

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

Financial Planning Workshops
Taxes

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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**
 - January
- **Financial Planning Group**
 - Debra Stikes: Second Wednesday of each month at 6:30pm from September to May. June will be first Wednesday of June.
- **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: Inflation Reduction Act and other Acts, 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**
 - **Inflation Reduction Act 2022**
 - **American Rescue Plan Act 2021**
 - **Tax Cuts and Jobs Act, TCJA**
 - **Setting Every Community Up for Retirement Enhancement Act 2.0 of 2020**
 - **Families First Coronavirus Response Act, FFCRA**
 - **Coronavirus Aid, Recovery, and Economic Stability Act, CARES**
- **California Proposition 19**
- **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**

Overview of Temporary Legislation

- **Tax Cuts and Jobs Act (TCJA)**
 - **Corporate Tax reductions were permanent**
 - **Individual Tax changes expire 12/31/2025**
 - **GOP expected to win in 2020**
 - **Standard politics to make the expiration date the next Congress'/President's problem**
 - **No current significant tax changes for 2024**
 - **Inflation adjustments**

End of Year

- **Verify RMDs and take as needed**
 - **2024 RMD penalty waived for those subject to 10-year distribution rule**
 - **IRS normally forgives the first mistake as long as corrected promptly**
 - **Penalties for a promptly corrected missed RMD have been lowered.**
- **Tax loss harvesting**
- **Solar Credits**
 - **Can be claimed only for one tax year**

Kiddie Tax

- **Kiddie Tax rules require that part of all of a child's investment income be taxed at the parents' income tax rate**
 - **Child under 17 at end of year**
 - **Total of most unearned income (dividends, interest, etc...) is at least \$2,600 in 2024 or \$2,700 in 2025**
 - **Starting the year the child turns 18**
 - **Applies if the child's earned income is less than half of the child's overall support**
 - **Starting the year the child turns 19**
 - **The child is a full-time student**
 - **Ceases the year the child turns 24**
 - **Ends if the child is filing Married Filing Jointly**

Inflation Reduction Act 2022

- Signed into law in August 2022
- Extends the Premium Tax Credit for ACA to 2025
 - 19.7 million enrolled
 - 92% receive premium tax credits
 - Will it be extended?
 - Unknown

Inflation Reduction Act 2022

- **Medicare**
 - **Authorization for Medicare to negotiate prescription drug prices**
 - **Part D In 2024**
 - **5% coinsurance during catastrophic phase is eliminated**
 - **Catastrophic threshold is \$8,000**
 - **Annual increase in premiums is limited to 6% which has the unintended result of increased premiums for 2024/2025**

Inflation Reduction Act 2022

- **Medicare**
 - **Limits monthly cost sharing for insulin products to no more than \$35, including insulin covered under both Part D and B, and no deductible applies**
 - **No cost sharing for covered adult vaccines**
 - **Part D payment during catastrophic phase increases to 20% from 15% which decreases Medicare's share**

Inflation Reduction Act 2022

- **Tax Credit for Solar**
 - Extended to 2035
 - Purchased, not leased
 - Form 5695
 - Expands list of covered expenses to include storage components with a minimum rated capacity of three-kilowatt hours
 - Other covered expenses continue to include the cost of solar panels and their components, sales tax, permits, fees, essential wiring, inverter systems, hardware, site preparation and installation charges.

Year	2022-2032	2033	2034	2035
ITC %	30%	26%	22%	0%

Inflation Reduction Act 2022

- **EV charging equipment**
 - **Non-refundable credit for home charging equipment lower of \$4,000 or 30%**
- **Claim only one tax year.**

Inflation Reduction Act 2022

- **New EVs 2023 and later**
 - **Up to \$7,500 non-refundable federal credit placed in service after 2022**
 - **Price limitation based on MSRP**
 - **MAGI limitations**
 - **Qualified models have North America assembly requirement and sourcing (non-China) requirements**
 - **Description of Plug-In Electric Vehicle Credit including link to Department of Energy list of EVs that MAY qualify. Specific information for a VIN can be displayed.**

<https://www.irs.gov/businesses/plug-in-electric-vehicle-credit-irc-30-and-irc-30d>

Inflation Reduction Act 2022

- **Used EVs 2023 and later**
 - **Up to \$4,000 non-refundable federal credit**
 - **MAGI limitations**
 - **Model must be at least 2 years old at time of purchase**
 - **Purchase price less the \$25,000**
 - **Only on first transfer**
 - **Can be claimed every 3 years**

