Although the holidays are always a hectic time, it might be a good time to carve out some time to focus on some year-end financial matters.

Remember, think of us your financial partner; we want to help you achieve your most important goals. Reach out anytime to review your investments- no matter if they are funds invested with us or funds you hold elsewhere.   As with tax matters, feel free to consult your tax advisor.

END-OF-YEAR TAX FACTS AND TIPS TO SAVE YOU MONEY:

1. **Tax brackets have changed**. Every year, tax brackets for taxable income are adjusted based on the rate of inflation. Table 1 illustrates the marginal tax bracket based on taxable income. This is income after all deductions.

Table 1: Tax Brackets for 2021

Rate	For Single Individuals	For Married Individuals Filing Joint Returns	For Heads of Households
10%	Up to $9,950	Up to $19,900	Up to $14,200
12%	$9,951 to $40,525	$19,901 to $81,050	$14,201 to $54,200
22%	$40,526 to $86,375	$81,051 to $172,750	$54,201 to $86,350
24%	$86,376 to $164,925	$172,751 to $329,850	$86,351 to $164,900
32%	$164,926 to $209,425	$329,851 to $418,850	$164,901 to $209,400
35%	$209,426 to $523,600	$418,851 to $628,300	$209,401 to $523,600
37%	$523,601 or more	$628,301 or more	$523,601 or more

Source: [[https://taxfoundation.org/2021-tax-brackets/ Tax Foundation]]

2. **Standard deductions rise for tax year 2021 -** The standard deduction for married couples filing jointly for tax year 2021 rises to $25,100, up $300 from the prior year.

   For single taxpayers and married individuals filing separately, the standard deduction rises to $12,550 for 2021, up $150. For heads of households, the standard deduction will be $18,800 for tax year 2021, up $150. ([[https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2021 IRS provides tax inflation adjustments for tax year 2021.]])

3. **Child Tax Credit has changed -** Each qualifying household is eligible to receive up to $3,600 for each child under 6, and $3,000 for each child between 6 and 17. You may receive half of

the new credit between July and December 2021 and the remaining half in 2022, when you file a tax return.

The credit gradually declines starting at income of $75,000 for individuals, $150,000 for married couples, and $112,500 for heads of household.

While the increase in the credit is currently temporary and only for 2021, just passed legislation in the House preserves the credit for 2022 of $300 for a younger child and $250 per older child for all of 2022. [[https://www.cbpp.org/research/federal-tax/build-back-betters-child-tax-credit-changes-would-protect-millions-from with advance monthly payments]] ([[https://www.taxoutreach.org/tax-credits/child-tax-credit/whats-new-about-the-child-tax-credit-in-2021/ What's New About the Child Tax Credit in 2021?]])

3. **Limitations on itemized deductions -** If cash expenses that are eligible to be itemized fail to top the standard deduction, skip Schedule A and take the standard deduction. It's that simple. If you itemize, please be aware that state and local income taxes, property taxes, and real estate taxes are capped at $10,000. Anything above cannot be written off against income.

   However, the IRS does grant a workaround for some taxpayers. https://www.cnbc.com/2020/11/18/thisthe-irs-is-blessing-workaround-that-allows-business-owners-to-deduct-state-and-local-taxes.html

   Taxpayers that use pass-through entities, including S-corporations, may benefit. https://www.forbes.com/sites/taxnotes/2021/09/09/recapping-workarounds-to-the-state-and-local-tax-deduction-cap/

   For 2022, the cap may rise and be subject to income limits. We'll revisit this next year.

   For charitable contributions, subject to certain limits, taxpayers who itemize may generally claim a deduction for charitable contributions made to qualifying charitable organizations. These limits typically range from 20%-60% of adjusted gross income (AGI) and vary by the type of contribution and type of charitable organization.

   - For example - a cash contribution made by an individual to a qualifying public charity is generally limited to 60% of the individual's AGI. Excess contributions may be carried forward for up to five tax years. [[https://www.irs.gov/newsroom/expanded-tax-benefits-help-individuals-and-businesses-give-to-charity-during-2021-deductions-up-to-600-available-for-cash-donations-by-non-itemizers IRS: Expanded tax benefits help individuals and businesses give to charity during 2021; deductions up to $600 available for cash donations by non-itemizers.]])

If you don't itemize, a deduction up to $600 available for cash donations in 2021.

