2021 TAX AND FINANCIAL PLANNING INFORMATION

An overview of important changes, rates, rules and deadlines to assist your 2021 tax planning.

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TOPICS

RECENT LEGISLATION

This piece contains tax and financial planning information as of June 9, 2021.

In 2019, Congress passed a bill that included the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The SECURE Act has multiple provisions, several of which will affect distributions of retirement accounts such as IRAs and other qualified retirement plans. The provisions that could impact most people are the change in age of the required beginning date for IRA distributions and the removal of the stretch provision for most nonspousal beneficiaries.

The COVID-19 pandemic has had a significant impact on the economy, prompting multiple legislative packages. Starting with the Coronavirus Aid, Relief and Economic Security (CARES) Act in March 2020, this relief bill addressed the economic risks associated with a slowdown in individual spending and helped businesses of all sizes avoid closures and employee layoffs. It also provided necessary funds to help support states and municipalities. In December 2020, the Consolidated Appropriations Act combined stimulus relief with an omnibus spending bill to address pandemic needs. Additional support came in March 2021 through the American Rescue Plan with provisions for individual payments, education support, unemployment insurance and more.

THE IMPORTANCE OF TAX PLANNING

This guide provides an overview of tax rates, credits, deductions and related considerations that may apply to you.

Tax planning should not be done in isolation, but instead should be integrated with your total financial plan. By developing and implementing strategies to help lessen or shift current and future tax liabilities, you can improve your prospects of meeting long and short-term goals.

Keep in mind that tax laws are often complex and frequently change. Consequently, you should consult your tax, legal and financial advisors before making investment and tax decisions.

SOCIAL SECURITY

As a result of the Bipartisan Budget Act of 2015, “Restricted Application” and “File and Suspend” strategies are being, or have been, phased out.

Restricted Application: Individuals who reached full retirement age (FRA) in 2019 are the last group that can take advantage of this strategy (born January 1, 1954, or earlier). Restricted application creates an opportunity for one member of a couple to claim a spousal benefit if their spouse has filed, while allowing their own benefit to grow until age 70. At age 70, they transition from a spousal benefit to their own benefit, if higher.

File and Suspend: This strategy was available to people who filed for it by April 30, 2016, and is now phased out. It is no longer available to couples. It allowed one spouse to file for their Social Security benefit at their full retirement age and immediately suspend receiving their benefit. This act of filing and immediately suspending their benefit allowed the other spouse to begin drawing a spousal benefit. Today, one spouse can still file for and suspend benefits at full retirement age, but the other spouse cannot receive a spousal benefit while the benefits are suspended.

CORONAVIRUS-RELATED DISTRIBUTIONS

If you took a qualifying distribution from your retirement plan in 2020, here’s what you need to know when you file your tax return.

The IRS defines a coronavirus-related distribution (CRD) as a distribution that was made from an eligible retirement plan to a qualified individual from January 1, 2020, to December 30, 2020, up to an aggregate limit of $100,000 from all plans and IRAs. Individuals under age 59 1/2 were not subject to the 10% early withdrawal penalty (25% on SIMPLE IRAs) on qualifying distributions. The distributions generally are included in income ratably over a three-year period, starting with the year in which you receive your distribution. For example, if you received a $9,000 coronavirus-related distribution in 2020, you would report $3,000 in income on your federal income tax return for each of 2020, 2021 and 2022. You could have also paid the full tax liability in 2020.

You may repay all or part of the amount of a coronavirus-related distribution to an eligible retirement plan, provided that you complete the repayment within three years after the date that the distribution was received. If you repay a coronavirus-related distribution, the distribution will be treated as though it were repaid in a direct trustee-to-trustee transfer so that you do not owe federal income tax on the distribution.

If, for example, you received a coronavirus-related distribution in 2020, you chose to include the distribution amount in income over a three-year period (2020, 2021 and 2022), and you choose to repay the full amount to an eligible retirement plan in 2022, you may file amended federal income tax returns for 2020 and 2021 to claim a refund of the tax attributable to the amount of the distribution that you included in income for those years. You will not be required to include any amount in income in 2022. See sections 4.D, 4.E, and 4.F of Notice 2005-92 for additional examples.

QUALIFIED CHARITABLE DISTRIBUTION

IRA owners and beneficiaries of IRAs that are at least 70 1/2 years old can make a qualified charitable distribution (QCD) of up to $100,000. A spouse age 70 1/2 with an IRA could give up to $100,000 as well. Donating IRA funds directly to qualified charitable organizations allows the IRA owner or beneficiary to avoid taking possession of the funds and the tax bill that comes with them. Qualified charitable distributions also allow the distributed funds to be excluded from the tax formulas for Medicare premiums and Social Security taxation. They may also help you avoid the 3.80% Medicare surtax on investment income.

A QCD can be in excess of your required minimum distribution, but cannot exceed $100,000. The funds cannot come from active SEP or SIMPLE IRAs. The gift cannot be made to a private foundation, donor advised fund or supporting organization (as described in IRC Section 509(a)(3)). The gift cannot be made in exchange for a charitable gift annuity or to a charitable remainder trust.

QCDs are possible for those individuals over age 70 1/2, however QCDs between age 70 1/2 and 72 would only be considered a charitable distribution since the SECURE Act changed the age at which RMDs must begin from age 70 1/2 to age 72. Furthermore, any pre-tax contributions made to a traditional IRA after age 70 1/2 will reduce the amount of any later qualified charitable distributions. For example, assume an individual made a deductible contribution of $7,000 to a traditional IRA for two consecutive years at age 72 and 73. At age 75, he decided to make a QCD of $20,000 to his local charity. The full $20,000 would be distributed to the charity, but $14,000 (representing the two years of over 70 1/2 contributions) would be reported as income to the IRA owner.

