Settlers bank

EYE ON MONEY

NOV
DEC
2021

2021 YEAR-END TAX PLANNING

TIPS TO HELP MINIMIZE YOUR 2021 TAXES!

plus

EDUCATION TAX CREDITS

OTHER WAYS TO FUND A ROTH ACCOUNT

3 DOCUMENTS THAT CAN MAKE A DIFFERENCE IN A MEDICAL EMERGENCY

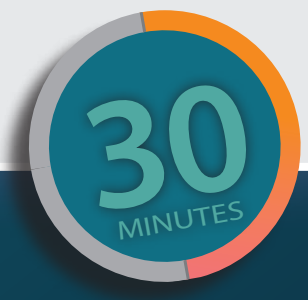
© iStock.com/Yarinca, Image Source, MicroStockHub, Irisimages

FINANCIAL

Financial Tasks You Can Tackle In Under 30 Minutes Each

1 **Search for a college scholarship.** To see what scholarships are available, check college websites, businesses and organizations you are affiliated with, online scholarship search tools, and the U.S. Department of Labor's scholarship database at www.CareerOneStop.org.

2 **Prepare financially for a natural disaster.** Assemble the documents you may need if a natural disaster forces you to flee your home quickly. Include copies of your deeds, vehicle titles, and insurance policies, as well as your driver's license, passport, Social Security card, and birth certificate. Pack the documents in an easy-to-grab kit or photograph them and store them digitally in the cloud or on a USB flash drive. For a list of other items you may need, visit www.ready.gov/kit. ■



inside

UP FRONT

2 Financial Tasks You Can Tackle in Under 30 Minutes Each

3 Other Ways to Fund a Roth Account

4 Test Your Knowledge of Investment Account Types

5 Three Legal Documents That Can Make a Big Difference in a Medical Emergency

FEATURES

6 2021 Year-End Tax Planning
There is still time to potentially reduce your 2021 federal income tax, but you'll need to act soon. Several tax minimization strategies for individuals are presented here.

14 5 Things to Know About Education Tax Credits
If you have children in college, you may be able to claim a tax credit to help defray some of the qualified education expenses you pay.

FYI

16 Bohemian Rhapsody: Czech Republic

18 The Great Indoors

19 Quiz: Where in the World Are You?

© 2021 Quinn Communications Inc.
This publication was created by Quinn Communications Inc. (www.quinncom.biz) for the use of the sender. It is intended to provide general information on the subject matter covered. It is not intended to provide a financial, legal, or other professional service. The information in this publication may not be appropriate for you. Contact a financial or legal professional before making changes to your plans.

OTHER WAYS TO FUND A ROTH ACCOUNT

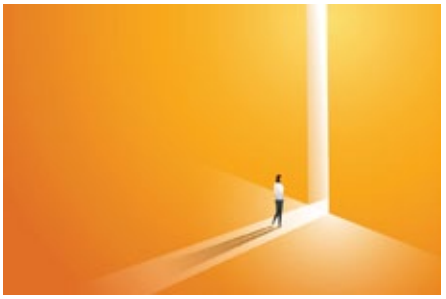
Even if your income is too high to contribute directly to a Roth IRA, you may still be able to fund a Roth retirement account. Here are three options to consider.

CONTRIBUTE TO A ROTH 401(k) AT WORK.

Roth 401(k)s work a lot like Roth IRAs. With both types of accounts, the income you contribute is taxed before it enters the account, earnings grow tax-free, and withdrawals in retirement are tax-free, provided certain requirements are met. But Roth 401(k) accounts offer a few advantages that Roth IRAs do not.

- Roth 401(k) accounts do not have income limits so you can contribute no matter how high your income.
- Roth 401(k) accounts have much higher annual contribution limits. For 2021, you may be able to contribute as much as $19,500 ($26,000 if age 50 or older) to a Roth 401(k). With a Roth IRA, the most you may be able to contribute is $6,000 ($7,000 if age 50 or older.)
- Your employer may match a portion of the money you contribute to your Roth 401(k) account.

If investing in a Roth account is right for you, a Roth 401(k) can be a good account to use.



TRY THE BACKDOOR.

If income limits prevent you from contributing directly to a Roth IRA, you may want to use a strategy known as a backdoor Roth contribution to gain access to a Roth IRA.

This strategy involves making a nondeductible contribution to a traditional IRA and then converting the assets in the traditional IRA to a Roth IRA. (There are no income limits on contributing to a traditional IRA or converting a traditional IRA to a Roth IRA.)

If you do not have other assets in traditional IRAs, the only part of the conversion that will be taxable will be any investment growth that occurs between when you make the nondeductible contribution and when you convert it.

If you have other assets in traditional IRAs, the tax calculation gets more complex and the tax bill on the conversion may be considerably larger. So before using this strategy, please seek advice from your financial professional regarding its potential tax impact.

CONVERT TO A ROTH ACCOUNT.

Savings that you have in a traditional IRA can generally be converted to a Roth IRA. You will pay income tax on the taxable portion of the conversion in the year of the conversion, but from then on earnings grow tax-free and withdrawals in retirement are tax-free as long as certain requirements are met.

If your traditional IRA contains mainly deductible contributions and earnings, the tax bill on the conversion can be sizable. It's a good idea to evaluate the tax impact first and to consider what your tax rate may be in retirement.

If you expect your tax rate to be lower in retirement than it is now, you may pay less tax overall if you leave your money in the traditional IRA and pay the tax during retirement as you make withdrawals from the account. But if you expect your tax rate to be higher in retirement, a Roth conversion may be a good move, particularly if you can afford to pay the tax with money from outside the IRA. ■

PLEASE CONSULT YOUR TAX AND FINANCIAL PROFESSIONALS FOR SPECIFIC ADVICE.

These strategies reflect the federal tax laws as of September 1, 2021. It is possible that the laws may change soon. Changes have been proposed that would affect the backdoor strategy and Roth conversions.

Photos © iStock.com/ViaSuh, letbank, enot-poloskun

© iStock.com/DNY59

Test Your Knowledge of Investment Account Types

There are several types of investment accounts available to investors. Here's an opportunity to see how much you know about them.

TRUE OR FALSE: 401(k) and 403(b) accounts are used to save for retirement.
True. Both types of accounts are retirement accounts offered by employers to help their employees save for retirement.

TRUE OR FALSE: An investor can have both a 401(k) account and an IRA.
True. Even if you contribute to a 401(k) at work, you can generally open and contribute to an IRA on your own.

TRUE OR FALSE: 529 accounts and Coverdell accounts are retirement accounts.
False. Both types of accounts are used by families to save for education expenses in a tax-advantaged manner.