The IRS also allows taxpayers to deduct the **total qualified unreimbursed medical care expenses** for the year that exceeds 7.5% of their adjusted gross income. You must itemize. to take advantage of this deduction. https://www.nerdwallet.com/article/taxes/medical-expense-tax-deduction

4. **Estates of decedents who die during 2021** have a basic exclusion amount of $11,700,000, up from a total of $11,580,000 for estates of decedents who died in 2020. The annual exclusion for gifts is $15,000 for calendar year 2021, as it was in 2020. ([[https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2021 IRS provides tax inflation adjustments for tax year 2021.]])

5. **Changes to the AMT** - Trump-era tax reform failed to do away with the alternative minimum tax (AMT), but it snags far fewer people.

   The AMT exemption amount for tax year 2021 is $73,600 and begins to phase out at $523,600 ($114,600 for married couples filing jointly for whom the exemption begins to phase out at $1,047,200).

   The 2020 exemption amount was $72,900 and began to phase out at $518,400 ($113,400 for married couples filing jointly for whom the exemption began to phase out at $1,036,800).

   It's confusing, but most tax software programs run both calculations for you.

6. **Take advantage of a 20% deduction for business owners** - The law provides "flow-through" business owners, such as sole proprietorships, LLCs, partnerships, and S-corps, a 20% deduction on income earned by the business.

   This is a valuable benefit to business owners who aren't classified as C-corps and can't benefit from 2018's reduction in the corporate tax rate to 21% from 35%.

   Individual taxpayers and some trusts and estates may be entitled to a deduction of up to 20% of their net qualified business income (QBI) from a trade or business, including income from a pass-through entity.

   In general, total taxable income in 2021 must be under $164,900 for single filers or $329,800 for joint filers to qualify. In 2022, the limits rise to $170,050 for single filers and $340,100 for joint filers.

   The deduction does not reduce earnings subject to the self-employment tax.

There are limitations to the new deduction and some aspects are complex. Feel free to check with your tax advisor to see how you may qualify. Most tax software programs perform the calculations. ([[https://www.irs.gov/newsroom/qualified-business-income-deduction IRS

Qualified Business Income Deduction]], [[https://www.nerdwallet.com/article/taxes/qualified-business-income-deduction Qualified Business Income Deduction (QBI): What It Is & Who Qualifies.]])

The points above are simply a summary. You may see provisions that will benefit you. You may also see potential pitfalls. If you have any questions or concerns, let's talk.

Smart planning moves to consider:

1. **Review your income or portfolio strategy** – Are you reaching a milestone in your life such as retirement or a change in your personal circumstances? Has your tolerance for taking risk changed? If so, let's make adjustments to your financial plan.

   When stocks tumble, some investors become very anxious. When stocks post strong returns, others feel invincible and are ready to load up on riskier assets.

   Remember, the financial plan is your roadmap to your financial goals. It is designed to remove the emotional component that may encourage us to buy or sell at inopportune times. In other words, be careful about making portfolio decisions based solely on market action.

   Long-term academic data and my own personal experience tell me that the shortest distance between an investor and his/her financial goals is adherence to a well-diversified holistic financial plan.

2. **Rebalance your portfolio -** Stocks have performed well this year. We may need to trim back on equity exposure. However, we may want to wait until January in non-retirement accounts so that any gains are booked in tax year 2022.

3. **Take stock of changes in your life** and review insurance and beneficiaries. Let's be sure you are adequately covered. At the same time, it's a good idea to update beneficiaries if the need has arisen.

4. **Note the tax loss deadline -** You have until December 31 to harvest any tax losses and/or offset any capital gains. It may be advantageous to time sales in order to maximize tax benefits this year or next. We may also want to book gains and offset with any losses.

   But be aware that short- and long-term capital gains are taxed at different rates. And don't run up against the wash-sale rule (see IRS Publication 550), which could disallow a capital loss.

   A wash sale occurs when you sell a security at a loss and then purchase that same security or "substantially identical" securities within 30 days, either before or after the sale date ([[https://www.schwab.com/resource-center/insights/content/a-primer-on-wash-sales A Primer on Wash Sales]]).

Did you know that you pay no federal taxes on a long-term capital gain if you reside in the 10% or 12% federal income tax bracket? It may be worth harvesting a long-term capital gain]]. In other words, you may sell the stock, take the profit, and pay no federal income tax. [[https://www.kitces.com/blog/understanding-the-mechanics-of-the-0-long-term-capital-gains-tax-rate-how-to-harvest-capital-gains-for-a-free-step-up-in-basis/

But be careful.

