

2021 Fall Tax Newsletter

CHRISTIANSON

CPAs & Consultants



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Happy holidays from the Partners and Staff at Christianson PLLP! In this fast-paced world we continue to pride ourselves on being as current as possible on tax and accounting changes so that our clients can focus on what they do best...running their businesses and loving their families. We continue to publish our annual tax newsletter to help you have another tool to navigate the complicated world of taxation and be able to have sufficient time to plan accordingly. As this newsletter goes to print, we have our federal legislators still debating tax law changes which makes tax planning even more difficult. The Christianson team are all here to help you achieve your goals. Our Firm is founded on the mission to provide you with innovative solutions through our solid team of professionals in many service areas including tax, accounting, attestation, succession/estate planning, bookkeeping and payroll, business development assistance, grant writing, HR consulting and employee and retirement benefit plan consulting. Please visit our website for the full listing of what our Firm can do for you. We wish you and your families continued blessings as we finish out 2021 and prepare for 2022. Thank you for allowing us to be your trusted advisor.

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CHRISTIANSON Tax Planning Table of Contents

November 2021 Tax Planning

Bring in Notices	Page 2
New W4 and IRS Paycheck Checkup	Page 2
2021 Tax Changes	Page 3
Proposed Tax Plan Changes	Page 3
Advanced Child Tax Credit	Page 3
Child & Dependent Care Credit	Page 3
PPP Loan & Unemployment	Page 4
Earned Income Credit	Page 5
Affordable Care Act	Page 5
Required Minimum Distributions	Page 5
CARES ACT	Page 6
Economic Impact Payments	Page 6
529 Plans	Page 6
ICHRA	Page 6
MN Sec 179 Conformity	Page 7
MN Passthrough Entity Tax Election	Page 7
Tax Brackets and Rates Tables	Page 7
Standard & Itemized Deductions	Page 9
Itemized Distributions	Page 9
Child Tax Credits	Page 9
Beginning Farmer Incentive	Page 10
Beginning Farmer Management	Page 10
MN Student Loan	Page 10
MN Property Tax/Renter Refund	Page 10
Estate Planning	Page 11
Farm Tax Noteables	Page 12
Business Tax	Page 13
Depreciation	Page 13
Bonus Depreciation	Page 13
20% 199A Business Deduction	Page 14
The Employee Retention Credit	Page 14
Tax Planning	Page 14
Individuals	Page 14
Businesses	Page 15
College Tax Credits	Page 16
Standard Mileage Rates	Page 16
Record Retention	Page 16
Employer Plans - Roth IRA	Page 17
Rising Cost of Health Care	Page 18



Reminder: Bring in Notices

If you receive a notice claiming that you owe money or notifying you of a change to your tax return, it should be brought in for your tax advisor to review. Many times the IRS or MN Department of Revenue make mistakes and these can be cleared up by responding with a letter. Sometimes these notices may also be scams phishing for your personal information. Also, the IRS or MN Department of Revenue will never make initial contact with you via phone or email.

Upcoming Tax Season

Tax season is just around the corner! We offer many different options when it comes to completing your 2021 tax return. Last year we launched SafeSend software allowing secure transmission of tax information and the option to receive and sign your return electronically. Clients who used SafeSend had great things to say about its ease of use and convenience! For more information, see our website <https://www.christiansoncpa.com/safesend/>. We also have a secure drop box outside our Willmar and Litchfield locations. If you would like to schedule an appointment, we offer video, phone, and in-person interviews.

Proposed Tax Plan Changes

Congress passed a debt limit extension valid through 12/3/21, while they work out the revenue raising aspects of their budget. While there is much debate as to what the final reconciliation will contain, there has been a trend in the numerous proposals, giving a little light to what we can expect to encounter for the 2021 and future tax years.

