

**Silicon Valley Chapter
American Association of Individual Investors**

Financial Planning Workshops
Taxes

**www.siliconvalleyaaii.org/financialplanning/
Email: dstikes.svaaii@gmail.com**

Disclaimer

- The AAll Silicon Valley Chapter and its directors offer their social media and website pages for educational purposes only.
- The opinions expressed here are not necessarily those of AAll or the AAll Silicon Valley Chapter, whose only intent is to provide a background for understanding investment, personal finance and wealth management theory and practice.
- Nothing on these sites should be considered solicitations or offers to buy or sell any financial instrument or specific trading advice for individuals.

Silicon Valley Chapter American Association of Individual Investors

Please check us out!

- Chapter website: www.siliconvalleyaaii.org
- Meetups: www.meetup.com/AAll-Silicon-Valley-Meetup
- Facebook: www.facebook.com/sv.aa
- Slides and Recordings
www.siliconvalleyaaii.org/financialplanning/
- AAI National website: www.aaii.com
- My email address: dstikes.svaaii@gmail.com

Our Next Event and Special Interest Group Webcasts

- **Main Event**
 - Economic Outlook - January 8th at 9:00am
- **Group**
 - Debra Stikes: Second Wednesday of each month at 6:30pm
- **Investing Discussion Group**
 - Lynn Gillette: Fourth Monday of each month at 6:30pm except Dec.
- **Computerized Investing Group**
 - Bill Paseman, Don Mauer: First Thursday of each month at 6:30pm

Financial Planning Workshops

We cover a full range of topics in the cycle:

- **Financial Planning ... The Big Picture**
- **Investing 1: Modern Portfolio Theory, Building a diversified portfolio**
- **Investing 2: Efficient Market Hypothesis; Can you beat the market?**
- **Taxes: TCJA, SECURE Act, BBB, Tax diversification, QCDs**
- **Retirement Planning 1: Tax-advantaged plans, RMDs**
- **Retirement Planning 2: Safe withdrawal rates, Bengen's 4% rule**
- **Risk Management/Insurance: Annuities, Long-term care, Litigation**
- **Social Security and Medicare: Claiming strategies, Medicare traps**
- **Estate Planning: Probate, Executor/trustee duties, Philanthropy**
- **Wrap-up: Case study reviewing previous material**

Overview for Today's Workshop

- **What taxes do we pay?**
- **Recent Federal tax acts**
 - **Proposed: Build Back Better**
 - **Tax Cuts and Jobs Act, TCJA**
 - **Setting Every Community Up for Retirement Enhancement Act, SECURE**
 - **Families First Coronavirus Response Act, FFCRA**
 - **Coronavirus Aid, Recovery, and Economic Stability Act, CARES**
- **Tax Tips**
 - **Tax saving strategies**

What Taxes Do We Pay?

- **Federal taxes**
 - **Income**
 - **Interest**
 - **Short-term and long-term capital gains**
 - **Qualified and non-qualified dividends**
 - **Net investment income surcharge**
 - **Import/export taxes, Tariffs, Excise tax, etc.**
 - **Estate taxes**
- **State and local income tax**
- **Sales tax**
- **Property tax**
- **Gas taxes**

Tax Cuts and Jobs Act, TCJA

- **Signed into law in December 2017**
 - **Most significant revision to tax code in four decades**
 - **Effective 2018 tax year**
 - **Most changes to the individual tax code sunset in December 2025**
- **Corporate taxes cut from 35% maximum in 2017 to 21% maximum in 2018**
 - **Most Corporate tax changes were permanent**