The sale will raise your adjusted gross income, which means you'll probably pay state income tax on the long-term gain. By raising your AGI, you could also impact various tax deductions or receive a smaller ACA premium tax credit if you obtain your health insurance from the Marketplace.

5. **Mutual funds and taxable distributions**. This is best described using an example.

   If you buy a mutual fund on December 15 and it pays its annual dividend and capital gain on December 20, you will be responsible for paying taxes on the entire yearly distribution, even though you held the fund for just five days.

   It's a tax sting that's best avoided because the net asset value hasn't changed. It's usually a good idea to wait until after the annual distribution to make the purchase.

6. **Required minimum distributions (RMDs)** are minimum amounts the owner of most retirement accounts must withdraw annually.

   The SECURE Act made major changes to RMD rules. If you reach age 70½ in 2020 or later, you must take your first RMD by April 1 of the year after you reach 72. https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions Some plans may provide exceptions if you are still working. See https://www.fidelity.com/retirement-ira/required-minimum-distribution-faq

   If you reached the age of 70½ in 2019 the prior rule applies.

   For all subsequent years, including the year in which you were paid the first RMD by April 1, you must take the RMD by December 31.

   While delaying the RMD until April 1 can cut your tax bite in the current year, please be aware that you'll have two RMDs in the following year, which could bump you into a higher tax bracket.

   The RMD rules apply to all employer-sponsored retirement plans, including profit-sharing plans, 401(k) plans, 403(b) plans, and 457(b) plans. The RMD rules also apply to traditional IRAs and IRA-based plans such as SEPs, SARSEPs and SIMPLE IRAs.

   They do not apply to ROTH IRAs.

   Don't miss the deadline or you could be subject to a steep penalty.

7. **Contribute to a Roth IRA or traditional IRA**. A Roth gives you the potential to earn tax-free growth (not just deferred tax-free growth) and allows for federal-tax free withdrawals if certain requirements are met.

   You may also be eligible to contribute to a traditional IRA. Contributions may be fully or partially deductible, depending on your income and circumstances. Total contributions for both accounts cannot exceed the prescribed limit.

   [[https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits There are income limits]], but if you qualify, the annual contribution limit for 2020, 2021 and 2022 is $6,000, or $7,000 if you're age 50 or older.

   You can contribute if you (or your spouse, if filing jointly) have taxable compensation.

   Starting in 2020 and later, there is no age limit on making regular contributions to traditional or Roth IRAs.

   As of now, you can make 2021 IRA contributions until April 15, 2022 (Note: statewide holidays can impact final date).

8. **College savings** - A limited option called the Coverdell Education Savings Account (ESA) allows for a maximum contribution of $2,000. It must be made before the beneficiary turns 18. Contributions are not tax deductible.

   Distributions are tax free if used for qualified education expenses. But beware of income limits ([[https://www.irs.gov/taxtopics/tc310 IRS: Coverdell Education Savings Accounts]]).

   Contribution limits are phased out if the contributor has an AGI of $95,000 to $110,000. For joint filers, the AGI is between $190,000 to $220,000.

   A 529 plan allows for much higher contribution limits, and earnings are not subject to federal tax when used for the qualified education expenses of the designated beneficiary.

   As with the Coverdell ESA, contributions are not tax deductible.

9. **Charitable giving** - Whether it is cash, stocks or bonds, you can donate to your favorite charity by December 31, potentially offsetting any income.

   Did you know that you may qualify for what's called a qualified charitable distribution (QCD) if you are70½ or older ([[https://www.fidelity.com/learning-center/personal-finance/retirement/qcds-the-basics https://www.schwabcharitable.org/non-cash-contribution-options/making-qcds

   A QCD is an otherwise taxable distribution from an IRA or inherited IRA that is paid directly from the IRA to a qualified charity.

A QCD may be counted toward your RMD up to $100,000. If you file jointly, you and your spouse can make a $100,000 QCD from your own IRAs. This becomes even more valuable in light of tax reform as the higher standard deduction may preclude you from itemizing.

You might also consider a [[https://www.fidelitycharitable.org/ **donor-advised fund]]**. Once the donation is made, you can generally realize immediate tax benefits, but it is up to the donor when the distribution to a qualified charity may be made.

