



TAX PLANNING 2021

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TOPICS FOR DISCUSSION

1. What's new for 2021 planning.
2. COVID Related Income Tax Law Changes for 2021
3. Depreciation Limits
4. 199A/QBI Deduction
5. Credits to Consider
6. Estate Tax and Business Succession
7. Potential Changes for 2022

NEW FOR 2021 PLANNING

- Minnesota SALT Cap Workaround

- Currently: federal limit on State and Local Tax (SALT) deduction of \$10,000
- No benefit for itemized deduction of state tax once tax is over \$10,000
- Option for S Corp and Partnership to pay MN state tax at the entity level and deduct the tax.
- Example:
 - S Corp Earns \$100,000 before state taxes.
 - Elects to pay tax at entity level of (9.85%) \$9,850
 - Federal income from S Corp now \$90,150

MINNESOTA SALT CAP WORKAROUND (CONT.)

- **Benefits:**
 - Full credit on MN individual return for any tax paid via S Corporation.
 - Deduction is “above the line”, meaning it reduces AGI rather than just taxable income.
- **Potential draw-backs:**
 - Cash flow: may have paid individual estimates already
 - Federal tax changes: law only in effect while there is a federal SALT cap.
- **Other: Cash basis taxpayers will want to pay by 12/31/21**

NEW FOR 2021 PLANNING (CONT.)

- 100% Deduction for Meals
 - Must be paid to a restaurant
 - Does not need to be consumed on site
- Non “restaurant” meals still subject to 50% limitations.

COVID RELATED TAX LAW CHANGES FOR 2021

- Business Level Items

- Employee Retention Credit (ERC)

- 20% drop in revenue in quarter compared to 2019 or
 - Subject to a government mandated shutdown and experienced more than a nominal impact
 - 70% of Wages up to 10,000 (7,000 credit) per quarter per employee.

- Sick Pay Credit

- Up to \$511/day for employees with positive COVID Test, out due to exposure, or out due to vaccine or vaccine side effects
 - ended September 31, 2021; but, amended return option if this was missed.

COVID RELATED TAX LAW CHANGES FOR 2021

- Individual Level Items

- Expanded Child Tax Credit and Advanced Payment of Child Tax Credit
- Expanded Dependent Care Credit
 - Increased Thresholds
 - Increased Credit % amount
 - Increased DCB flex account option to employers
- Charitable Contribution Limitations at 100%

MN TAX UPDATE

- PPP Conformity
- Retroactive to 2020 only conformity on certain retirement plan transactions

DEPRECIATION LIMITS

- **Bonus depreciation**
 - 100% deduction for certain capital expenditures, including: office furniture, equipment, machinery, computers, software, qualified improvement property, land improvements and parking lots.
 - Begins phasing out after 2022
- **Section 179**
 - Expensing of up to \$1.05M (limit on total purchases of \$2.62M)
- **Section 179 is allowed in full for MN, while bonus depreciation requires an 80% add-back.**

QUALIFIED BUSINESS INCOME DEDUCTION

- QBI Deduction, Domestic Production Activities Deduction, DPAD, 20% deduction, 199A
- Been around for a few years – was new in 2018 as part of TCJA
- Refresher: 20% deduction for flow-through entities
 - Limited to 50% of W-2 wages paid by entity or
 - 2.5% of adjusted basis of assets
- Planning may be needed to maximize this deduction
- Limits on specified services trade or businesses.

CREDITS TO CONSIDER

- **Research and Development Tax Credit**
 - New or improved products, processes, or software
 - Technological in nature
 - Process of experimentation
- **Solar Investment Tax Credit**
 - 26% of solar projects in 2021
 - Taxpayers are buying solar credits to offset passive income.

ESTATE PLANNING AND BUSINESS SUCCESSION

- Political uncertainty raises estate planning to a higher importance for many taxpayers.
- Currently \$11.7M federal exemption for gift or estate
 - Set to sunset in 2026
- \$3M Minnesota exemption for estate – no gift limit.

POTENTIAL CHANGES FOR 2022

- Changes to C Corporation rates – 15% Minimum Tax
- SALT Cap increase to 40,000/80,000 through 2031
- Net Investment Income Tax (3.8% Medicare surcharge) applies to active income from flow-through for incomes over 400,000/500,000
- Increased rates for high income taxpayers
 - 5% income tax surcharge for incomes over \$10M and an additional 3% for incomes over \$25M
- Cap on total IRA assets at \$10M

FINAL THOUGHTS

- Tax planning for 2021 to take advantage of current rates.
- 2022 rates and implications currently unknown.

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