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TAX PLANNING STRATEGIES FOR INDIVIDUALS AND BUSINESSES

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ABOUT TAX PLANNING

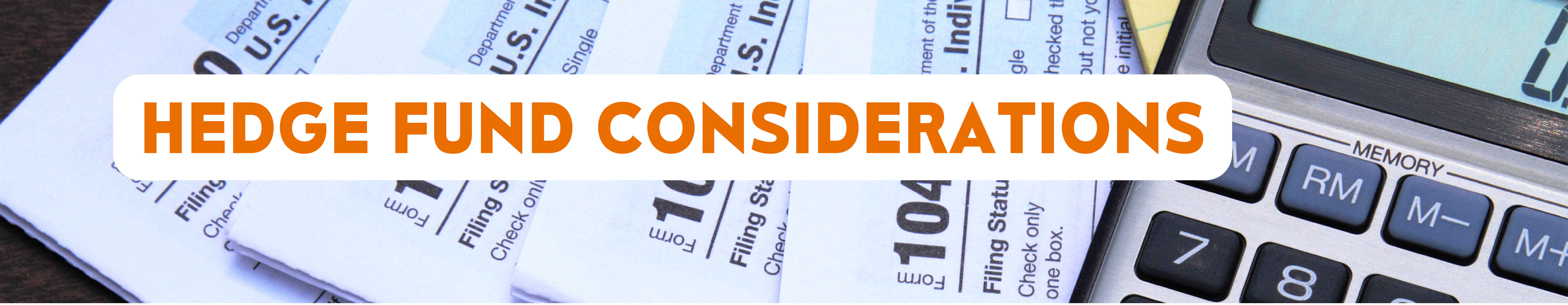
In addition to saving income taxes for the current and future years, effective tax planning can reduce eventual estate taxes, maximize the amount of funds you will have available for retirement, reduce the cost of financing your children's education, and assist you in managing your cash flow to help you meet your financial objectives.

TAX PLANNING GOALS

Proper tax planning can acheieve the following goals :

- **Reduce the current year's taxability**
- **Defer the current year's tax liability to future years, thereby increasing availability of cash for investment, business, or personal needs.**
- **Reduce any potential future years' tax liabilities**
- **Maximize the tax savings from allowable deductions**
- **Minimize the effect of the AMT on this year's tax liability**
- **Maximize tax savings by taking advantage of available tax credits**

TAX PLANNING STRATEGIES



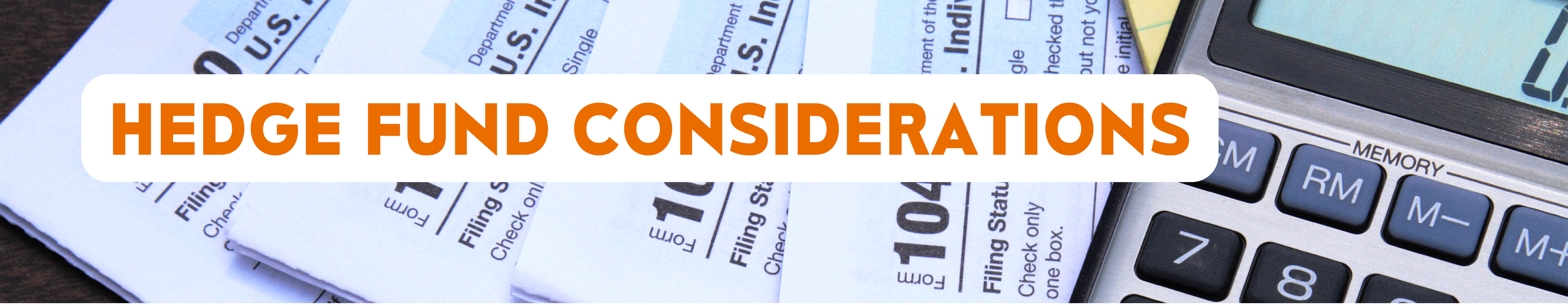
HEDGE FUND CONSIDERATIONS

WASH SALES

- Loss on sale of security is not allowed if "substantially identical" security is purchased 30 days before or after date of sale
- Ways to harvest loss while maintaining exposure: Basket swap (long or short position)
- Doubling down
- Options
- Consider freeing up cumulative deferred losses

