
Year-End Tax Tips & Proposed New Tax Law

November 20, 2021

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Disclaimer

This presentation is meant for educational purposes only.

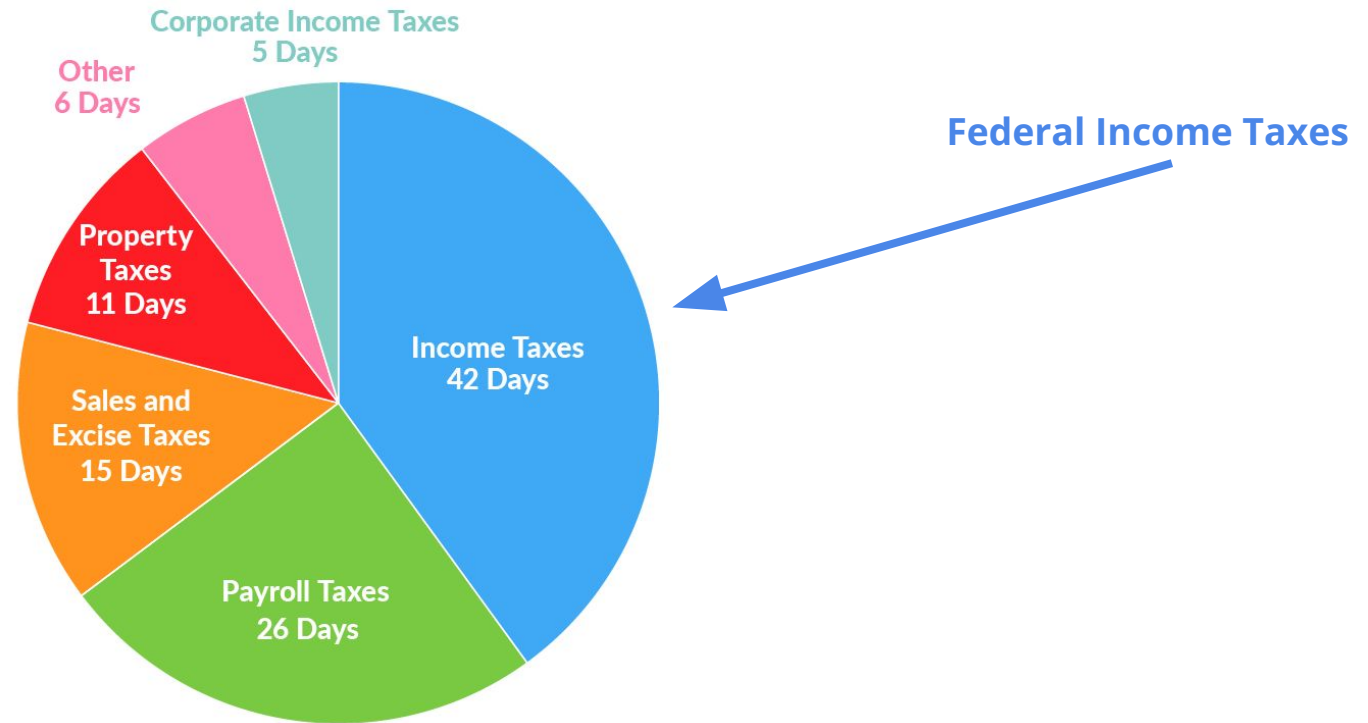
It is not a specific investment, tax or legal advice.

Before taking any action on anything you see in this presentation, first consult with your tax, legal or investment advisor.

Average Taxes Paid by Tax Type

The Number of Days in 2019 that Americans as a Whole Worked to Pay Off Each Tax Type

America's Tax Bill By Type/Source in Days



Source: Tax Foundation calculations.

