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2021 Year End Planning Guide

Call or schedule an appointment with your financial professional if you have any questions about the information contained in this guide.

If these past two years have taught us anything...it is to expect and prepare for the unexpected. We all need to make plans to see that our physical and financial health for ourselves and our families is given the proper attention to ensure our futures.

As is always the case, your Moors & Cabot financial professional is ready to assist you in preparing for the coming year, and this guide is intended to help you on your way. Please take it, along with our best wishes for a happy, healthy, and prosperous year ahead.

Dan Joyce
CEO, Moors & Cabot

KEY DATES

Please be mindful of the following important dates and deadlines as 2021 comes to a close and moves into 2022:

- **November 30:** Last Day to "Double Up" for 2021
  Doubling-up means you buy a second lot of a security in the same amount of shares as your original holding. You can recognize a loss in 2021 by selling the original holding on December 31 and still benefit from any potential appreciation during the wash sale period.

  Note: This results in holding twice the level of stock during this time, exposing you to twice the gain or loss. Consult with your financial professional to determine whether doubling-up is appropriate for your needs and objectives.
- **December 31:** Last Day to Sell Securities in 2021 for a Loss
- **January 18:** Estimated Tax Payments for Q4 2021 Due
  If you are subject to estimated payments, revisit any needs you may have from credit lines and speak to your professional regarding borrowing against any eligible securities you may have in your portfolio.

  NOTE: If you file your 2021 tax return by January 31, 2022, and pay the entire balance due with your return, then you don't have to make the payment due January 18, 2022.
- **February 1:** Repurchase Waiting Period

  If you sold on December 31, this is the first day you can repurchase the same/similar security if you want to avoid the wash sale rule.
- **April 15:** Tax Filing Deadline

  April 15 is the tax filing deadline in all states.

Your Actions Checklist

- ❑ Consider making "double up" purchases.
- ❑ Evaluate securities to sell at a loss before December 31.
- ❑ Schedule a portfolio review with your financial professional.

INVESTMENTS

You may wish to discuss the following topics with your financial professional, particularly with regard to how they will impact your investments going into 2022. Keep in mind, however, that your Moors & Cabot professional *cannot* provide tax advice. For tax advice, please contact a qualified tax advisor.

- **Net Investment Income Tax (NIIT) and Medicare Surtax**
  Indications are that NIIT and Medicare surtax included with the Affordable Care Act will continue to remain intact.
- **Pre-Tax Contributions to 401(k) Plans**
  For 2021, the maximum 401(k) plan contribution is $19,500, or 100% of the employee’s compensation, whichever is less.
- **Estate Tax and Generation-Skipping Taxes (GST)**
  Under the Tax Cuts and Job Act, the revised estate and generation-skipping transfer tax exemption is $11.7 million.
- **Gift Tax**
  For 2021, the annual gift exclusion amount remains $15,000.
- **Investment Derived Income**
  For 2021, the long-term capital gain rate of 15% applies to individuals with taxable income between $40,001 and $445,850. The rate of 20% applies to individuals with taxable income exceeding $445,850. Updated brackets will also apply for those who are married and heads of household. With regard to the carried interest exception, an announcement by the IRS in March 2018 indicated that “taxpayers will not be able to circumvent the three-year rule by using ‘S corporations.’“
- **Business Income**
  The current federal corporate income tax rate is 21%. Corporate AMT was eliminated beginning in 2018.
- **Repatriation**
  Under the Tax Cuts and Jobs Act, a one-time repatriation rate of 15.5% will be imposed on cash and foreign-held equivalents, while 8% will be imposed on illiquid assets. The repatriation amount will be payable over a period of eight years.
- **Capital Expenses and Deductions for Business Interest Expense Deduction**
  The limit for taxpayer deduction of net business interest is 30% of their adjusted taxable income (i.e., income that does not include non-business income, business interest expense or income, deductions for net operating losses, a 20% deduction for qualified business income, and depreciation/amortization/depletion).
- **Crypto Currency**
  Crypto currency should always be discussed with your qualified tax advisor. It is the responsibility of the investor to keep track of their cost basis, gains, and losses.

Your Actions Checklist

- ❑ Review gains and losses from 2021 market activity and determine your carry forward.
- ❑ Consider transferring interests using valuation discounts.
- ❑ Harvest tax losses by considering end-of-year sales.

