

2021 Year-End Planning Considerations



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Once again, approaching year end we find ourselves in a time of legislative uncertainty impacting current and multi-year tax planning. While the [latest House version of the Build Back Better Act](#) has significantly narrowed the scope and potential impact of individual tax changes, the Senate continues to deliberate and negotiate, with no clear path forward. Accordingly, our planning advice remains steadfast – remain focused on executing long-term planning goals, while working opportunistically with advisors as the legislative environment remains in flux. Thoughtful, prudent, and flexible planning will transcend near-term political and regulatory distortions/distractions and serve your family for generations to come. Hence, consider the following opportunistic and strategic planning actions for 2021.

Opportunistic (*current expiring provisions and potential 2022 Build Back Better tax changes*)

- Proposed 2022 High Income Surtax (5% | 8%)
 - Consider accelerating large, planned capital gain transactions and controllable compensatory income or other ordinary income events that may take future modified adjusted gross income (MAGI) over \$10M | \$25M
 - Trustees and beneficiaries of non-grantor, irrevocable trusts should evaluate distribution policies, subdivision strategies or other planning to help mitigate potential surtax which applies to MAGI over \$200K | \$500K
- Qualified Opportunity Zone Investments
 - Reinvestments must be made by calendar-year-end to meet 5-year holding period requirement for the expiring 10% step-up in basis benefit
- Charitable Giving
 - Evaluate 2021 expiring unlimited deduction for cash gifts to public charities
 - Evaluate large IRA distributions to potentially fund cash contributions

Strategic (*core planning practices and opportunities not currently threatened by near-term law changes*)

- Continue to utilize elevated transfer tax exemptions ahead of 2026 sunset, ideally through existing or new multi-generational trust structures for enhanced wealth transfer efficiency
 - Low-interest rates continues to benefit many advanced transfer planning strategies
- Utilize appreciated marketable securities or IRA qualified charitable distributions to enhance tax benefits of charitable giving
- Regularly evaluate partial or full Roth IRA conversions, particularly for larger accounts where future required minimum distributions could be subject to the proposed surtax regime
- Explore income and expense acceleration and deferral, as multi-year bunching/smoothing opportunities can enhance benefits of graduated tax rates and itemized deductions
- Complete annual exclusion gifts and other tax-free direct payments for medical and tuition

Remember, the holidays are always a great time to reflect on planning goals and conduct annual family meetings. Activities may include financial conversations and reviews, educational activities, entity officer elections, appointment of committees, and documentation/ratification of actions for the prior or coming year. As you and your family look forward to 2022, we encourage you to work with your Pathstone team, attorney, and tax advisors to assess these planning issues and opportunities in light of your unique tax situation.

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