TCJA: Income Tax Brackets and Rates

Rate	2020 Single	2020 MFJ	2021 Single	2021 MFJ
10%	Up to \$9,875	Up to \$19,750	Up to \$9,950	Up to \$19,900
12%	\$9,876 to \$40,125	\$19,751 to \$80,250	\$9,951 to \$40,525	\$19,901 to \$81,050
22%	\$40,126 to \$85,525	\$80,251 to \$171,050	\$40,526 to \$86,375	\$81,051 to \$172,750
24%	\$85,526 to \$163,300	\$171,051 to \$326,600	\$86,376 to \$164,925	\$172,751 to \$329,850
32%	\$163,301 to \$207,350	\$326,601 to \$414,700	\$164,926 to \$209,425	\$329,851 to \$418,850
35%	\$207,351 to \$518,400	\$414,701 to \$622,050	\$209,426 to \$523,600	\$418,851 to \$628,300
37%	\$518,401 and above	\$622,051 and above	\$523,601 and above	\$628,301 and above

TCJA: Capital Gains and Dividend Taxes

	Taxable Income	Taxable Income	Taxable Income
Single	< \$40,000	\$40,000 - \$441,450	> \$441,450
Married filing jointly	< \$80,000	\$80,000 - \$496,600	> \$496,600
Short-term cap gains	Taxed as income	Taxed as income	Taxed as income
Long-term cap gains	0%	15%	20%
Qualified dividends	0%	15%	20%

TCJA: Standard Deduction and Personal Exemption

	Pre-TCJA	2021	2022
<u>Standard deduction</u>			
Single	\$6,500	\$12,550	\$12,950
Married filing jointly	\$13,000	\$25,100	\$25,900
Additional > age 65			
Single	\$1,600	\$1,650	\$1,750
Married filing jointly /per person	\$1,300	\$1,300	\$1,400
<u>Personal exemption</u>			
Single	\$4,150	Eliminated	Eliminated
Married filing jointly	\$8,300	Eliminated	Eliminated

TCJA: Itemized Deductions

- Medical deduction floor 10% AGI → 7.5% AGI
- New SALT deduction limit = \$10,000
 - State and local income taxes
 - Property tax
- Mortgage interest on \$1M property → \$750,000
- Interest on home equity loans only deductible if used to build or improve your home
- Gifts to charity still deductible
- Eliminated deductions for ...
 - Tax preparation fees and other misc deductions
 - Theft and other casualty losses
- Pease limitation on itemized deductions eliminated

TCJA: Estate Taxes

- **Exclusion**
 - \$11.580M per spouse in 2020, \$11.700M in 2021
 - Exclusion is portable for use by second spouse
 - Implementation similar to the older A/B trust
- **Tax rate**
 - Maximum 40% rate for taxable amounts >\$1M
- **Challenge**
 - How do you do estate tax planning (inherently long-range) with a tax law that sunsets in 2025?
 - Hint: There's a lot more to estate planning than saving taxes

TCJA: Miscellaneous Issues

- **Roth IRAs**
 - Recharacterization of a Roth IRA conversion has been repealed by TCJA
- **Alimony payments**
 - For agreements after **December 18, 2018**: No longer deductible by paying spouse, nor reportable as income by receiving spouse

● AMT exemption	<u>Pre-TCJA</u>	<u>2021</u>
● Single	\$54,300	\$73,600
● Married filing jointly	\$84,500	\$114,000
● Phaseout: Single	\$120,700	\$518,400
● Phaseout: MFJ	\$160,900	\$1,036,800

Setting Every Community Up for Retirement Enhancement (SECURE) Act

- **Signed into law in December 2019**
 - effective on January 1, 2020
 - Largest retirement reform since 2006
- **Required minimum distributions, RMDs**
 - Begin at age 72 instead of 70.5
 - Applies to those who turn 70.5 in 2020 or later, i.e. born on or after July 1, 1949
- **Traditional IRAs**
 - No age limit for contributing to an IRA provided you have earned income

SECURE Act: Inherited Retirement Accounts

- **Stretch IRA is gone, except for ...**
 - **Surviving spouse of original owner**
 - **Minor child < age of majority**
 - **Person >10 years younger than the decedent**
 - **Disabled individuals**
 - **Chronically ill individuals**
- **For all others the account must be completely distributed within 10 years of the original owner's death, but there are no annual RMD requirements**

The Families First Coronavirus Response Act (FFCRA)

