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November 12, 2020
12:00 - 5:00 pm
Dannible & McKee's Annual
TAX & FINANCIAL PLANNING CONFERENCE
Virtual Event for 2020
Presented by
DANNIBLE & MCKEE, LLP
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Federal Income Tax Updates for Individuals

Individual Tax Update

- Past Legislation
  - Tax Cuts and Jobs Act (TCJA)
- Present Legislation
  - The SECURE Act
  - The CARES Act
- Future Legislation and Changes
  - Summary of Biden Tax Plan & Tax Planning Opportunities
  - IRS News and Notes

Past Legislation - TCJA

- ***Tax rates***. The new law imposed a new tax rate structure with seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate was reduced from 39.6% to 37% and applies to taxable income above $500,000 for single taxpayers, and $600,000 for married couples filing jointly (adjusted for inflation each year).
- ***Standard deduction***. The new law increased the standard deduction to $24,800 for joint filers, $18,650 for heads of household, and $12,400 for singles and married taxpayers filing separately.
- ***Exemptions***. The new law suspended the deduction for personal exemptions. Thus, starting in 2018, taxpayers can no longer claim personal or dependency exemptions.
- ***State and local taxes***. The itemized deduction for state and local income and property taxes is limited to a total of $10,000 starting in 2018.

Married Filing Joint Historical Tax Rates			
	2014	2015	2016
Tax Rates	Income	Income	Income
10%	Up to $18,150	Up to $18,450	Up to $18,550
15%	$18,151 to $73,800	$18,451 to $74,900	$18,551 to $75,300
25%	$73,801 to $148,850	$74,901 to $151,200	$75,301 to $151,900
28%	$148,851 to $226,850	$151,201 to $230,450	$151,901 to$231,450
33%	$226,851 to $405,100	$230,451 to $411,500	$231,451 to $413,350
35%	$405,101 to $457,600	$411,501 to $464,850	$413,351 to $466,950
39.60%	$457,601 or more	$464,851 or more	$466,951 or more

Married Filing Joint Historical Tax Rates				
	2017	2018 TCJA		2019 TCJA
Tax Rates	Income	Tax Rates	Income	Income
10%	Up to $18,650	10%	Up to $19,050	Up to $19,400
15%	$18,651 to $75,900	12%	$19,051 to $77,400	$19,401 to $78,950
25%	$75,901 to $153,100	22%	$77,401 to $165,000	$78,951 to $168,400
28%	$153,101 to $233,350	24%	$165,001 to$315,000	$168,401 to $321,450
33%	$233,351 to $416,700	32%	$315,001 to $400,000	$321,451 to $408,200
35%	$416,701 to $470,700	35%	$400,001 to $600,000	$408,201 to $612,350
39.60%	$470,701 or more	37.00%	$600,001 or more	$612,351 or more

Tax Brackets : Married Filing Joint for 2020 under TCJA				
Tax Rates	Income		Min Tax $	Apply Tax Rate % to the Amount Over
10%	0	Up to $19,750		
12%	$19,751	to $80,250	$1,975 +	$19,750
22%	$80,251	to $171,050	$9,235 +	$80,250
24%	$171,051	to $326,600	$29,211 +	$171,050
32%	$326,601	to $414,700	$66,543 +	$326,600
35%	$414,701	to $622,050	$94,735 +	$414,700
37%	$622,051	or more	$167,307.5 +	$622,050

Past Legislation - TCJA

- ***Qualified Business Income Deduction***
  - Starting in 2018, taxpayers are allowed a deduction equal to 20% of "qualified business income," otherwise known as "pass-through" income, i.e., income from partnerships, S corporations, LLCs, and sole proprietorships.
  - EXAMPLE:

Taxpayer Wages	$150,000
Spouse Wages	$150,000
S-Corp Income	$300,000
Total AGI	$600,000

Past Legislation - TCJA

- ***<u>Qualified Business Income Deduction</u>***
  - EXAMPLE:

AGI	$600,000
QBI	($ 60,000) $300,000 x 20%
Standard Deduction	<u>($ 24,800)</u>
Taxable Income	$515,200
2020 Federal Tax	$129,910 (21.65% effective rate)

Past Legislation - TCJA

- ***Child and family tax credit.*** The new law increased the credit for qualifying children (i.e., children under 17) to $2,000 from $1,000, and increased to $1,400 the refundable portion of the credit.
  - It also introduced a new (nonrefundable) $500 credit for a taxpayer's dependents who are not qualifying children.