TRUE OR FALSE: Regular investment accounts offer flexibility.
True. A regular investment account can be used to build wealth for whatever purpose—not just retirement or education. And they do not have annual contribution limits, income limits, or contribution deadlines.

TRUE OR FALSE: An IRA can be opened for a child.
True. If a child earns an income from working, an adult can generally open a custodial IRA for the child and manage it until the child becomes an adult.

TRUE OR FALSE: UGMA and UTMA accounts are for children.
True. Both types of accounts are custodial accounts that can be opened for minor children. The assets in the account belong to the child, but an adult manages the account until the child reaches the age of majority. ■

Please consult your financial professional for investment advice.

PLEASE NOTE: All investing involves risk, including the possible loss of the amount you invest. For more complete information about a 529 education savings plan, including investment objectives, risks, fees, and expenses associated with it, please carefully read the issuer's official statement before investing. It can be obtained from your financial professional. Some states offer state residents additional benefits, such as a state tax deduction for contributions to the plan, reduced or waived program fees, matching grants, and scholarships to state colleges. Any state-based benefit offered with respect to a particular 529 education savings plan should be one of many appropriately weighted factors to be considered in making an investment decision. You should consult with your financial, tax, or other professional to learn more about how state-based benefits (including any limitations) would apply to your specific circumstances. You also may wish to contact your home state or any other 529 education savings plan to learn more about the features, benefits, and limitations of that state's 529 education savings plan.

FR2021-0803-0227/E

Three Legal Documents That Can Make A Big Difference in a Medical Emergency

If a medical crisis ever leaves you too ill to manage your affairs, these three documents can help ensure that the people you want managing your care and finances are authorized to do so and that they have instructions from you to guide them.

1 Health care proxy.
A health care proxy, also known as a durable power of attorney for health care, is a legal document that allows you to designate someone you trust to make medical decisions on your behalf if you lose the ability to make them yourself.

2 Living will.
A living will is the document you use to make your wishes known regarding the medical treatments (mechanical respiration, tube feeding, etc.) that you want to receive, or not receive, in an end-of-life or permanently unconscious situation. The instructions you provide in your living will serve as a valuable guide for your family and caregivers and can help remove the burden from your family members of having to make these tough decisions for you.

3 Durable power of attorney for finances.
With this document, you can name the person you want handling your financial affairs if you become incapacitated. For example, you can name someone to pay your bills, deposit your income, oversee your investments, pay your taxes, and take care of any number of other financial tasks that you normally handle yourself. The "durable" nature of this document ensures that it remains in effect even after you become incapacitated. ■

Even your college-age child may need a health care proxy.

Once your child reaches age 18, you may no longer have the authority to direct their medical care or access their medical information. To help ensure that your adult child has someone with the authority to make medical decisions for them if they become incapacitated, consider asking your child to set up a health care proxy.

For advice on the documents you may need in a medical crisis, please consult your estate planning professional.

Photo © iStock.com/vladwel, m-imagephotography

2021 Year-End Tax Planning

You may be able to reduce your personal taxes for 2021 if you act soon. Several year-end strategies for minimizing federal taxes are summarized here. The strategies reflect the federal tax laws as of September 1, 2021. It is possible that the laws may change before the end of the year. Changes proposed by the administration in the spring of 2021 included higher tax rates for high-income individuals. Also please note that the strategies are general in nature and some of them may not be appropriate for you. Your best year-end move is to seek specific advice from your tax and financial professionals about whether there are any steps you can take this year to lower your taxes.

Time your income.
One strategy to reduce this year's taxes is to defer the receipt of some income into next year. This move gains you another year to use or invest the money you otherwise would pay in taxes on that income this year.

Keep in mind that deferring income makes the most sense when you expect your tax rate to be the same or lower next year. If you expect it to be higher, you may be better off accelerating some income into this year so it can be taxed at a lower rate.

Certain types of income are easier to time than others. For instance, although it may be impossible to time when you receive a paycheck, you may be able to control when you receive income from self-employment, retirement accounts, and the exercise of stock options. You can also control when (and if) you convert your tax-deferred retirement savings to Roth savings.

When you convert a tax-deferred account to a Roth account, any savings you convert that were not taxed previously will be taxed as ordinary income in the year of the conversion. Converting in a year when your tax rate is lower may save you a bundle in taxes. With the federal tax rates on ordinary income scheduled to increase after 2025, you may pay less tax on a Roth conversion this year than in later years.

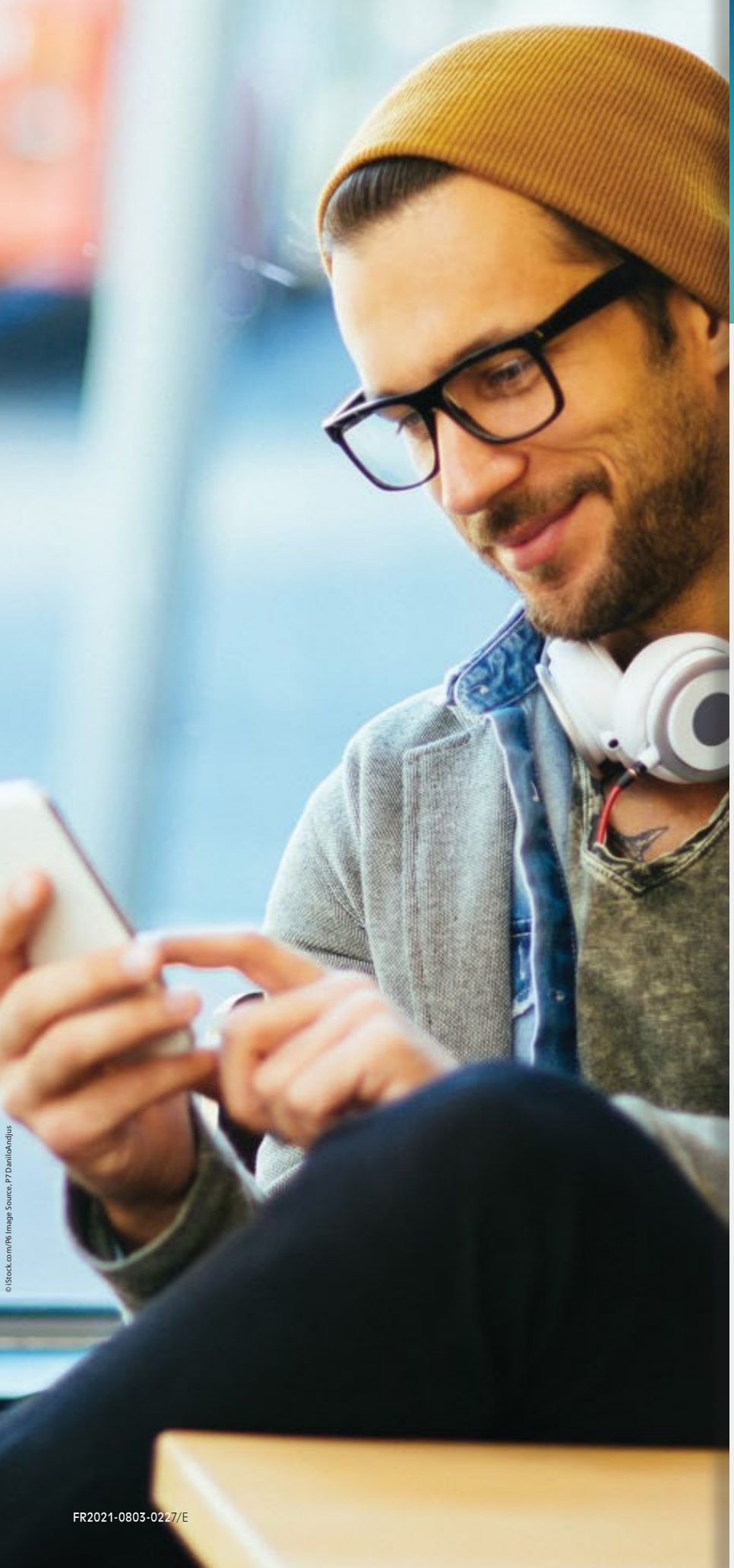
Time your deductions if you itemize.
A strategy for taxpayers who itemize deductions is to accelerate deductions into the current year in order to reduce their current taxes. Accelerating deductions is simply paying some deductible expenses or making some charitable contributions this year that you planned to do next year.

