3rd Quarter | 2021

Quarterly Newsletter

News From Flourish

OCTOBER 2021

Greetings! Here at the start of October and the autumn season, I am grateful for the warmth of changing leaves on the trees and that cozy feeling you start to get at this time of year before the hustle and bustle of the holidays is upon us. This is also an important time of year for financial planning with tax season right around the corner. Because of some changes in the tax law that went into effect last year, it will be important for you to take a look at any changes or expenses that may occur for you as a result. In this quarter's article, Joey Fenwick outlines a few of the changes that we have clarity on and how they may impact your tax planning for this year.

Flourish Financially with Kathy Longo started back up again after a brief hiatus at the end of August into September, as has Jay Pluimer's Flourish Insights podcast. If you haven't already, take a moment to subscribe to both of them and each week you can listen to the more personal side of wealth as Kathy talks about her experiences and observations on family, friendships, personal and professional growth, and so much more, plus listen to investment news and updates from Jay on a bi-weekly basis.

We hope you find value in this quarter's article and, right after that, you can read Jay's Market Commentary on this last quarter's tumultuous journey.

Q3 2021 QUARTERLY ARTICLE

Planned Upcoming Tax Changes for 2021

The 2021 Tax Year is Bringing Some Surprises With It, But Here's What We Do Know

By: Joey Fenwick, CPA

Wealth Manager

Recently, there has been a lot of discussion about the tax plan put forth by the Democrats and the corresponding changes it may bring. While there is still a lot that is unknown, some of the upcoming tax changes are certain and can begin being planned for.

Remember: Financial planning provides a plethora of benefits; however, it also comes with many challenges considering it's impossible to completely prepare for an unpredictable future. Despite the impossibility of being able to fully prepare for what the future holds, a smart financial plan can still provide you with the flexibility and strong financial foundation you need to respond to whatever the future brings.

Below is a summary of some of the items that will change in the 2021 tax season.

1. The Consolidated Appropriations Act

Passed at the end of 2020, the Consolidated Appropriations Act brought with it several tax provisions that will continue to impact how Americans prepare their taxes, at least for one more year. In response to the pandemic and various disaster tax relief provisions, the Consolidated Appropriations Act includes many extensions of expiring deductions and credits, extensions, and expansions of certain tax relief provisions.

Among others, the package includes:

- An extension of the ability for businesses to deduct 100% of certain meal expenses
- A clarification that, for qualified teachers, personal protective equipment is a deductible expense as part of the $250 qualified educator tax deduction
- $600 advance payments of a tax credit per taxpayer, plus $600 for each qualifying child ($1,200 for married filing jointly). Similar to the first stimulus checks, the credit phases out starting at $75,000 ($150,000 for married filing joint) of modified adjusted gross income.
- If you claim the standard deduction, there is an extension of the $300 deduction for cash charitable deductions. For 2021, the deduction is increased to $600 for anyone filing jointly
- A clarification that expenses paid with forgiven PPP loans are fully deductible and that gross-income will not include an amount equal to any forgiven amount of a PPP loan.

2. Adjustments for Inflation

Typically, when the cost of goods and services rise, our incomes tend to follow in kind. It's crucial that our tax system accounts for these changes, otherwise income taxes would grow at a faster rate than our income, leaving many in deep financial stress. For the upcoming tax season, income tax brackets, eligibility for certain tax deductions and credits, and the standard deduction have all been adjusted to reflect recent inflation.

When it comes to the standard deduction, most single taxpayers and married individuals who are filing separately will see their standard deduction rise to $12,550. For most married couples who are filing jointly, their standard deduction will increase to $25,100. Most taxpayers who are filing as head of household will see their standard deduction rise to $18,800.

3. Planned Tax Increases 2021

As mentioned above, not only will standard deductions see adjustments for inflation, but income tax brackets and eligibility for certain deductions and credits will as well. However, since becoming law, the Tax Cuts and Jobs Act has changed how the tax code calculates inflation. Previously, inflation measures were based on the consumer price index, however, tax reform now measures inflation using the "chained" CPI.

