DIVIDEND ASSETS CAPITAL, LLC
INVESTMENT ADVISORS

DAC Insights: 2021 Year-End Tax Considerations

While several potential tax policies are still being addressed in Washington for 2022 and beyond, below is a list of potential tax planning items to consider before year-end.

Harvest Losses

Individuals can use up to $3,000 of losses as a deduction against ordinary income, while any remaining excess losses can be carried forward into future years.

Charitable Gifting

There are two benefits related to charitable cash gifting covered under the CARES Act that will be expiring at the end of 2021.

- Cash gifts to public charities are 100% deductible against adjusted gross income (AGI) for those who are itemizing their tax deductions. Consider making gifts now and even pulling forward future gifts into this year.
- Deduction of cash gifts of up to $300 per person ($600 for married joint filers) against taxable income—helpful if you are not itemizing your deductions.

Donating highly appreciated stock to charity can be another tax benefit. An individual receives a deduction in the amount of the stock and is not taxed on its unrealized capital gains (there is also no tax burden for the charity). Additionally, if you haven't identified a particular charity, consider making your gift to a donor-advised fund to achieve the same benefit.

Individual Gifting

Individuals are allowed an annual tax-free gift of up to $15,000 (cash or other assets) per person. Keep in mind, if you are gifting appreciated stock, the stock's basis will be transferred to the giftee. Therefore, consider using stock with a basis that is close or equivalent to its current market value.

Converting a Traditional IRA to a Roth IRA

Traditional-to-Roth IRA conversions are taxed by way of ordinary income rates. For individuals making more than $10 million this could help save on the proposed surcharge tax if it is passed (a surcharge for high earners of 5% is currently under proposal).

Consider a conversion for estate planning as well. The drawdown period for Inherited IRAs changed to a 10-year window in a 2019 law, so a Roth IRA will not hurt the beneficiary as much as a traditional IRA would.

We also note one potential future policy change relating to Roth IRA conversions (this has not been passed but is being proposed): beginning in 2032, individuals making more than $400,000 per year will no longer be able to convert Traditional IRAs into Roth IRAs.

Consider Accelerating Income

For lower income earners, it appears unlikely that an increase in income and capital gains taxes will happen in 2022, but for higher income earners the proposed surcharge of 5% of AGI for those making over $10 million makes it prudent to consider accelerating income into this year. This surcharge would also have implications for ***non-grantor Trusts***, where the 5% surcharge would apply to trusts with income over $200,000, and 8% for trusts with income over $500,000.

If you have additional questions or thoughts on how these considerations may apply to your personal financial scenario, please do not hesitate to give us a call.

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