But as with timing your income, be sure to consider first whether you expect your tax rate to change next year. Generally speaking, the higher your tax rate, the greater your potential tax savings from your deductions. For example, if you are in the 24% tax bracket this year and expect to be in the 32% tax bracket next year, a $20,000 deduction will generally reduce your federal taxes by $4,800 this year or by $6,400 next year. So accelerating or deferring your deductions into a year when you are taxed at a higher rate may result in greater tax savings.

Many tax-minimization strategies need to be completed by the end of the year to be effective for the current year.

Avoid unintended consequences.
The federal tax laws are complex, and shifting income and deductions between years may sometimes have unintended consequences, such as increasing your annual income enough to increase your Medicare premiums or make you ineligible for certain tax breaks with income limits. To help avoid unintended consequences, please consult your tax professional before timing your income and deductions.

Consider bunching your medical and dental expenses if you itemize.
If you itemize deductions, you can deduct the portion of the unreimbursed medical and dental expenses you pay that exceeds 7.5% of your adjusted gross income (AGI). If you are just under the 7.5% threshold, consider paying some 2022 expenses this year so that you clear the threshold and can deduct the excess amount.



© iStock.com/P6 Image Source, P7 DaniloAndjus

2021 Federal Income Tax Brackets and Rates

SINGLE

Taxable income	*Rate*
$0 - $9,950	10%
$9,951 - $40,525	12%
$40,526 - $86,375	22%
$86,376 - $164,925	24%
$164,926 - $209,425	32%
$209,426 - $523,600	35%
Over $523,600	37%

MARRIED FILING JOINTLY

$0 - $19,900	10%
$19,901 - $81,050	12%
$81,051 - $172,750	22%
$172,751 - $329,850	24%
$329,851 - $418,850	32%
$418,851 - $628,300	35%
Over $628,300	37%

MARRIED FILING SEPARATELY

$0 - $9,950	10%
$9,951 - $40,525	12%
$40,526 - $86,375	22%
$86,376 - $164,925	24%
$164,926 - $209,425	32%
$209,426 - $314,150	35%
Over $314,150	37%

HEAD OF HOUSEHOLD

$0 - $14,200	10%
$14,201 - $54,200	12%
$54,201 - $86,350	22%
$86,351 - $164,900	24%
$164,901 - $209,400	32%
$209,401 - $523,600	35%
Over $523,600	37%

ESTATES AND TRUSTS

$0 - $2,650	10%
$2,651 - $9,550	24%
$9,551 - $13,050	35%
Over $13,050	37%

These tax rates apply to ordinary income, such as wages, self-employment income, taxable interest, short-term capital gains, non-qualified dividends, and taxable distributions from IRAs and retirement plans.

2021 STANDARD DEDUCTION

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

ADDITIONAL STANDARD DEDUCTION FOR PEOPLE WHO ARE BLIND OR AGE 65 OR OLDER

Single or head of household	$1,700
Married or qualifying widow(er)	$1,350

Consider bunching deductions if it allows you to itemize.

If you generally claim the standard deduction, bunching deductions may enable you to deduct more this year if it boosts your total itemized deductions for the year over your standard deduction amount.

Bunching deductions involves paying deductible expenses or making charitable contributions in one year that you would normally do over two or more years.

Here's an example of how it typically works. Let's say you are single and that your itemized deductions for 2021 add up to $11,000. The standard deduction for single taxpayers is $12,550 this year. Based on these numbers, you would claim the standard deduction because it is greater than your itemized deductions. But what if you contribute an extra $3,000 to charity this year that you had planned to contribute next year? This would generally bring your itemized deductions for 2021 to $14,000—enabling you to deduct $1,450 more by itemizing deductions than if you claim the standard deduction. Then next year, having already made your charitable contributions in 2021, your itemized deductions are apt to be lower so you claim the standard deduction instead.

Itemized deductions include state and local taxes, mortgage interest, mortgage insurance premiums, unreimbursed medical and dental expenses that exceed 7.5% of AGI, gifts to charity, and personal casualty losses from a federally declared disaster. Limits and restrictions apply and may reduce the amount you can deduct.

Make the most of your retirement and health savings accounts.

Contribute to a tax-deferred retirement plan at work.
One easy way to reduce your taxes this year is to contribute to a tax-deferred retirement plan at work. Generally speaking, every dollar of income that you contribute to a tax-deferred retirement plan is one less dollar that you'll have to pay income tax on this year.

For example, if you contribute $19,500 of your income to a 401(k) plan this year, you will not pay income tax on that $19,500 this year. Income tax is deferred on your contributions and investment earnings until they are withdrawn from the account.

Keep in mind that contributions to a Roth account will not lower your current income tax. The tax benefit of a Roth account comes later on in retirement when you can make tax-free withdrawals from your account, which you may prefer to the current tax benefit offered by tax-deferred accounts.