One of the main differences between the primary consumer price index and the chained consumer price index is that the primary CPI often overstates increases in the cost of living due to the fact that it fails to fully account for the way in which consumers will change their buying patterns when the price of something goes up or another goes down. In comparison, the chained CPI is able to better account for changes in consumer buying because it uses information about what people buy in the period before and the period after a price change. When it comes to taxpayer interests, this could result in them being pushed into a higher marginal tax bracket more easily than before because their cost-of-living paycheck increases, or their annual raise may outpace the chained CPI.

4. Adjustments to Deductions and Credits Phaseouts

Along with inflation adjustments, many tax deductions and credits will have their phaseouts adjusted to account for inflation changes. Some of the ones to note are:

- **Earned Income Tax Credit:** The maximum credit for single filing taxpayers with no dependents is $1,502 with the credit phaseout beginning at $11,610 of your adjusted gross income (AGI). If you're a married couple filing jointly and claiming three or more qualifying dependents, then your maximum credit limit amounts to $6,728, with the credit completely phased out at $57,414 of AGI.
- **The Alternative Minimum Tax:** In 2021, higher exemptions and income phaseouts will occur.
- **IRA Contributions:** While IRA (both traditional and Roth) contribution limits will remain the same in 2021, the phaseout levels that dictate how you can take out deductions for these contributions will increase as follows:
    - For taxpayers who are actively participating in employer retirement plans, individual retirement account (IRA) contribution phaseouts will occur at AGIs between $66,000 and $76,000 for those filing as single or head of household. For joint filers, phaseouts will occur between $105,000 and $125,000. The respective phaseouts for Roth IRA contributions (made with after-tax dollars) occur between $124,000 and $140,000 for those filing as single, head of household, or married filing separately, and between $198,000 and $208,000 for joint filers.
    - For taxpayers who are not actively participating in their IRAs but have spouses who do, phaseouts will range from

$198,000 to $208,000 for anyone married and filing jointly. The range for those filing separately, the phaseout range will remain between $0 and $10,000 due to the fact that the phaseout range isn't subject to an annual cost-of-living adjustment.

- If neither the taxpayer or their spouse has a retirement plan through their workplace, then these phaseout changes will not apply.

5. Planned Changes to the Alternative Minimum Tax

The Alternative Minimum Tax (AMT) was designed with the goal of keeping wealthy taxpayers from being able to avoid paying taxes by using too many tax credits, deductions, and other loopholes. For the 2021 tax year, the AMT exemption amount will be set at $73,600 with the phase out beginning at $523,600 for single filing taxpayers. For married couples filing jointly, the exemption amount is $114,600 with a phase out beginning at $1,047,200.

6. Changes to Retirement Plan Distributions

The CARES Act came with many provisions to help ease the financial burden brought onto many by the pandemic. One of those provisions allowed taxpayers who were impacted by COVID-19 to withdraw from their retirement funds (up to $100,000) without incurring the typical 10% early withdrawal penalty. Additionally, the CARES Act also eased the requirements placed on retirees to take required minimum distributions (RMDs) from their retirement plans.

Unless these provisions are reenacted by Congress, this penalty waiver and relaxed RMD rules will not apply to 2021 taxes.

7. Expired CARES Act Provisions

In addition to the penalty waiver and relaxed RMD rules expiring, there are some other components of the CARES Act that are set to expire.

One of the more popular forms of aid that came with the CARES Act is the unemployment assistance that it provided. This legislation gave $600 weekly payments to unemployed individuals in addition to other programs that worked to provide relief to employees who were impacted by the pandemic.