CHARITABLE DEDUCTIONS IN 2021

As a result of the CARES Act, there were some new charitable planning opportunities introduced in 2020. Enhancements to the normal charitable gift deduction rules in 2020 have been extended through 2021. Those who do not itemize deductions will be allowed up to a $300 charitable deduction for gifts of cash to public charities (increased to $600 in 2021 for joint filers).

The Tax Cuts and Jobs Act of 2017 increased the deduction limit for gifts of cash from 50% to 60% of adjusted gross income (AGI). The CARES Act increased the AGI limitation on gifts of cash from 60% to 100% of AGI. This has been continued for the tax year 2021. Gifts of cash in excess of AGI limits are eligible to be carried forward up to five years. Any unused carry forward gift will be subject to AGI limitations for the year in which it will be used.

MEDICAL EXPENSES DEDUCTION IN 2021

A taxpayer can deduct qualified, unreimbursed medical expenses that exceed 7.5% of AGI. To write off medical expenses, deductions must be itemized.

MORTGAGE INTEREST DEDUCTION

The Tax Cuts and Jobs Act of 2017 limited the amount of mortgage interest that can be deducted by a taxpayer itemizing on their tax return. Previously, a taxpayer could deduct interest on up to $1,000,000 of qualified mortgage debt on up to two homes. Current tax law retains the interest deduction on up to $1,000,000 for homes acquired before December 15, 2017, but limits the deduction for new purchases to mortgage debt of $750,000. This deduction is still allowed for up to two homes.

The deduction for interest on home equity debt is eliminated except when used to buy, build or substantially improve the home that secures the loan.

STATE AND LOCAL TAX (SALT) DEDUCTIONS

The Tax Cuts and Jobs Act of 2017 limited state and local tax deductions to $10,000. You must itemize to claim the SALT deduction.

2021 TAX RATES

Taxable income is income after all deductions, including either itemized deductions or the standard deduction.

Standard deduction – single $12,550; head of household $18,800; joint $25,100; Dependent cannot exceed the greater of $1,100 or $350 + earned income.

Extra deduction if blind or over 65 – single $1,700; head of household $1,700; all others $1,350.

SINGLE	
If taxable income is:	Your tax is:
Not over $9,950	10% of taxable income
Over $9,950 – $40,525	$995 + 12% of the excess over $9,950
Over $40,525 – $86,375	$4,664 + 22% of the excess over $40,525
Over $86,375 – $164,925	$14,751 + 24% of the excess over $86,375
Over $164,925 – $209,425	$33,603 + 32% of the excess over $164,925
Over $209,425 – $523,600	$47,843 + 35% of the excess over $209,425
Over $523,600	$157,804.25 + 37% of the excess over $523,600

MARRIED FILING JOINTLY/SURVIVING SPOUSE	
If taxable income is:	Your tax is:
Not over $19,900	10% of taxable income
Over $19,900 – $81,050	$1,990 + 12% of the excess over $19,900
Over $81,050 – $172,750	$9,328 + 22% of the excess over $81,050
Over $172,750 – $329,850	$29,502 + 24% of the excess over $172,750
Over $329,850 – $418,850	$67,206 + 32% of the excess over $329,850
Over $418,850 – $628,300	$95,686 + 35% of the excess over $418,850
Over $628,300	$168,993.50 + 37% of the excess over $628,300

HEAD OF HOUSEHOLD	
If taxable income is:	Your tax is:
Not over $14,200	10% of taxable income
Over $14,200 – $54,200	$1,420 + 12% of the excess over $14,200
Over $54,200 – $86,350	$6,220 + 22% of the excess over $54,200

Over $86,350 – $164,900	$13,293 + 24% of the excess over $86,350
Over $164,900 – $209,400	$32,145 + 32% of the excess over $164,900
Over $209,400 – $523,600	$46,385 + 35% of the excess over $209,400
Over $523,600	$156,355 + 37% of the excess over $523,600

MARRIED FILING SEPARATELY	
If taxable income is:	Your tax is:
Not over $9,950	10% of taxable income
Over $9,950 – $40,525	$995 + 12% of the excess over $9,950
Over $40,525 – $86,375	$4,664 + 22% of the excess over $40,525
Over $86,375 – $164,925	$14,751 + 24% of the excess over $86,375
Over $164,925 – $209,425	$33,603 + 32% of the excess over $164,925
Over $209,425 – $314,150	$47,843 + 35% of the excess over $209,425
Over $314,150	$84,496.75 + 37% of the excess over $314,150

PERSONAL EXEMPTION PHASEOUT

The Tax Cuts and Jobs Act of 2017 removed personal exemptions. As a result, the phaseout of personal exemptions was also eliminated.

LIMITATIONS ON ITEMIZED DEDUCTIONS (“PEASE LIMITATION”)

The Pease limitation was removed in the Tax Cuts and Jobs Act of 2017. The Pease limitation reduced itemized deductions by $3,000 for every $100,000 of AGI over the threshold amount. The Pease limitation did not apply to investment interest expenses, medical expenses, casualty and theft losses, and gambling losses. In addition, the Pease limitation did not apply to estates or trusts.

