OnWealth

Financial Advice from Wealth Management Services

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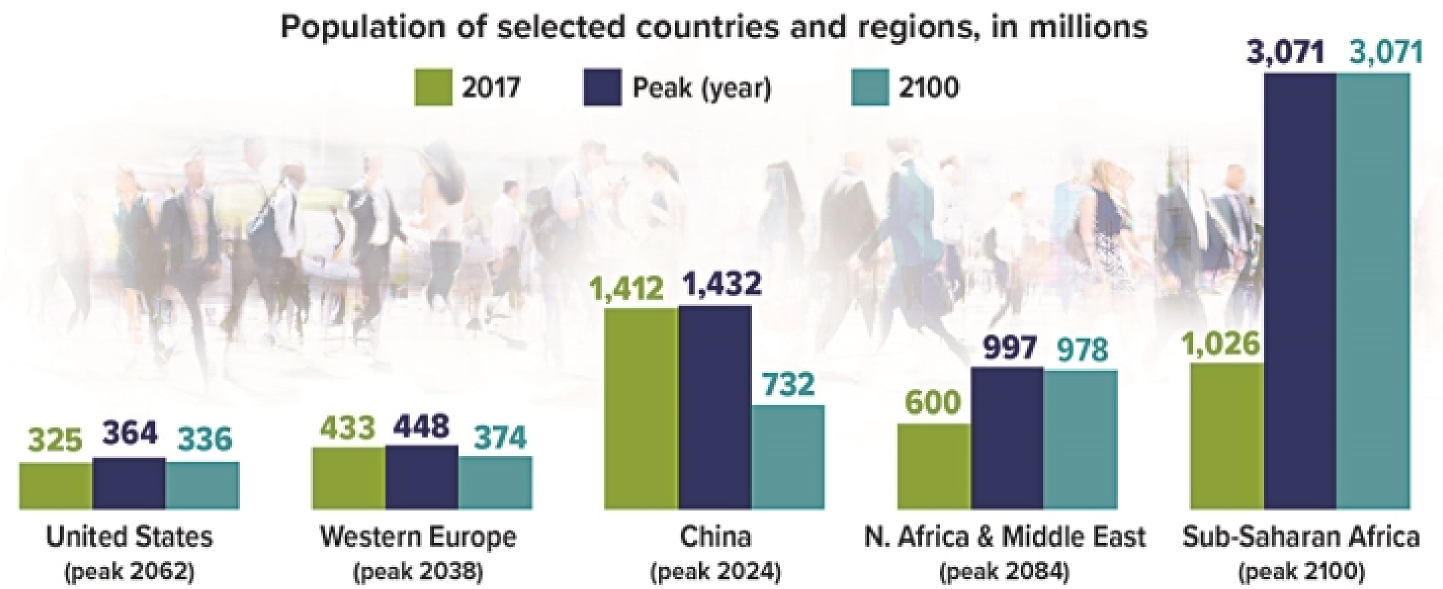
Population Peaks

Global population is projected to peak at 9.7 billion in 2064 and decline to 8.8 billion by the end of the century, according to a study from the University of Washington Institute for Health Metrics and Evaluation. The reversal of population growth — already in progress in some countries — is due primarily to women's better access to education and contraception.

By 2100, 183 of 195 countries will not have fertility rates necessary to maintain their current populations, with 23 countries shrinking by more than 50%. By contrast, the population of sub-Saharan Africa is projected to triple, and almost half the world's population will live in Africa and the Middle East.



Source: *The Lancet,* October 17, 2020

Key Retirement and Tax Numbers for 2021

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2021.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2021 is $15,000, the same as in 2020.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2021 is $11,700,000, up from $11,580,000 in 2020.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2021, the standard deduction is:

- $12,550 (up from $12,400 in 2020) for single filers or married individuals filing separate returns
- $25,100 (up from $24,800 in 2020) for married individuals filing joint returns
- $18,800 (up from $18,650 in 2020) for heads of households

The additional standard deduction amount for the blind or aged (age 65 or older) in 2021 is:

- $1,700 (up from $1,650 in 2020) for single filers and heads of households
- $1,350 (up from $1,300 in 2020) for all other filing statuses

Special rules apply if you can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2021 (the same as in 2020), with individuals age 50 and older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges. (The limit on nondeductible contributions to a traditional IRA is not subject to phase-out based on MAGI.)

MAGI Ranges: Contributions to a Roth IRA

	2020	2021
Single/Head of household	$124,000–$139,000	$125,000–$140,000
Married filing jointly	$196,000–$206,000	$198,000–$208,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Contributions to a Traditional IRA

	2020	2021
Single/Head of household	$65,000–$75,000	$66,000–$76,000
Married filing jointly	$104,000–$124,000	$105,000–$125,000

The 2021 phaseout range is $198,000–$208,000 (up from $196,000–$206,000 in 2020) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a plan.

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2021 (the same as in 2020); employees age 50 and older can defer up to an additional $6,500 in 2021 (the same as in 2020).
- Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2021 (the same as in 2020), and employees age 50 and older can defer up to an additional $3,000 in 2021 (the same as in 2020).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,200 in 2021 (the same as in 2020) is taxed using the parents' tax rates.