- ***Mortgage interest.*** Mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million), starting with loans taken out after December 16, 2017. There is no longer any deduction for interest on home equity loans, regardless of when the debt was incurred except for capital improvements.

- ***Miscellaneous itemized deductions.*** There is no longer a deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2% of adjusted gross income. This category included items such as tax preparation costs, investment expenses, union dues, and unreimbursed employee expenses.

Past Legislation - TCJA

- ***Overall limitation on itemized deductions.*** The new law suspended the overall limitation on itemized deductions that formerly applied to taxpayers whose adjusted gross income exceeded specified amounts.

- ***Moving expenses.*** The deduction for job-related moving expenses has been eliminated, except for certain military personnel. The exclusion for moving expense reimbursements has also been suspended.

- ***Alimony.*** For post-2018 divorce decrees and separation agreements, alimony is not deductible by the paying spouse and is not taxable to the receiving spouse.

- ***Kiddie tax.*** The TCJA modified the kiddie tax to apply the estates' and trusts' ordinary and capital gains rates to the net unearned income of a child. If child's unearned income is more than $2,200, kiddie tax applied. Top rate on all income over $12,500.

Past Legislation - TCJA

- ***<u>Health care " individual mandate</u>."*** Beginning in 2019, there is no longer a penalty.

- ***<u>Estate and gift tax exemption</u>.*** Effective for decedents dying, and gifts made, the estate and gift tax exemption increased to $11.58 million ($23.16 million for married couples).

- ***<u>Alternative minimum tax (AMT) exemption</u>.*** The AMT was retained for individuals, but the exemption (annually adjusted for inflation) increased to $113,400 for joint filers ($56,700 for married taxpayers filing separately), and $72,900 for unmarried taxpayers.
    - The exemption is phased out for taxpayers with alternative minimum taxable income over $1,036,800 for joint filers, and over $518,400 for all.

Past Legislation - TCJA

- ***Excess Business Loss Limitation***
  - The TCJA modified existing tax law on excess business losses by limiting losses from all types of business for noncorporate taxpayers.
  - Disallowed excess business losses of noncorporate taxpayers if the amount of the loss is in excess of $250,000 ($500,000 in the case of a joint return).
  - Excess business losses that are disallowed are treated as a net operating loss carryover to the following taxable year.

- ***Net Operating Loss (NOL)***
  - Elimination of NOL Carryback.

Polling Question 1

Past Legislation

- ***<u>2019 and 2020 Legislation</u>***

- ***<u>The SECURE Act</u>***
  - Setting Every Community Up for Retirement Enhancement Act of 2019 (December 20, 2019).

- ***<u>The CARES Act</u>***
  - Coronavirus Aid, Relief, and Economic Security Act (March 27, 2020).

Present Legislation – SECURE Act

- ***<u>Required minimum distribution (RMD) age raised from 70½ to 72</u>.***
  - Before 2020, retirement plan participants and IRA owners were generally required to begin taking required minimum distributions, or RMDs, from their plan by April 1st of the year following the year they reached age 70½.
  - For distributions required to be made after December 31, 2019, for individuals who attain age 70½ after that date, the age at which individuals must begin taking distributions from their retirement plan or IRA is increased from 70½ to 72.

Present Legislation – SECURE Act

- ***<u>Repeal of the maximum age for traditional IRA contributions</u>.***
  - Before 2020, traditional IRA contributions were not allowed for individuals age 70½ or older.
  - Starting in 2020, the new rules allow an individual of any age to make contributions to a traditional IRA.