- Signed into law in March 18, 2020
 - Operational from April 1 thru December 31, 2020
- Mandates that employer must provide leave for a Coronavirus illness or quarantine
- Provides payroll tax credits to reimburse employers for up to 2 weeks
 - Enables employers to keep workers on their payrolls
 - Workers do not have to choose between paychecks and public health
- Credits are also available for self-employed

Coronavirus Aid, Relief, and Economic Security (CARES) Act

- **Signed into law on March 27th, 2020**
 - \$2.2T economic stimulus bill to fight the nationwide impact of the Coronavirus pandemic
 - Largest economic stimulus package in U.S. history
 - 10% of total U.S. gross domestic product
- **Unemployment benefits**
 - Additional \$600 per week on top of state benefits
 - Benefits up to 39 weeks
 - Also available to gig workers

CARES Act: Personal and Business Help

- **Stimulus checks**
 - Grants up to \$1,200 per adult, \$500 per child
 - Available for workers with 2019 AGI < \$75,000
 - Phased out for AGI from \$75,001 - \$99,000
- **Charitable donations**
 - Allows up to \$300 to be deducted above the line
 - Useful for those who take the standard deduction
- **Paycheck Protection Program for small businesses**
 - Lends up to 8 weeks expenses
 - Loan converts to a grant if used for payroll, rent, or utilities

CARES Act: Retirement Plans

- Enables COVID-19 affected people to withdraw up to \$100,000 from their IRA or 401(k) plan without a 10% early withdrawal penalty
 - Taxes must still be paid on the withdrawal, but can be stretched over a 3-year period, 2020 - 2022
 - Funds can be paid back into the account within 3 years
- Required minimum distributions
 - RMDs for IRAs and 401(k)s waived for 2020
 - Window to return RMD already taken expired 8/31/20
 - Also applies to inherited IRAs

America Rescue Plan Act

- **Third stimulus payment of \$1,400 paid in 2021**
- **Extended Federal Unemployment for those who couldn't safely return to work until Sept 6, 2021**
- **Exempted \$10,200 of 2020 Federal Unemployment from Federal Taxes for incomes less than \$150,000**
- **Expanded Child Tax Credit for 2021**
- **Expanded EITC eligibility for 2021**

Build Back Better – Proposed – IRA changes

- **Eliminates “back door Roth” by barring conversion of after-tax contributions starting 12/31/2021**
- **Limit Retirement Account contributions when the total balance of all retirement accounts reach \$10 million and accelerate RMDs – Different start dates in different versions**
- **Require distribution of amounts over \$20 million**
- **Make the Saver’s credit fully refundable**
- **Implements auto-enrollment in Retirement Plans**

Build Back Better – Proposed – Individual Taxes

- Create a new surcharge on modified adjusted gross income (MAGI) equal to 5 percent on MAGI in excess of \$10 million plus 3 percent on MAGI above \$25 million
- Extend the ARPA Child Tax Credit expansion through 2022 and make the entire CTC permanently refundable
- Extend the ARPA's temporary expansion of the EITC eligibility, phase-in rates, and amount through 2022
- Raise the SALT deduction from \$10,000 to \$80,000 and extend this cap through 2030. For 2031, the SALT deduction would be set at \$10,000.
- Does NOT directly increase Capital Gain Taxes

Build Back Better – Proposed – Business Taxes

- **Expand the base of the 3.8 % Net Investment Income Tax (NIIT) to apply to active business income for pass-through firms**
- **Makes permanent the active pass-through loss limitation enacted in the 2017 Tax Cuts and Jobs Act (TCJA)**

Build Back Better – Proposed – Corporate and International Taxes

- **Impose a 15 percent minimum tax on corporate book income for corporations with profits over \$1 billion, effective after December 31, 2022**
- **Create a 1 percent excise tax on the value of stock repurchases during the taxable year, net of new issuance of stock, effective after December 31, 2021. Excludes stock contributed to retirement accounts, pension and employee stock ownership plans.**
- **Create a new limitation on interest expense deductions for certain multinational corporations, effective after December 31, 2022.**
- **Changes to Global Intangible Low-Taxed Income (GILTI)**
- **Reduces the deduction for Foreign-Derived Intangible Income (FDII)**