Inflation Reduction Act 2022

- **Revenue Generation**
 - **Minimum 15% income tax on corporations with over \$1B in revenue**
 - **\$80B to the IRS over the next 10 years**
 - Hire additional agents
 - Improve customer service
 - Clear backlog of unprocessed tax returns
 - Upgrade systems

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	2023 Single	2023 MFJ	2024 Single	2024 MFJ
10%	Up to \$11,000	Up to \$22,000	Up to \$11,600	Up to \$23,200
12%	\$11,001 to \$44,725	\$22,001 to \$89,450	\$11,601 to \$47,150	\$23,201 to \$94,300
22%	\$44,726 to \$95,375	\$89,451 to \$190,750	\$47,151 to \$100,525	\$94,301 to \$201,050
24%	\$95,376 to \$182,100	\$190,751 to \$364,200	\$100,526 to \$191,950	\$201,051 to \$383,900
32%	\$182,101 to \$231,250	\$364,201 to \$462,500	\$191,951 to \$243,725	\$383,901 to \$487,450
35%	\$231,251 to \$578,125	\$462,501 to \$693,750	\$243,726 to \$609,350	\$487,451 to \$731,200
37%	\$578,126 and above	\$693,751 and above	\$609,351 and above	\$731,201 and above

TCJA: Capital Gains and Dividend Taxes 2024

	Taxable Income	Taxable Income	Taxable Income
Single	< \$47,025	\$47,026 - \$518,900	> \$518,901
Married filing jointly	< \$94,050	\$94,051 - \$583,750	> \$583,751
Short-term cap gains	Taxed as ordinary income	Taxed as ordinary income	Taxed as ordinary income
Long-term cap gains	0%	15%	20%
Qualified dividends	0%	15%	20%

TCJA: Standard Deduction and Personal Exemption

	Pre-TCJA	2024	2025
<u>Standard deduction</u>			
Single	\$6,500	\$14,600	\$15,000
Married filing jointly	\$13,000	\$29,200	\$30,000
Additional > age 65 or blind (double over 65 and blind per individual)			
Single	\$1,600	\$1,950	\$2,000
Married filing jointly /per person	\$1,300	\$1,550	\$1,600
<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
- 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**
 - \$13.61M per spouse in 2024, \$13.99M in 2025
 - Exclusion is portable for use by second spouse
 - IRS now allows 5 years to file estate tax return for portability unused estate tax exemption (Form 706)
- **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>2023</u>	<u>2022</u>
• Single	\$81,300	\$85,700
• Married filing jointly	\$126,500	\$133,300
• Phaseout: Single	\$578,150	\$609,350
• Phaseout: MFJ	\$1,156,300	\$1,218,700

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
 - Starting 2023, Begin at age 73 if reaching 72 after April 1, 2023
- **Traditional IRAs**
 - No age limit for contributing to an IRA provided you have earned income

SECURE Act: Inherited Retirement Accounts after 2019

- **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**
 - **IRS recently ruled that RMDs are required even for accounts that must be fully distributed within 10 years**

The Families First Coronavirus Response Act (FFCRA)

- Signed into law in March 18, 2020
 - Operational from April 1 thru December 31, 2020

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

- **Signed into law on March 27th, 2020**
 - **Most has expired**
 - **Reporting by Registered Drug Establishments**
 - In addition to the COVID-19 response efforts, the CARES Act included authorities intended to enhance FDA's ability to identify, prevent, and mitigate possible shortages of human and animal drugs by, among other things, enhancing FDA's visibility into the drug and medical product supply chains.

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

- **Defined Benefit Plan Changes**
 - Extends plan amendment deadlines for changes made by the Secure Act until December 31, 2025. Additionally, the extension applies to optional provisions of the Miners Act that allow defined benefit pension plans to lower the minimum age for in-service distributions from age 62 to 59 1/2. The guidance also postpones the amendment deadlines to adopt CARES Act relief for 2020 required minimum distributions until December 31, 2025. However, plans that adopted CARES Act optional loan and/or withdrawal provisions still must be amended by the original deadline (i.e., December 31, 2022, for a calendar year plan).