TAX FOUNDATION

@TaxFoundation

Agenda



- Current Year 2021
 - Maximize your deductions before the year-end
- Proposed Tax Law Changes
 - Planning Opportunities



Employer Benefits

- Retirement Contributions
- Pre-Tax Employer Benefits
- When to sell RSUs and ESPP

Maximize Deductible Retirement Contributions



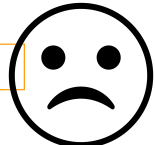
401(k), 403(b), 457 Plans: max **\$19,500**

Additional Catch-up Contribution of **\$6,500**
over **age 50**

Plus **Employer Matching Contribution**
(e.g. 50% match up to 6% of Salary or Max
\$5,000)

Hypothetical growth of a \$3,000 annual investment over a 30-year period in a taxable account to the same investment in a tax-deferred account like an IRA or 401(k), assuming an 8% average annual compounded investment return and a 27% marginal tax bracket. Source: SunTrust.com

Other Employer Retirement Saving Options

- **Roth 401(k)** option in Company's 401(k) Plan
 - After-Tax but **growth and withdrawals are tax free**
 - There is **no AGI limit** for Roth 401(k) Contribution
 - Pre-tax 401(k) + Roth 401(k) **limited to \$19,500** (+ \$6,500)
- **After-Tax 401(k)** - select Employers only
 - Mega-backdoor Roth Conversion
 - 2021 may be last year to do "Mega-backdoor" 

Maximize HSA Contributions

High-Deductible Healthcare Plan (HDHP Plans)

Pre-Tax Contribution

\$3,600 (self)/**\$7,200** (family)

(subtract Employer Contributions)

Additional **\$1,000** for **age 55** and over

Lower Health Premiums

Triple Tax-Free

(Pre-Tax, Growth & Withdrawal)

No Calendar-Year Limit for use

Do not spend for immediate expenses

Maximize Dependent Care FSA Contributions

Increase Contributions to DC-FSA for **2021 Only**

\$10,500 (instead of \$5,000)

Must be used by 12/31/2021

Children under 13 in day-care, Summer Camp, Before/After-School Fees

Dependent Elder Care Expenses

2021 IRA / Roth IRA Contributions

Till Tax Deadline (April 15,2022)

Maximum \$6,000 per person (\$1,000 Catch-up after age 50)

Deductible IRA (AGI between \$105K-\$125K for MFJ*)

Roth IRA (AGI \$198K-\$208K for MFJ*)

Non-Deductible IRA (no income limit)

Spousal IRA

*even with Employer Sponsored Plan such as 401K plan

AGI - Adjusted Gross Income MFJ - Married Filing Jointly Above limits are for 2021 Federal Taxes

Common Employer Stock Benefits

RSU (Restricted Stock Units)

ESPP (Employee Stock Purchase Plan)

Restricted Stock Unit (RSU)

Sell immediately or hold at least a year from date of vesting for Long-Term Capital Gains

EVENT	TAXES
At Grant	N/A
At Vesting	Ordinary income + Payroll Taxes
At Sale	Capital gains

Event	Date	Price	Shares	Taxes
Grant	1/1/2018	\$100	100	N/A (perceived value \$10,000)
Vesting	1/1/2019	\$120	100	Income: \$12,000*
Sale	6/1/2020	\$300	78*	Long term cap gain: \$14,040



Tax Withholding at 22%: $100 - 22 = 78$ shares

Long term gain: $(\$300 - \$120) * 78 = \$14,040$

Payroll Taxes = FICA + Medicare tax + State tax

Employee Stock Purchase Plan (ESPP)

Sell immediately or Wait for Qualified Disposition Sale Date for Long-Term Capital Gains

EVENT	DATE	FMV PRICE	ACTUAL PRICE	SHARES	TAXABLE INCOME	CASH FLOWS
Offer Start	1/1/2018	\$100		100	N/A	-\$8,500
Purchase Date	3/31/2018	\$100	\$85	100	N/A	
Disqualified Sale	6/30/2018	\$120	\$120	100	\$3,500 (Ordinary Income)	+\$12,000 (before tax)
Qualified Sale	4/1/2020	\$150	\$150	100	\$1,500 (O.I.) \$5,000 (LTCG)	+\$15,000 (before tax)



Long term cap gain is preferred.

Plan for cash flows.