QUALIFIED DIVIDEND INCOME

The Tax Cuts and Jobs Act of 2017 indefinitely extended the favorable long-term capital gains tax rates for “qualified dividends.” To qualify, the taxpayer must have held the stock for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date, and the dividend must be paid from a domestic corporation or certain qualified foreign corporations.

Dividend income that is not qualified dividend income will be taxed at ordinary income rates.

CAPITAL GAINS RATES

Short-term capital gains: Assets held for one year or less are taxed at an individual's ordinary tax rate.

Long-term capital gains: Assets held for more than one year are taxed at favorable rates outlined in the chart below.

Determine your capital gain bracket by adding your net long-term capital gains and/or qualified dividends to your other taxable ordinary income net of deductions.

Long-Term capital gains rate	Single	Married filing jointly	Married filing separately	Head of household	Trusts and estates
0%	$40,400	$80,800	$40,400	$54,100	$2,700
15%	$40,401 – $445,850	$80,801 – $501,600	$40,401 – $250,800	$54,101 – $473,750	$2,701 – $13,250
20%	Over $445,850	Over $501,600	Over $250,800	Over $473,750	Over $13,250

Long-term capital gains will stack on top of ordinary income and short-term capital gains when determining which rate to use.

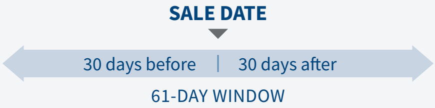
NETTING PROCESS

1. Determine whether you have a net short-term or net long-term capital gain or loss.
2. Net your short-term gains and short-term losses to determine a net short term position for the year.
3. Net your long-term gains and long-term losses to determine a net long term position for the year.
4. If you have the same position (long-term gain and long-term loss for example) for each holding period they are reported separately on Schedule D.

5. For gains, you must pay tax on all gains each year. For losses, you may only deduct up to $3,000 of excess losses against ordinary income per year.
6. For gains, you must pay tax on all gains each year. For losses, you may only deduct up to $3,000 of excess losses against ordinary income per year.
7. Carry over any remaining losses to future tax years.

A note about wash sales

Selling a security at a loss and purchasing another "substantially identical" security – within 30 days before or after the sale date – triggers what the IRS considers a **wash sale**, an action that disallows the loss deduction. The IRS looks at all of your accounts to determine whether a wash sale has occurred, so selling the stock at a loss in a taxable account and buying it within that 61-day window in your 401(k) or IRA will trigger a wash sale.



MEDICARE TAX

On January 1, 2013, pursuant to the Health Care and Education Reconciliation Act of 2010, high-income taxpayers became subject to two additional Medicare taxes – an additional 0.9% Medicare payroll tax and a 3.8% Medicare surtax on net investment income.

3.8% SURTAX ON UNEARNED INCOME

The 3.8% surtax on "unearned income" applies to individuals, trusts and estates. "Unearned income" is defined as investment income such as income from interest, dividends, annuities, royalties, capital gains and other passive income.

Two conditions must be met for the 3.8% surtax to apply. First, the taxpayer must have investment income, and second, the taxpayer's modified adjusted gross income

(MAGI) must exceed the limits below, which are not indexed for inflation:

- $250,000 for taxpayers filing jointly
- $125,000 for married taxpayers filing separately
- $200,000 for individuals

FILING STATUS	3.8% SURTAX APPLIES TO THE LESSER OF:	
Married filing jointly	Investment income	MAGI minus $250,000
Married filing separately	Investment income	MAGI minus $125,000
All others	Investment income	MAGI minus $200,000

For purposes of the 3.8% surtax, the MAGI limitation is simply the taxpayer's adjusted gross income (AGI) plus any excluded net foreign income. In general terms, AGI is the number at the bottom of the first page of a taxpayer's 1040 (line 11).

If those two conditions are met, then the 3.8% surtax applies to the amount of the net investment income, or if smaller, the difference between the taxpayer's MAGI and the thresholds listed above. For example, if a single taxpayer has $10,000 of dividend income and MAGI of $205,000, then the 3.8% surtax applies to $5,000. If the same taxpayer had MAGI of $211,000, the 3.8% surtax would apply to $10,000.

The 3.8% surtax does not apply to distributions from tax-favored retirement plans such as IRAs or qualified plans, although distributions from tax-favored retirement plans may increase a taxpayer's MAGI over the limits discussed above and thereby potentially expose net investment income to the 3.8% surtax. In general terms, the 3.8% surtax does not apply to active trades or businesses conducted by a sole proprietor, S corporation or partnership, or to the gains and losses on the sale of active trades or businesses. However, working capital is not treated as being part of an active trade or business for purposes of the 3.8% surtax.

0.9% TAX ON WAGES

An additional 0.9% Medicare tax will be imposed on wages of employees and on earnings of self-employed individuals. The 0.9% Medicare tax will apply to wages and self-employment earnings above the limits below, which are not indexed for inflation:

- $250,000 for taxpayers filing jointly
- $125,000 for married taxpayers filing separately
- $200,000 for other taxpayers

The 0.9% Medicare tax applies to employees, but not to employers. For joint filers, the tax applies to the spouses' combined wages. For self-employed individuals, the 0.9% tax is not deductible.

ALTERNATIVE MINIMUM TAX

Alternative minimum tax (AMT) rate: 26% rate applies to AMT income at or below $199,900, and 28% applies to income above for all taxpayers except married filing separately ($99,950).