America Rescue Plan Act

- **Expired**

California Proposition 19

- **On and after 4/1/2021, an owner of a primary residence who is over the age of 55, severely disabled, or a victim of a wildfire or other natural disaster to transfer the property tax value to a replacement primary residence anywhere in the state within 2 years of the sale of the original primary residence. Limited to 3 transfers for persons over 55 or severely disabled.**

California Proposition 19

- **Changed property tax basis for inherited or transfer of real property to child or grandchild**
 - **Limits the transfer of property tax basis to grandchild**
 - **Parents of the grandchild must be deceased**
 - **Limits amount of the transfer of property tax basis**
 - **Current assessed value + \$1M**
 - **Property must be a primary residence for both**

Tax Tips: Start With The Basics

- **Traditional IRA**
 - **Contribution limit of \$7,000 in 2024 and \$7,000 in 2025 plus additional \$1,000 for age 50 and older**
 - **Deduction phased out if contributing spouse is covered by an employer plan**
 - MAGI 2025 > \$79,000 for single and \$126,000 for MFJ**
 - MAGI 2024 > \$77,000 for single and \$123,000 for MFJ**
 - **Deduction phased if a spouse but not the contributing spouse is covered by an employer plan**
 - **MAGI 2025 > \$236,000 for MFJ**
 - **MAGI 2024 > \$230,000 for MFJ**
 - **Growth is tax deferred**
 - **Distributions are taxed at ordinary income level**

Tax Tips: Start With The Basics

- **Roth IRA**
 - Same combined contribution limit as traditional IRA
 - Income phase out
 - 2024
 - \$146,000 – \$161,000 for singles
 - \$230,000 - \$240,000 for MFJ
 - 2025
 - \$150,000 - \$165,000 for singles
 - \$236,000 - \$246,000 for MFJ
 - No tax deduction for contribution
 - Qualified distributions are tax-free

Tax Tips: Employer Retirement Plans

- **401(k) and 403(b) plans**
 - **Defer \$23,500 pre-tax and ROTH contribution limit in 2025 and \$23,000 contribution limit in 2024**
 - **Catch up**
 - **2024 \$6,500 for age 50 and older**
 - **2025**
 - **\$7,500 for 50-60 and over 64**
 - **\$11,250 for 61-64**
 - **Growth is tax deferred**
 - **Distributions are taxed at ordinary income level**
 - **Higher combined, pre-tax, after-tax and employer contribution limit**

Tax Tips: Employer Retirement Plans

- **SIMPLE plan**
 - **Contribution limit for 2024 is \$16,000 plus additional \$3,500 for age 50 and older**
 - **Contribution limit for 2025 is \$23,000 plus additional \$3,500 for age 50 and older**
 - **Growth is tax deferred**
 - **Distributions are 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 the lesser of 6 months retroactive or to age 65
 - Penalty if pre-tax contributed with Medicare coverage. Beware of the retroactive Part A coverage.
- **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

Tax Tips: Health Savings Account, HSA

- **2024 Contribution Limit**
 - \$4,150/self coverage
 - \$8,300/family
 - \$1,000 catch-up if age 55 or older (2024)
- **2025 Contribution Limit**
 - \$4,300/self coverage
 - \$8,550/family
 - \$1,000 catch-up if age 55 or older
- **Withdrawals can be made after you no longer qualify for contributions. No required minimum distributions.**

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 or tax exempt
 - 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 but not “substantially identical” security
- Beware the wash-sale rule
 - Must not purchase a “substantially identical” security within 30 days before or after the day of the sale
 - Tax deduction is lost if a wash-sale is created from a taxable account to a tax deferred account
- 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

Income Related Monthly Adjustment Amount, IRMAA (2025 data from 2023 tax return)

MAGI: Single	MAGI: MFJ	Part B Premium	Part D IRMAA
< =106,000	<=212,000	\$185.00	N/A
\$106,001 to \$133,000	\$212,001 to \$266,000	\$259.00	\$13.70
\$133,001 to \$167,000	\$266,001 to \$334,000	\$370.00	\$35.30
\$167,001 to \$200,000	\$334,001 to \$400,000	\$480.90	\$57.00
\$200,001 to \$500,000	\$400,001 to \$750,000	\$591.90	\$78.60
>\$500,000	> \$750,000	\$628.90	\$85.80

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
 - Problem is the charity fails to deposit the check
- **Limits**
 - Annual \$100,000
 - Cannot go to a Donor Advised Fund, DAF
 - At least, 70 ½ (Even if RMD is not required)

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**
 - \$17,000 per person, \$34,000 per couple in 2023
 - Unlimited recipients
 - Increases to \$18,000/\$36,000 in 2024
- **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
- vanguard.com
- scclld.org/ login then search for Value Line - Santa Clara Library - Two version of logins – online only or also physical access
- retirementresearcher.com Wade Pfau, Bob French
- obliviousinvestor.com/index-funds/ Mike Piper blog
- rickferri.com/investment-philosophy/ Rick Ferri blog

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