Ordinary Income tax does not include payroll taxes, just Federal and State Taxes

Self-Employed Retirement Plans

- Independent Contractor
- Side-gig
- Single-Owner Business

Retirement Contributions for Self-Employed & Independent Contractors

- **Solo 401(k)** - Similar to Employer Sponsored Plan
 - Deductible Contribution or Roth Contribution (**\$19,500 max**)
 - Catch-up Contribution over age 50
 - Employer Contribution (limited ~20% of **Net Income**)
 - After-Tax Contributions (**\$58,000***)
- **SEP IRA** (employer contribution)
- **SIMPLE IRA** (employee contribution up to \$14,000)

Contributions by Tax-Deadline (April 15, 2022). Solo 401k to be open by Dec 31, 2021

Aggregate Limit of all contributions is \$58,000 (+ \$6,500 catch-up over age 50 = \$64,500) if Net Income is over \$64,500

Aggregate Deferral Contribution Limit per individual per year

Employee Contributions (one or more jobs)

401(k)

403(b)

+

Self-Employed Deferral Contributions

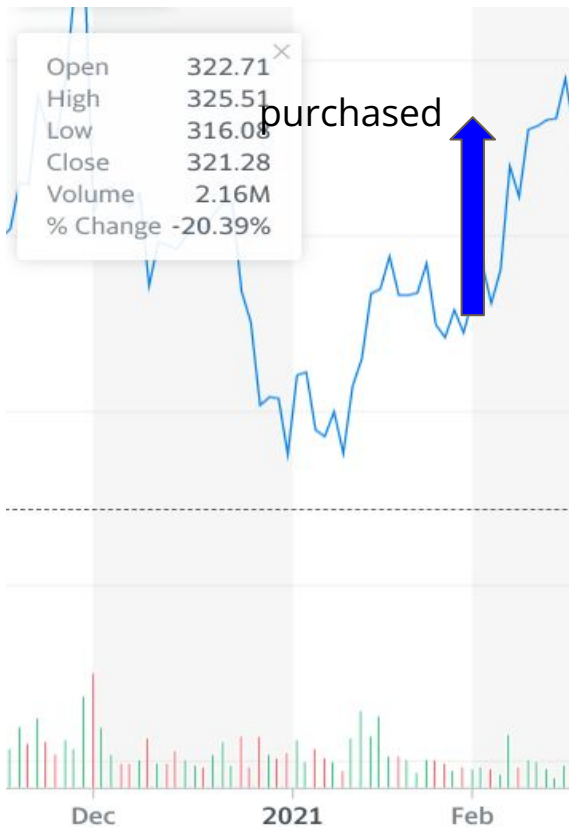
cannot exceed \$19,500 (+\$6,500)

*457 Plans have a separate limit of \$19,500.

Tax-Loss Harvesting

What is Tax-Loss Harvesting?

- Only in Taxable Accounts
- Technique to **offset Capital Losses*** against Capital Gains
- Offset Ordinary Income up to **\$3,000 of Capital Losses**
- **Carry Forward Losses** to next year ...



***beware of wash-sale rule**

Use Tax-Loss Harvesting Strategically

- Taxes should not dictate your portfolio decisions
- Do not let the “tax” tail wag the “investment” dog!
- Sell bad investments (watch for **wash-sale rule**)
- Rebalance & Invest for the long-term

Miscellaneous Tax Deductions

- Itemized Deductions
 - Mortgage Interest
 - Charitable Contributions
 - Medical Bills
- Educational Tax Credits
- Solar / EV Credits

Itemized Deductions vs. Standard Deductions

ITEMIZING VS. STANDARD DEDUCTION

Both can cut your tax bill, but which one will save you more?



Schedule A
Itemized
Deductions



Itemizing

- You report each qualified deduction
- Requires completing Schedule A and possibly other forms
- The deductions reduce your taxable income
- Could save you more than taking the standard deduction

Common itemized deductions



Mortgage Interest



Charitable Donations



Unreimbursed
medical expenses
over 7.5% of your AGI



State and local taxes
up to \$10,000

Standard Deduction

- You deduct a flat-dollar amount
- Less effort than itemizing
- The deduction reduces your taxable income
- Could save you more than what you'd get by itemizing