Contribute to a traditional IRA.
Contributing to a traditional IRA outside of work may also reduce your current income taxes if you are eligible to deduct your contributions.

You can deduct your contributions if you, and your spouse if you are married, are not covered by a retirement plan at work. If you or your spouse is covered, your income must be under certain limits for your traditional IRA contributions to be tax deductible.

Contribute to an HSA.
If you are covered by a high-deductible health plan, consider contributing to a health savings account (HSA). Contributions that you make to an HSA are either pre-tax or tax deductible, which reduces your taxable income and income tax for the current year. Plus, earnings growth is tax-free and withdrawals are also tax-free if used for qualified medical expenses.

You have until the due date for your 2021 federal tax return (not including extensions) to contribute to an HSA and a traditional or Roth IRA for 2021.

Maximum Contribution Limits for 2021

401(k), 403(b), and most 457 Plans	
Regular contributions	$19,500
Catch-up contributions	$6,500
SIMPLE IRAs and SIMPLE 401(k) Plans	
Regular contributions	$13,500
Catch-up contributions	$3,000
Traditional and Roth IRAs	
Regular contributions	$6,000
Catch-up contributions	$1,000

Health Savings Accounts (HSAs)	
If self-only HDHP coverage	$3,600
If family HDHP coverage	$7,200
Catch-up contributions	$1,000

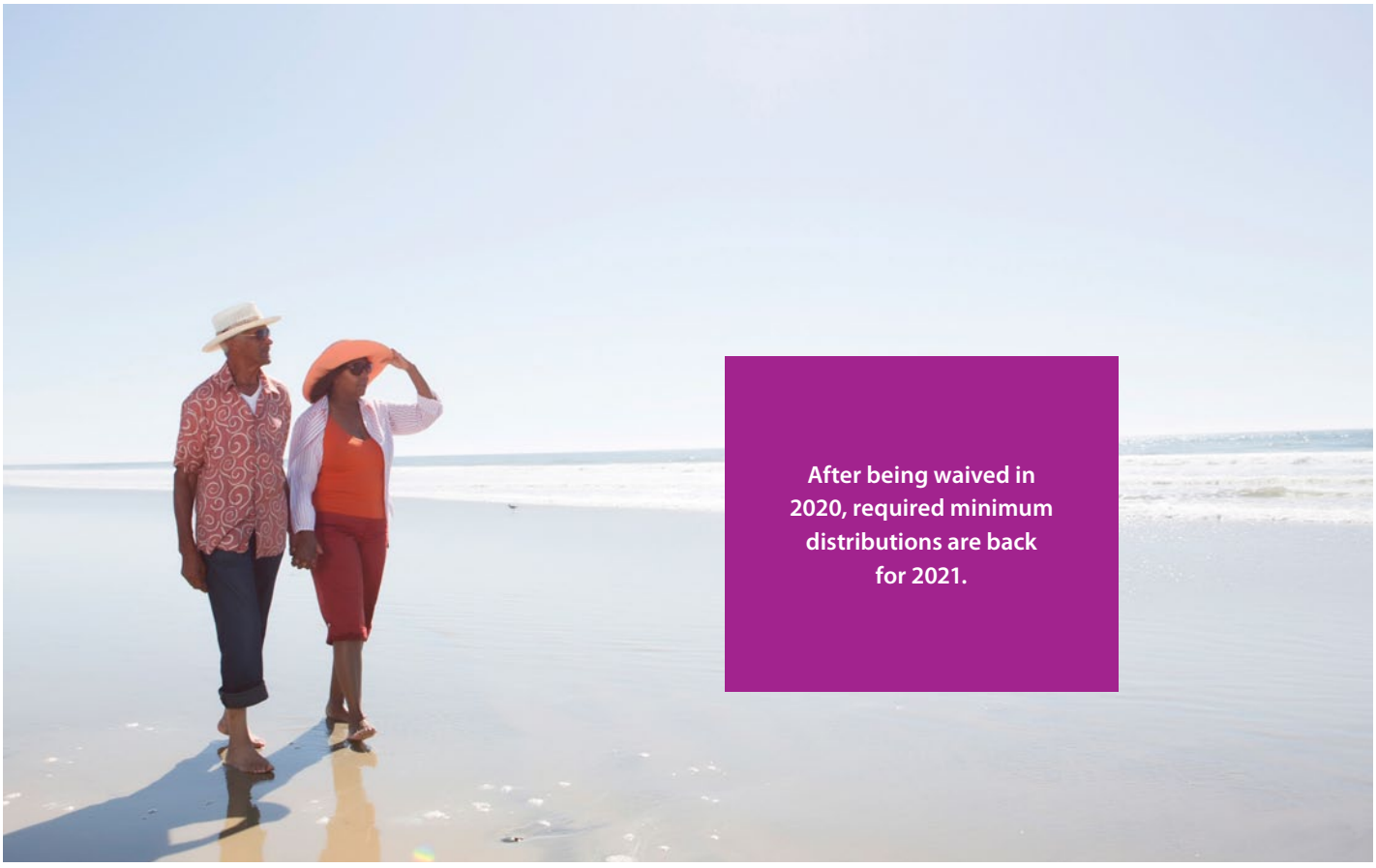
You must be age 50 or older to make catch-up contributions to a retirement account or age 55 or older to make catch-up contributions to an HSA. Additional limitations may apply to the maximum amount you can contribute. Some workplace retirement plans may permit special contributions not listed here.

Business owners: Start your own retirement plan.

If you own a business or are self-employed and you do not have a business retirement plan, consider starting one this year.

Business retirement plans generally allow you to contribute more income each year than a traditional IRA does—and the more income you contribute to a tax-deferred plan, the lower your current taxes.

Photos ©iStock.com/PBmonkeybusinessimages, PJJohnnyGreig



Age 72 or older? Take your RMDs.
Your required minimum distribution (RMD) is the minimum amount you must withdraw each year from your retirement accounts (except Roth IRAs) beginning at age 72. RMDs generally must be withdrawn by December 31 each year, but there are a few exceptions.

If you turned age 72 this year, you have until April 1, 2022 to take your first RMD. If you wait until 2022, however, you will have to take two RMDs that year—one by April 1 for 2021 and one by December 31 for 2022. Before delaying your first RMD until 2022, it's a good idea to determine whether taking two taxable distributions in one year may increase your taxable income enough to push you into a higher tax bracket, increase your Medicare premiums, or have some other unintended consequence.

You may also be able to delay the start of RMDs from your employer's non-IRA retirement plan if you are still working for that employer, the plan permits it, and you do not own 5% or more of the company.