FILING STATUS	AMT EXEMPTION	AMT EXEMPTION PHASEOUT THRESHOLD
Single filers and head of household	$73,600	$523,600
Married filing jointly and surviving spouses	$114,600	$1,047,200
Married filing separately	$57,300	$523,600

RETIREMENT

INDIVIDUAL RETIREMENT ACCOUNTS

Taxpayers, including spouses, may each contribute $6,000 to a traditional or Roth IRA provided they have enough taxable compensation to support the contributed amount.

TRADITIONAL IRAS

In addition to the earned income requirement, the ability to make a deductible contribution to a traditional IRA is also dictated by your tax filing status, MAGI, and whether or not you or your spouse is covered by an employer retirement plan. If neither is covered by an employer plan, the full $6,000 contribution can be deducted, regardless of MAGI. If either spouse is covered by an employer plan, phaseouts will apply to how much can be deducted. If a taxpayer is above the MAGI phaseout limit, they may still make the contribution, but will not be able to deduct it on their tax return. The SECURE Act removed the age cap of 70 1/2 for contributions to a traditional IRA. for contributions to a traditional IRA.

TRADITIONAL IRA CHART

TRADITIONAL IRA: DEDUCTIBILITY OF CONTRIBUTIONS		
Status	Modified adjusted gross income	Deduction allowed
Single filers and head of household	$0 – $66,000	$6,000 maximum
	$66,000 – $76,000	Partial
	More than $76,000	None
Married filing jointly and surviving spouses **	$0 – $105,000	$6,000 maximum
	$105,000 – $125,000	Partial
	More than $125,000	None
Married non-covered spouses*	$0 – $198,000	$6,000 maximum
	$198,000 – $208,000	Partial
	More than $208,000	None

* Applies to individuals whose spouses are covered by a workplace plan but who are not covered themselves.

** Applies to people covered under an employer retirement plan.

ROTH IRAS

Contributions made to a Roth IRA are not deductible, unlike contributions made to a traditional IRA, and there is no age restriction on making contributions. An individual may contribute up to $6,000 to the Roth IRA, provided they have earned income to support the contribution, subject to income phaseout limits.

ROTH IRA: ELIGIBILITY OF CONTRIBUTIONS		
Status	Modified adjusted Gross income	Contribution
Single filers and head of household	$0 – $125,000	$6,000 maximum
	$125,000 – $140,000	Partial
	$140,000	None
Married filing jointly and surviving spouses	$0 – $198,000	$6,000 maximum
	$198,000 – $208,000	Partial
	More than $208,000	None

CATCH-UP CONTRIBUTIONS

If you have either a traditional or Roth IRA and are age 50 or older during the tax year, an additional $1,000 may be contributed.

TRADITIONAL & ROTH IRA CONTRIBUTION	
Individual maximum contribution	Catch-up contribution if age 50 or older
$6,000	$1,000
401(K), 403(B), 457 AND SARSEP CONTRIBUTION	
Employee maximum deferral contribution	Catch-up contribution if age 50 or older
$19,500	$6,500
SIMPLE IRA CONTRIBUTION & SIMPLE 401(K) CONTRIBUTIONS	
Employee maximum deferral contribution	Catch-up contribution if age 50 or older
$13,500	$3,000

Individual annual limit (415 for DC plans): $58,000
Maximum compensation limit: $290,000
Key employee limit: $185,000 for officers, $150,000 for more than 1% owners, $1 for more than 5% owners
Highly compensated employee limit: $130,000 (when 2021 is the lookback year)

IRA ROLLOVERS

Retirement plan and IRA funds can be transferred through a rollover. Rollovers can be done via an indirect rollover, direct rollover, or a trustee-to-trustee transfer. An indirect rollover occurs when a check is made out to the account owner who receives those funds. They then have 60 days from receipt to redeposit those funds without incurring any negative tax consequences. Indirect rollovers can be completed once every 365 days. A direct rollover and trustee-to-trustee transfer move money directly from one retirement account to another. There are no annual limits to the number of direct rollovers or trustee-to-trustee transfers.

IRS RULES FOR LATE 60-DAY ROLLOVERS

When redepositing funds from your IRA, Roth IRA or other plan, individuals receive a check and have a 60-day period in which to roll over those funds into a new IRA, 401(k) or other qualified retirement account.

Now, with Revenue Procedure 2016-47 (released in August 2016), individuals who miss the 60-day rollover period can self-certify that they qualify for a waiver, so long as they meet a few criteria:

1. There is no prior denial by the IRS for a waiver.
2. The late rollover must be attributed to one of the 11 reasons listed in the form provided by the IRS. (Go to irs.gov and search “2016-47” for the list of reasons.)

3. The funds must be redeposited into an IRA account "as soon as practical after the reason or reasons no longer prevent the taxpayer from making the contribution." This guideline does include a 30-day safe harbor window.

AFTER-TAX 401(K) TO ROTH IRA

If you have after-tax dollars in a plan and are able to take a rollover eligible distribution, you may direct those after-tax dollars to a Roth IRA as a tax-free transaction. There are two critical elements to the distributions. First, you must tell the plan administrator how you are allocating the pre-tax and after-tax dollars beforehand (two separate checks). Second, any distribution from a 401(k) plan must include a proportionate amount of pre-tax and after-tax dollars. The benefits of moving after-tax dollars to a Roth IRA (or Roth 401(k) if available) is that any earnings will be considered part of the Roth balance. Earnings associated with an after-tax contribution that are left in a 401(k) are considered pre-tax.

If those after-tax contributions grow inside a Roth IRA instead, the growth is potentially tax-free.