- An increase to corporate tax rates, either through a graduated tax bracket with a top rate of 26.5% or a flat 15% minimum tax on financial statement profits (not taxable income).
- Increase to individual tax rates, either by moving back to pre-TCJA tax rates (top bracket at 39.6%) and/or a 3% surtax on individuals making more than \$5M per year.
- Removal of the \$10K state and local tax cap, most likely temporary.
- Expansion of NIIT to include ordinary business income if adjusted gross income is >\$500K.
- Reduction to lifetime estate/gift tax exemption from \$11.7M to ~\$6M per person.
- 3% surtax on trusts with income > \$100K per year.

Advanced Child Tax Credit

If you received the Child Tax Credit on your most recently filed tax return, you may be eligible to receive your 2021 Child Tax Credit in advanced monthly payments, by direct deposit or by mail, starting July 15, 2021. Half of the 2021 total credit amount will be paid in advance monthly payments and you will claim the other half when you file your 2021 income tax return. Please keep record of the date and amount of payments received, starting July 15, 2021, and provide this to us when we prepare your 2021 Tax Return. If you anticipate you will not be eligible for child tax credit or should receive a lower child tax credit based on your 2021 tax return, you can update your information through the Child Tax Credit Update Portal (CTC UP) on the IRS website.

Child and Dependent Care Credit

If you pay child or dependent care expenses while working or looking for full or part-time work, you may qualify for the Child and Dependent Care Credit. The American Rescue Plan Act increased the maximum amount of the credit to \$4,000 for one qualifying person and \$8,000 for two or more qualifying persons, as well as making the credit refundable in certain cases. As in prior years, the credit is limited to 50% of expenses paid for the tax year. This credit begins to phase out for adjusted gross income over \$125,000 and completely phases out for adjusted gross income over \$438,000. Please keep a record of the amount paid for care and the facility information and provide this to us when we file your 2021 tax return.

PPP Loan and Unemployment Compensation

On federal tax returns, Paycheck Protection Program (PPP) Loan forgiveness is not taxable income and expenses paid with 2020 and 2021 PPP Loans can be deducted.

On federal tax returns, up to \$10,200 in 2020 unemployment compensation is excluded from federal taxable income. If your 2020 tax return was filed before July 28, 2021 and the full amount of unemployment compensation was taxed, you will receive a refund for the adjustment by direct deposit or check starting July 28, 2021. Based on the IRS website, the average refund for this adjustment is \$1,686.

Minnesota tax law changes were enacted July 1, 2021 retroactively affecting tax years 2017 to 2020. The tax law changes affected Unemployment Compensation and the Paycheck Protection Program (PPP) Loan on 2020 tax returns. Minnesota now follows federal tax law. PPP Loans are not taxable income and expenses may be taken for related salaries and wages.

If you filed a 2020 income tax return prior to July 1, 2021 that included unemployment compensation or Paycheck Protection Program (PPP) loan forgiveness, Minnesota Department of Revenue will either adjust the return or ask you to amend it.

- If the Minnesota Department of Revenue adjusts your return, they will send you a letter describing the change and any refund you may receive as a result.
- If you need to amend (due only to these law changes), you should have received a letter from Minnesota Department of Revenue in August with instruction to file an amended return.
- If you filed your 2020 return after July 1, 2021, you may not be impacted by the changes as your return may have been filed under the new law changes.

Adjustments to returns began the week of September 13, 2021. Letters were sent in mid-August by the State of Minnesota. If you received one of these letters, please reach out to us so we can assist you with the amended return.

Earned Income Credit (EIC)

Like 2020, if your earned income was higher in 2019 than in 2021, you can use the 2019 amount to calculate your earned income tax credit.

For tax year 2021, Earned Income Tax Credit maximum amounts have increased and investment income limit (which includes net income from rental activities) has increased to \$10,000.

The maximum amount of credit you can claim:

- No qualifying children: \$1,502
- 1 qualifying child: \$3,618
- 2 qualifying children: \$5,980
- 3 or more qualifying children: \$6,728

Affordable Care Act

MN Sure 2022 open enrollment runs from November 1, 2021 – December 15, 2021 for coverage starting January 1st. Open enrollment November 1, 2021 – January 15, 2021 for coverage starting February 1st. MN Sure is the only place Minnesotans can qualify for financial help such as tax credits towards monthly premiums, cost-sharing reductions for medical costs, or coverage through Medical Assistance or Minnesota Care. There is no penalty for not having health insurance.