Make the most of your charitable contributions.

Deduct your charitable contributions if you itemize deductions.
The contributions you make to charity have the potential to help not only your favorite charities, but also your own tax situation—particularly if you itemize deductions.

If you itemize deductions, you can generally deduct the cash and other assets that you donate to charity. There are limits on the amount you can deduct in one year. If your contributions for the year exceed the limits, you can deduct the excess over the next five years.

One limit—the limit on cash contributions—is suspended for 2021. This means that you can deduct qualified cash contributions made in 2021 of up to 100% of your adjusted gross income (AGI). Normally, the deduction for cash contributions cannot exceed 60% of your AGI, but Washington suspended the limit for cash contributions made in 2021 to encourage taxpayers to support charitable organizations during the pandemic.

Deduct cash contributions if you claim the standard deduction.
Normally, you cannot deduct any of your charitable contributions unless you itemize deductions. For 2021, however, taxpayers who claim the standard deduction can deduct up to $300 ($600 if they are married and file jointly) of the cash contributions they make in 2021.

Both this change and the suspension of the AGI limit for cash contributions are temporary and are scheduled to expire at the end of 2021. Also, the changes do not apply to contributions to donor-advised funds and supporting organizations.

Donate by December 31.
To claim a charitable deduction on your 2021 tax return, your contribution must be made by December 31, 2021.

Consider donating from your traditional IRA if you are over age 70½. If you are over age 70½, you have the option to make tax-free charitable distributions of up to $100,000 per year from your traditional IRA to qualified charitable organizations.

In addition to being tax-free, qualified charitable distributions count toward your required minimum distribution (RMD) for the year if you are age 72 or older. For example, if the RMD for your traditional IRA is $15,000 this year and you make a $5,000 qualified charitable distribution, you only have to withdraw (and pay the tax on) $10,000 to satisfy your RMD for the year.

Charitable distributions are not tax deductible, but if you claim the standard deduction and cannot deduct more than a few hundred dollars of your cash contributions this year anyway, charitable distributions can be a great way to receive a tax benefit for your donations.

Please note that part of your charitable distribution may be taxable if you make deductible contributions to an IRA after age 70½.

Keep taxes to a minimum on the investments in your taxable accounts.

Harvest investment losses before the end of the year. Tax-loss harvesting is a strategy used by investors to reduce or eliminate the tax on their capital gains. It involves selling some investments that have lost ground since you purchased them and using the loss on your tax return to reduce the capital gains and up to $3,000 ($1,500 if married filing separately) of the ordinary income that you must pay taxes on this year.

Here's a simplified example of how this strategy generally works. Let's say that you sell Stock A at a $15,000 profit and Stock B at a $9,000 loss. You can use the $9,000 capital loss on your tax return to offset the $15,000 capital gain so that you only have to pay tax on $6,000 of it.

Let's also take a look at how the strategy works if your loss is greater than your gain. Let's say you sell Stock A at a $15,000 profit and Stock B at a $22,000 loss. In this scenario, the loss totally offsets the $15,000 capital gain so there would be no tax on the gain. And $3,000 of the remaining $7,000 loss can be deducted from your ordinary income this year, which lowers your taxes even further. The unused portion of the loss, $4,000 in this example, can be used in future years to help reduce your taxes.

Please keep these two things in mind when harvesting investment losses. One, this strategy only applies to investments held in taxable accounts. It cannot be used with retirement accounts. Two, be careful not to buy a substantially identical security within 30 days before or after the sale. If you do, you will have what is known as a wash sale, and you cannot deduct the loss on this year's tax return.

Give appreciated securities to family members who are eligible for a lower tax rate. Gifting appreciated securities instead of cash to family members who qualify for the 0% tax rate on long-term capital gains can be a smart move in certain situations.

Photos © iStock.com/P10 DougBerry, P11 JuSun

2021 Tax Rates on Long-Term Capital Gains and Qualified Dividends

These rates apply to investments held in taxable accounts.	**0%** if taxable income is between	**15%*** if taxable income is between	**20%*** if taxable income is over
Single	$0 - $40,400	$40,400 - $445,850	$445,850
Married Filing Jointly	$0 - $80,800	$80,800 - $501,600	$501,600
Married Filing Separately	$0 - $40,400	$40,400 - $250,800	$250,800
Head of Household	$0 - $54,100	$54,100 - $473,750	$473,750
Estates and Trusts	$0 - $2,700	$2,700 - $13,250	$13,250

** The 3.8% net investment income tax (NIIT) may also apply if your modified adjusted gross income exceeds $200,000 if single or head of household, $250,000 if married filing jointly, or $125,000 if married filing separately.*

How long do you need to hold a security before it qualifies for a lower tax rate?

You must hold an appreciated security for more than one year before selling it to use a long-term capital gains tax rate (0%, 15%, or 20%) on the profit from its sale. If you owned it for one year or less, the profit is considered a short-term capital gain and is taxed as ordinary income.

To use the 0%, 15%, or 20% tax rate on the qualified dividends you receive, you must hold the security for more than 60 days during the 121-day period that begins 60 days before its ex-dividend date. For certain preferred stocks, the stock must be held for more than 90 days during the 181-day period that begins 90 days before the stock's ex-dividend date.

If the security has been held for more than one year, the recipient can sell it without having to pay a cent of federal tax on the long-term capital gain as long as his or her taxable income is under $40,400 if single or $80,800 if married filing jointly. (2021 amounts)

For example, let's say you give your adult son $10,000 of stock that you purchased years ago for $4,000. Your son can sell the stock and avoid federal tax on the $6,000 long-term capital gain as long as his taxable income for the year is within the range for the 0% tax rate.

Things may get a bit trickier if the recipient is a young child whose investment income is subject to the kiddie tax. If the kiddie tax applies, the child's unearned income (e.g., capital gains, dividends, interest) in excess of $2,200 will be taxed at his or her parent's tax rate. The kiddie tax rules generally apply to children under age 18, as well as 18-year-olds and full-time students under age 24 whose earned income is less than half their support.

Donating appreciated securities to charity may offer a greater tax benefit than donating cash.

Here's why. When you donate appreciated securities that you have owned for more than one year to charity, you can deduct their current fair market value and avoid having to pay tax on their appreciation.

As an example, let's say you want to contribute $40,000 to charity. You could donate $40,000 of cash or you could donate appreciated stock that you have owned for more than one year and that has a current fair market value of $40,000. Either way, you can generally deduct $40,000. But if you donate the stock, you can also avoid paying capital gains tax on the stock's appreciation. Let's say you purchased the stock for $10,000. By donating it, you avoid paying tax on the $30,000 gain. And if you'd like, you can purchase another $40,000 of the same stock. Your new shares will have a cost basis of $40,000, not $10,000, which will benefit you taxwise when you eventually sell them.