STRADDLES

- Holding offsetting positions in actively traded personal property, such as long and short the same stock ("substantial diminution of risk of loss")
- Holding period termination
- Timely electing and identifying under the specific identification rules



HEDGE FUND CONSIDERATIONS

CONSTRCTIVE SALES

- Recognize gain to extent an unrealized appreciated position is offset by another position if the other position reduces both gain potential and loss potential
- Closed transaction exception

SHORT SALES

Covering shorts with losses must settle in December for loss to be allowed in current tax year.

RUN TAX ESTIMATES AT THE FUND LEVEL TO DETERMINE TAXABLE INCOME

Plan around items previously discussed to not accelerate gain or defer loss

TRADER VS. INVESTOR

TREATMENT OF FUND EXPENSES : ANNUAL TEST

- Trader expenses are "above the line"
- Investor expenses are "below the line"
- Portfolio deductions eliminated post TCJA

YEAR END CAPITAL GAINS AND LOSSES

TAX TIP TWO offers basic guidance for deciding when to prepay or defer deductible expenses and when to defer or collect taxable income.

TAX TIP THREE offers steps to follow relating to realized capital gains and/or losses, and the type of gains and losses you should trigger.

TAX TIP FOUR shows the benefit of bunching charitable contribution deductions in one year, even when the standard deduction applies in subsequent years.

POLLING QUESTION

KEY TAX PLANNING STRATEGIES

SITUATION	PLANNING IDEA
1. Your regular tax rate will be the same or lower next year and the AMT will not apply in any year	• prepay deductions • defer income
2. Your regular tax rate will increase next year and the AMT will not apply in either year	• defer deductions • accelerate income, but only if the tax rate increase warrants accelerating tax payments
3. The regular tax rate applies this year and is higher than the AMT rate that you expect will apply next year.	• Consider bunching charitable contributions in the year with the higher tax rate – assuming you can itemize. • Defer income.
4. This year you are in the AMT and next year will be subject to a higher regular tax rate.	• Consider bunching charitable contributions in the year with the higher tax rate – assuming you can itemize. • Accelerate income.

KEY TAX PLANNING STRATEGIES

SITUATION	PLANNING IDEA
5. You have net realized capital losses this year or loss carryforwards from last year	• consider recognizing capital gains by selling appreciated securities to offset realized losses and loss carryforwards therby locking in appreciation
6. You have net realized capital gains this year	• Sell securities with unrealized losses to offset the gains – if market conditions justify it. • Use a bond swap to realize losses. • Consider tax implications of netting rules. • Avoid wash-sale rule. • Consider the implications of the Medicare Contribution Tax on net investment income. • Considering investing in a qualified opportunity fund.
7. You are contemplating purchasing new business equipment	• Accelerate the purchases into 2022 to take advantage of IRC Sec. 179 deductions and bonus depreciation available this year that can potentially allow you to expense the full amount of the equipment. (Qualified purchases must be placed in service in 2022.)
8. A penalty for underpayment of estimated taxes will apply	• Withhold additional amounts of tax from your wages or bonus payments before December 31. • Prepay fourth quarter estimates due January 15 and increase the payment amount, if necessary. • Have withholding taken out of your retirement plan distribution.

YEAR END CAPITAL GAINS AND LOSSES

IF YOU HAVE...	CONSIDER TAKING THESE STEPS
Both short term and long term losses	Sell securities to recognize unrealized gains, preferably if held short-term, up to the amount of your losses, less $3,000.
Long-term gains in excess of short-term losses	Take losses equal to the net gain, plus $3,000. Use long-term loss positions first, then short-term loss positions.
Both short-term and long-term gains, or short-term gains in excess of long-term losses	Take losses equal to the net gain, plus $3,000. Use long-term loss positions first to gain the benefit of offsetting short-term gains (taxed at a rate as high as 37% in 2022 plus 3.8% Medicare Contribution Tax on net investment income).
Worthless securities and bad debts	Identify these securities and debts and take the necessary steps to ensure that the losses are deductible in the current year, by having the proper substantiation.