  Note: If you sell securities in order to recognize a loss, you cannot immediately repurchase the same security to reestablish your market position and still deduct the loss.
- ❑ Discuss with your financial professional whether there is a benefit to you to convert a traditional IRA to a Roth IRA.
- ❑ Consider using IRA distributions for charitable donations. Taxpayers age 70½ or older can exclude up to $100,000 of IRA distributions if those distributions were qualified charitable distributions. Even though the new RMD age is 72, taking a qualified charitable distribution at age 70½ will lower your IRA balance and impact future RMDs.
- ❑ Review if you are eligible to take advantage of the PATH Act of 2015. This bonus allowance can permit businesses to write off costs more quickly, resulting in a 50% bonus depreciation.
- ❑ Explore ABLE accounts for any beneficiary determined disabled before age 26.
- ❑ Explore state tax changes with your tax professional, especially in areas of state taxation of trusts. Tax law changes in 26 states and the District of Columbia went into effect on January 1, 2021.
- ❑ Estimate potential tax liability related to mutual fund distribution estimates. Discuss with your financial professional whether you want to consider selling shares to offset gains or losses in advance of distributions. Further, consider waiting to purchase shares of a fund until after the fund distributes a large capital gain.
- ❑ Review proposed 2022 tax reforms with your financial professional and make changes to plan if applicable.
- ❑ Assess your alternative minimum tax (AMT) liability.
- ❑ If you are a trustee of irrevocable trusts, you may consider making income distributions to trust beneficiaries who are taxed at lower rates than the trust. Further, depending on the terms of the trust and applicable state law, it may also be beneficial to distribute capital gains to beneficiaries in lower income tax brackets.

  Note: Review if you are able to take advantage of the "65-day rule"

INVESTMENTS
(continued)

One key consideration in reviewing your investment strategy includes understanding if you have over-concentrated stock positions.

At the present time, the tax code changes are being interpreted and considered by many professional CPAs, and the law is currently not clear on the tax rate.

If you do have concentrated positions, you need to consider volatility, liquidity, cash flow, and other factors. Your financial professional can help you assess strategies to reduce the tax impact of diversification or hedge against the downside of continued concentration.

Strategies may include systematic sales, prepaid variable forwards, equity collars, exchange funds, and gifts to charity or charitable remainder trusts.

Also, it's important in any year-end change in position to be mindful of the wash sale rule. This rule generally prohibits you from selling a security and recognizing the associated loss if you purchase identical securities within 30 days before or after the sale date. An ETF can potentially serve as a temporary alternative for an individual stock holding while still giving you the ability to recognize the loss on your original position.

Your Actions Checklist

- ❑ Review sales with your financial professional that may be part of a re-purchase later which could be subject to the wash sale rule.
- ❑ Contact your financial professional to review potential over concentrations and options for reducing such situations.

CHARITABLE GIVING

Be mindful of the limitations of the charitable deduction:

- **Gifts to Public Charities**
  Charitable contributions of money or property made to qualified organizations may be deductible if you itemize your deductions. Following the passing of the CARES Act in March 2020, individuals may deduct up to 100% of their adjusted gross income (AGI) for cash charitable contributions, but limitations may apply in some cases.
- **Gifts to Private Foundations**
  Contributions to certain private foundations are limited to 30% of AGI.

Considerations when claiming the charitable income tax deduction:

- **Appraisals Requirements**
  For property in excess of $5,000, a qualified appraisal must be prepared for the donated property, and Section B of IRS Form 8283 must be completed.
- **Donating Securities? Start Early.**
  The transfer of stock certificates can take several weeks.
- **Receipts for Donations in Excess of $250**
- **Consider the Tax Implications of Donating Assets or Proceeds**
  Considerations include if the sale of the property can be claimed as a long-term capital gain (if held for more than one year), the AGI limits of the donor, and other factors.
- **Donate Now; Beneficiary Selection Later**
  Donor-advised funds provide immediate tax deduction benefits, with the option to identify specific beneficiaries of funds later.
- **Consider Charitable Remainder Trusts**
  This allows you to diversify out of concentrated positions while helping charities and avoiding capital gains taxes. It also gives you an option to receive a fixed amount from the trust each year, with the trust assets passing to a charity you designate after a defined term.
- **Be Mindful of Alternative Minimum Tax (AMT) Implications**
  Although permissible, this generally has less effect at the top AMT rate than at the top regular income rate. Taxpayers who are not subject to AMT every year might consider timing their donations to match.

Your Actions Checklist

- ❑ Review your current charitable giving for 2020 against IRS limits.
- ❑ Ensure you have the proper receipts and documentation when claiming deductions for all donations in excess of $250.
- ❑ Move quickly if you are considering making donations of stock, as processing and transfer timing can take weeks.