2021 Federal Gift and Estate Taxes

ANNUAL EXCLUSION FOR GIFTS:

$15,000

LIFETIME EXCLUSION:

$11.7 million

Please keep in mind that if your state has an estate tax, its exclusion amount may be considerably lower than $11.7 million. So even if your estate does not have to pay federal estate tax, it may have to pay state estate tax.

Minimize taxes on your estate.

Use your annual gift tax exclusion.
Will your estate be subject to estate taxes? If it will be, you may want to take advantage of the annual exclusion for gifts to transfer some wealth now without reducing the amount you can exclude from federal gift and estate taxes later on.

This year's annual exclusion for gifts is $15,000, which means that you can give any number of people up to $15,000 each in 2021 without triggering the federal gift tax or using up any of your lifetime exclusion for federal gift and estate taxes. Married couples can use both of their exclusions to give any number of people up to $30,000 each in 2021.

Take advantage of the temporarily high lifetime exclusion.
For 2021, the lifetime exclusion for federal gift and estate taxes is $11.7 million, up from $11.58 million in 2020. This means that you can currently give away up to $11.7 million during or after your lifetime free from federal gift and estate taxes. Married couples can jointly shelter up to $23.4 million from those taxes.

The thing is, though, that the $11.7 million lifetime exclusion is temporary. It is scheduled to decrease to $5 million, adjusted for inflation, after 2025 unless Congress changes the law.

Individuals whose estates are likely to be subject to the federal estate tax may want to use their lifetime exclusion to make tax-free gifts to their heirs now in case the exclusion amount decreases in the future.

According to the IRS, making large gifts now will not harm or adversely impact your estate after 2025 when the exclusion is scheduled to drop to its pre-2018 level. Please consult your estate planning professional about how to make the most of your lifetime exclusion. ■

Please consult your tax and financial professionals before the end of the year.

Your professionals can review your financial situation and determine whether there are any steps you can take to lower your taxes.

Photos © iStock.com/P12 kyoshino, P13 RossHelen

5 Things to Know About Education Tax Credits

If you pay college tuition for yourself, your spouse, or your dependent, you may be able to trim up to a few thousand dollars off your federal income tax bill if you are eligible to claim the American Opportunity Tax Credit or the Lifetime Learning Credit.

1 The income limits for both credits are now the same.

There are income limits on who can claim an education tax credit, and until recently the income limits for the Lifetime Learning Credit (LLC) were considerably lower than the limits for the American Opportunity Tax Credit (AOTC). That changed in 2021 when the LLC limits were increased to match the limits used for the AOTC. The increase in the limits means that many more middle- and upper-income taxpayers will be eligible to claim the LLC beginning this year.

In 2021, individuals with modified adjusted gross incomes (MAGIs) as high as $90,000 ($180,000 if married filing jointly) meet the income requirements for claiming either credit. The amount of the credit will gradually be reduced if your MAGI is between $80,000 and $90,000 ($160,000 and $180,000 if married filing jointly).

2 The American Opportunity Tax Credit is worth more than the Lifetime Learning Credit.

The AOTC has the potential to reduce your taxes by up to $2,500 per student per year. In contrast, the LLC maxes out at $2,000 per tax return per year.

The AOTC credit amount is 100% of the first $2,000 of qualified education expenses and 25% of the next $2,000 of expenses you pay for a qualified student.

The LLC credit amount is 20% of the first $10,000 of qualified education expenses you pay for all eligible students during the year.

New for 2021

The income limits for the Lifetime Learning Credit have been increased, making this credit available to many more students and their families.

The tuition and fees deduction has been repealed and cannot be claimed for years after 2020.

As a reminder, tax credits reduce your income tax dollar-for-dollar. For example, a $2,500 tax credit will reduce your federal income tax by $2,500. And in the case of the AOTC, if the credit reduces your tax to zero, 40% of any remaining credit (up to $1,000) can be refunded to you. The LLC is not refundable.

3 The Lifetime Learning Credit can be used in more scenarios.

Although the LLC is not worth as much as the AOTC, it can be claimed in a wider range of scenarios than the AOTC.

To claim the AOTC, the student must be enrolled at least half-time in a program leading to a degree or a recognized credential. The LLC can be claimed even if the student is just taking a course or two, either leading to a degree or simply to improve their job skills.

Also, the AOTC can only be claimed for the student's first four years of education after high school. The LLC can be claimed for an unlimited number of years and for all levels of postsecondary education, including undergraduate, graduate, and professional degree courses. So by the time the student is in year five or later of their postsecondary education, the LLC is the only credit available for them.

4 The definition of qualified expenses differs slightly between the credits.

For both credits, qualified education expenses include amounts you pay for tuition and fees that are required for enrollment or attendance at an eligible educational institution. They also include amounts you pay for books, supplies, and equipment needed for a course of study, but for the LLC, only those items that are required to be purchased from the school qualify for the credit.

5 The credits can be claimed for more than just college.

The credits can be claimed for qualified expenses paid to several types of postsecondary schools, including trade and vocational schools, in addition to colleges and universities. The school must be eligible to participate in a student aid program administered by the U.S. Department of Education. ■

Please note that you cannot claim both credits for the same student in one year. Also, this article only touches on some of the rules for claiming a credit.

Please consult your tax professional for advice regarding education tax credits.

	American Opportunity Tax Credit	Lifetime Learning Credit
Maximum Credit Per Year	**$2,500 per student.** 100% of the first $2,000 of qualified expenses plus 25% of the second $2,000 of expenses you paid for an eligible student.	**$2,000 per tax return.** 20% of the first $10,000 of qualified expenses you paid for all eligible students.
Income Limits on Who Can Claim a Credit (2021)	**$90,000 ($180,000 if married filing jointly)** The credit will be reduced if your MAGI is between $80,000 and $90,000 ($160,000 and $180,000 if married filing jointly). Dependents and married couples who file separate tax returns cannot claim either of these tax credits.	
Number of Years the Credit Is Available	**First four years only.** The credit can only be claimed for the student's first four years of postsecondary education.	**Any number of years.** There is no limit on the number of years this credit can be claimed.
Eligible Students	**Enrolled at least half-time.** Plus the student must be pursuing a degree or other recognized credential.	**One or more courses.** The courses can either lead to a degree or improved job skills.
Qualified Expenses	**Tuition and fees.** Plus books, supplies, and equipment that are needed for a course of study whether or not they are purchased from the school.	**Tuition and fees.** Plus books, supplies, and equipment that are required for enrollment or attendance and that must be purchased from the school.
Refundable	**Yes.** If your credit exceeds your tax, 40% of the excess (up to $1,000) can generally be refunded to you.	**No.**

© iStock.com/Tashin Deniak

FR2021-0803-0227/E

© iStock.com/p16 DaLiu, p17 courtyardpix

BOHEMIAN RHAPSODY | Czech Republic

BY BRIAN JOHNSTON

The Czech Republic is a gem in the heart of Europe, just made for a driving holiday.