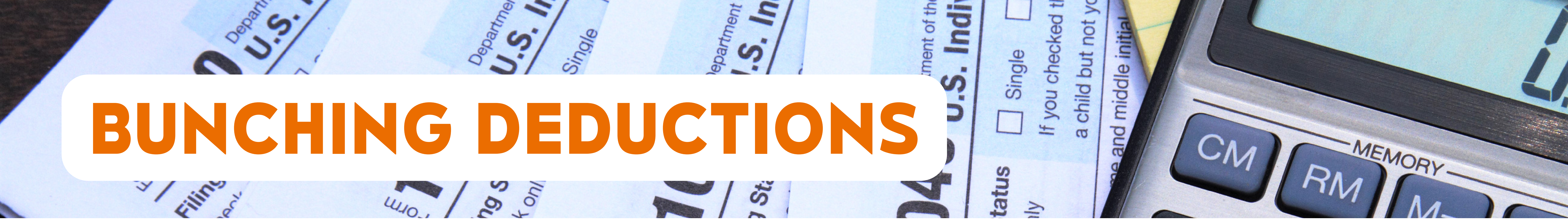
EXPENSES YOU CAN PREPAY

- CHARITABLE CONTRIBUTIONS
- STATE AND LOCAL INCOME TAXES
- PROPERTY TAXES
- MISCELLANEOUS ITEMIZED DEDUCTIONS
- MORTGAGE INTEREST
- MARGIN INTEREST
- BUSINESS EQUIPMENT

INCOME YOU CAN ACCELERATE OR DEFER

Timing income can be more difficult than timing deductions, but here are some types of income that you may be able to control the timing of receipt so you can gain the advantage of having the income taxed in a year that you are in a lower tax bracket.

- **CASH SALARIES OR BONUSES**
- **CONSULTING OR OTHER SELF-EMPLOYMENT INCOME**
- **REAL ESTATE AND OTHER NON-PUBLICLY TRADED PROPERTY SALES**
- **U.S TREASURY BILL INCOME**
- **INSTALLMENT SALE INCOME**
- **SALE OF PRINCIPAL RESIDENCE**
- **WASH SALES AND CONSTRUCTIVE SALES**



BUNCHING DEDUCTIONS

MEDICAL EXPENSES

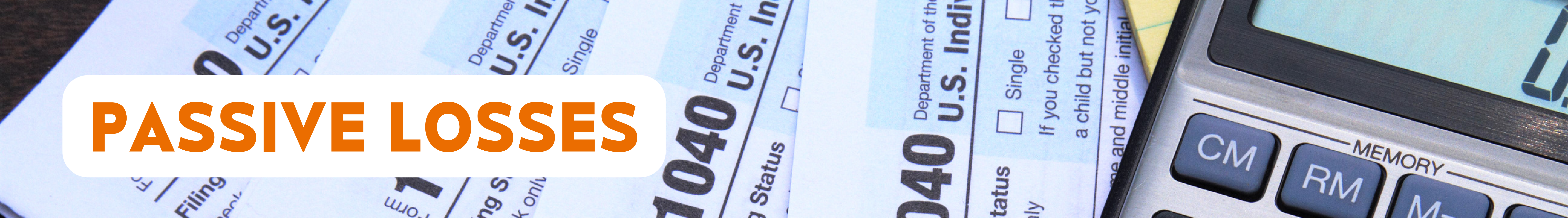
If you're self-employed and have a net profit for the year, you may be eligible for the self-employed health insurance deduction. This is an adjustment to income, rather than an itemized deduction, for premiums you paid on a health insurance policy covering medical care, including a qualified long-term care insurance policy for yourself, your spouse, and dependents. The policy can also cover your child who is under the age of 27 at the end of 2021, even if the child wasn't your dependent.