RETIREMENT

Each retirement account has maximum contribution limits. Take full advantage of these investment vehicles. You can make contributions to either a Roth or Traditional IRA for 2021 until April 15, 2022.

	Under Age 50	Age 50 and Older
IRA (traditional or Roth)[1]	$6,000	$7,000
401(k), 403(b), 457(b), SAR-SEP[2]	$19,500	$26,000[3]
SEP IRA	$58,000	$58,000[4]
SIMPLE[2]	$13,500	$16,500

[1]The maximum contribution or deductible contribution may be reduced depending on your modified adjusted gross income.
[2]Salary deferral contributions.
[3]For 457(b) plans, catch-up contributions may be made for governmental 457(b) plans only.
[4]There are no catch-up contributions for SEP IRAs
Source: https://www.irs.gov/retirement-plans/plan-sponsor/types-of-retirement-plans

- Given the maximum 401(k) contribution limit of $58,000 per year and $19,500 limit on pre-tax contributions, you may be eligible to make up to $38,500 in after tax contributions in 2021.
- Pre-tax IRA contributions converted to Roth accounts are taxed in the year they are converted. If considering such a conversion, be mindful of whether it is more advantageous to you to convert them in 2021 or 2022.

The current age to begin taking required minimum distributions (RMD) from retirement accounts is 72, up from 70 ½ prior to January 1, 2020. RMDs were suspended for 2020. If you turned 70 ½ in 2019 and your first RMD was due to be taken in 2020 but you delayed it, you will have to take your RMD by the end of 2021. Please keep the following in mind:

- If you are age 72 or older, you must take RMDs from IRAs, profit sharing, 401(k), 403(b), 457(b) plans, and other retirement plans by December 31, unless you are taking your first RMD. If this is your first RMD, you can delay until April 1, 2022.
- Typically, you can take your full RMDs from a single IRA if you have multiple IRAs. This is also allowed for 403(b) plans, but not 401(k) or 457(b) plans. This does not apply to RMDs taken from a combination of IRAs which were inherited and non-inherited.
- You should discuss all beneficiary designations with your financial professional, as they may impact RMDs for those who inherit from you.
- In years where RMDs must be taken, you can make up to $100,000 of qualified charitable distributions from certain retirement accounts to satisfy the RMDs.

Your Actions Checklist

- ❑ Review your current IRA and retirement plan contributions against limits and make additional contributions as desired.
- ❑ Review your beneficiary designations to ensure that they are up-to-date and correct.

See important notes and disclosures on the next page.

ESTATE MATTERS

This time of year is ideal to consider these estate planning opportunities.

- **Make Gifts and Use the Gift Tax Exemption**
  The estate and gift tax exemption grew to $11.7M per person in 2021. It may be used throughout your life and can reduce estate taxes. You can take advantage of this by gifting assets now, which could produce the secondary benefit of saving you from future appreciation.
- **Make Gifts within Annual Exclusions**
  Consider making annual exclusion gifts on or before the end of each year. Annual exclusions are $30,000 for married couples and $15,000 for individuals. Gifts up to this amount are permitted to an unlimited number of individuals. If you make such gifts to an irrevocable trust (e.g., a life insurance trust), your trustee should notify beneficiaries and have your legal advisors help you.
- **Funding 529 Plans**
  Contributions up to $15,000 per beneficiary qualify for the annual gift tax exclusion. You can also front load five years of annual exclusions, keeping those contributions without creating a gift tax or consuming gift tax exemptions.
- **Create IRAs for Children and Grandchildren**
  Although included as taxable gifts, you can help your children and grandchildren get a head start on retirement savings through an IRA contribution of up to $6,000 or an amount equal to 100% of their earned income (whichever is less).
- **Estate Taxes and GST for Same Sex Spouses**
  Taxpayers who paid gift tax and/or GST tax after making a taxable gift to a same-sex spouse still cannot obtain a refund or credit for periods for which the statute of limitations has closed. However, the IRS will allow the re-computation of any remaining unified credit, GST exemption, and portability elections to reinstate the available credits.

Your Actions Checklist

- ❑ Review your current gifts against the gift tax exemption, and make gifts if desired.
- ❑ Consider establishing or funding IRAs for children and grandchildren.
- ❑ Conduct a family meeting to discuss investments, charitable donations, and planning. Use this meeting as an educational opportunity for younger family members.
- ❑ Review wills, living wills, power of attorney, and other succession documents you may have.