Required minimum distributions (RMDs)

The SECURE Act raised the age at which a taxpayer must begin taking distributions (referred to as required minimum distributions or RMDs) from their retirement plans from 70½ to 72 for taxpayers reaching age 70½ after December 31, 2019.

Individuals who reached 70 ½ in 2019 or earlier, did not have an RMD due for 2020. (Also note that no RMDs were required in 2020 because of the Coronavirus Aid, Relief, and Economic Security Act). For 2021, they will have an RMD due by Dec. 31, 2021. Individuals who did not reach age 70 ½ in 2019 and reach age 72 in 2021 will have their first RMD due by April 1, 2022, and their second RMD due by Dec. 31, 2022. To avoid having both amounts included in their income for the same year, the taxpayer can make the first withdrawal by Dec. 31, 2021, instead of waiting until April 1, 2022. After the first year, all RMDs must be made by Dec. 31.

The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, was a \$2.2 trillion economic stimulus bill passed in response to the economic fallout of the COVID-19 pandemic in the United States. Some items still in affect for 2021 include:

Economic Impact Payments

The 2021 American Rescue Plan Act authorized a 3rd round of economic impact payments. Starting on March 17, 2021, the IRS sent up to \$1,400 payments to eligible taxpayers and \$2,800 for married couples filing joint returns. An additional \$1,400 payment was sent to taxpayers for each qualifying dependent. Rebates were gradually phased-out, at a rate of 5% of the individual's adjusted gross income over \$75,000 (singles or marrieds filing separately), \$112,500 (head of household), and \$150,000 (joint). The payments were based on 2020 tax return filings and will be reconciled on the 2021 return. Taxpayers who did not receive the full amount they were entitled to based on their 2020 income and dependents will receive an additional amount in the form of a tax credit when they file their 2021 return. Overpayments (except for those paid out to deceased individuals) do not have to be paid back.

Please keep record of when and how much payment was received from the IRS and submit this with your documents when we prepare your 2021 Tax return.

529 Plans

529 plans can be a great, tax advantageous way to save for college. Contributions to 529 plans are eligible for a MN credit of up to \$500 or deduction of up to \$3,000 (based on income) and can be distributed (including investment earnings) tax free to pay for tuition, books, room and board and other necessary expenses for post-secondary education. In addition, up to \$10,000 per year can be used to pay for private school tuition at a primary or secondary school and more recently, up to a total of \$10,000 (lifetime limit) can be used to pay student loans of a beneficiary or sibling of a beneficiary.

Individual Coverage Health Reimbursement Arrangement (ICHRA)

The Individual Coverage HRA (ICHRA) allows employers to reimburse employees tax-free for individual health insurance premiums (coverage not provided by the employer) and other medical expenses. There are no minimum or maximum allowance caps, which allows the employer to control their health benefits budget. Employers can choose who is eligible to participate in the ICHRA based on employee classes and family statuses that the employer determines. Employees can shop for individual health insurance coverage that fits their needs, allowing greater flexibility to control their coverage and deductible limits and also enjoy the tax savings of pre-tax health insurance.

MN Sec 179 Conformity

Minnesota fully conforms to section 179 expensing of the federal tax law.

- The tax law changes include full conformity for all Section 179 expensing for tax year 2020 and beyond which will increase the Section 179 expensing limit (Federal & Minnesota) to \$1,050,000 with an investment limit of \$2,620,000.
- Minnesota taxpayers will no longer be required to add back the Section 179 depreciation in the year of purchase and subtract it over the next 5 years.
- Minnesota subtractions from prior-year additions will continue until the five- year subtraction period ends.