CHARITABLE CONTRIBUTIONS

As a result of the TCJA, many itemized deductions have been eliminated or limited. The deduction for the charitable contribution is the exception, as it has virtually been untouched by the TCJA. However, the CARES Act has altered charitable contributions. See chapter on charitable contributions. At the same time, the standard deduction has increased substantially. An individual can deduct the larger of either his/her standard deduction or itemized deductions. Thus, in order to maximize the deduction for charitable contributions, it might be best to bunch gifts to charities in one year, so the individual's charitable contributions exceed the standard deduction amounts, and he/she will be able to itemize.

ADJUST YEAR-END WITHHOLDING OR MAKE ESTIMATED TAX PAYMENTS

- If you expect to be subject to an underpayment penalty for failure to pay your current-year tax liability on a timely basis, consider increasing your withholding and/ or make an estimated tax payment between now and the end of the year in order to eliminate or minimize the amount of the penalty.



PASSIVE LOSSES

- If you have passive losses from a business in which you do not materially participate that are in excess of your income from these types of activities, consider disposing of the activity. The tax savings can be significant since all losses become deductible when you dispose of the activity. Even if there is a gain on the disposition, you can receive the benefit of having the long-term capital gain taxed at 23.8% (28.8% if the gain is subject to depreciation recapture) with all the previously suspended losses offsetting ordinary income at a potential tax benefit of 40.8% in 2022, inclusive of the Medicare Contribution Tax.

POLLING QUESTION

ESTATE PLANNING

- If you have not already done so, consider making your annual exclusion gifts to your beneficiaries before the end of the year. You are allowed to make tax-free gifts of up to $16,000 per year, per individual ($32,000 if you are married and use a gift-splitting election, or $16,000 from each spouse if the gift is funded from his and her own separate accounts). By making these gifts, you can transfer substantial amounts out of your estate without using any of your basic exclusion amount ("BEA"). Also, try to make these gifts early in the year to transfer that year's appreciation out of your estate. Furthermore, because of the increased cumulative BEA in 2022, you may wish to make additional gifts to fully utilize such exclusion of $ 12.06 million ($ 24.12 million for married couples). The BEA has doubled as a result of the TCJA; however, it will sunset at the end of 2025 reverting back to the maximum BEA in effect before the TCJA became law. When combined with other estate and gift planning techniques such as a grantor retained annuity trust, you may mitigate estate and gift taxes and transfer a great deal of wealth to other family members (who may be in a lower income tax bracket or may need financial assistance).

TAX ADVANTAGES FOR BUSINESS OWNERS

TIMING OF INCOME & DEDUCTIONS

- If you are a cash-basis business and expect your current year's tax rate to be higher than next year's rate, you can delay billing until January of next year for services already performed in order to take advantage of the lower tax rate next year. Similarly, even if you expect next year's rate to be the same as this year's rate, you should still delay billing until after year-end to defer the tax to next year. You also have the option to prepay or defer paying business expenses in order to realize the deduction in the year that you expect to be subject to the higher tax rate. This can be particularly significant if you are considering purchasing (and placing in service) business equipment. If you are concerned about your cash flow and want to accelerate your deductions, you can charge the purchases on the company's credit card. This will allow you to take the deduction in the current year when the charge is made, even though you may not actually pay the outstanding credit card bill until after December 31.