POLICY & TAX

Tax Brackets and Rates

Below is a summary of tax brackets and rates to use when preparing your 2021 tax returns in 2022.*

Taxable Income	Individuals
0 – $9,950	10% of taxable income
$9,951 – $40,525	$995 + 12% of amount over $9,950
$40,526 – $86,375	$4,664 + 22% of the amount over $40,525
$86,376 – $164,925	$14,751 + 24% of the amount over $86,375
$164,926 – $209,425	$33,603 + 32% of the amount over $164,925
$209,426 – $523,600	$47,843 + 35% of the amount over $209,425
$523,601+	$157,804.25 + 37% of the amount over $523,600
	Married, Filing Jointly and Surviving Spouses
0 – $19,900	10% of taxable income
$19,901 – $81,050	$1,990 + 12% of amount over $19,900
$81,051 – $172,750	$9,328 + 22% of the amount over $81,050
$172,751 – $329,850	$29,502 + 24% of the amount over $172,750
$329,851 – $418,850	$67,206 + 32% of the amount over $329,850
$418,851 – $628,300	$95,686 + 35% of the amount over $418,850
$628,301+	$168,993.50 + 37% of the amount over $628,300
	Married, Filing Separately
0 – $9,950	10% of taxable income
$9,951 – $40,525	$995 + 12% of amount over $9,950
$40,526 – $86,375	$4,664 + 22% of the amount over $40,525
$86,376 – $164,925	$14,751 + 24% of the amount over $86,375
$164,926 – $209,425	$33,603 + 32% of the amount over $164,925
$209,426 – $314,150	$47,843 + 35% of the amount over $209,425
$314,151	$84,496.75 + 37% of the amount over $314,150
	Heads of Household
0 – $14,200	10% of taxable income
$14,201 – $54,200	$1,420 + 12% of the amount over $14,200
$54,201 – $86,350	$6,220 + 22% of the amount over $54,200
$86,351 – $164,900	$13,293 + 24% of the amount over $86,350
$164,901 – $209,400	$32,145 + 32% of the amount over $164,900
$209,401 – $523,600	$46,385 + 35% of the amount over $209,400
$523,601+	$156,355 + 37% of the amount over $523,600

POLICY & TAX

Tax Brackets and Rates (continued)

Taxable Income	Trusts and Estates
0 – $2,650	10% of taxable income
$2,651 – $9,550	$266 + 24% of amount over $2,650
$9,551 – $13,050	$1,921 + 35% of the amount over $9,550
$13,051+	$3,146 + 37% of the amount over $13,050

Standard Deductions

In addition to tax brackets and rates, the standard deduction amounts have also changed for 2020. Please see the table below.

Filing Status	Standard Deduction
Individual	$12,550
Married, Filing Jointly and Surviving Spouses	$25,100
Married, Filing Separately	$12,550
Head of Household	$18,800
Aged or Blind	$1,350 additional
Aged or Blind, Unmarried	$1,700 additional
Individuals Who Can be Claimed as a Dependent by Another Taxpayer	The greater of either $1,100 ***or*** $350 + individual's earned income

Alternative Minimum Tax (AMT)

Alternative minimum tax (AMT) exemption amounts have also been adjusted as detailed in the table below.

Filing Status	Exemption Amount
Individual	$73,600
Married, Filing Jointly and Surviving Spouses	$114,600
Married, Filing Separately	$57,300
Trusts and Estates	$25,700

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Market fluctuation, account and administrative fees, and other charges will impact the amounts ultimately available for distribution from a donor-advised fund or private foundation.

529 plans are sold via Program Descriptions (sometimes called Program Brochures), which contain detailed information regarding the plan, risks, charges and tax treatment. Clients can obtain a free Program Description of their choice from the investment management company sponsoring a 529 plan or a Financial Professional. Read the Program Description carefully before investing. 529 college savings plans are issued by individual states. Tax implications, as well as investment choices, of 529 plans may vary significantly from state to state. Most states offer their own tuition programs, which may provide advantages and benefits exclusively for their residents and taxpayers. By contributing to the plan issued by the state in which the client is a resident, clients may gain state, as well as federal, income tax advantages. However, taxes are only one issue to consider. Different 529 plans impose different fees, offer different investment approaches, and have a range of past performance records. Withdrawals not used for higher education costs will trigger state and federal tax as well as withdrawal penalties. The ability to withdraw earnings free of federal taxes may be impacted by changes in the tax exemptions.

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