2021 standard deduction



Single:
\$12,550



Head of Household:
\$18,800



Married,
filing jointly:
\$25,100



Married,
filing separately:
\$12,550

85% of Taxpayers
take Standard
Deductions



Tax Advantages of Primary Home

- **Mortgage Interest** deduction
 - Up to \$750,000 in Loan Amount + Points
 - ReFi Points can be amortized over the term of the loan
 - Year-end - **1 Extra Payment** towards mortgage *if you Itemize*
- Hold-off paying Property Taxes due in Feb, 2022 this year
- CA State has a tax deduction for paying Property Taxes
- **Capital Gains Exclusion** on Sale of Primary Home
 - up to \$500K for couples

Ways to maximize your charitable giving

- One-time “**above-the-line**” deduction of **\$600** (2021 only)
- Reduces your taxable income *if you Itemize*
- Donate **appreciated stocks** and property
- Bunch-up your future charitable contributions in one year
 - use **Donor Advised Fund (tax-free growth)**
- Double your donation with Employer match

Other ways to save on taxes

- Bunch-up large **Medical Bills** in Itemized Deduction
 - Itemize Deductions over 7.5% of AGI
- **Educational Tax Credits**
 - AOTC max credit of **\$2,500** - AGI \$160K-\$180K limit
 - for \$4,000 of Tuition paid outside of 529-Plan
- **Student Loan Interest**
 - up to **\$2,500** - MAGI \$140K-\$170K limit
- **EV /Solar Install Credits**

Investment Property

Tax Advantages of Real Estate Investment Property

- **Tax Deductible Expenses** from Rental Income
 - Interest, Property Taxes, Maintenance Expenses, Depreciation
 - **Prepay expenses, mortgage and property taxes**
- **Capital Gains from Sale of Rental Property**
 - 1031 “Like Kind” Exchange for sheltering Capital Gains
 - Investment in Qualified Opportunity Zones
 - 10-year rule to defer paying Capital Gains taxes

Additional Year-End Opportunities

- Educational Savings
- Roth Conversion

Saving for Education / College

529-Plan

- Tax-free growth
- Tax-free withdrawal for educational expenses
- Contribution in some states (not in CA) is “state tax” deductible
- **\$15K per beneficiary (child) per parent in 2021 (\$30K)**
- \$16K per beneficiary (child) per parent in 2022 (\$32K)

Roth Conversion in 2021

Historically Low Rates

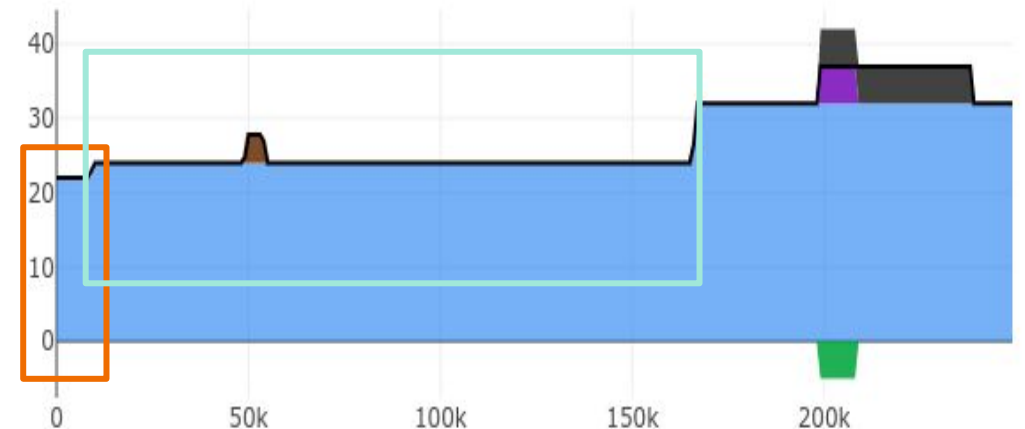
- Estimate Tax Bracket
- Fill-up 22-24% Tax Bracket

Married Filing Jointly - Ordinary Income Taxes

From	To	Tax Bracket
\$0	\$19,900	10%
\$19,901	\$81,050	12%
\$81,051	\$172,250	22%
\$172,251	\$329,850	24%