- ***<u>Qualified Charitable Distributions</u>***
  - Exclusion is reduced by the excess of:
    - The total amount of IRA deductions allowed to the taxpayer for all tax years ending on or after the date the taxpayer attains age 70½; and
    - Over the total amount of reductions for all tax years preceding the current tax year.

Present Legislation – SECURE Act

- ***Qualified Charitable Distributions (EXAMPLE)***

  - Individual Taxpayer turns 70 ½ in 2019;
  - Contributes to IRA and Deducts $5,000 in 2020 and $5,000 in 2021;
  - Makes QCD of $6,000 in 2022 and $6,500 in 2023;
  - 2022 Exclusion is reduced to zero ($6,000 minus 10,000); and
  - Remaining $4,000 reduces exclusion in 2023 to $2,500 ($6,500 minus $4,000).

Present Legislation – SECURE Act

- ***Partial elimination of stretch IRAs***.
  - For deaths of plan participants or IRA owners occurring before 2020, beneficiaries (both spousal and non-spousal) were generally allowed to stretch out the tax-deferral advantages of the plan or IRA by taking distributions over the beneficiary's life or life expectancy (in the IRA context, this is sometimes referred to as a "stretch IRA").
  - However, for deaths of plan participants or IRA owners beginning in 2020 (later for some participants in collectively bargained plans and governmental plans), distributions to most non-spouse beneficiaries are generally required to be distributed within ten years following the plan participant's or IRA owner's death. So, for those beneficiaries, the "stretching" strategy is no longer allowed.
  - Exceptions to the 10-year rule are allowed for distributions to:
    - The surviving spouse of the plan participant or IRA owner;
    - a child of the plan participant or IRA owner who has not reached majority;
    - a chronically ill individual; and
    - any other individual who is not more than ten years younger than the plan participant or IRA owner.
  - Those beneficiaries who qualify under this exception may generally still take their distributions over their life expectancy (as allowed under the rules in effect for deaths occurring before 2020).

Present Legislation – SECURE Act

- ***Expansion of Section 529 education savings plans*.**
  - For distributions made after December 31, 2018 (the effective date is retroactive), tax-free distributions from 529 plans can be used to pay for fees, books, supplies, and equipment required for the designated beneficiary's participation in a registered apprenticeship program.
  - In addition, tax-free distributions (up to $10,000) are allowed to pay the principal or interest on a qualified education loan of the designated beneficiary, or a sibling of the designated beneficiary.

- ***Kiddie tax changes*.**
  - The new rules enacted on December 20, 2019, repeal the kiddie tax measures that were added by the TCJA. So, starting in 2020 (with the option to start retroactively in 2018 and/or 2019), the unearned income of children is taxed under the pre-TCJA rules, and not at trust/estate rates.

Present Legislation – SECURE Act

- Penalty-free retirement plan withdrawals for expenses related to the birth or adoption of a child.

- Taxable non-tuition fellowship and stipend payments are treated as compensation for IRA purposes.

- Tax-exempt difficulty-of-care payments are treated as compensation for determining retirement contribution limits.

Polling Question 2

Present Legislation – CARES Act

- ***<u>Individual recovery rebate/credit</u>*.**
  - An eligible individual is allowed an income tax credit for 2020 equal to the sum of: (1) $1,200 ($2,400 for eligible individuals filing a joint return); plus (2) $500 for each qualifying child of the taxpayer.
  - Advance payment of credit during 2020.
  - The amount of the credit is reduced (but not below zero) by 5% of the taxpayer's adjusted gross income (AGI) in excess of: (1) $150,000 for a joint return, (2) $112,500 for a head of household, and (3) $75,000 for all other taxpayers.
  - If the taxpayer received an advance rebate during 2020 that was less than the credit to which the taxpayer is entitled for 2020, the taxpayer will be able to claim the balance of the credit when filing the 2020 return. If, on the other hand, the advance rebate received was greater than the credit to which the taxpayer is entitled, the taxpayer won't have to pay back the excess.