SOCIAL SECURITY

Maximum monthly benefit for retirees at full retirement age (FRA) in 2021 is $3,148.

If an individual files for Social Security prior to FRA, they are subject to the earnings test. Benefits will be withheld until full retirement age, when benefits are increased permanently to account for withheld benefits.

For those under full retirement age for the entire year: $18,960*

For months before reaching full retirement age in the year full retirement age will be reached: $50,520**

Beginning with month reaching full retirement age: No reduction in benefit associated with earnings

SOCIAL SECURITY TAXATION THRESHOLDS		
	Up to 50% taxed	Up to 85% taxed
Single	$25,000 – $34,000	More than $34,000
Married Filing Jointly	$32,000 – $44,000	More than $44,000

Taxation is based on combined income, which is defined as AGI + nontaxable interest + 1/2 Social Security Benefits

Taxable wage base: $142,800

REQUIRED MINIMUM DISTRIBUTIONS

Most IRA owners will use the following uniform life table to calculate required minimum distributions (RMDs). There is an exception when a spousal beneficiary is more than 10 years younger than the participant and is the sole beneficiary on January 1. In this case, a different table is used.

To calculate your RMD, first find the age you will turn in 2021 and the corresponding applicable divisor. Then divide the prior year-end balance of your IRA account by the divisor. For illustration purposes we are using Table III (Uniform Table).

For example, if you are 82 in 2021, your applicable divisor is 17.1. If the balance in your IRA as of December 31, 2020, was $235,000, divide that amount by 17.1. The result is $13,742.69. This is the amount of your RMD for the current year.

*If your earnings exceed this, then $1 of benefits is withheld for every $2 you earn above $18,960

**If your earnings exceed this, then $1 of benefits is withheld for every $3 you earn above $50,520

AGE	APPLICABLE DIVISOR	AGE	APPLICABLE DIVISOR	AGE	APPLICABLE DIVISOR
70	27.4	86	14.1	102	5.5
71	26.5	87	13.4	103	5.2
72	25.6	88	12.7	104	4.9
73	24.7	89	12	105	4.5
74	23.8	90	11.4	106	4.2
75	22.9	91	10.8	107	3.9
76	22	92	10.2	108	3.7
77	21.2	93	9.6	109	3.4
78	20.3	94	9.1	110	3.1
79	19.5	95	8.6	111	2.9
80	18.7	96	8.1	112	2.6
81	17.9	97	7.6	113	2.4
82	17.1	98	7.1	114	2.1
83	16.3	99	6.7	115+	1.9
84	15.5	100	6.3		
85	14.8	101	5.9		

RMD DEADLINES

Required minimum distributions (RMD) must begin for traditional IRA owners for the year in which they turn 72. However, there is no RMD requirement for owners of Roth IRAs. For IRAs, the RMD deadline is December 31 each year. For the first year you have to take RMDs, you may choose to take it all the way up until April 1 of the year following your 72nd birthday. However, if you wait until the following year to take your RMD, you will have to take two RMDs for that year.

If you are over 72 and still working, you can generally delay your RMDs from your 401(k) or other qualified retirement plans until the year you retire. This is known as the still working exception and is retirement plan specific. Check with your plan administrator to see if you may delay. For all subsequent years, distributions must be made annually by December 31.

In addition to the changes for IRA account owners, the SECURE Act also changed the distribution options for most nonspousal beneficiaries of IRAs. Beginning in 2020, when an IRA account owner dies, most nonspousal beneficiaries will lose the ability to stretch distributions over their life expectancy. Rather, they will have to fully distribute the beneficiary IRA by December 31 of the 10-year anniversary of death. There are no annual distribution requirements, only that the account is totally distributed by December 31 of the 10th year.

There are several exceptions to the 10-year rule for nonspousal beneficiaries: disabled or chronically ill beneficiaries and beneficiaries that are not more than 10 years younger than the deceased account owner will still have the ability to stretch distributions over their life expectancy. Minor children of the deceased account owner can also take RMDs using their single life expectancy until they reach the age of majority and then they will have 10 years to fully distribute the account.

HEALTH SAVINGS ACCOUNTS (HSAS)

Created as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and rapidly growing in popularity, health savings accounts (HSAs) are a tax-advantaged way for individuals to save for health care expenses.

Eligibility

- Anyone with an HSA qualified high-deductible health policy (HDHP) is eligible; it is not dependent on an employer offering.
- There are no income limits affecting eligibility.
- The HSA belongs to the individual not the employer.
- An HSA can be set up with any qualified trustee or custodian.
- Earned income is not a requirement. As long as an individual has not enrolled in Medicare Part A or B,

they are eligible and may contribute to an HSA. Once an individual enrolls in Medicare, they may no longer contribute to an HSA.

- There is also a requirement that they not have any other health coverage or an FSA, and they can't be claimed as a tax dependent on anyone else's tax return. See IRS Publication 969 for full requirements.

Contributions

- In 2021, individuals can contribute $3,600 to an HSA and families can contribute $7,200.
- An individual age 55 or older can contribute an additional $1,000 catch-up contribution each year.
- If a spouse is also 55, they can contribute an additional $1,000 to their respective HSA.
- Anyone can make a contribution to an HSA on another person's behalf and, per IRS HSA rules, the account holder is the one who claims the deduction.
- There are no limits on the amount that can be carried forward each year.
- For eligible individuals, HSAs are the only type of tax-preferenced investment account that enjoys the benefits of tax-deductible contributions, tax-deferred growth of earnings and tax-free distributions (for qualified medical expenses).

