2021 Year-End Tax Planning

[YOUR TAX-SAVING STRATEGY CHECKLIST FOR THE NEW YEAR]

Schulman Lobel
certified public accountants and advisors

Assuming no new tax law changes before the end of the year and before 2022 arrives, we would like to provide you with a checklist of tax planning strategies for you to consider. Taking steps before the end of the year can have a significant effect on how much tax you may have to pay next April.

Our objective is to ensure that you have comprehensive advice and are taking advantage of strategies to accumulate wealth and minimize your tax liabilities. Whether you are a U.S. citizen or resident (green-card holder) or a foreign resident owning U.S. investments you should consider the below recommendations to minimize any U.S. income and estate tax liabilities.

Timing of Income & Deductions

Postpone income until 2022 and accelerate deductions to 2021.

- Minimizing your 2021 income may enable you to obtain greater deductions and other credits that are dependent upon levels of adjusted gross income
- Postponing income may be beneficial if you anticipate being in a lower tax bracket next year due to changed financial circumstances
- Prepaying or accelerating business deductions may help you reduce your taxable income and qualify you for lower tax rates
- If you turned 72 this year, you could delay taking your required minimum distribution (RMD) from your US pension plans until April 1, 2022
- Consider delaying any foreign taxable pension payments to next year
- If you use a portion of your home as a dedicated office or storage space you may be able to deduct the costs of your home (mortgage interest, utilities, insurance, repairs, rent, real estate taxes, repairs, maintenance, etc.) attributable to the portion of the home (based upon square feet) used exclusively for business.

- If you are currently renting a home (in the US or in a foreign country) ensure that you consider all deductible expenses such as repairs, utilities, bank fees, insurance, council tax and any travel costs (airfare, hotel, etc.) to look after the property.

Review Investments / Harvest Losses

This year's gains in the stock market may have resulted in significant capital gains. You may be able to offset those gains and reduce your tax liability through tax loss harvesting.

- Consider selling investments that have lost value and using those capital losses to offset capital gains.
- Consider selling appreciated capital assets to generate long-term capital gain taxed at preferential rates (0%. 15%, 20%).
- Consider taking steps to minimize the 3.8% net investment tax, if applicable.
- Maximum deductible net capital losses are $3,000. If repurchasing the same stock sold at a loss, be aware of the 30-day Wash Sale rules.

Contributions to US Qualified Plans

Ensure you maximize contributions to US pension plans.

- Consider making sufficient contributions to take advantage of any employer matching pension benefits.
- If age 50 or older, consider contributing the $19,500 maximum for 2021, plus the $6,500 catch up amount.
- Consider converting all or a portion of your eligible US retirement accounts (e.g., traditional IRA) to a Roth IRA before year-end. However, a conversion will increase your gross income for 2021, and possibly reduce tax benefits that are based upon income.

- Consider maximizing annual contributions to your employer's health flexible spending account (FSA) or health savings account (HSA)
- Consider contributing up to $230,000 to a Defined Benefit Plan for your own business

Charitable Contributions & Gifts

Contributions to qualified charities have high deduction limits and can reduce your tax liabilities.

- Consider donating appreciated securities (instead of a cash donation) as you will not pay taxes on the gains if the securities go to a qualified charity.
- Consider making a Qualified Charitable Distribution of up to $100,000 directly from your IRA to a qualified charity (if funds are not needed). The distribution counts toward your RMD and is income tax-free.
- Consider making contributions to a Donor-Advised Fund (DAF). A DAF allows you to make a single large contribution that can be paid out later to the charities of your choice.
- Consider funding a 529 college savings plan. A state tax deduction may be permitted. Also, consider front loading gifting (up to 5 years), which would allow for a $75,000 contribution per beneficiary ($150,000 contribution per beneficiary for a married couple). A 529 plan may also be used for qualified K-12 education expenses up to $10,000 per year.

Payment of Taxes

Ensure you have enough taxes paid or withheld to avoid underpayment penalties.