Present Legislation – CARES Act

- ***<u>No 10% additional tax for coronavirus-related retirement plan distributions</u>.***
  - A coronavirus-related distribution is any distribution (subject to dollar limits discussed below), made on or after January 1, 2020, and before December 31, 2020, from an eligible retirement plan, made to a qualified individual.
  - A qualified individual is an individual:
    - Who is diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention (CDC);
    - Whose spouse or dependent is diagnosed with such virus or disease by such a test; or
    - Who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of childcare due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury.
  - The aggregate amount of distributions received by an individual which may be treated as coronavirus-related distributions for any tax year cannot exceed $100,000.

Present Legislation – CARES Act

- ***<u>Recontribution</u>***
  - Any individual who receives a coronavirus-related distribution may, at any time during the 3-year period beginning on the day after the date on which such distribution was received, make one or more contributions in an aggregate amount not to exceed the amount of such distribution to an eligible retirement plan of which such individual is a beneficiary and to which a rollover contribution of such distribution could be made.

- ***<u>Inclusion in income over three years</u>.***
  - Unless the taxpayer elects not to, any amount required to be included in gross income for such tax year will be so included ratably over the 3-tax year period beginning with such tax year.

Present Legislation – CARES Act

- ***<u>Limit on plan loans temporarily increased to $100,000; repayments delayed</u>.***
  - Temporarily increases the amount allowable from a qualified employer plan to a qualified individual made during the 180-day period beginning on March 27, 2020, to the lesser of (A) $100,000 or (B) the present value of employee's nonforfeitable accrued benefit.

- ***<u>Required minimum distributions waived for 2020</u>.***
  - In addition, the RMD requirements do not apply to any distribution which is required to be made in calendar year 2020 by reason of: (i) a required beginning date occurring in calendar year 2020, and (ii) the distribution was not made before January 1, 2020.

Present Legislation – CARES Act

- ***<u>Tax-excluded education payments by an employer temporarily include student loan repayments</u>.***
  - Educational payments that are excluded from employee gross income include "eligible student loan repayments" made before January 1, 2021.
  - Eligible student loan repayments are payments by the employer, whether paid to the employee or a lender, of principle or interest on any qualified higher education loan for the education of the employee (but not of a spouse or dependent).
  - The payments are subject to the overall $5,250 per employee limit for all educational payments.
  - To prevent a double benefit, student loan repayments for which the exclusion is allowable can't be deducted under Code Section 221 (which allows the deduction of student loan interest subject to a dollar limit and a phase-out above specified taxpayer income levels).

Present Legislation – CARES Act

- ***<u>Changes to the definition of qualified medical expenses</u>.***
  - The Act eliminates the requirement that qualified medical expenses include only amounts paid for prescribed medicine or drugs.

- ***<u>High deductible health plan safe harbor for telehealth services</u>.***
  - In the case of plan years beginning on or before December 31, 2021, a health plan will not fail to be treated as an HDHP by reason of failing to have a deductible for telehealth and other remote care services.

- ***<u>$300 above-the-line charitable deduction</u>.***
  - The Act adds a deduction to the calculation of gross income, in the case of tax years beginning in 2020, for the amount (not to exceed $300) of qualified charitable contributions made by an eligible individual during the tax year.

Present Legislation – CARES Act

- ***<u>Modification of limitations on individual cash charitable contributions during 2020</u>.***
  - Temporary suspension of limitations on certain cash contributions.
  - 60% adjusted gross income (AGI) limit disregarded for qualified contributions.
  - To the extent the qualified contributions exceed the taxpayer's base (100% of AGI), excess treated as a carryover under normal 5-year carryover rules.
  - Planning Point – 2020 is the year to use up prior carryforward balances.