We hope you've found these planning tips to be helpful, and we are always here to assist you. Please feel free to reach out if you have any questions or you may check in with your tax advisor.

Alphabet Soup

1. A number of questions have come our way about proposed changes in the tax code h and there are still items in the works as the *Build Back Better Act* winds currently is making its way through the Senate.

Changes in individual income tax rates, increases in rates for long-term capital gains, and updates to estate taxes are unlikely to be enacted into law.

But we may see a big increase in the cap for state and local tax (SALT) deductions, and a surtax for those with very high incomes may land in the tax code. As currently proposed, a 5% surtax would apply to individuals with income over $10 million, increasing 3% above $25 million.

There is also bipartisan support for updates to retirement rules—what's being called SECURE Act 2.0. Recently, however, the legislation has lost momentum, as Congress deals with tight deadlines on taxes and new spending.

But let's not jump too far into the future. Perhaps the SECURE Act 2.0 will pass next year. Comprehensive bills don't pass quickly, even if support is bipartisan. Instead, let's focus on tying up loose ends as the year comes to a close.

2. A sharp acceleration in economic growth, increasing worries about inflation, a reluctant-to-act-against-inflation Fed, and a strong stock market were quickly displaced by news of a new Covid variant on Black Friday.

Table 2: Key Index Returns

	MTD %	YTD %
Dow Jones Industrial Average	-3.7	12.7
NASDAQ Composite	0.3	20.6
S&P 500 Index	-0.8	21.6
Russell 2000 Index	-4.3	11.3
MSCI World ex-USA**	-4.8	4.9
MSCI Emerging Markets**	-4.1	-6.1
Bloomberg US Agg Total Return	0.3	-1.3

Source: *Wall Street Journal*, MSCI.com, MarketWatch, Bloomberg

MTD returns: Oct 29, 2021-Nov 30, 2021
YTD returns: Dec 31, 2020-Nov 30, 2021
*Annualized
**in US dollars

Omicron has become a Covid variant of concern as stated by the World Health Organization.

Of course, it is not the [[https://www.cdc.gov/coronavirus/2019-ncov/variants/variant-info.html first variant]] to trouble the world. Covid cases have spiked with the highly contagious Delta variant already.

The Alpha variant spread into the U.S. early in the year but is of less concern today. The Beta, Gamma, Epsilon, Eta, Lambda, Mu and other variants have not caused much concern among investors amid the growing use of vaccines and therapeutics.

This is critically important to the economy and investors, as these tools have been used in place of economically destructive lockdowns and social distancing restrictions.

It's not that they eliminate all danger of infection completely. They don't. But lockdowns and various restrictions had been the preferred tool for government officials.

That said, Omicron is a not-so-subtle reminder that the ever-changing pandemic remains a health threat. And the recent market volatility stems from worries over the new variant's unknown impact on the global and U.S. economy.

That volatility appears to be brought on by its apparent ease of transmission and anxieties that therapeutics may be less effective against Omicron. https://www.wsj.com/articles/covid-19-antibody-drugs-are-challenged-by-omicron-preliminary-testing-indicates-11638270003

But early reports suggest milder symptoms. https://www.cnbc.com/2021/11/29/omicron-covid-variant-symptoms-heres-what-we-know-so-far.html.

However, we must stress that these are early reports, and little is known about the new variant. Perhaps, the latest volatility could subside if additional bad news isn't forthcoming, or updates to vaccines and treatments prove to be effective.

Let me also add that FedSpeak at the end of November intensified selling.

"At this point, the economy is very strong and inflationary pressures are higher, and it is therefore appropriate in my view to consider wrapping up the taper of our asset purchases... perhaps a few months sooner," Fed Chief Jerome Powell said November 30 before a Senate committee.

In early November, the Fed said it would begin tapering its $120 billion in monthly bond purchases by $15 billion per month in November and again in December. Economic conditions would dictate the pace in 2022.

Though inflation has been stubbornly high, the Fed has been slow to react. As we enter December, Powell has opened the door to a faster taper, which could advance the Fed's timing of its first rate hike.

We hope you've found this overview to be educational and helpful. Once again, it's important to remember that before making decisions that may impact your taxes, you may want to consult with your tax advisor.

If you have any questions or would like to discuss any matters, please feel free to give our team a call at 740-244-8815.

As always, we at Alluvial Private Wealth are honored that you have given us the opportunity to serve as your financial advisors.

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