Robert S. Keebler, CPA/PFS, MST, AEP: The Top 10 Tax Planning Ideas for 2021

Top 10 Tax Planning Ideas

1. **Bracket Management**: Timing of income, deductions, retirement plan contributions, investment selections, charitable gifts, etc., to avoid higher tax brackets and the net investment income tax (NIIT).
2. **3.8% NIIT & IRC § 199A Limits:** Engaging in various strategies to reduce net investment income or taxable income; i.e., municipal bonds, tax-deferred annuities, life insurance, oil & gas investments, choice of accounting year for estate/trust, or timing of estate/trust distributions.
3. **Income Shifting**: Outright gifts to children, LLC and partnership gifts, gifts to non-grantor trusts for family, QSSTs, distributions from existing trusts, or conversions of grantor trusts to non-grantor trusts to shift income, thereby avoiding the higher tax brackets, NIIT, & § 199A Limits.
4. **Roth IRA Conversions:** Converting traditional IRAs into Roth IRAs in order to lower MAGI below the applicable threshold amount in future years, thereby avoiding the NIIT.
5. **Charitable Remainder Trusts:** Three types: Substantial Sale CRT, Retirement CRT, and Income Shifting CRT. Used to harbor net investment income in a tax-exempt environment while at the same time leveling income over a longer period of time, deferring income until after retirement, or shifting income to family members in order to keep MAGI below the applicable threshold, thereby avoiding the NIIT.
6. **Maximum Contributions to Retirement Plans:** Contributing to retirement plans in order to lower MAGI below the applicable threshold amount, thereby avoiding the NIIT.
7. **IRC § 453 Deferred Installment Sale:** Used to level net investment income over a longer period of time in order to keep MAGI below the applicable threshold amount, thereby avoiding the NIIT.
8. **Tax Efficient Investing:** Includes the following: 1) increasing investments in tax-favored assets; 2) deferring gain recognition; 3) changing portfolio construction; 4) after-tax asset allocation; 5) tax-sensitive asset location; 6) managing income, gains, losses and tax brackets from year-to-year; and 7) managing capital asset holding periods.
9. **Charitable Lead Trusts**: Used to offset net investment income against charitable deductions dollar-for-dollar in a tax-efficient manner, thereby avoiding the NIIT.
10. **Investment in Low Risk Oil and Gas Partnerships:** Investing in oil and gas partnerships to create a large deduction in the current year in order to lower MAGI below the applicable threshold amount, thereby avoiding the NIIT.

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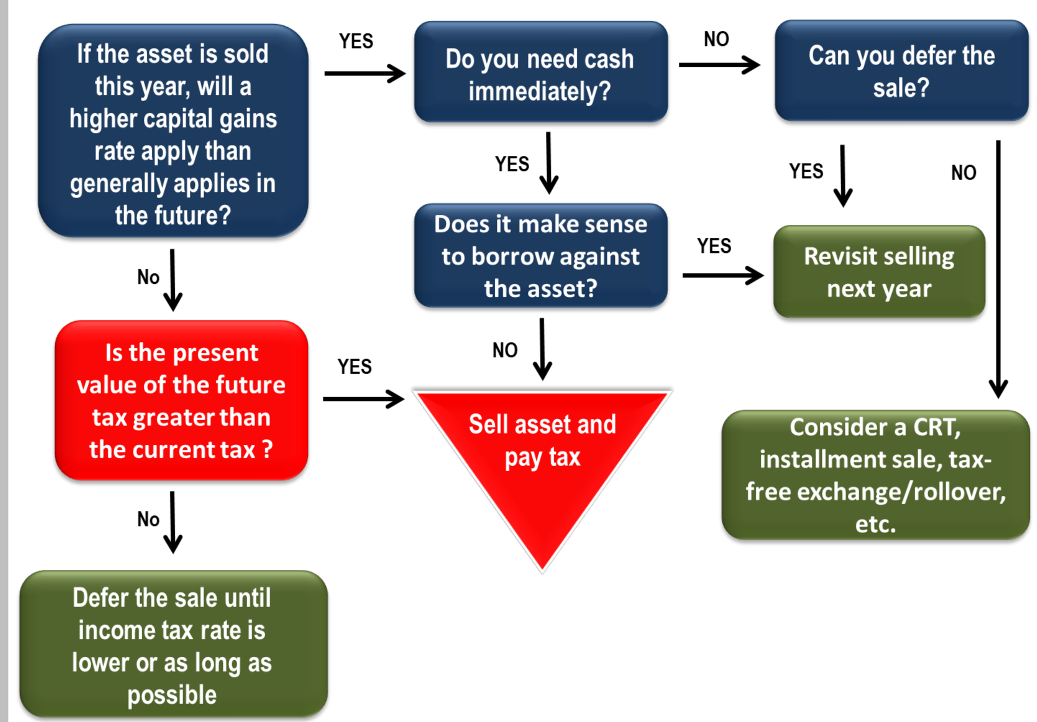
Harvesting Capital Gains



