

# TAKE CHARGE OF YOUR TAXES

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*KNOWLEDGE  
YOU NEED FOR  
PROACTIVE  
PLANNING*



AVOID SURPRISES AT TAX TIME – TAKE A LOOK AT  
THE CHANGES THAT COULD AFFECT YOUR RETURN.





Every year, slight adjustments are made to tax laws, and taxpayers have to figure out whether, and how, those changes affect their own situation. This year is no different — and additional tax-related changes are expected with the new presidential administration.

Under the Tax Cuts and Jobs Act (TCJA), passed in December 2017, many changes pertaining to individual tax returns are scheduled to end Dec. 31, 2025. At that time, they would revert to the 2017 tax code, unless Congress decides otherwise.

At the same time, President Joe Biden has proposed tax law changes that Congress is working to agree on, and some of those proposals also may affect individual tax returns, particularly for higher net worth individuals.

## HOW COULD THE BIDEN TAX PLAN AFFECT YOU?

As of September 2021, as Congress approached a potential deadline to raise the debt ceiling and worked toward agreement on tax policy proposals, these provisions were among those advanced by the House Ways and Means Committee:<sup>1</sup>

- Raising the top marginal tax rate on individuals to 39.6% (up from the current 37% and returning to the pre-TCJA level)
- Increasing the top marginal tax rate on long-term capital gains and dividends to 25% (up from the current 20%)
- Adding a 3% surcharge on income above \$5 million (married households) or \$2.5 million (individuals)
- Raising the top corporate tax rate to 26.5% (for net income over \$5 million)
- Expanding the 3.8% Net Investment Income Tax (NIIT) to include active pass-through business income

For the 2021 tax year, however, most of the provisions from the TCJA are still in effect, but some limits have changed. Read on for an overview of the 2021 tax laws and how they may affect your tax return.

# INDIVIDUAL TAX BRACKETS

In 2021, there are still seven income tax brackets, although the limits have adjusted slightly within each bracket.

2021 TAX BRACKETS <sup>2</sup>			
TAX RATE	For Single Individuals, Taxable Income	For Married Individuals Filing Joint Returns, Taxable Income	For Heads of Households, Taxable Income
10%	Up to \$ 9,950	Up to \$19,900	Up to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,401 to \$523,600
37%	\$523,601 and up	\$628,301 and up	\$523,601 and up

## WHAT COULD THIS MEAN FOR YOU?

Our tax system is progressive, so the more you make, the higher the tax rate on each block of subsequently higher income. In other words, even if your total income falls in a higher tax bracket, you won't pay that rate on *all* of your income. For example, a single person earning \$225,000 in 2021 would pay the following rates (assuming there are no adjustments for deductions, credits, etc.):

10% on the first \$9,951	=	\$995
12% on the next \$30,575 (\$40,526 - \$9,951)	=	\$3,669
22% on the next \$45,850 (\$86,376 - \$40,526)	=	\$10,087
24% on the next \$78,550 (\$164,926 - \$86,376)	=	\$18,852
32% on the next \$44,500 (\$209,426 - \$164,926)	=	\$14,240
35% on the next \$15,574 (\$225,000 - \$209,426)	=	\$5,451
TOTAL TAX (unadjusted)	=	\$53,294



## INFLATION ADJUSTMENTS

The IRS adjusts the income tax brackets for inflation. Before 2018, the tax code used the Consumer Price Index for All Urban Consumers (CPI-U) to make cost-of-living adjustments. Now, the new tax code uses the C-CPI-U.

The CPI-U measures price changes on commonly purchased items. The C-CPI-U refers to a “chained” index. The chained index assumes that when prices rise on commonly purchased items, many customers will swap out those items for lower-priced ones. For example, they may purchase turkey when chicken prices increase. This means the overall cost of inflation is less likely to impact those consumers, and that is the rate of inflation that the C-CPI-U tracks.<sup>3</sup>

### WHAT COULD THIS MEAN FOR YOU?

Employers generally provide annual salary increases based on the CPI-U. Because the IRS now uses the C-CPI-U, the income brackets that determine tax rates will not rise as quickly as taxpayer salaries. Over time, this will land more taxpayers in higher rate brackets — a phenomenon known as “bracket creep.”

