Year-End Tax Saving Tips

Consider the following before 2021 comes to an end:

Lower Your Taxable Income:
Employees still have time to increase pre-tax deductions (e.g. 401(k), 403(b), etc.) from their paycheck (unless already maxed). Self-employed folks can lower their taxable income too by making business purchases before the end of the year or contributing to a SEP IRA before the filing deadline (including extensions).

Why consider this? Not only can it reduce tax, but there are plenty of credits and surtaxes that are sensitive to income levels. Each income threshold is calculated differently and there are other limiting factors, so ask for help if you need to figure out precisely how much extra to contribute. With that in mind, here are some of the most common examples:

Did you not get the 3rd stimulus because you made more than $160,000 in 2019/2020? Perhaps you can qualify by lowering your 2021 AGI below $160k?

Do you have kids in college? The American Opportunity Credit (first four years of college) begins to phase out at an income of $80,000 (single) and $160,000 (married).

Do you own a business? The QBI deduction begins to phase out for many businesses starting at a taxable income of $164,900 (single) and $329,800 (married).

Do you have a modest income? The Earned Income Credit phases out at varying income levels between $21,430 (single with no qualifying children) and $57,414(Married with 3+ children).

Do you have a larger income? The final phase-out of the Child Tax Credit resumes at $200,000 (single) and $400,000 (married). Medicare and investment surtaxes begin at $200,000 (single) or $250,000 (married).

Do you put money in a Roth IRA? Contributions to a Roth IRA begin to phase-out at $125,000 (single) or $198,000 (married). Roth conversions, however, are still allowed at any income level.

Do you own rental property? Your ability to deduct most rental losses incurred during the current tax year phases out between $100,000 and $150,000 of income.

Are you paying student loans? Your ability to deduct the interest begins to phase out at $70,000 (single) and $140,000 (married).

Do you buy ACA health insurance on healthcare.gov (or state run exchange)? Your premium contribution is limited to 8.5% of household income. As such, lower incomes result in a higher Premium Tax Credit.

Charity:
Roughly 85%+ of taxpayers will not itemize this year. If that's you, consider the following charity tax strategies:

- **Give up to $300 anyway**. A new rule allows you to deduct up to $300 in monetary contributions even if you don't itemize ($600 for married filing jointly).
- **Plan ahead for a QCD:** Qualified Charitable Distributions (QCDs) from an IRA are allowed for taxpayers over age 70 1/2. The contribution must be made directly from the IRA to the charity. Seniors that use this strategy can take the deduction even if they don't itemize.

Selling investments?
If your taxable income is likely to fall below $40,525 (single) or $81,050 (married) consider selling long term investments that have gained in value. You will not pay any federal tax on the gain if you keep your taxable income below those thresholds.

Conversely, it might be wise to check your portfolio for losses. You can offset up to $3,000 of other income with investment losses. If you wish to repurchase the stock again, wait at least 31 days to avoid a wash-sale that disallows the loss.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

Roth conversions:
The deadline to convert funds from a traditional IRA to a Roth IRA is 12/31/21. Remember, the amount converted is taxable income. Also remember that you can no longer undo Roth conversions at a later date.

Health insurance:
If you choose a health plan that is compatible with **Health Savings Accounts (HSA)** you should start funding your HSA right away. That's because medical expenses do not count as a "qualified" for tax free distributions if they occur before the HSA was funded. The maximum amount you can shelter per year is $3,600 (single) or $7,200 (married). You should contribute the maximum if you can afford to. That's because HSAs have three tax benefits;

1. Contributions are a tax deduction.
2. Distributions for qualified medical expenses are tax free.
3. You can invest the funds and reimburse yourself for qualified medical expenses after the account has grown in value.

Employee fringe benefits: Aside from HSAs, look into other pre-tax spending options that your employer offers such as; insurance, daycare, commuting, parking, education, etc.