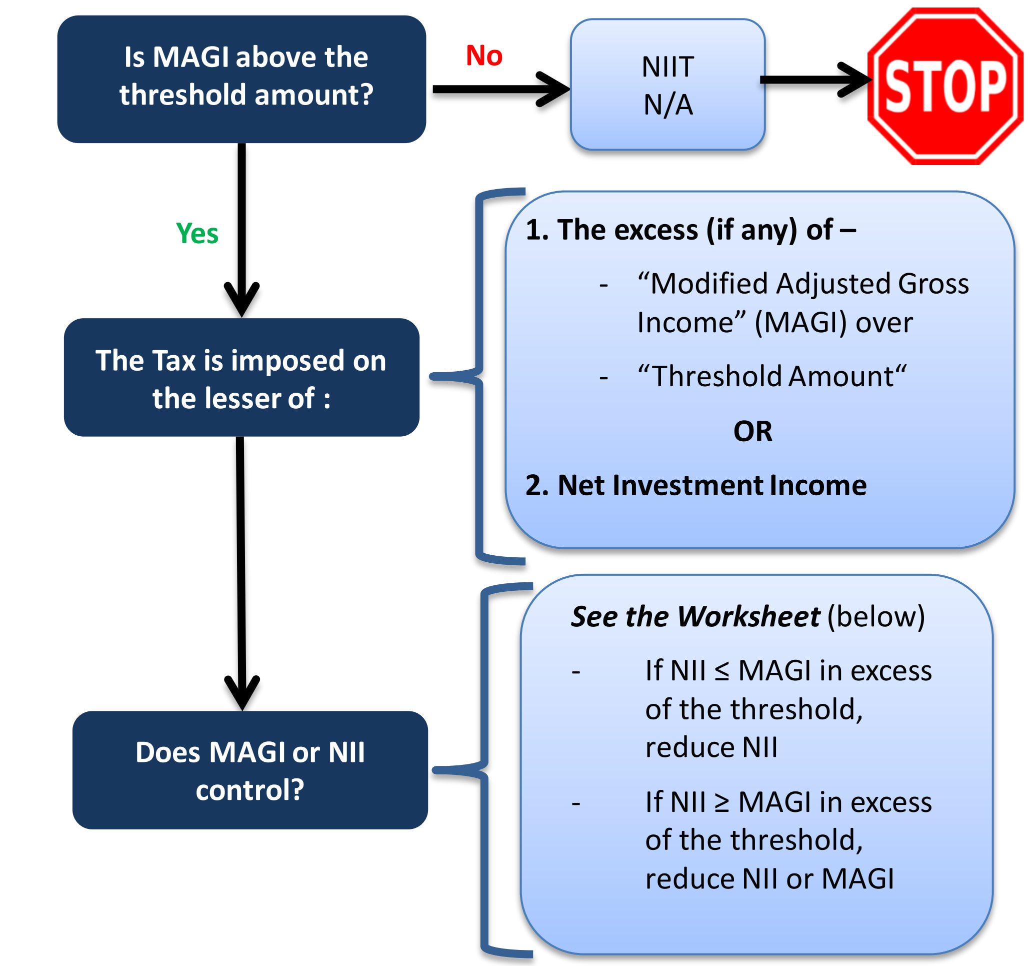
Gain Harvesting Return on Investment (after-tax)