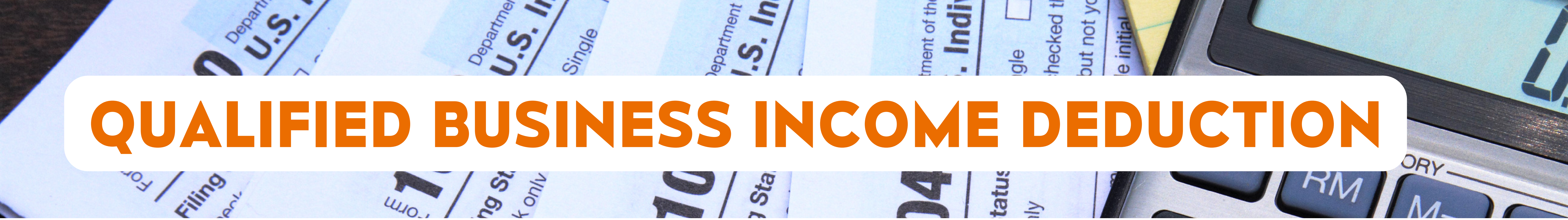
BUSINESS EQUIPMENT

- Tax benefits are available for immediate deduction of business equipment purchased and placed in service in 2022. The amount allowable for full deduction in 2022 under IRC Sec. 179 is $1,080,000 if property placed in service does not exceed $2,700,000. After reaching this threshold the deduction is phased out dollar-for-dollar, up to $3,780,000. Bonus depreciation was increased to 100% for property placed in service after September 27, 2017. The allowable bonus percentage decreases by 20% each year, beginning in 2023 with 2026 being the last year at 20% bonus. The TCJA expands the definition of qualified property to include used property (as long as the taxpayer did not use the property prior to the purchase).

BUSINESS INTEREST

If you have debt that can be traced to your business expenditures – including debt used to finance the capital requirements of a partnership, S corporation
or LLC involved in a trade or business in which you materially participate – you can deduct the interest "above-the-line" as business interest rather than as an itemized deduction. The interest is a direct reduction of the income from the business. This allows you to deduct all of your business interest, even if you are a residentof a state that limits or disallows all of your itemized deductions.

Business interest also includes finance charges on items that you purchase for your business (as an owner) using the company's credit card. These purchases are treated as additional loans to the business, subject to tracing rules that allow you to deduct the portion of the finance charges that relate to the business items purchased. Credit card purchases made before year-end and paid for in the following year are allowable deductions in the current year for cash basis businesses.



QUALIFIED BUSINESS INCOME DEDUCTION

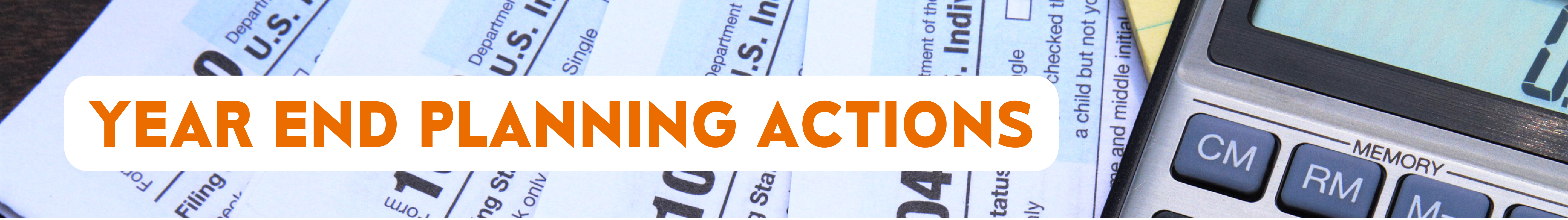
- Qualified business income ("QBI") is generally defined as net income and deductions that are effectively connected to a U.S. business. Through 2025, the TCJA provides an IRC Sec. 199A deduction for sole proprietors and owners of pass-through entities of a "qualified" business generally equal to 20% of qualified business income, subject to various loss and deduction limitations. Though this deduction is not allowed in calculating the owner's AGI, it does reduce the taxable income.

PASS-THROUGH ENTITY TAX

The Tax Cuts and Jobs Act of 2017 ("TCJA") limited the itemized deduction of state income and real estate tax deduction to $10,000. Since then, states have explored ways for a workaround and came up with pass-through entity tax ("PTET"). In November 2020 the IRS issued guidance to allow state tax deductions at the pass-through entity level. The PTET is an "optional" state income tax payment subject to timely annual election. It allows the entity to pay state tax and take the payments as a deduction to offset the business' gross income without limitation at the federal level thereby reducing the partners' allocated income from the entity. In general, each partner and shareholder of the pass-through entities that paid the PTET will receive a credit against their state individual income tax liability. However, some states may not allow the payments as a credit but instead will allow the deduction to offset their distributive share of income from their state adjusted gross income in determining their state income tax liability. For more information, see the chapter on state tax issues.

