll services including employee check, monthly reporting, and annual W-2, 1099s, 940 & 941 as well as worker compensation deposits
- **Other Services** - Property management assistance

Proposed IRA / Retirement Plan Changes

“Backdoor” Roth IRA strategy disallowed: the proposal would eliminate Roth conversions for both IRAs and employer-sponsored plans for single taxpayers with taxable income over \$400,000 and married taxpayers with taxable income over \$450,000.

Contribution limitations for high-income taxpayers: the proposal would prohibit contributions to Roth or Traditional IRAs after the account reaches \$10 million. The proposed contribution limit would apply to single taxpayers with taxable income over \$400,000 or married filing jointly taxpayers with taxable income over \$450,000.

Increase in required minimum distributions for high-income taxpayers: the proposal would increase the taxpayer’s required minimum distribution once their combined Roth and Traditional IRA values exceed \$10 million at the end of a taxable year. The minimum distribution would be 50% of the amount by which the prior year aggregate IRA balances exceeded the \$10 million limit. This increased RMD would be required by single taxpayers with taxable income over \$400,000 or married filing jointly taxpayers with taxable income over \$450,000.

Proposed Estate Planning Changes

Reduction in estate and gift tax exemption: the proposal would accelerate the sunset provision for lifetime estate and gift tax exclusions, reducing the current exclusion amount per person by half to \$5 million in 2022 (adjusted for inflation).

Changes to tax treatment of grantor trusts: the proposal would include assets held within grantor trusts in the decedent’s taxable estate if the decedent is determined to be the owner of the trust. The proposal would add a provision that treats sales between grantor trusts and their deemed owner as sales between an owner and a third party. This proposal would apply to any grantor trust created after the date of enactment of the law (anticipated as early as October 2021).



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Estate Tax Planning

Preserving family wealth can be a challenging objective not only due to the current income and estate tax structure, but also due to overwhelming societal influences.

Great tax and legal planning is important to preserving family wealth. However, even with the most innovative professional planning, multiple layers of generations must believe in and adhere to the same plan in order to maximize preservation.

We take a hands-on personal approach and assist with ensuring the preservation plan is implemented by every generation as intended. We take our services to the next level and will counsel younger generations on financial responsibilities where needed.



Other Proposed Changes

Corporate tax rate increase: the proposal would replace the current 21% flat corporate tax rate with a graduated rate starting at 18% for the first \$400,000 of income and increasing to 26.5% for income above \$5,000,000.

S-Corporation reorganization: the proposal would allow eligible S-Corporations to reorganize as partnerships without triggering a taxable event.

Carried interest rules: the proposal would extend the holding period requirement for gain attributable to an applicable partnership interest from three years to five years. The three-year holding period would be retained for taxpayers with an adjusted gross income of less than \$400,000.

Section 1202 stock: the proposal would eliminate the 75% and 100% exclusion rates for gains realized from certain qualified small business exclusion stock sales for taxpayers with adjusted gross income equal to or exceeding \$400,000. The 50% rate would still be available for all taxpayers. This proposed change would go into effect for any sale entered into after September 13, 2021.

This annual Tax Planning Letter is being sent to you to encourage you to utilize all the opportunities the tax law provides to minimize your 2021 taxes as well as offer suggestions for longer range planning. If you are interested in a tax planning appointment, please call our office to discuss these matters further. These updates are as of October 6, 2021.