ESTATE, GIFT AND GST TAX

ESTATE, GIFT AND GENERATION SKIPPING TAX	
Gift and estate tax applicable exclusion amount	$11,700,000
Gst tax exemption	$11,700,000
Annual gift tax exclusion amount	$15,000
Non-citizen spouse annual exclusion	$159,000
Unified credit amount	$4,625,800

The annual gift **tax exclusion** $15,000

allows married couples to gift a combined $30,000

NON-GRANTOR TRUSTS AND ESTATES INCOME TAX RATES	
If taxable income is:	Your tax is:
Not over $2,650	10% of taxable income
Over $2,650 to $9,550	$265 + 24% of the excess over $2,650
Over $9,550 to $13,050	$1,921 + 35% of the excess over $9,550
Over $13,050	$3,146 + 37% of the excess over $13,050

ESTATE AND GIFT TAX RATES				
Taxable gift/estate			Percentage	Of amount
Over	Not over	Pay	On excess	Above
$0	$10,000	$0	18%	$0
$10,000	$20,000	$1,800	20%	$10,000
$20,000	$40,000	$3,800	22%	$20,000
$40,000	$60,000	$8,200	24%	$40,000
$60,000	$80,000	$13,000	26%	$60,000
$80,000	$100,000	$18,200	28%	$80,000
$100,000	$150,000	$23,800	30%	$100,000
$150,000	$250,000	$38,800	32%	$150,000
$250,000	$500,000	$70,800	34%	$250,000
$500,000	$750,000	$155,800	37%	$500,000
$750,000	$1,000,000	$248,300	39%	$750,000
$1,000,000		$345,800	40%	$1,000,000

EDUCATION

CONTRIBUTION AMOUNTS TO COVERDELL

$2,000 per beneficiary. This amount is phased out from $190,000 to $220,000 MAGI for married couples filing jointly, and $95,000 to $110,000 MAGI for single filers.

GIFTS TO 529 PLANS

Gifts can be front-loaded up to $75,000 (5 years x $15,000 annual exclusion) per individual or $150,000 for married couples who split gifts. Front-loading uses the annual gift tax exclusion for the current year and the next four years (for a total of five years).

As part of the 2017 tax legislation, the use of 529 plans has been extended to cover expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private or religious school. Check with your state of residence to see if it conforms to the Federal Tax Code on qualified tuition expenses for K-12. These expenses for a single beneficiary during any taxable year should not exceed $10,000 incurred during that year.

AMERICAN OPPORTUNITY CREDIT

Up to 100% of the first $2,000, and 25% of the next $2,000, for a total of $2,500 maximum credit per eligible student per year, with reduction for MAGI between $80,000 and $90,000 for single filers, and $160,000 and $180,000 for joint filers.

LIFETIME LEARNING CREDIT

Increased under the Consolidated Appropriations Act, up to 20% of the first $10,000 (per taxpayer) of qualified expenses can be paid in 2021 with reduction for MAGI from $80,000 to $90,000 for single filers and $160,000 to $180,000 for joint filers.

STUDENT LOAN TAX RELIEF

For student loans forgiven or cancelled between January 1, 2021, and December 31, 2025, discharged amounts are not included in taxable income.

STUDENT LOAN INTEREST DEDUCTION

$2,500 “above-the-line” deduction, with reduction for MAGI from $70,000 to $85,000 for single filers and $140,000 to $170,000 for married filing jointly.

MODIFIED AGI – U.S. SAVINGS BOND

Interest exclusion

$83,200 to $98,200 for single filers and $124,800 to $154,800 for married filing jointly. In addition to MAGI thresholds, to qualify for the interest exclusion, bond purchasers must be age 24 or older and bonds must be titled in their name (or their spouse’s name). A bond bought by a parent and issued in the name of a child under age 24 does not qualify for the interest exclusion. Proceeds must be used for qualified postsecondary education expenses of the taxpayer, the taxpayer’s spouse or the taxpayer’s dependent.

KIDDIE TAX RULES

Kiddie Tax refers to investment and unearned income tax for minor children and some dependent children. It requires the unearned income of a child or young adult be taxed at the child’s parents’ marginal tax rate once the unearned income exceeds $2,200. Under the Kiddie Tax rules, the first $1,100 in unearned income is not subject to tax. The next $1,100 of unearned income is taxed at the child’s rate. Then, any unearned income of more than $2,200 is taxed at the parents’ marginal tax rate. The Kiddie Tax rules apply to unearned income of the following:

- A child age 17 or under at the end of the tax year

- An individual who is 18 (at the end of the tax year) whose earned income (excluding scholarships, if a full-time student) does not exceed half of his or her support costs during the year
- A 19- to 23-year-old full-time student whose earned income (excluding scholarships) does not exceed half of his or her support during the year (a student is considered full time if he or she is a full-time student during any part of at least five months during the year)

Please note, your child would not be subject to the Kiddie Tax if:

- He or she only had earned income
- He or she is not required to file because their income is below the filing threshold
- He or she is filing jointly

CHILD AND DEPENDENT CARE TAX CREDIT

For 2021, the legislation increases the maximum credit up to $4,000 for one qualifying individual and up to $8,000 for two or more (based on an increased applicable percentage of 50% of costs paid and increased dollar limits).