## STANDARD DEDUCTION, PERSONAL EXEMPTIONS AND CHILD CREDIT

In 2018, the standard deduction nearly doubled for each tax filer status. However, personal exemptions were eliminated altogether, although there is still an additional standard deduction if you are age 65 or older or legally blind. One buffer for this is that the child credit increased from \$1,000 to \$2,000 per qualifying child, and there is a \$500 credit for other qualifying dependents, such as an elderly parent. These credits will not adjust for inflation going forward, and they are not available for single taxpayers whose income exceeds \$200,000, or married households filing jointly with income that exceeds \$400,000.<sup>4</sup>

### WHAT COULD THIS MEAN FOR YOU?

On the next page are examples of some of the deductions and exemptions that may apply to your situation.



### HEAD OF HOUSEHOLD<sup>5</sup> ONE QUALIFYING CHILD

	2021
STANDARD DEDUCTION	\$18,800
PERSONAL EXEMPTIONS	\$0
CHILD CREDIT	\$2,000
TOTAL ADJUSTMENT	\$20,800

### SINGLE

	2021
STANDARD DEDUCTION	\$12,550
PERSONAL EXEMPTIONS	\$0
CHILD CREDIT	\$0
TOTAL ADJUSTMENT	\$12,550

### MARRIED FILING SEPARATELY

	2021
STANDARD DEDUCTION	\$12,550
PERSONAL EXEMPTIONS	\$0
CHILD CREDIT	\$0
TOTAL ADJUSTMENT	\$12,550

### MARRIED FILING JOINTLY TWO QUALIFYING CHILDREN

	2021
STANDARD DEDUCTION	\$25,100
PERSONAL EXEMPTIONS	\$0
CHILD CREDIT	\$4,000
TOTAL ADJUSTMENT	\$29,100



# ITEMIZED DEDUCTIONS

In the past, filers could reduce their taxable income further with any number of itemized deductions. However, the criteria for itemized deductions changed substantially with the TCJA; some deductions have more limitations, while others were eliminated altogether.

## MORTGAGE INTEREST

The cap on mortgage amounts on which homeowners can deduct their interest payments is \$750,000.<sup>6</sup> This interest cap applies only to mortgages taken out after Dec. 14, 2017. For previous mortgages, the cap remains at \$1 million.

### WHAT COULD THIS MEAN FOR YOU?

Residents who live in areas of the country where real estate is expensive may have significantly higher tax bills when they purchase a home. From a real estate market perspective, the interest cap could discourage potential homeowners from taking out mortgages for more than \$750,000. In turn, this could tighten the supply of mid-priced homes available for sale, resulting in increased home values and subsequently higher property taxes.

## STATE AND LOCAL TAXES

Tax law limits the deduction for state and local taxes (SALT), which includes property taxes, state income taxes and local sales taxes (applicable only to taxpayers who live in states with no income tax). Under the TCJA, the maximum deduction for the total of state and local taxes is \$10,000.

## OTHER ITEMIZED DEDUCTIONS

Some items that were deductible before 2018 have been eliminated, such as alimony income and investment fees and expenses. However, other tax deductions are available and may apply to your tax situation. For examples, please see the chart on the next page.

## DEDUCTIBLE ITEMS<sup>7</sup>

### Mortgage Interest

Mortgage interest on up to \$750,000 in principal is deductible. Mortgage must be for a “qualified personal residence.”

### Charitable Contributions

Taxpayers can deduct charitable contributions on up to 60% of adjusted gross income (AGI).

### Medical Expenses

Medical expenses exceeding 10% of a taxpayer’s adjusted gross income (AGI) are deductible.

### State and Local Taxes (SALT)

Taxpayers can deduct either state and local income taxes or state and local sales taxes. Taxpayers may also be able to deduct property taxes on real estate, vehicles or other personal property. The SALT deduction is limited to a total of \$10,000 per year.

Other items that may decrease your adjusted gross income (AGI):

- Traditional IRA contributions
- HSA / FSA contributions
- Dependent care payments
- Student loan interest paid
- Classroom expenses for teachers
- Self-employment expenses
- Alimony paid on a divorce or separation agreement entered into before 2019
- Moving expenses (armed forces)

## WHAT COULD THIS MEAN FOR YOU?

The total of all itemized deductions must exceed the standard deduction for your filing status in order to be claimed. You may choose only the higher of the two.

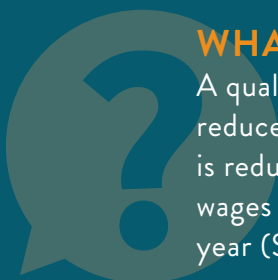


## PASS-THROUGH INCOME DEDUCTION

Small-business owners who are not organized as C corporations usually report all of their business income on their individual tax return. As of 2018, such small-business owners may be eligible to deduct up to 20% of this “pass-through” revenue when calculating their adjusted gross income (AGI).