POLLING QUESTION

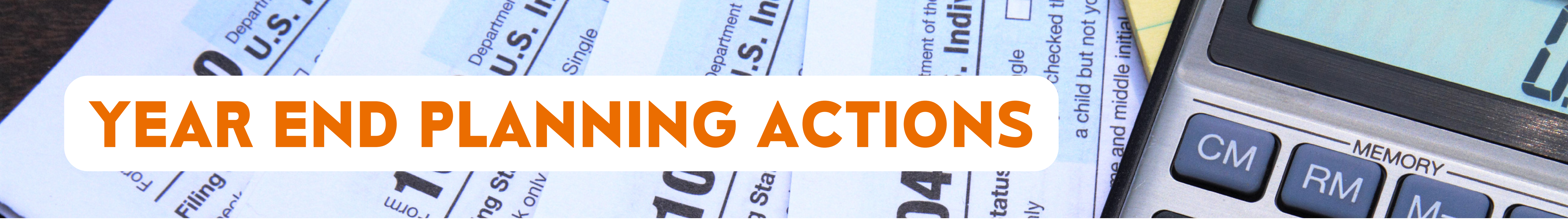
ESTIMATED TAX REQUIREMENTS



YEAR END PLANNING ACTIONS

YEAR END PLANNING ACTIONS

- If your year-end planning indicates that you have already met the 90% test, you may not need to pay some or all of your fourth quarter estimated tax installment. If you realize before year-end that you may owe the penalty for underpayment of estimated tax, you can still reduce or eliminate your penalty by taking one or more of the following actions:

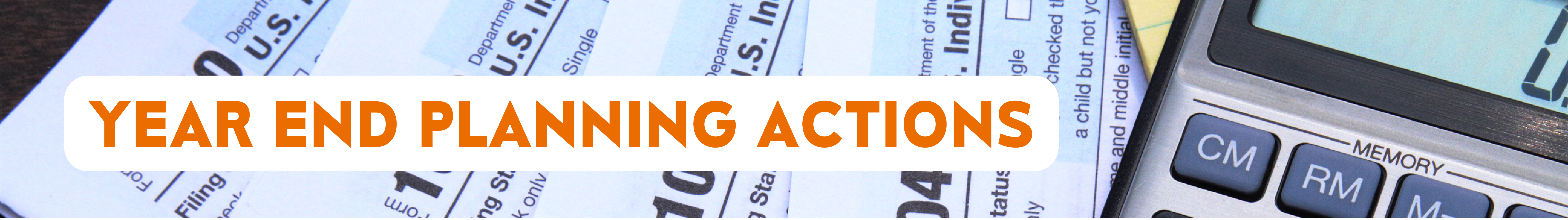


YEAR END PLANNING ACTIONS

PAY MORE TAXES THROUGH SALARY OR OTHER WITHHOLDINGS

Since any tax paid through withholdings will be treated to have been paid evenly throughout the year, you may increase your withholding tax before year-end to minimize the underpayment tax penalty attributable to a prior quarter. There are several ways to achieve this:

- 1. Increase your W-2 withholding tax for the remaining pay periods this year.
    a. Withhold more than the required bonus rate of 22% (37% rate if the bonus exceeds $1 million) at year-end.
    b. Withhold tax from pension or IRA distributions if you are qualified to do so.



YEAR END PLANNING ACTIONS

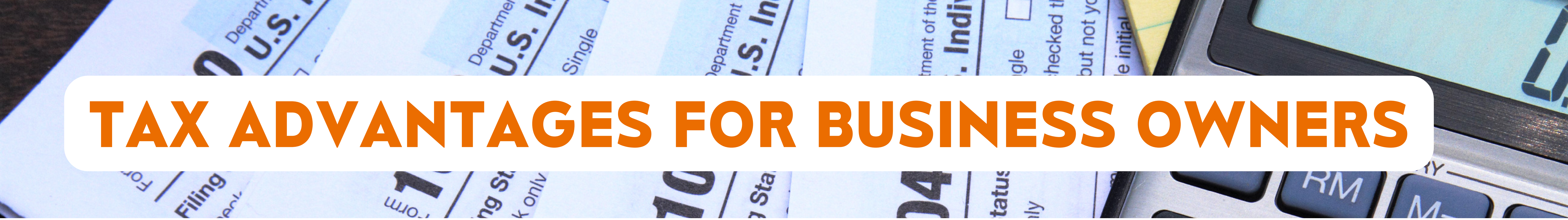
PAY MORE TAXES THROUGH SALARY OR OTHER WITHHOLDINGS CONT...