Tax Tips: Start With The Basics

- **Traditional IRA**
 - Contribution limit of \$6,000 in 2021 and 2022 plus additional \$1,000 for age 50 and older
 - Deduction phased out if covered by employer plan
MAGI > \$66,000 for singles and \$124,000 for MFJ
 - Growth is tax deferred
 - Distributions are taxed at ordinary income level
- **Roth IRA**
 - Same combined contribution limit as traditional IRA
 - Income limit \$125,000 - \$140,000 for singles and \$198,000 - \$208,000 for MFJ in 2021
 - No tax deduction for contribution
 - Qualified distributions are tax-free

Tax Tips: Employer Retirement Plans

- **401(k) and 403(b) plans**
 - Defer \$19,500 contribution 2021 and \$20,500 in 2022 plus additional \$6,500 for age 50 and older
 - Growth is tax deferred
 - Distribution is taxed at ordinary income level
- **SIMPLE plan**
 - Defer \$13,500 contribution in 2021 and \$14,000 in 2022 plus additional \$3,000 for age 50 and older
 - Growth is tax deferred
 - Distribution is taxed at ordinary income level

Tax Tips: Health Savings Account, HSA

- **Eligibility: Must have a high-deductible health insurance plan**
 - Cannot be on Medicare
 - Part A coverage is 6 months retroactive
- **Triple tax benefits**
 - Contributions are tax-deductible
 - Investments grow tax-free
 - Qualified medical distributions are tax-free
 - Distributions for non-medical expenses are taxed as ordinary income
- **Contribute up to \$3,600/person, \$7,200/family plus \$1,000 catch-up/person if age 55 or older (2021)**
- **Can make withdrawals in retirement after you no longer qualify for contributions**

Tax Tips: Be Aware of Tax Efficiency

- **Tax-inefficient assets, e.g. CDs, bonds, REITs, etc.**
 - Spin off interest
 - Non-qualified dividends
 - Short-term capital gains
 - Taxed as ordinary income (37% maximum)
 - Most suitable for tax-advantaged accounts
- **Tax-efficient assets, e.g. muni bonds, stocks, etc.**
 - Spin off qualified dividends
 - Long-term capital gains
 - Taxed at preferential rate (20% maximum)
 - Suitable for taxable accounts

Tax Tips: Asset Location

	<u>Trad. IRA</u>	<u>Taxable a/c</u>	<u>Roth IRA</u>
Contributions	Deductible	Income	Income
Distributions	Income	Inc./Cap Gains	No tax*¹
Inheritances ...	Worst	Good	Best
... taxed as ...	Income	Step-up	No tax*¹
Tax-inefficient assets	*****	*	*
Tax-efficient assets	****	*****	****
High growth, REITS, etc.	*	*	*****

- *1 – Qualified Distributions are not taxed.

Tax Tips: Tax Loss Harvesting

- Only useful with taxable accounts
- Sell an underperforming investment to reduce taxable capital gains, and potentially offset ordinary income up to \$3,000
- Excess loss can be carried forward to reduce gains in future years
- Can use the proceeds from sale to purchase a similar security
- Beware the wash-sale rule
 - Must not purchase a “substantially identical” security within 30 days before or after the sale
- Most beneficial for legacy investments

Tax Tips: Tax Bracket Management

- If you are in a low bracket this year consider filling up to the top of the range to avoid a higher tax rate in later years
 - Harvest capital gains on long-term equities
 - Roth conversion
- Beware bumping into higher Medicare bracket
 - Modified Adjusted Gross Income, MAGI
$$\text{MAGI} = \text{AGI} + \text{Tax-free income}$$
 - Must pay Income Related Monthly Adjustment Amount (IRMAA) if MAGI exceeds base
 - Base is <\$91,000 for singles, \$182,000 for MFJ
(2022 data from 2020 tax return)

Income Related Monthly Adjustment Amount, IRMAA (2022 data from 2020 tax returns)