Present Legislation – CARES Act

- ***Modification of limitation on losses for noncorporate taxpayers*.**
  - The Act retroactively modifies the loss limitation for noncorporate taxpayers so they can deduct excess business losses arising in 2018, 2019, and 2020 (with losses arising in tax years beginning after December 31, 2020 and before January 1, 2026 continuing to be subject to the limitation).
  - The provision also includes retroactive technical corrections to the TCJA. Thus, the provision clarifies that excess business losses don't include any deduction under Code Section 172 (net operating loss deduction) or under Code Section 199A (qualified business income deduction).
  - The provision restates the excess loss carryover rule to provide that a disallowed excess loss is an NOL for the tax year for purposes of determining any NOL carryover to later tax years (rather than being automatically treated as an NOL carryover to the next tax year).

Present Legislation – CARES Act

- ***Modification of limitation on losses for noncorporate taxpayers*.**
  - EXAMPLE:
    - In 2018, a married filing joint couple reported total business loss from S-Corp pass through of $900,000.
    - $500,000 of loss allowed.
    - 2018 AGI:

Taxpayer Wages	$150,000
Spouse Wages	$150,000
S-Corp Loss	($500,000)
Total AGI	($200,000)

Present Legislation – CARES Act

- ***Modification of limitation on losses for noncorporate taxpayers*.**
  - EXAMPLE:
    - The disallowed loss of $400,000 is treated as additional net operating loss.
    - Total 2018 Net Operating Loss:

AGI	($200,000)
Excess Business Loss	($400,000)
Total Net Operating Loss	($600,000)

Present Legislation – CARES Act

- ***Modification of rules relating to net operating loss (NOL) carrybacks*.**
  - NOLs arising in a tax year beginning after December 31, 2017 and before January 1, 2021 can be carried back to each of the five tax years preceding the tax year of such loss.
  - Election can be made to forego the carryback period (needs to be done by the due date of the 2020 tax return).
  - Carryback Refund Claims for 2019 loss are due December 31, 2020.
  - Losses prior to 2019 can be carried back but amended returns must be filed to claim the refund.

Present Legislation – CARES Act

- ***Modification of rules relating to net operating loss (NOL) carrybacks.***
  - EXAMPLE:
    - $600,000 NOL generated in 2018.
    - Option to Carryback to 2013 or carryforward to 2019 & 2020.
    - Income in 2013 is the same as 2020:

Taxpayer Wages	$150,000
Spouse Wages	$150,000
S-Corp Income	$300,000
Total AGI	$600,000

Present Legislation

- ***Excess Business Loss and NOL Carryback*.**
  - EXAMPLE:

	2020	2013
AGI	$600,000	$600,000
QBI	($ 60,000)	0
Standard Deduction	($ 24,800)	($ 12,200)
Taxable Income	$515,200	$587,800
Federal Tax	$129,910	$180,415

Polling Question 3

Future Legislation – Year-End Planning for 2020 and Beyond

- ***Uncertainty remains.***
  - Control of the Senate will not be determined until January 2021.
  - What is the likelihood of tax legislative changes?
  - Where does Biden’s tax plan land on the priority list even if there is a Democratic controlled Senate?
    - Pandemic, Recovery and Relief.
    - Healthcare.
    - Infrastructure.
    - Foreign Policy.
    - Energy and Climate Policy.
    - Education.
    - Tax Reform.

Future Legislation

- ***Details of the Biden Tax Plan***
  - $3.5 trillion in additional tax revenue by raising taxes on all corporations and individuals making over $400,000 annually.
  - Reverts the top individual income tax rate from 37% under current law to the pre-Tax Cuts and Jobs Act level of 39.6%.

Rate	For Unmarried Individuals	For Married Individuals Filing Joint Returns	For Heads of Households
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%	Over $523,600	Over $628,300	Over $523,600
Source: Internal Revenue Service			

Future Legislation

- ***<u>Details of the Biden Tax Plan</u>***
  - Taxes long-term capital gains and qualified dividends at the ordinary income tax rate of 39.6% on income above $1 million.
  - Imposes a 12.4% Old-Age, Survivors, and Disability Insurance (Social Security) payroll tax on income earned above $400,000, evenly split betwaeen employers and employees. This would create a “donut hole” in the current Social Security payroll tax, where wages between $137,700, the current wage cap, and $400,000 are not taxed.
    - Medicare tax (2.9%) and Obamacare Tax (.9% on wages over $250,000) still apply.