THE ROADS IN THE CZECH REPUBLIC are good, the country compact, the rolling countryside dappled with willow trees and forests of pine. Drive into its towns with unpronounceable names and you'll find imperial glamour, baroque glory, parks and pastries, music and statues, and spectacular bouts of medieval architectural madness.

By all means visit its chief attraction, Prague, but make sure you slip away from the tourist stampede to spend a few days meandering down byways, past fields of fat cows and under the shadow of castles.

To avoid too much time in the car, stick perhaps to Bohemia, the western half of the Czech Republic, which has the richest history thanks to its position at the crossroads of Europe. A circuit around its highlights involves about 400 miles or around nine hours of driving, leaving plenty of time for relaxation and sightseeing across a one-week vacation.

For most, Prague is the first (and often only) Czech destination. The city is justifiably renowned for its old town cluttered with twisted Gothic towers and baroque church spires. Through its middle runs the Vltava River, where the famous Charles Bridge is flanked by scores of saintly statues holding a forest of shepherds' crooks and swords. The bridge often hosts what amounts to a lively street party as jazz ensembles and violin players busk and vendors hawk jewelry and paintings. In the late afternoon, watch the sun turn the water orange and the surrounding medieval spires to needles of gold.

On the far side of the bridge from the old town is Prague's Little Quarter, not quite as old as its old town, where you'll get a taste for the eighteenth-century Prague of Mozart. As you pant higher uphill, both views and rococo palaces become more splendid until you're finally rewarded with a fanciful hilltop castle and cathedral at the summit.

The downside to Prague is its dense flocks of tourists, but you only need drive an hour south to arrive at a town few foreigners have heard about. In Tábor, you can enjoy a brooding castle, late-Gothic town hall, churches glimmering

LEFT: **Situated on the banks of the Vltava river, Český Krumlov is an outstanding example of a small central European medieval town and a World Heritage site.** BELOW: **Prague's Charles Bridge at dawn with its scores of saintly statues.**

with stained glass and swooning saints, and a chorus line of superb Renaissance buildings—yet in a town filled only with locals prodding fruit at market stalls and chattering in cafés.

Same story, same atmosphere in nearby Třeboň. This isn't by any means the Czech Republic's most dazzling provincial town, but Třeboň is well worth an overnight just to enjoy its tranquility and everyday life. Besides, to anyone but a European this is still a remarkable place: a walled medieval city chock full of pastel-colored buildings and stone fountains, plus a monastery and castle. Even the town's brewery is medieval.

The most dazzling provincial town is arguably Český Krumlov in Bohemia's far south near the Austrian border. It's only here that you'll return to the tourist trail. The whole old town is World Heritage listed and glimmers with reflections in the Vltava River, which makes a lazy loop around almost the entire old center. Český Krumlov's absurd prettiness—church spires, pepperpot towers, leaning mansions—could be taken from a fairy-tale illustration. And of course, the castle is loaded with armor, tapestries, rococo ceilings, and portraits of glum-faced ancestors in ruffles and funny squashed hats.

From Český Krumlov, backtrack 15 miles to Český Budejovice, better recognized in America by its former German name Budweis, and the original source of Budweiser beer. In the fifteenth century, this was one of Bohemia's grandest towns, and its merchants set about spending their money on tall, ornate townhouses with gabled roofs, gilded weathervanes, and candy-cane colors. Its town square is enormous; even its central fountain is big as a house, and supported by straining stone giants.

Beer lovers can visit the brewery, which was founded in 1895, but you'd actually be better waiting until you get to Plzeň (Pilsen in German), even more famous for its pale, distinctively hoppy lager. A tour of the local brewery here allows you to see it being brewed and bottled, with a tasting afterwards in the historic cellars amid giant wooden barrels. Along the street a Beer Museum displays beer- and pub-related paraphernalia, though it will perhaps excite only the true beer fanatic.

Plzeň was pulverized during the Second World War and will never win a beauty contest; neither the 1960s nor communism were kind to architecture. Press on another hour up the road and you'll find yourself in utterly delightful Mariánské Lazně in the west of the country on the German border. This is a health and spa retreat—no bad thing after a week of heavy Czech food—and also an elegant *fin-de-siècle* town of buildings in buttercup-yellow and cream, sumptuous as wedding cakes. The colors stand out strikingly against the dark pines and shivering birch trees of the surrounding hills, between which sprawl manicured lawns and flowerbeds.

Mariánské Lazně got its start as the German resort town of Marienbad in the nineteenth century. It was popular with writers such as Ibsen and Kakfa, and composers Liszt and Chopin. Today the prestigious Chopin Festival in August remains a highlight of the Czech social calendar. You can visit the small Chopin Museum and listen to crackly recordings of the great composer himself playing the piano.

In the late nineteenth century Marienbad entered its prime, and its reputation as Europe's most fashionable spa resort was sealed when it became King Edward VII of England's favorite haunt. He came so many times that a special bathing suite was built for his use at the New Spa, complete with marble floors and a large copper bath; you can wallow in the very same royal tub today.

For most casual visitors, the thing to do in Mariánské Lazně is stroll under the Colonnade, built to connect several of the town's springs. Its superb sweep of wrought iron and glass, interspersed with Corinthian columns and frescoed ceilings, is straight from the late Victorian age. This is the place to wander and people watch and, if you're brave enough, to sip the odorous, iron-laden water that spurts from taps. At the end of the Colonnade, a map outlines walks through the surrounding forests, where hiking was once considered an integral part of any cure.

A final stop before returning to Prague lies only 30 miles north. Karlovy Vary (formerly Carlsbad) is another spa town, much older than Mariánské Lazně and not as frothy and pretty. It has a more brooding, masculine presence, its grand old buildings encrusted with gargoyles and cherubs, and all squeezed into a valley above a gushing river. Steam rises through cracks in sidewalks from the hot springs that run beneath. Walk the promenades and parks and up into the chestnut woods: Bohemia at its best. ■

The Palms of the World Gallery of the Enid A. Haupt Conservatory.

Photo courtesy of the New York Botanical Garden.