MAGI: Single	MAGI: MFJ	Part B Premium	Part D IRMAA
< 91,000	<182,000	170.10	N/A
\$91,000 to \$114,000	\$182,000 to \$228,000	\$238.10	\$12.40
\$114,001 to \$142,000	\$228,001 to \$284,000	\$340.20	\$32.10
\$142,001 to \$170,000	\$284,001 to \$340,000	\$442.30	\$51.70
\$170,001 to \$500,000	\$340,001 to \$750,000	\$544.30	\$71.30
>\$500,000	> \$750,000	\$578.30	\$77.90

Tax Tips: Qualified Charitable Distributions, QCDs

- **Donation directly from IRA to charity**
 - Skips Form 1040; Does not add to total income
 - Does not add to AGI; no Medicare increase
 - Counts against your RMD
 - Especially useful strategy for taxpayers who take standard deduction
- **Limits**
 - \$100,000 maximum contribution
 - Cannot go to a Donor Advised Fund, DAF

Tax Tips: Bunch Deductions

	Standard	Bunched
Year 1 SALT Charities Deduction	\$10,000 \$12,000 \$24,800	\$10,000 \$36,000 \$46,000
Year 2 SALT Charities Deduction	\$10,000 \$12,000 \$24,800	\$10,000 \$0 \$24,800
Year 3 SALT Charities Deduction	\$10,000 \$12,000 \$24,800	\$10,000 \$0 \$24,800
3-Year Total Deductions	\$74,400	\$95,600

Tax Tips: Consider Lifetime Gifting

- **Annual gift exclusion**
 - \$15,000 per person, \$30,000 per couple in 2021
 - Unlimited recipients
 - Increases to \$16,000/\$32,000 in 2022
- **Excess donations reduce your lifetime estate tax exclusion**
 - Must file disclosure on Form 709 along with 1040
- **Can make direct payments to medical and educational providers on behalf of a loved one**

1031 Exchanges

- A 1031 exchange is a swap of properties that are held for business or investment purposes
- The properties being exchanged must be considered like-kind by the IRS for capital gains taxes to be deferred
- The rules can apply to a FORMER primary residence under very specific conditions
- Escrow service for sale proceeds is required
- Strict time limits
- Professional advice is strongly recommended

To Probe Further

- **Guide to Tax on Your Personal Investments, AAI Staff, AAI Journal, December 2020**
- **Tax Guide Update: Staying Current on the New Rules, Charles Rotblut, AAI Journal, December 2020**
- **Tap Into Tax-Related Information on Stocks and Funds, Charles Rotblut, AAI Journal, December 2020**
- **SECURE Act Takeaways, Schwab.com**
- **CARES Act Offers Economic Stimulus to Fight Impact of Coronavirus, Kenneth Terrell, AARP, April 2020**
- **What the Pandemic Means for the Future of Spending and Saving, Christine Benz, Morningstar.com, Q4 2020**
- **Smart Tax Moves to Make Before Year's End, Charles Rotblut, AAI Journal, December 2019**
- **How to Make Your Money Last, Jane Bryant Quinn, Simon & Schuster**

Useful Websites

- aaii.com Broad selection of investing material
- siliconvalleyaaii.org Previous presentations on various topics
- irs.gov
- morningstar.com
- www.vanguard.com
- [santaclaracountylib.org/Adults/Business & Money](http://santaclaracountylib.org/Adults/Business%20&%20Money)
Morningstar Research Center, S&P's NetAdvantage, Value Line
- retirementresearcher.com Wade Pfau, Bob French
- obliviousinvestor.com/index-funds/ Mike Piper blog
- rickferri.com/investment-philosophy/ Rick Ferri blog

NON SEQUITUR | Wiley

IT MEANS THE
HOLIDAY SEASON
IS OFFICIALLY
OVER AND THE
TAX SEASON
HAS OFFICIALLY
BEGUN

PICT. BY UNIVERSAL UCLICK



© 2017 WILEY INK, INC. 1-4