- Increase your estimated tax payment to eliminate the penalty for the fourth quarter.
- Lower your taxable income (if otherwise desirable) by using the year-end tax planning strategies presented in this guide to reduce the quarterly underpayment.
- Eliminate or mitigate the underpayment by using the annualized income installment method.

STATE TAX CONSIDERATIONS

- The foregoing discussion of tax planning suggestions may also apply to state and local income tax penalties.

BUSINESS OWNER ISSUES AND DEPRECIATION DEDUCTIONS



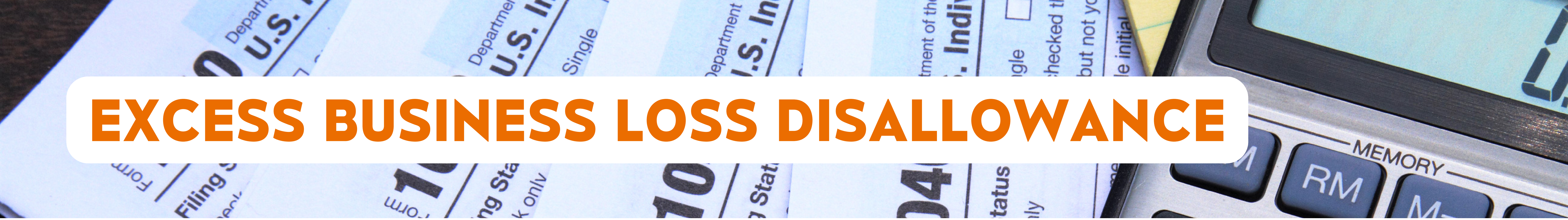
TAX ADVANTAGES FOR BUSINESS OWNERS

- A self-employed individual, or owner of an operating business through a partnership, LLC, or S corporation, may have additional tax planning opportunities available. Unlike a salaried employee, a self-employed person's business deductions can offset AGI, rather than be characterized as miscellaneous itemized deductions subject to the 2% floor, which the TCJA suspended for tax years beginning after December 31, 2017 and before January 1, 2026.

NET OPERATING LOSS CARRYBACKS

- Through 2017, net operating losses ("NOLs") could be carried back two years and forward 20 years. The TCJA limited the NOL deduction to 80% of taxable income, repealing the two-year carryback period (except for certain farming losses) and allowing NOLs arising in tax years beginning after December 31, 2017 to be carried forward indefinitely.

  The CARES Act removed the 80% limit for taxable years beginning before 2021; NOLs arising in tax years 2018, 2019 or 2020 can offset 100% of taxable income. The Act also restores NOL carrybacks for these losses, allowing taxpayers to carry the losses back five years. Taxpayers can opt out of this carryback provision. There are different rules for property and casualty insurance companies and REITs.



EXCESS BUSINESS LOSS DISALLOWANCE

The original excess business loss ("EBL") rules prohibited a non-corporate taxpayer from deducting in any particular year a loss exceeding their EBL, which is the excess of the sum of:

- The aggregate gross receipts from such trades or businesses; and
- For tax years beginning in 2021, the inflation-adjusted threshold was $524,000 for married taxpayers filing jointly and $262,000 for other taxpayers.
- Taxpayers may offset losses of one business against the income of another business and any loss disallowed under this rule becomes an NOL and is carried forward to future years to offset both business and non-business income. EBLs for partnerships or S corporations are determined at the entity level and the limitation is applied at the individual level.

A taxpayer must apply the at-risk and passive loss limits of IRC Sec. 469 before calculating the EBL disallowance of IRC Sec. 461(l). Under this hierarchy, if a loss is disallowed under the at-risk or passive loss rules, income or loss from that activity would not be considered in the calculation of the taxpayer's excess business loss, if any.

POLLING QUESTION

THANKS FOR LISTENING

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For any questions or comments, please contact us at

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