The Pandemic Unemployment Assistance program, also part of the CARES Act, gave support to employees who don't typically qualify for unemployment aid, mostly self-employed individuals such as those working in the gig or freelance economy. Another program that worked to provide unemployment relief was the Pandemic Emergency Unemployment Compensation program. This program took the traditional timeline for receiving unemployment benefits – 26 weeks – and extended it to 39 weeks.

While many of the benefits that came packaged in the CARES Act have expired or are about to expire, the passage of the Consolidated Appropriations Act did extend some benefits. For instance, employees are still able to avoid taxes on student loan payments made by their employer up until December 31, 2021. Another part of the legislation that's been extended is a portion under the Family and Medical Leave Act which allows subsidies for employers to offer leave. This has been extended to 2025.

Start Planning now for 2021 Taxes

The best way to ensure that you're making the most of the tax changes is to begin planning your taxes and finalizing your wealth management strategy now. If you have 401(k)s or HSAs or other retirement savings accounts, be sure that you're contributing as much as you can to maximize on the tax benefits that they provide. Not only can contributing to savings accounts such as these helps ensure you have money set aside for the future, but they can lower your overall tax bill today – no matter what the tax changes will be.

Figuring out how to do your taxes efficiently and effectively can be an incredibly difficult and complicated process. Having a professional at your side who knows tax law intimately and who is able to see the big picture of your finances can help you make the best financial decisions for yourself and your family. If you'd like to schedule a time to sit down with one of our professionals to go over your tax strategy, please don't hesitate to contact us.

Market Commentary

Third QUARTER 2021

By: Jay E. Pluimer, AIF®, CIMA®

Director of Investments

The stock market hit a bumpy patch during the third quarter in what has otherwise been a relatively smooth recovery since late March 2020. Although Large Caps generated a positive return of 0.6% for the quarter, the month of September stayed true to historical average with a return of -4.7%. It is important to note that September is the only calendar month with a negative average return, due in part to the political cycles in Washington DC that create uncertainty related to budget and debt ceiling negotiations. The stock downturn in September extended to Small Cap, International, and Emerging Markets with ongoing global supply chain issues compounding inflation concerns. At the same time, COVID continues to be an important consideration for economic recovery, due in large part to low vaccination rates in Emerging Markets that play pivotal roles in the global supply chain. The bright spot in the quarter was positive returns from Bond investments which demonstrated that they continue to add downside protection in periods of higher stock market volatility.

The market outlook for the rest of 2021 is cloudier than usual with a combination of political deadlock and economic instability creating a potentially volatile short-term outlook. Although the US government was able to extend the debt ceiling and avoid the risk of defaulting on debt obligations, the extension ends in early December with no signs of a more definitive solution. At the same time, consumers are facing higher prices that reflect a combination of short-term inflation and moderate-term global supply chain dislocations. Headlines about clogged ports in the US reflect the impact from shutdowns related to the ongoing Coronavirus Crisis which continues to cause thousands of deaths a day while creating dangerous working conditions. The US has over 10 million job openings at the moment, so once the supply chain wrinkles are ironed out there are plenty of opportunities to get people back to work. In the meantime, corporate earnings continue to exceed expectations and unemployment claims are declining. We continue to have an optimistic market outlook over the next couple of years despite short-term concerns, maintaining our bias toward Stocks over Bonds with an emphasis on US markets which have led the global recovery over the past 18 months.

For more information on investments and the markets you can reference our Quarterly Market Review.

If you found this content helpful, I encourage you listen to my bi-weekly podcast, Flourish Insights, available on Apple Podcasts, Alexa, or wherever you get your podcasts.

CONCLUSION

As always, we are here to listen to our clients and share our perspective. We hope that our newsletter and articles provide you with inspiration and useful information. We encourage you to share our resources with family and friends who you think would benefit from them. Have a safe, healthy, and happy fall and we'll be in touch with our weekly newsletter!

Sincerely,

Kathy Longo, CFP®, CAP®, CDFA®

& the Flourish Team