MN Passthrough Entity Tax Election

Effective for tax years beginning in 2021, MN allows for Partnerships and S-Corporations an election for MN state tax to be paid at the entity level. This should allow for the tax to be deductible on your federal return as a business expense, instead of being included in the \$10,000 state and local tax limit of your itemized deductions. All payments must be made through the entity by 12/31/2021. The tax is a fully refundable credit against your individual MN tax liability. Tax advisors will be reaching out to clients who may qualify, but if you are interested in learning more please reach out to your tax advisor for planning strategies and the potential risks involved.

Tax Brackets and Rates

2021 Minnesota Income Tax Brackets

	5.35% UP TO	6.80%	7.85%	9.85% OVER
SINGLE	\$27,230	\$27,231 - \$89,440	\$89,441 - \$166,040	\$166,040
MARRIED JOINT	\$39,810	\$39,811 - \$158,140	\$158,141 - \$276,200	\$276,200
MARRIED SEPARATE	\$19,905	\$19,906 - \$79,070	\$79,071 - \$138,100	\$138,100
HEAD OF HOUSEHOLD	\$33,520	\$33,521 - \$134,700	\$134,701 - \$220,730	\$220,730

2021 Federal Income Tax Brackets & Rates

RATE	SINGLE	MARRIED FILING JOINTLY	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 \$481,850	\$164,901 TO \$209,400
35%	\$209,426 TO \$532,600	\$481,851 TO \$628,300	\$209,401 TO \$523,600
37%	\$532,60 OR MORE	\$628,301 OR MORE	\$523,601 OR MORE

Capital Gain and Dividend Rates

Rate	Single	Married Filing Jointly	Head of Household
0%	\$0 - \$40,400	\$0 - \$80,800	\$0 - \$54,100
15%	\$40,401 - \$445,850	\$80,801 - \$501,600	\$54,101 - \$473,750
20%	\$445,850 and up	\$501,600 and up	\$473,750 and up

Tax Rates

Max Income Tax Rate	37%
Min Income Tax Rate	10%
LT Capital Gain Max	20%
LT Capital Gain Min	0%
Qualified Dividends	0-20%
Self Employment	15.3%
Medicare Surtax	
Passive Income	3.8%
Earned Income	0.9%

Personal Standard Deduction

Married Filing Jointly	\$25,100
Married Filing Separate	\$12,550
Head of Household	\$18,800
Single	\$12,550

Personal Exemptions

Minnesota allows for an exemption for \$4,350 per dependent

Itemized Deductions

- Medical expenses above 10% of your adjusted gross income
- State income taxes, real estate taxes, personal property taxes (vehicle tabs), sales tax (limited to \$10,000)
- Mortgage interest on loans up to \$750,000 and home equity loans up to \$100,000
- Mortgage insurance premiums (subject to income limits)
- Investment interest
- Charitable contributions (up to \$300 for single and head of household or up to \$600 for married filing joint allowed as an above the line deduction without itemizing deductions for 2021) Limit has also been increased to 100% of AGI

Even if you don't itemize, 50% of charitable contributions over \$500 qualify for a deduction on your Minnesota return-so make sure to provide all charitable contributions in your tax information.

Child Tax Credits

- \$3,600 per child 5 and under (fully refundable for 2021)
 - \$3,000 for Children aged 5 through 17
 - Up to \$1,800 may be paid in advance of filing (required to be paid back if not qualified or phased-out on 2021 tax return)
- There are 2 phase-outs:
 - First phase-out reduces the credit to no less than \$2,000 begins at \$150,000 for married filing joint, \$112,500 for head of household, and \$75,000 for single/married filing separate
 - Second phase-out of the remaining \$2,000 begins at \$400,000 for married filing joint and \$200,000 for all other filers

Beginning Farmer Incentive Credit

Owners of ag assets who sell or rent to beginning farmers in MN may be eligible for a nonrefundable credit.