Example: Baseline Taxable Income \$161,000

Tax Impact of the Next \$1,000 in Ordinary Income



— Total Federal Tax Impact
— Net Investment Income Tax
— Refundable Child Tax Credit Phase Out
— Nonrefundable Child Tax Credit Phase Out
— Tax Credits Phase In
— Taxes on Ordinary Income



Wrap-Up 2021 Year-End Tips

Pre-Tax Contributions

- 401(k), 403(b), 457
- Maximize HSA and DC-FSA
- Solo 401k for Self-Employed

Tax-Loss Harvesting

Charitable Giving & Misc Deductions

Prepay Deductible Expenses

Roth Conversion



Proposed Tax Changes under “Build Back Better Act”

Timeline of Activity

November 5, 2021

This analysis was updated to contain the November 4th amended change to the state and local tax (SALT) deduction. The amended change increases the cap from \$80,000 from 2021-2030 and revert back to \$10,000 thereafter.

November 4, 2021

This analysis was updated to reflect the latest version of the House Build Back Better Act as sponsored by the House Rules Committee. The analysis reflects the economic and distributional impact of the House Rules Committee Print 117-18 released on November 4, 2021.

The analysis reflects the latest version of the House Build Back Better Act as sponsored by the House Rules Committee print released on October 28, 2021.

September 16, 2021

Initial analysis of the House Build Back Better Act released based on tax legislation as introduced by the House Ways and Means Committee on September 14, 2021. This preliminary analysis is still available [here](#).

CONGRESS
Dems' \$1.7T spending bill clears House, but Senate changes loom

Proposed “Relevant” Tax Changes

THE WALL STREET JOURNAL.

MARKETS | PERSONAL FINANCE

**A Popular Tax Trick for Savers, the
Mega ‘Back Door’ Roth IRA, Is
Eliminated in House Bill**

**Disallows Backdoor & Mega Backdoor Roth
Conversions**

Proposed “Relevant” Tax Changes

Roth Conversions not allowed for *high-income earners* (\$400K/\$450K) after 2032

SALT cap raised from \$10,000 to \$80,000 (MFJ) for 2021 and beyond (till 2025 or 2030?)

Proposed Tax Changes (Other)

- **Limit high balance IRA contributions & accelerate RMDs for these accounts (Balances over \$10M in Aggregate Retirement Accounts)**
- **Surcharge Tax on High-Income Individuals, Estates and Trusts**
 - New 5% surtax for MAGI over \$10 million
 - New 3% surtax for MAGI over \$25 million
- **S Corp Business Income subject to NIIT for MAGIs over \$500,000**

Proposed Tax Changes (Other)

Low Income Households

- **Expanded Child Tax Credit increase from ARPA thru' 2022 (Refundable)**
- **Extended ACA premium tax credit (PTC)**
 - **(extended from 2021 until 2025)**
- **Expansion of Earned Income Tax Credit (EITC) eligibility**

Previous Key Proposals Dropped!