		2021	Future	2022	2023	2024	2025	2026	2027	2028
Growth Rate	4.0%	0.0%	15.0%	371.76%	116.42%	66.90%	46.55%	35.54%	28.66%	23.95%
State Tax	4.0%	0.0%	18.8%	466.91%	137.42%	77.62%	53.62%	40.80%	32.84%	27.43%
		0.0%	20.0%	496.96%	143.68%	80.75%	55.66%	42.30%	34.03%	28.42%
		0.0%	23.8%	592.11%	162.51%	90.01%	61.65%	46.70%	37.50%	31.28%
		15.0%	18.8%	16.91%	6.63%	3.34%	1.68%	0.65%	-0.08%	-0.64%
		15.0%	20.0%	23.28%	9.60%	5.32%	3.20%	1.90%	1.00%	0.33%
		15.0%	23.8%	43.43%	18.50%	11.15%	7.60%	5.50%	4.09%	3.06%

		2021	Future	2022	2023	2024	2025	2026	2027	2028
Growth Rate	8.0%	0.0%	15.0%	368.52%	114.83%	65.58%	45.31%	34.31%	27.39%	22.64%
State Tax	4.0%	0.0%	18.8%	448.78%	132.82%	74.88%	51.51%	38.98%	31.17%	25.83%
		0.0%	20.0%	493.92%	142.35%	79.70%	54.69%	41.35%	33.08%	27.43%
		0.0%	23.8%	589.22%	161.34%	89.10%	60.82%	45.90%	36.70%	30.47%
		15.0%	18.8%	13.82%	3.52%	-0.02%	-2.02%	-3.48%	-4.75%	-5.99%
		15.0%	20.0%	20.24%	6.62%	2.15%	-0.27%	-1.94%	-3.31%	-4.57%
		15.0%	23.8%	40.54%	15.89%	8.45%	4.73%	2.37%	0.65%	-0.76%

*To order our "Gain Harvesting Calculator" please email contactus@keeblerandassociates.com

3.8% NIIT



NIIT Worksheet – Does MAGI or NII Control?

MAGI	
Less: Threshold Amount	( )
Excess over threshold (1)	
NII (2)	
Lesser of (1) or (2)	
Rate	X 3.8%
NIIT	

Net Investment Income (NII)
Includes:

- **Interest**
- **Dividends**
- **Annuity distributions**
- **Rents**
- **Royalties**
- **Income derived from passive activities**
- **Net capital gain derived from the disposition of property**

Threshold Amounts

Single Person	**$200,000**
Married Couple	**$250,000**
Trust or Estate	**$13,050**

MAGI: Adjusted gross income (i.e., Form 1040, Line 37) ***PLUS*** Net foreign earned income exclusion

*For products to plan for and comply with the NIIT please email contactus@keeblerandassociates.com

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Roth IRA Conversions: 10 Reasons to Convert