- 5% of the lesser of the sale price or fair market value of the agricultural asset up to a maximum of \$32,000
 - 10% of the gross rental income in each of the 1st, 2nd, and 3rd years of the rental agreement, up to a maximum of \$7,000 per year
- OR
- 15% of the cash equivalent of the gross rental income in each of the 1st, 2nd, and 3rd years of a share rent agreement, up to a maximum of \$10,000 per year

Beginning Farmer Management Credit

Beginning farmers in MN, certified by the Rural Finance Authority (RFA), may be eligible for a nonrefundable credit equal to 100% of the amount paid for participating in a financial management program up to \$1,500.

Minnesota Student Loan Credit

The credit amount depends on your income, loan payments, and original loan amount. The maximum credit is \$500 each year or \$1,000 for married couples who file a joint return (if both spouses made payments on their own qualified loans).

Minnesota Property Tax/Renter Refund

If you are a renter and your total household income is less than \$64,960 or a homeowner with household income less than \$116,180 you may be eligible for a refund based on your household income and the property taxes paid on your primary residence in MN. Refund amounts are based on the amount of tax relative to your income.

You may also be eligible for the "Special Property Tax Refund" up to \$1,000 if all three of these things are true:

- You owned and occupied your home on January 2, 2021 and January 2, 2022,
- Your net property tax on your homestead increased by more than 12% from 2021 to 2022, and
- The increase was at least \$100

Have you been thinking about working on an estate plan but haven't gotten around to it or don't know where to start? Do you think estate planning is only for the very wealthy? Are you wondering what is included in estate planning? Estate planning has always been important, but with our current political climate may become even more important in the coming years.

Estate planning isn't just about estate taxes...

Very basic estate planning includes deciding who will get your property after you die and choosing how that property will be transferred. Estate planning also includes making personal decisions such as who will provide care for your young children if you cannot and who should make medical and financial decisions for you if you become unable to. Planning in advance can also make the process easier for family members after your death. At Christianson, our experts can help you with basic planning and can work alongside your attorney for more complex planning. Contact us today to get started!

Federal & Minnesota Estate Tax Exemptions/Gift Tax Exclusions

- The 2021 estate, gift, and generation skipping transfer tax exemption is 11.7 million.
- In Minnesota, the exemption for 2021 is \$3 million (plus an additional \$2 million if transferring qualified agricultural or business property).
- For 2021, you can make annual gifts of \$15,000 cash or other property, to an unlimited number of people completely tax free. Married couples can combine their annual exclusions, meaning they can give away \$30,000 worth of property tax-free per year, per recipient.

If you think your estate might owe estate tax, one way to reduce estate tax is to make lifetime gifts utilizing the above annual exclusion amounts.

“Estate planning is an important and everlasting gift you can give your family”

Suze Orman

- Filing farm tax returns on April 15th is possible if you elect to make a tax deposit by January 15th
 - This is a viable option when you have a number of tax documents that aren't received until the last week of February (right before the normal March 1st filing deadline)
- If farming as a C-corporation, the land rent paid to you does not qualify for the 199A deduction but would if you elected to be an S-corporation
- Utilizing commodity wage to pay employees will save payroll taxes for you and the employee
- If you take the standard deduction, utilizing commodity gifts to your charities will provide a tax benefit, whereas cash donations generally will not have any direct tax benefit
- If your spouse does not have a job off the farm and your farm income is such that you will qualify for the earned income tax credit, pay your spouse a commodity wage before the end of the year to maximize this credit
- If you are a sole proprietor and your spouse owns farmland, consider paying them land rent so as to save self-employment taxes
- If you recently retired from farming and sell your farmland within 2 years, the capital gain will not be subject to the net investment income tax
- If you have a contract to sell inventory right after the calendar year-end, if you need to capture income you can elect to take this contract into income in the previous tax year
- For minor children, it is more tax efficient to pay a commodity wage versus providing a commodity gift due to new kiddie tax rules