- Most taxpayers will not have the applicable percentage reduced (can be reduced from 50% to 20% if AGI exceeds a substantially increased $125,000) in 2021. However, the applicable percentage can now also be reduced from 20% down to 0% if the taxpayer's AGI exceeds $400,000 in 2021.
- For most individuals, the credit is fully refundable for 2021 if it exceeds their tax liability.

CHILD TAX CREDIT

The American Rescue Plan Act of 2021 made the following significant changes to this credit although they are temporary and only for 2021.

First, the credit amount for 2021 has increased from $2,000 up to $3,600 per qualifying child under age 6 (as of December 31, 2021) and up to $3,000 per qualifying child ages 6 to 17 (as of December 31, 2021).

Second, the credit for qualifying children is fully refundable, which means that taxpayers can benefit from the credit even if they don't have earned income or don't owe any income taxes. Parents don't need to be employed or otherwise have earnings in order to claim the child credit for 2021. For 2021, families with no earned income can take the child credit if they meet all the other rules.

Third, the IRS will pay half the total credit amount in advance monthly payments, via direct deposit generally, beginning July 15. Taxpayers will claim the other half when filing their 2021 income tax return. The IRS will send out a payment (mainly in the form of direct deposits) periodically from July through December to eligible families. The IRS will base eligibility for the credit and advance payments, and calculate the amount of the advance payment, based on the most recent filed tax return. It will first look to your 2020 return, and if a 2020 return has not yet been filed, the IRS will look to your 2019 return.

Fourth, the excess amount of the credit over $2,000 phases out at the rate of $50 for each $1,000 over $75,000 of adjusted gross income for single filers and $150,000 for joint filers. The remaining $2,000 does not start to phase-out until adjusted gross incomes of $400,000 for joint filers and $200,000 for other filers are reached. Families with AGIs above the $400,000/$200,000 thresholds will see the $2,000 per-child credit reduced by $50 for each $1,000 (or fraction thereof) of AGI over those thresholds. After any reduction of the increased credit amount is calculated, the pre-existing phase-out is then applied to the remaining credit amount. So, for joint filers with an AGI of $400,000 or more and other taxpayers with an AGI of $200,000 or more, the credit is subject to an additional reduction – possibly to $0.

BUSINESS

CORPORATE TAX RATES

Flat 21%

CORPORATE DIVIDEND EXCLUSION

Corporations get a tax break for investing in common and preferred stocks (of companies other than their own).

- There is a dividend exclusion of 50% that applies to corporations that own less than 20% of the other company. (In other words, 50% of dividends received from another corporation are tax-free.)
- If the company owns between 20% and 80%, the dividend exclusion is 65%.
- If the company owns 80% or more, the exclusion is 100%.

STANDARD MILEAGE RATE

56 cents per mile

CHARITABLE MILEAGE RATE

14 cents per mile

BUSINESS RELIEF

The COVID-19 relief act provided various forms of relief to business owners. Consult with your tax and legal advisors to determine which may be appropriate.

- The Employee Retention Credit has been extended through December 31, 2021. It is available to employers that were significantly impacted by the crisis and is applied to offset Social Security payroll taxes. As in the previous extension, the credit is increased to 70% of qualified wages, up to a certain maximum per quarter.
- Paycheck Protection Program (PPP) loans have been extended and the allowable uses (eligible expenses) of the loan expanded. A PPP loan amount can be forgiven for paying certain expenses, and such amounts are not included in income. The IRS has clarified that no deduction will be denied, no tax attribute reduced, and no basis increase denied by reason of the exclusion from gross income.
- Repayment of employee payroll taxes deferred in 2020 was originally scheduled for the period January 1, 2021, through April 30, 2021. The period for repayment has been expanded to January 1, 2021 through December 31, 2021.
- The tax credits for paid sick and family leave are extended to September 30, 2021. There is also an expansion of what constitutes qualified leave, including for coronavirus vaccinations, and expansion for self-employed persons.
- A full deduction is now allowed for business meals provided by a restaurant for expenses paid or incurred in 2021 and 2022.

DEDUCTING BUSINESS LOSSES

The CARES Act makes it much easier for businesses that lose money to deduct their losses. It reverses restrictions that went into effect in 2018 as part of the Tax Cuts and Jobs Act (TCJA). Net operating losses (NOLs) that occurred during 2018, 2019 and 2020 may be used to offset 100% of other nonbusiness income earned during those years, rather than just 80% under the TCJA. In addition, NOLs incurred during 2018 through 2020 can be carried back five years to reduce taxes paid in those years. This can result in a quick tax refund from the IRS.

The CARES Act eliminates another restriction imposed by the TCJA. The TCJA limited annual deductions of "excess business losses" by individual business owners during 2018 through 2025 to no more than $500,000 for married couples and $250,000 for single payers. The CARES Act has completely eliminated this. Taxpayers with very large losses in any of these years can deduct them in full.

CONSIDERATIONS

PRESENT VALUE OF A LUMP SUM

What if you know you will need $10,000 accumulated 10 years from now? How much money do you need to invest today at an average interest rate of 8% to obtain your goal? Looking at the table below, go to 10 years and then across to 8%. You see that $0.463 invested today at 8% should yield $1 in 10 years. Since you want $10,000, multiply $0.463 by $10,000 to arrive at $4,630.

YEARS	5%	6%	8%	10%	12%
10	.614	.558	.463	.386	.322
20	.377	.312	.215	.149	.104
30	.231	.174	.099	.057	.033
40	.142	.097	.046	.022	.011

FUTURE VALUE OF A LUMP SUM

If you invest $10,000 at an interest rate of 8%, how much will your investment be worth in 10 years? By referring to the table, you find that $1 invested today at 8% would grow to $2.159 in 10 years. Since you invested $10,000, multiply $2.159 by $10,000, giving you $21,590.