Future Legislation

- ***Details of the Biden Tax Plan***
  - Phases out the qualified business income deduction (Section 199A) for filers with taxable income above $400,000.
  - EXAMPLE:

	2020	Biden Plan
AGI	$600,000	$600,000
QBI	($ 60,000)	0
Standard Deduction	($ 24,800)	($ 24,800)
Taxable Income	$515,200	$575,200
Federal Tax	$129,910	$150,910

Future Legislation

- ***<u>Details of the Biden Tax Plan</u>***
  - Caps the tax benefit of itemized deductions to 28% of value for those earning more than $400,000, which means that taxpayers earning above that income threshold with tax rates higher than 28% would face limited itemized deductions.
  - Restores the Pease limitation on itemized deductions for taxable incomes above $400,000.
  - Expands the Earned Income Tax Credit (EITC) for childless workers aged 65+; provides renewable-energy-related tax credits to individuals.

Future Legislation

- ***Details of the Biden Tax Plan***
  - Expands the Child and Dependent Care Tax Credit (CDCTC) from a maximum of $3,000 in qualified expenses to $8,000 ($16,000 for multiple dependents) and increases the maximum reimbursement rate from 35% to 50%.
  - Increases the Child Tax Credit (CTC) from a maximum value of $2,000 to $3,000 for children 17 or younger, while providing a $600 bonus credit for children under 6. The CTC would also be made fully refundable, removing the $2,500 reimbursement threshold and 15% phase-in rate.
  - Reestablishes the First-Time Homebuyers' Tax Credit, which was originally created during the Great Recession to help the housing market. Biden's homebuyers' credit would provide up to $15,000 for first-time homebuyers.

Future Legislation

- ***<u>Details of the Biden Tax Plan</u>***
  - Expansion of the Premium Tax Credit that makes state-sponsored health plans more affordable.
  - Create a renter's credit to reduce rent and utilities to 30% of income.
  - New credit up to $5,000 for caregivers of elderly relatives.
  - Estate Tax changes.
    - Reduce exemption back to $3.5 million.
    - Appreciated assets will be taxable at death (Eliminating the basis step-up benefit).

Future Legislation

- ***Tax Planning for Republican Senate***
  - Unlikely that individual tax rates would increase immediately effective in 2021.
  - Acceleration of Deductions and Deferral of Income.
    - Retirement plan contributions (IRA, 401k, etc.).
    - Bunching Itemized Deductions.
    - Realize capital losses to offset gains.
    - Take advantage of one-time rules, such as charitable contribution deduction of $300 and 100% of AGI limitation.
    - Delay retirement plan distributions (RMDs).

Future Legislation

- ***<u>Tax Planning for Democratic Senate</u>***
  - Individual tax rates and capital gain rates could increase immediately effective in 2021 retroactively.
  - Acceleration of Income and Deferral of Deductions?
    - Consider Roth IRA conversions.
    - Realize capital gains.
    - Elect out of Installment Sale Treatment.
    - Take retirement plan distributions (RMDs).
    - Execute large gifts prior to year-end.
    - Elect out of NOL carryback treatment.

Polling Question 4

News and IRS Releases

- ***Affordable Care Act***
  - 2017 Removal of Penalty.
  - Net Investment Income Tax and Additional Medicare Tax.
  - Status of current challenge in Supreme Court.
  - Severability.

IRS News and Notes

- ***Recent IRS Releases***
  - Taxpayer Relief Initiative (November 2nd).
    - Temporarily Delaying Collections.
    - Offer in Compromise.
    - Relief from Penalties.
    - Installment Agreements.