Maximum corporate tax rate remains at 21%

Depreciation

Section 179 at a glance for 2021

- > 2021 Deduction Limit = \$1,050,000
- > 2021 Spending Cap on equipment purchases = \$2,620,000
- > Bonus Depreciation: 100% for 2021
- > Includes roofs, HVAC, fire alarm, and security systems
- > MN now allows full federal 179 expensing deduction (no longer capped at \$25,000)
- > Can amend to add/remove Section 179 depreciation

Bonus Depreciation

- > Excludes property acquired from a related party, a decedent, and property acquired in carryover basis transactions
- > Bonus depreciation cap on first year passenger automobile depreciation is \$18,200
- > MN requires an 80% addback of federal bonus depreciation which is subsequently subtracted equally over the next 5 years
- > (NEW) Qualified Improvement Property, defined as any improvement made by the taxpayer to an interior portion of a building that is nonresidential real property as long as that improvement is placed in service after the building was first placed in service by any taxpayer and specifically excludes expenditures for the enlargement of a building; (2) elevators or escalators; (3) the internal structural framework of a building is now 15 year property and qualifies for bonus depreciation

	Phase Out %
2022	100%
2023	80%
2024	60%
2025	40%
2026	20%

The 5-year cost recovery period applies for any farming machinery or equipment other than grain bins, cotton ginning assets, fences, or other land improvements. Must be new equipment.

Like Kind exchange treatment no longer applies to any property except real property. Trades are taxable in the year of exchange.

20% 199A Business Deduction

Owners of sole proprietorships, S corporations, or partnerships can deduct up to 20% of net income (excluding investment income and wages/guaranteed payments paid to owners).

- > The 20% deduction is in an effect for tax years beginning after December 31, 2017, and before January 1, 2026.

The Employee Retention Credit (ERC)

The Employee Retention Credit (ERC) was created by the CARES Act to encourage business owners to keep their employees on the payroll and minimize the number of workers filing for unemployment benefits. The tax credit is equal to 70% of qualified wages that eligible employers pay their employees in a calendar quarter. The ERC was originally extended to include 3rd and 4th quarters of 2021 but recent legislation ends the ERC early, making wages paid after Sept 30, 2021 ineligible for the credit (Except for wages paid by an eligible recovery startup business).

Contact our experts today for more information regarding the payroll tax credits available.

Tax Planning

Individuals

- > The IRS has launched an improved tool to help taxpayers check their withholding by doing a "Paycheck Checkup." You will need your most recent paystubs and your most recent income tax return. Visit irs.gov/paycheck-checkup to learn more.
- > Maximize contributions to Health Savings Accounts. 2021 contribution limits are \$3,600 for individuals and \$7,200 for families. Individuals 55 and older can make an additional \$1,000 catch up contribution.
- > Consider contributions to traditional and Roth IRA accounts. Traditional IRA contributions are tax deductible (subject to income limits) in the year of contribution and distributions are taxable income. Roth IRA contributions are not deductible, payouts, however (including earnings) are tax-free and thus immune from the threat of higher tax rates as long as they are made after a 5-year period and after attaining age 59 1/2, after death or disability, or for a first time home purchase.
- > Individuals ages 70.5 and older with IRAs should make charitable contributions directly from their IRAs (Qualified Charitable Distributions) to maximize tax benefits. Qualified charitable distributions are not included in taxable income which can also decrease the taxable portion of social security benefits and increase MN Property tax refunds.

- If you have a college student who started fall semester 2021 and did not yet incur \$4,000 of tuition expenses, pay spring tuition before year end to take advantage of the full American Opportunity Credit this year (\$2,500). If the credit brings the amount of tax you owe to zero, you can have 40 percent of any remaining amount of the credit (up to \$1,000) refunded to you.
- If you make substantial charitable contributions, consider “bunching” and making the contributions every other year to maximize your federal tax benefit. Self-directed funds where a lump sum is contributed and then dispersed at your direction are also an alternative.
- If your 2021 income is down significantly placing you in a lower-than-normal tax bracket, consider converting a portion of your retirement funds to a Roth IRA or otherwise accelerate income to take full advantage the lower bracket.