YEARS	5%	6%	8%	10%	12%
10	1.629	1.791	2.159	2.594	3.106
20	2.653	3.207	4.661	6.727	9.646
30	4.322	5.743	10.063	17.449	29.960
40	7.040	10.286	21.725	45.259	93.051

PRESENT VALUE OF A SERIES OF ANNUAL PAYMENTS

How much money would you need to invest today at an interest rate of 8% to provide $10,000 per year for 10 years? Looking at the chart below, to receive $1 per year for 10 years at 8%, you would need to invest $6.710. Multiply that figure by $10,000 to get $67,100, the amount that you would need to invest.

YEARS	5%	6%	8%	10%	12%
10	7.722	7.360	6.710	6.145	5.650
20	12.462	11.470	9.818	8.514	7.469
30	15.372	13.765	11.258	9.427	8.055
40	17.159	15.046	11.925	9.779	8.244

FUTURE VALUE OF A SERIES OF ANNUAL PAYMENTS

If you deposit $5,000 in an annuity at the end of each year for 10 years at an 8% interest rate, you would have $72,435 ($5,000 x $14.487) in your account at the end of the 10th year.

YEARS	5%	6%	8%	10%	12%
10	12.578	13.181	14.487	15.937	17.549
20	33.066	36.786	45.762	57.275	72.052
30	66.439	79.058	113.283	164.494	241.333
40	120.800	154.762	259.057	442.593	767.091

TAXABLE EQUIVALENT YIELDS

Taxable equivalent yield is the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment. The taxable equivalent yield is commonly used when evaluating municipal bond returns.

	TAX BRACKET						
TAX EXEMPT YIELDS	10%	12%	22%	24%	32%	35%	37%
1.00%	1.11%	1.14%	1.28%	1.32%	1.47%	1.54%	1.59%
1.50%	1.67%	1.70%	1.92%	1.97%	2.21%	2.31%	2.38%
2.00%	2.22%	2.27%	2.56%	2.63%	2.94%	3.08%	3.17%
2.50%	2.78%	2.84%	3.21%	3.29%	3.68%	3.85%	3.97%
3.00%	3.33%	3.41%	3.85%	3.95%	4.41%	4.62%	4.76%
3.50%	3.89%	3.98%	4.49%	4.61%	5.15%	5.38%	5.56%
4.00%	4.44%	4.55%	5.13%	5.26%	5.88%	6.15%	6.35%
4.50%	5.00%	5.11%	5.77%	5.92%	6.62%	6.92%	7.14%
5.00%	5.56%	5.68%	6.41%	6.58%	7.35%	7.69%	7.94%
5.50%	6.11%	6.25%	7.05%	7.24%	8.09%	8.46%	8.73%
6.00%	6.67%	6.82%	7.69%	7.89%	8.82%	9.23%	9.52%
6.50%	7.22%	7.39%	8.33%	8.55%	9.56%	10.00%	10.32%
7.00%	7.78%	7.95%	8.97%	9.21%	10.29%	10.77%	11.11%
7.50%	8.33%	8.52%	9.62%	9.87%	11.03%	11.54%	11.90%

These are hypothetical illustrations and are not intended to reflect the actual performance of any particular security. Actual investor results will vary. Investments involve risk and you may incur a profit or a loss.

IMPORTANT DEADLINES

TAX DEADLINE

May 17, 2021 for 2020 returns

All taxpayers who reside or have a business in Texas and/or Oklahoma, as well as those in other states with a disaster declaration due to winter storms, had until June 15 to file various individual and business tax returns and make tax payments. For a list of eligible areas, visit the disaster relief page on irs.gov (irs.gov/newsroom/tax-relief-in-disaster-situations).

October 15, 2021, for extensions

2021 QUARTERLY TAX PAYMENT DEADLINES

2021 first quarter payment was due April 15, 2021

2021 second quarter payment was due June 15, 2021

2021 third quarter payment due September 15, 2021

2021 fourth quarter payment due January 17, 2022

CORPORATE RETURN DEADLINE

March 16, 2021, for calendar year partnership and S-corporation returns

LOCK IN GAINS/LOSSES, MAKE CONTRIBUTIONS TO 529 PLANS, GIFT

December 31, 2021

DEADLINE FOR ESTABLISHING A SIMPLE IRA

October 1, 2021*

Timing of setting up a SIMPLE IRA plan
per IRS SIMPLE IRA PLAN FAQs:

irs.gov/retirement-plans/
retirement-plans-faqs-regarding-simple-ira-plans

You can set up a SIMPLE IRA plan effective on any date from January 1 through October 1 of a year, provided you did not previously maintain a SIMPLE IRA plan. This requirement does not apply if you are a new employer that comes into existence after October 1 of the year the SIMPLE IRA plan is set up and you set up a SIMPLE IRA plan as soon as administratively feasible after your business comes into existence. If you previously maintained a SIMPLE IRA plan, you can set up a SIMPLE IRA plan effective only on January 1 of a year. A SIMPLE IRA plan cannot have an effective date that is before the date you actually adopt the plan.

DEADLINE FOR ESTABLISHING A QUALIFIED PLAN

December 31, 2021

*Deadline does not apply to new businesses/employers that are established after October 1st.

LIFE WELL PLANNED.

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