FYI

The Great Indoors

Cold outdoors? Here are five indoor gardens where you can bask in tropical warmth and greenery even in winter. Please confirm that the conservatories are open before visiting.

BRONX, NY

New York Botanical Garden | *www.nybg.org*

Picture a conservatory, and the classic Enid A. Haupt Conservatory at the New York Botanical Garden may come to mind with its central dome, crisp white support structure, and seemingly acres of glass. The Conservatory's 11 interconnected galleries feature different habitats and plant specimens from around the world, and include the recently redesigned Palms of the World Gallery (above).

COLUMBUS, OH

Franklin Park Conservatory and Botanical Gardens | *www.fpconservatory.org*

The Franklin Park Conservatory is another great place to enjoy gardens on a chilly day. The Conservatory features 83,000 square feet of glasshouses, including the historic John F. Wolfe Palm House that was built in the Victorian style in 1895. The Conservatory typically presents the *Holiday Blooms* exhibition during the holidays followed by the *Orchids* exhibition a few weeks later.

PITTSBURGH, PA

Phipps Conservatory and Botanical Gardens | *www.phipps.conservatory.org*

Immerse yourself in the great indoors at the Phipps Conservatory and Botanical Gardens where you can wander through room after room of plants in the historic glasshouse or enjoy lush greenery and cascading waterfalls in the 12,000-square-foot Tropical Forest Conservatory. During the holidays, Phipps typically presents the *Winter Flower Show*, a festive display of seasonal splendor.

SAN FRANCISCO, CA

Conservatory of Flowers | *conservatoryofflowers.org*

With nearly 2,000 species of plants from more than 50 countries, the Conservatory of Flowers in Golden Gate Park offers a welcome respite from winter with an array of tropical and aquatic plants. The Conservatory is the oldest existing wood-and-glass conservatory in North America and one of the few conservatories in the nation that highlights cloud forest orchids.

ST. LOUIS, MO

Missouri Botanical Garden | *www.missouribotanicalgarden.org*

A breath of warm air, a lush green landscape, and the sound of cascading water greet visitors to the Climatron®, the Missouri Botanical Gardens' geodesic dome greenhouse where trees soar in the 70-foot-high dome, fish dart in the river aquarium, and there are bright flowers everywhere. The greenhouse showcases more than 2,800 plants, including 1,400 tropical species. ■

QUIZ

Where in the world are you?

1. If you are standing near a replica of the Eiffel Tower watching the Bellagio Fountains sway in time with the music, you are in:

A. Orlando
B. Las Vegas

2. If you are enjoying the view from the Top of the Rock Observation Deck, you are in:

A. Chicago
B. New York City

3. If you are in Russian Hill winding your way down Lombard Street's eight hairpin turns, you are in:

A. San Francisco
B. Savannah

4. If you are touring the new U.S. Olympic & Paralympic Museum, you are in:

A. Lake Placid
B. Colorado Springs

5. If you are posing in front of the Waterwall, a 64-foot-high semicircular wall of cascading water, you are in:

A. Houston
B. Dallas

6. If you are studying the reflection of the city skyline in an outdoor sculpture shaped like an enormous bean, but named *Cloud Gate*, you are in:

A. Philadelphia
B. Chicago

7. If you are about to embark on a 45-minute ferry ride to Bainbridge Island, you are in:

A. Seattle
B. Portland

8. If you are gazing across the Charles River at the MIT campus, you are in:

A. Springfield
B. Boston

9. If you are taking a water taxi from the Inner Harbor to Fells Points, you are in:

A. Baltimore
B. Washington, D.C.

10. If you are rafting on the world's largest manmade whitewater river, you are in:

A. Charlotte
B. Phoenix

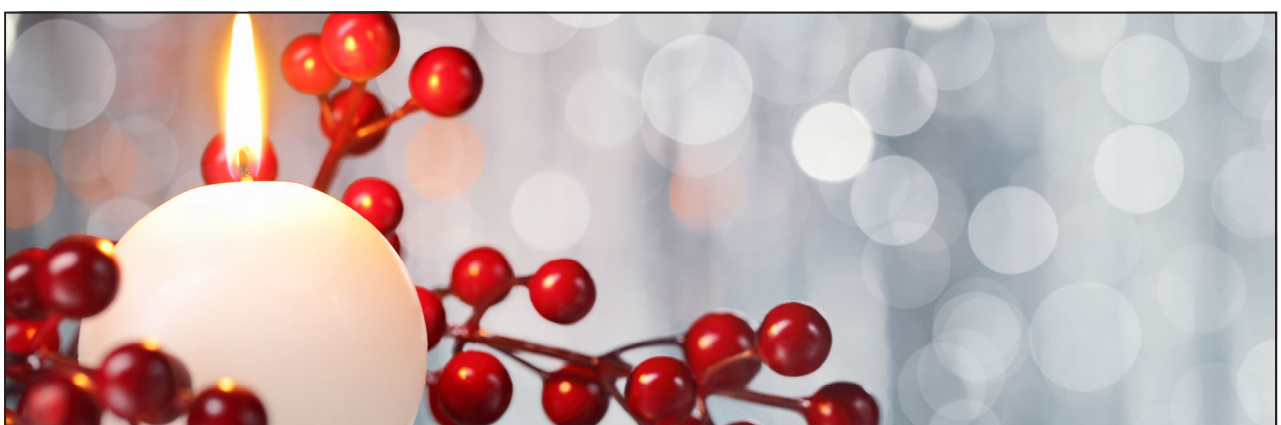
ANSWERS: 1–B, 2–B, 3–A, 4–B, 5–A, 6–B, 7–A, 8–B, 9–A, 10–A

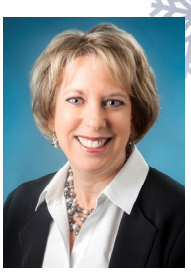
©iStock.com/chaolik, TomasSereda, Don White

Settlers bank

4321 W College Ave
Appleton, WI
54914

8010 Excelsior Drive
Madison, WI
53717





Anne Fink, CFP ®
SVP, Private Banking
608.842.5025
afink@SettlersWI.com
NMLS # 684325

It has been a privilege to work with you throughout the year. We wish you the very best of holidays and a prosperous 2022!

Settlers bank
Appleton | Madison | SettlersWI.com

Todd Bestor
VP, Private Banking
920.939.6763
tbestor@SettlersWI.com
NMLS # 282054

Ken Pesik
VP, Private Banking
608.842.5038
kpesik@SettlersWI.com
NMLS # 684328

Jody Femrite
Private Banking &
Executive Assistant
608.842.5048
jfemrite@SettlersWI.com

MEMBER FDIC

12968-26