Businesses

- Review wages to S-Corp owners/spouses to determine maximum 199A deduction
- Review guaranteed payments to partners to determine maximum 199A deduction
- Try to plan for level taxable income over the years
- Place new business equipment and machinery into service before year end to qualify for bonus depreciation/Section 179 expensing
- Set up a self-employed retirement plan if you are self-employed and haven't done so yet (most plans need to be established before the close of the calendar tax year)
- Increase your basis in a partnership or S Corporation if doing so will allow you to deduct a loss from it for this year
- Utilize payment of wages to children working in closely held businesses to capture the higher standard deduction for children and fund college
- Review business structure for regular corporations and S-corporations to maximize tax brackets and the 199A deduction

Schedule a tax planning appointment! A tax planning appointment before year end is the best way to maximize your tax savings!

College Tax Credits/American Opportunity Credit

- \$4,000+ in qualified expenses = \$2,500 credit
- Qualified expenses include tuition, fees, books, supplies & equipment
- Computers qualify if it is needed for attendance at the educational institution
- Up to \$1,000 refundable
- Can be claimed 4 times
- Must be enrolled at least 1/2 time and pursuing an undergraduate degree
- Phase-out begins at \$160,000 for married filing joint and \$80,000 for single filers

Standard Mileage Rates

Beginning on January 1, 2021, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 56 cents per mile driven for business use, down one half of a cent from the rate for 2020
- 16 cents per mile driven for medical or moving purposes, down one cent from the rate of 2020
- 14 cents per mile driven in service of charitable organizations

How long should I keep records and what should I keep?

The general recommendation is to keep tax records for 3 years from the date you filed your tax return. So, for 2020 tax returns filed by May 17, 2021, the 3-year period expires on May 17, 2024. This is the timeframe that you have to amend a tax return or the IRS has to audit you. There are certain circumstances when the IRS can initiate an audit after the 3-year period, such as if a tax return was never filed, or if a fraudulent tax return was filed. In that case, the records should be retained forever.

Keep copies of your filed returns. They are helpful in preparing the next year or amended returns. Generally, you must keep your records that support an item of income, deduction or credit shown on your tax return until the period of limitations for that tax return runs out. This includes W-2s, 1099s, receipts for charitable contributions, and any other deductions taken.

If you are a business owner, you must keep receipts for all expenses. Simply entering them into your accounting software or keeping the credit card statements is not enough support for an IRS audit. Common items you will want to keep include receipts for travel, meals and entertainment, and detailed mileage logs. Records relating to property, such as purchasing land or a home (including receipts for significant improvements) should be kept for 3 years after the property is sold. The IRS does allow these documents to be scanned and saved electronically.

Among the many provisions in the multi-trillion-dollar legislative package being debated in Congress is a provision that would eliminate a strategy that allows high-income investors to pursue tax-free retirement income: the so-called back-door Roth IRA. The next few months may present the last chance to take advantage of this opportunity.

Roth IRA Background

Since its introduction in 1997, the Roth IRA has become an attractive investment vehicle due to the potential to build a sizable, tax-free nest egg. Although contributions to a Roth IRA are not tax deductible, any earnings in the account grow tax-free as long as future distributions are qualified. A qualified distribution is one made after the Roth account has been held for five years and after the account holder reaches age 59½, becomes disabled, dies, or uses the funds for the purchase of a first home (\$10,000 lifetime limit).

Unlike other retirement savings accounts, original owners of Roth IRAs are not subject to required minimum distributions at age 72 — another potentially tax-beneficial perk that makes Roth IRAs appealing in estate planning strategies. (Beneficiaries are subject to distribution rules.)

However, as initially passed, the 1997 legislation rendered it impossible for high-income taxpayers to enjoy Roth IRAs. Individuals and married taxpayers whose income exceeded certain thresholds could neither contribute to a Roth IRA nor convert traditional IRA assets to a Roth IRA.