- Consider increasing withholding (or make estimated payments) to avoid interest charges for insufficient payments.
- Currently state and local tax (SALT) deductions are limited to $10,000 per year, therefore this strategy may not be viable to the extent it causes your 2021 state and local tax payments to exceed $10,000.
- Proposed legislation would increase the SALT cap in 2021 to $80,000 through 2030. Stay tuned.

Foreign Retirement Savings Plans

Taking advantage of foreign pension rules may significantly minimize your tax liabilities and preserve your wealth.

- Consider making additional contributions of cash or appreciated assets to your UK SIPP or Malta pension plans (QROPS or QNUPS). These contributions are not limited under U.S. tax rules. UK and Malta pensions have an advantage over U.S. plans in that a lump-sum distribution (ex., PCLS) can be received free of foreign, U.S. federal, and in most cases state income tax.
- Individuals who are 50 or 55 years of age are generally eligible to take a lump-sum tax free distribution from their U.K. pension plan or Malta pension plan (QROPS QNUPS). The U.S. early distribution penalty of 10% that is imposed upon U.S. qualified pensions plan distributions before age 59½ is not applicable to foreign pension plans.
- If you are planning to receive a direct distribution from your UK pension plan (employer plan, SIPP, etc.) ensure that you have applied for a UK NT code along with a US residency certification from the IRS.

U.S. Citizens and Residents Abroad

If you reside outside the United States, you should consider the following:

- Avoid the potential for double taxation by making post-tax or non-deductible IRA and pension contributions
- Maximize contributions to offshore pension plans that are tax-deferred for US tax purposes such as a UK SIPP or Malta personal pension plan
- Consider contributing appreciated property to a foreign tax-deferred pension plan such as a UK SIPP or Malta personal pension plan to avoid U.S. income tax and enhance retirement savings
- If residing in Australia, UAE, Hong Kong, or Singapore, a UK or Malta pension plan should be considered because no treaty protection for resident country pensions.
- Ensure you are taking advantage of worldwide deductions and credits for foreign income and social security taxes
- Ensure that you are properly reporting ownership of foreign financial assets and bank accounts
- Ensure that any pension and U.S. social security distributions are properly structured to avoid or minimize U.S. federal income taxes

Foreign Residents with U.S. Investments

If you are not a U.S. citizen or resident, you should consider the following if you own investments or other assets:

- Ensure that you minimize or avoid U.S. tax withholding on investment income
- Ensure you minimize or avoid U.S. tax on sale of U.S. real estate
- Consider owning assets through a foreign trust or corporation

- Advise financial institutions of your non-resident status and treaty benefits by filing the correct forms
- Minimize tax on U.S. pension and social security distributions

Planning to Relocate to the United States?

If you are not a U.S. citizen or resident and are planning to relocate to the U.S. for employment, or you are a U.S. citizen or permanent resident who is planning to repatriate, you should consider the following:

- Consider transferring income producing securities and mutual funds to a foreign pension plan such as a UK SIPP or Malta personal pension plan before becoming a U.S. resident
- Stop contributions to foreign (Hong Kong, Singapore, UAE, Australia) pension plans
- Sell appreciated assets before becoming a U.S. resident
- Transfer assets to a trusted family member
- Determine the U.S. tax implications of the sale of any assets if a U.S. citizen or resident
- Take advantage of any unused foreign tax credits

We are here to help

U.S. federal and state income tax rules along with foreign income tax issues are complex. If you are looking for ways to enhance your retirement savings; selling investments; or planning to relocate, we recommend that you seek professional tax advice from your Schulman Lobel trusted advisor.

For any questions, please contact:

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He gained most of his experience working for some of the largest accounting public accounting firms such as PwC and recently with BDO where he was the U.S. National Tax Technical Leader for expatriate tax services. He also spent several years living in Mexico City and Toronto assisting clients with local as well as U.S. tax advice.