## WHAT COULD THIS MEAN FOR YOU?

A qualifying small-business owner (e.g., partnership, S corporation, sole proprietor) can reduce his or her taxable income from business sources by up to one-fifth. The deduction is reduced or eliminated based upon the type of business or certain limitations based on wages paid and depreciable assets for single taxpayers who earn more than \$163,300 a year (\$326,600 for married couples filing jointly).







## ALTERNATIVE MINIMUM TAX (AMT)

Single taxpayers with income less than \$73,600 (\$114,600 for married filing jointly) qualify for an exemption to the AMT. Phase-out begins at \$523,600 for single taxpayers and \$1,047,200 for married filing jointly.<sup>8</sup>



### WHAT COULD THIS MEAN FOR YOU?

The AMT applies to a small group of taxpayers.

## 529 COLLEGE SAVINGS PLANS

Tax- and penalty-free distributions from a 529 plan may be used to pay for qualified elementary and high school expenses up to \$10,000 per student per year.<sup>9</sup>

### WHAT COULD THIS MEAN FOR YOU?

You can use these funds to pay for private school tuition.





## RETIREMENT PLANS

The TCJA extended the time frame to roll over money defaulted upon a loan from a 401(k) or other qualified retirement plan. Once an employee has stopped working for the plan sponsor, he or she has to roll over a defaulted loan by the tax return deadline (including any extensions) for the tax year in which the employee left the job. Beyond that window, any remaining balance is considered a distribution and taxable.<sup>10</sup>

Note, too, that the TCJA eliminated the ability to reverse the decision to convert a traditional IRA into a Roth IRA.



### WHAT COULD THIS MEAN FOR YOU?

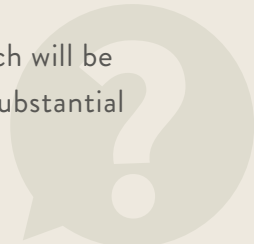
It's important to consult with your financial advisor before making any moves concerning money earmarked for retirement.

## ESTATE TAXES

For 2021, the estate and generation-skipping tax exclusion increased to \$11.7 million. Up to \$15,000 per person may be gifted each year outside of the lifetime gift tax exemption.<sup>11</sup>

### WHAT COULD THIS MEAN FOR YOU?

In 2026, the exemption amount returns to the base \$5 million amount, which will be adjusted for inflation. High net worth estates may want to consider gifting substantial assets while the estate tax threshold is considerably higher.



## CORPORATE TAXES

The TCJA significantly reduced the maximum C corporation income tax rate from 35% to 21%. It also eliminated the corporate alternative minimum tax (AMT) and authorized the United States to shift to the globally accepted territorial tax system. This means that multinational corporations will no longer have to pay U.S. taxes on revenues earned in other countries.



### WHAT COULD THIS MEAN FOR YOU?

The reduced corporate rate was implemented to help U.S. companies compete on a more level playing field with global competitors that have lower tax rates. It gives domestic corporations greater incentive to retain their operations within U.S. borders, promote economic expansion, create more jobs and increase wages.



# TAKEAWAY: TAKE CHARGE OF YOUR TAX BILL WITH PROACTIVE PLANNING

While the Tax Cuts & Jobs Act made sweeping changes to tax legislation, most of the TCJA's provisions are scheduled to expire in 2025. At that time, tax code laws will revert to 2017 levels, unless Congress decides to establish new legislation.

## WHAT COULD THIS MEAN FOR YOU?

Recognize that taxes — much like stock prices, the direction of interest rates and how long we can expect to live — are variables that are largely out of our control. The one thing we can focus on is our individual financial goals.



Your financial advisor can coordinate with other qualified professionals, such as a tax professional and estate planning attorney, to help address any tax concerns in your comprehensive strategy. If you're not sure how tax changes might affect your unique situation or your retirement income, contact your financial advisor.

# SOURCES:

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- <sup>3</sup> U.S. Bureau of Labor Statistics. December 2020. “Table 5. Chained Consumer Price Index for All Urban Consumers (C-CPI-U) and the Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, all items index.” <https://www.bls.gov/news.release/cpi.t05.htm>. Accessed Jan. 20, 2021.
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- <sup>7</sup> Ibid.
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