A Loophole Emerges

Nearly 10 years after the Roth's introduction, the Tax Increase Prevention and Reconciliation Act of 2005 ushered in a change that relaxed the conversion rules beginning in 2010; that is, as of that year, the income limits for a Roth conversion were eliminated, which meant that anyone could convert traditional IRA assets to a Roth IRA. (Of course, a conversion results in a tax obligation on deductible contributions and earnings that have previously accrued in the traditional IRA.)

One perhaps unintended consequence of this change was the emergence of a new strategy that has been utilized ever since: High-income individuals could make full, annual, non-deductible contributions to a traditional IRA and convert those contribution dollars to a Roth. If the account holders had no other IRAs (see note below) and the conversion was executed quickly enough so that no earnings were able to accrue, the transaction could potentially be a tax-free way for otherwise ineligible taxpayers to fund a Roth IRA. This move became known as the back-door Roth IRA.

(Note: When calculating a tax obligation on a Roth conversion, investors have to aggregate all of their IRAs, including SEP and SIMPLE IRAs, before determining the amount. For example, say an investor has \$100,000 in several different traditional IRAs, 80% of which is attributed to deductible contributions and earnings. If that investor chose to convert any traditional IRA assets — even recent after-tax contributions — to a Roth IRA, 80% of the converted funds would be taxable. This is known as the "pro-rata rule.")

Now or Never ... Maybe

While no one knows for sure what may come of the legislative debates, the current proposal would prohibit the conversion of nondeductible contributions from a traditional IRA after December 31, 2021. If you expect your MAGI to exceed this year's thresholds and you'd like to fund a Roth IRA for 2021, the next few months may be your last chance to use the back-door strategy. Contact



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Christianson Financial Advisors, LLC

your financial and tax professionals for more information.

Securities offered through Moloney Securities Co., Inc., Registered Broker/Dealer, Member FINRA/SIPC. Investment Advisory Services offered through Moloney Securities Asset Management, LLC, Registered Investment Adviser. Moloney Securities Co., Inc. and Moloney Securities Asset Management, LLC are not under common control or ownership with Christianson Financial Advisors, LLC.

Competition is fierce . . . If you or the business that you work for is hiring, our experts at Christianson Insurance Agency may be able to help you attract top talent. Our experts at Christianson Insurance Agency take a needs based approach, providing businesses with creative business solutions. We design and administer comprehensive benefits packages that help businesses attract and retain quality employees and stay competitive during these unprecedented times.

We are passionate about helping your business, as well as your employees, achieve their goals. We can help you to understand the options and improve your benefit offerings to employees.

The Problem: We continue to see businesses struggle with the rising cost of health care

Monthly health insurance premiums have become the biggest monthly expense for many households. The lower deductible health insurance plans simply are not affordable leaving many people one bad accident for serious illness away from bankruptcy. Employees that do not have a fully funded emergency fund in place and/or the means to cover the extremely high out of pocket maximums that come with the "affordable" health insurance plans that are on the market today, could face financial hardship.

Employees are experiencing financial hardship as the result of high monthly premiums, out of pocket exposure resulting from high deductibles/out of pocket maximums or both.

When searching for jobs, applicants are factoring in benefits more than ever before.

Value Proposition

Lower your overall health care costs . . .

- Provide Comprehensive Coverage that your current & future employees understand & appreciate
- Offer a better Benefits Package that helps you Attract & Retain Quality Employees

Some of our Creative Solutions Include

Custom plan designs based on your demographics as well as the wants and needs of your specific business . . .

- Self-Funded as well as Partial Self-Funded (level funded) Plans
- ICHRA (Individual Coverage Health Reimbursement Account)
- Supplemental (indemnity) Plans to help with out of pocket expenses resulting from high deductibles/out of pocket maximums.

For more information, please contact our office!

Reminder to those that are Medicare eligible, Open Enrollment is now through December 7th. Please contact Jenny Quale if you have questions, would like to make changes to your current Medicare Supplement or Medicare Advantage plan and/or are approaching age 65.

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