IRS News and Notes

- ***Recent IRS Releases***
  - Notice 2020-75 (November 9th).
    - State and Local Tax Deduction for Partnerships and S-Corporations.
    - Not subject to SALT limitation.
    - Proposed Regulations to come.

IRS News and Notes

- ***Recent IRS Releases***
  - IRS Operations (October 30, 2020).
    - Processing Delays for Paper Tax Returns.
    - Notices – Extended Due Dates for Responding.
    - IRS to resume balance due notices.
    - Limited resources for compliance activities.

IRS News and Notes

- ***IRS Dirty Dozen***
  - Phishing.
  - Fake Charities.
  - Threatening Impersonator Phone Calls.
  - Social Media Scams.
  - EIP or Refund Theft.
  - Senior Fraud.

IRS News and Notes

- ***<u>IRS Dirty Dozen</u>***
  - Scams targeting non-English speakers.
  - Unscrupulous Return Preparers.
  - Offer in Compromise Mills.
  - Fake Payments with Repayment Demands.
  - Payroll and HR Scams.
  - Ransomware.

Tax Inflation Adjustments for Tax Year 2021

- The standard deduction for married couples filing jointly for tax year 2021 rises to $25,100, up $300 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to $12,550 for 2021, up $150, and for heads of households, the standard deduction will be $18,800 for tax year 2021, up $150.

- Marginal Rates: For tax year 2021, the top tax rate remains 37% for individual single taxpayers with incomes greater than $523,600 ($628,300 for married couples filing jointly). The other rates are:
    - 35%, for incomes over $209,425 ($418,850 for married couples filing jointly);
    - 32% for incomes over $164,925 ($329,850 for married couples filing jointly);
    - 24% for incomes over $86,375 ($172,750 for married couples filing jointly);
    - 22% for incomes over $40,525 ($81,050 for married couples filing jointly);
    - 12% for incomes over $9,950 ($19,900 for married couples filing jointly); and
    - The lowest rate is 10% for incomes of single individuals with incomes of $9,950 or less ($19,900 for married couples filing jointly).

Tax Inflation Adjustments for Tax Year 2021

- For 2021, the FICA tax rate for employers is 7.65%—6.2% for OASDI and 1.45% for HI (the same as in 2020).
- 6.2% Social Security tax on the first $142,800 of wages (maximum tax is $8,853.60 [6.2% of $142,800]); plus
- 1.45% Medicare tax on the first $200,000 of wages ($250,000 for joint returns; $125,000 for married taxpayers filing a separate return); plus
- 2.35% Medicare tax (regular 1.45% Medicare tax + 0.9% additional Medicare tax) on all wages in excess of $200,000 ($250,000 for joint returns; $125,000 for married taxpayers filing a separate return).

Tax Inflation Adjustments for Tax Year 2021

- **Contributions to a Traditional IRA, here are the phase-out ranges for 2021.**
  - For single taxpayers covered by a workplace retirement plan, the phase-out range is $66,000 to $76,000, up from $65,000 to $75,000.
  - For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is $105,000 to $125,000, up from $104,000 to $124,000.
- For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $198,000 and $208,000, up from $196,000 and $206,000.
  - For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

- The limit on annual contributions to an IRA (Traditional or Roth) remains unchanged at $6,000. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.

Tax Inflation Adjustments for Tax Year 2021

- **Phase-outs for Roth IRA Contributions**.
  - The income phase-out range for taxpayers making contributions to a Roth IRA is $125,000 to $140,000 for singles and heads of household, up from $124,000 to $139,000. For married couples filing jointly, the income phase-out range is $198,000 to $208,000, up from $196,000 to $206,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

- The limit on contributions by employees who participate in 401(k), 403(b), most 457 plans, and the Federal government's Thrift Savings Plan remains unchanged at $19,500.

- The catch-up contribution limit for employees aged 50 and over who participate in these plans remains unchanged at $6,500.

- The limitation regarding SIMPLE retirement accounts remains unchanged at $13,500.

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