Due Date Approaches for 2020 Federal Income Tax Returns

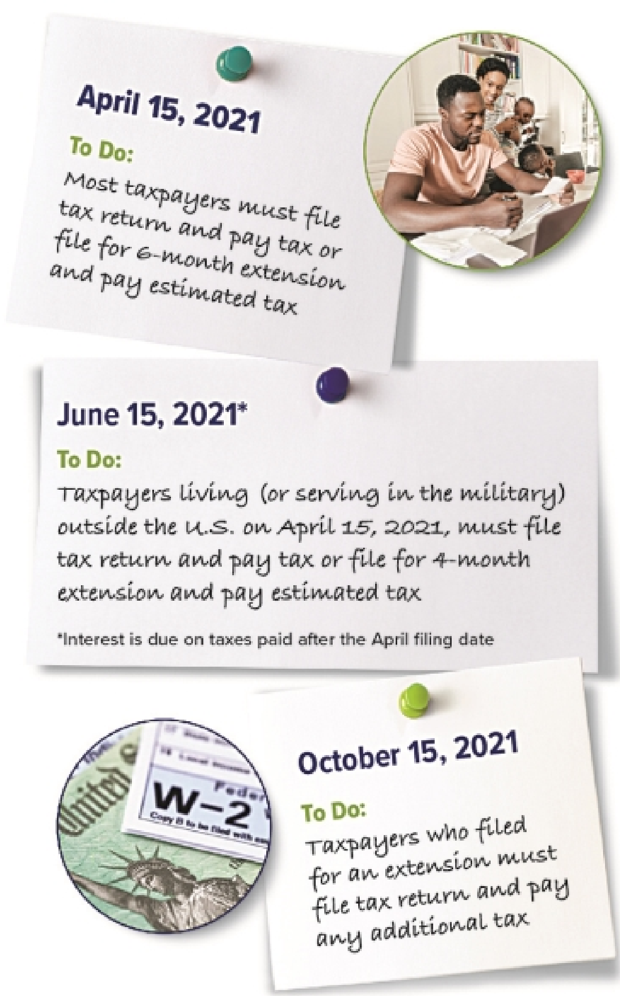
Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2019 tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

Don't procrastinate. The filing deadline for individuals is generally Thursday, April 15, 2021.

Filing for an Extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.* Filing this extension gives you an additional six months (to October 15, 2021) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Due Dates for 2020 Tax Returns



Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Note: *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances, you are generally allowed an automatic two-month extension (to June 15, 2021) without filing Form 4868, though interest will be owed on any taxes due that are paid after the April filing due date. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

What If You Owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible.

If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

Expecting a Refund?

The IRS has stepped up efforts to combat identity theft and tax refund fraud. More aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, the IRS is required to hold refunds on all tax returns claiming the earned income tax credit or the additional child tax credit until at least February 15.

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a tax return. However, note that in 2020 the IRS experienced delays in processing 2019 paper tax returns due to limited staffing during the coronavirus pandemic.

So if you are expecting a refund on your 2020 tax return, consider filing as soon as possible and filing electronically.

Umbrella Insurance Offers Extra Liability Coverage

Accidents can happen, no matter how careful you are. Even if you make every effort to help ensure that your house and the surrounding area are safe for visitors, rain, snow, or ice can cause slippery stairs and walkways. You might face an increased risk of having a liability claim filed against you if you have a dog, a swimming pool, a trampoline, employ workers in your home, or own a rental property. Or you could be held responsible for a serious auto accident — a special concern if you have a teenage driver.

American society is litigious, and some legal judgments seem excessive. Standard homeowners and auto insurance policies generally cover personal liability, but you may not have enough coverage to protect your income and assets in the event of a high-dollar judgment. That's when umbrella insurance could be a big help, providing additional coverage, up to policy limits.

On top of the liability coverage amount, an umbrella policy may help pay legal expenses and compensation for time off from work to defend yourself in court. It might also cover situations not included in standard homeowners policies, such as libel, slander, invasion of privacy, and defamation of character.

Umbrella insurance is not just for wealthy households; it is also appropriate for middle-income families with substantial home equity, retirement savings, and current and future income that could be used to satisfy a large jury award. (Home equity might be protected, at least in part, by state law. Qualified retirement plan assets may have some protection from creditors under federal and/or state law, depending on the plan and jurisdiction, but you would still be liable for any judgments.)

Protecting yourself with an umbrella policy could help avoid expensive consequences down the road.

Although coverage and costs vary by insurer, you can typically obtain $1 million in coverage for $300 or less per year; higher coverage amounts can be even more cost-effective. Before adding umbrella insurance, however, you generally must purchase a certain amount of liability coverage on your homeowners and auto policies (typically $300,000 and $250,000, respectively), which serve as a deductible for the umbrella policy.[1]

Your insurer can help you determine how much current liability protection you have, and how much more you can purchase. It might be helpful to consider your assets, potential exposure, and what you consider to be an acceptable risk.

1) Insurance Information Institute, 2020