Increase to Marginal Rates

Increase to Capital Gains Rate

Estate Tax Exemption Sunset Acceleration

Higher Catch-Up Limits

Step-Up in Basis

Increase RMD Age

Summary

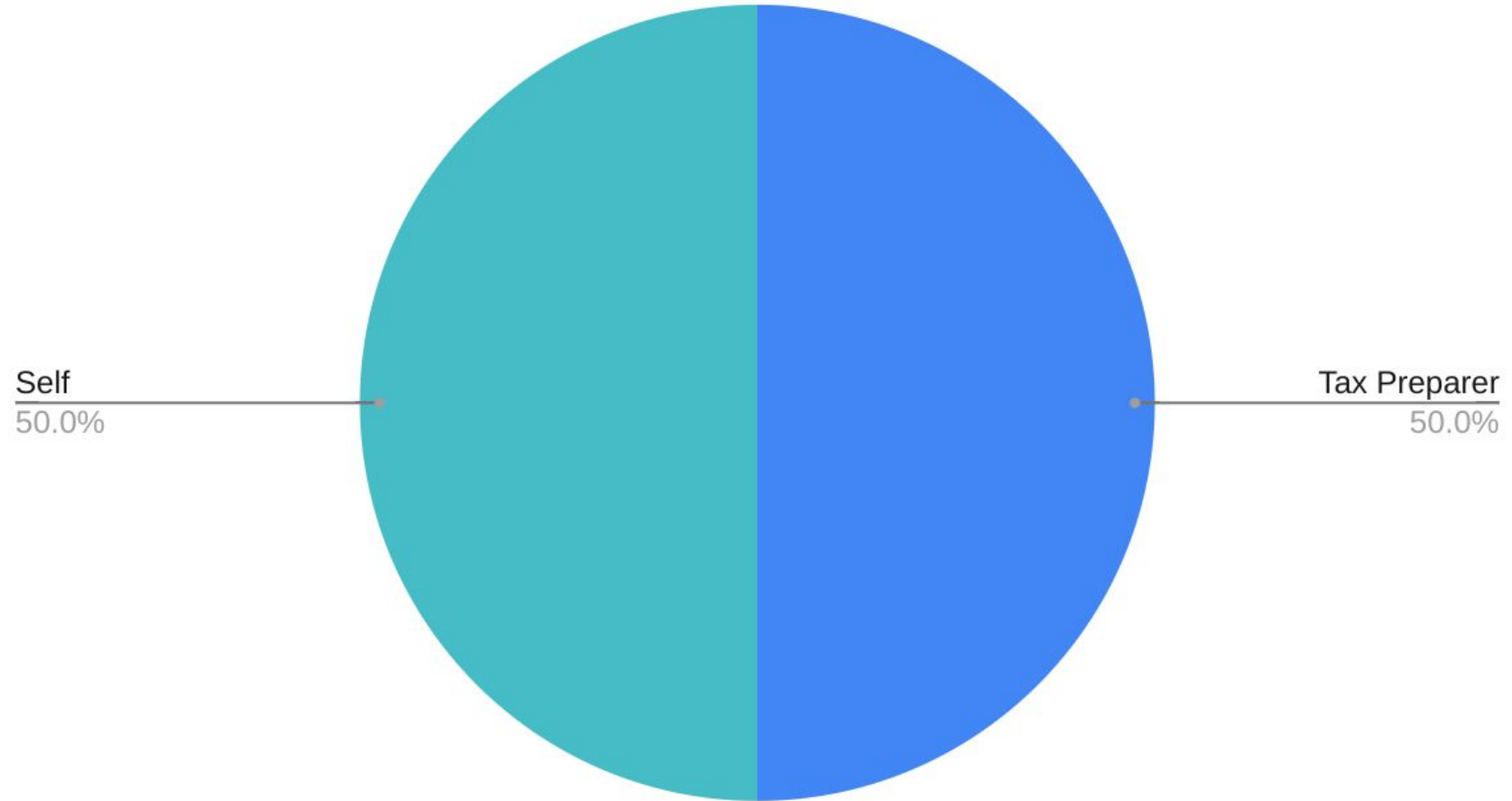
Tax Saving Strategies

Act Before the Year-End
Plan for 2022 & Beyond
Take Long View of Taxes



Thank You!

Count of Who prepared your taxes last year?



Q & A

- How can we maximize tax savings for 2021 & 2022?
- Real estate professional bookkeeping and tax filing
- What is best way to manage multiple investment properties. Should there be a separate LLC to get benefit of all deductions as it is currently capped.
- As first time home.buyer, how can we optimize the taxes
- Paying for college by transferring stock to child's name. What are any implications for this approach?
- Explain Backdoor and Mega backdoor Roth IRA conversion when regular income exceeds limits set by IRS
- Tax savings for self employed
- Who can help with crypto transactions taxes?



Schedule a free,
no-obligation initial consultation
encoverpf.com/schedule

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Encover Personal Finance

Cash Flow Management

Debt Management

Employer Benefits (FSA,HSA,401k,ESPP)

Equity Compensations (RSU,ISO,NSO)

Insurance Needs (Life, Disability, LTC)

College Savings (529-plans)

Home Purchase/Refinance

Investment Management

Retirement Planning

Tax Planning

Estate Planning