1. Taxpayers have special favorable tax attributes, including a high basis ratio, charitable deduction carry-forwards, investment tax credits, net operating losses (NOLs), etc. *This is because these attributes reduce the effective tax rate of the conversion.*
2. Suspension of the minimum distribution rules at age 72 provides a considerable advantage to the Roth IRA holder. *This allows for additional tax-free deferral.*
3. Taxpayers benefit from paying income tax before estate tax (when a Roth IRA election is made) compared to the income tax deduction obtained when a traditional IRA is subject to estate tax. *This is because the IRC § 691(c) deduction is inefficient.*
4. Taxpayers who can pay the income tax on the IRA from non-IRA funds benefit greatly from the Roth IRA because of the ability to enjoy greater tax-free yields. *This is because of the ability to move funds from a "taxable" to a "tax-free" tax asset class.*
5. Taxpayers who want to leave IRA assets to their family, are well advised to consider making a Roth IRA election for that portion of their overall IRA funds. *This is because no distributions are required for ten years after death, generally.*
6. Post-death distributions to beneficiaries are tax-free. *This is possibly the most advantageous aspect of a Roth IRA conversion.*
7. Because the highest federal tax bracket is more favorable for married couples filing joint returns than for single individuals and because individual brackets are compressed compared to married individuals a Roth Conversion before the first spouse's death may be prudent. *(See chart on page two.)*
8. 199A Qualified Business Income Deduction. *A conversion may be beneficial for business owners because Roth IRA qualified distributions are not considered taxable income for purposes of computing the limits on the deduction.*
9. 3.8% Net Investment Income Tax. *A conversion may be beneficial for taxpayers because Roth IRA qualified distributions are neither net investment income nor MAGI.*
10. Tax rates are historically very low. *Higher tax rates in the future means more tax will be paid on taxable IRA distributions than the tax that would be paid on a conversion at a lower rate*

Married Filing Jointly-Key Threshold Amounts

12%	22%	24%	Add on 3.8% NIIT
$19,900	$81,050	$172,750	$250,000

AMT – Free Zone | $114,600 | 26% AMT Bracket | $199,000 | 28% AMT Bracket

§ 199A Limits Begin to Apply	32%	35%	§ 199A Limits Fully Apply	37%
$329,800	$329,850	$418,850	$429,800	$628,300

28% AMT Bracket

Tax Rates for 2021

Single Individuals

If Taxable Income Is:	Tax will be:
Not over $9,950	10% of taxable income
Over $9,950, under $40,525	$995 plus 12% of excess over $9,875
Over $40,525, under $86,375	$4,664 plus 22% of excess over $40,125
Over $86,375, under $164,925	$14,751 plus 24% of excess over $85,525
Over $164,925, under $209,425	$33,603 plus 32% of excess over $163,300
Over $209,425, under $523,600	$47,843 plus 35% of excess of $207,350
Over $523,600	$157,804.25 plus 37% over $518,400

Married Filing Jointly

If Taxable Income Is:	Tax will be:
Not over $19,900	10% of taxable income
Over $19,900, under $81,050	$1,990 plus 12% of excess over $19,750
Over $81,050, under $172,750	$9,328 plus 22% of excess over $80,250
Over $172,750, under $329,600	$29,502 plus 24% of excess over $171,050
Over $329,600, under $418,850	$67,206 plus 32% of excess over $326,600
Over $418,850, under $628,300	$95,686 plus 35% of excess over $414,700
Over $628,300	$168,933.50 plus 37% over $622,050

Married Filing Separately

If Taxable Income Is:	Tax will be:
Not over $9,950	10% of taxable income
Over $9,950, under $40,525	$995 plus 12% of excess over $9,875
Over $40,525, under $86,375	$4,664 plus 22% of excess over $40,125
Over $86,375, under $164,925	$14,751 plus 24% of excess over $85,525
Over $164,925, under $209,425	$33,603 plus 32% of excess over $163,300
Over $209,425, under $314,150	$47,843 plus 35% of excess of $207,350
Over $314,150	$84,496.75 plus 37% over $311,025

Head of Household

If Taxable Income Is:	Tax will be:
Not over $14,200	10% of taxable income
Over $14,200, under $54,200	$1,420 plus 12% of excess over $14,100
Over $54,200, under $86,350	$6,220 plus 22% of excess over $53,700
Over $86,350, under $164,900	$13,293 plus 24% of excess over $85,500
Over $164,900, under $209,400	$32,145 plus 32% of excess over $163,300
Over $209,400, under $523,600	$46,385 plus 35% of excess of $207,350
Over $523,600	$156,355 plus 37% over $518,400

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