Year-end Tax Moves for 2020

Jackson ROSKELLEY WEALTH ADVISORS

September 2020

Potential Tax Reduction Strategies

One of our main goals as holistic financial advisors is to help our clients recognize tax reduction opportunities within their investment portfolios and overall financial planning strategies. Staying current on the ever-changing tax environment is a key component to help our clients benefit from potential tax reduction strategies.

2020 was an unusual year that had several major legislative bills passed that could have an impact on your taxes. It is also a presidential election year, so investors might want to think about potential future tax strategies. Although it will take more than a change in president to enact tax laws changes, it is always wise to educate yourself in advance. **This report includes sections on possible tax law changes if there is a change in administration (based on the current proposals) and notable CARES Act and SECURE Act changes that you should be aware of. The main focus of this report is on what individual taxpayers can do to potentially save money on their 2020 taxes.**

One big uncertainty for all taxpayers is what will happen to the Tax Code after 2025.

The Tax Cuts and Jobs Act (TCJA) enacted in 2017 brought many changes to the tax code. One big uncertainty for all taxpayers is what will happen to the Tax Code after 2025. The way the Tax Cuts and Jobs Act is set up, the changes to the corporate side of the tax code are permanent while many provisions for individuals that took effect in 2018 are currently set to expire after 2025.

The objective of this report is to share strategies that could be effective if considered and implemented before year-end. Please note that this report is not a substitute for using a tax professional. In addition, many states do not follow the same rules and computations as the federal income tax rules. Make sure you check with your tax preparer to see what tax rates and rules apply for your particular state.

Income Tax Rates for 2020

For 2020 there are still seven tax rates.
They are 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

Under current law this seven-rate structure will phase out on January 1, 2026

Tax Rate	Single	Married/Joint & Widow(er)	Married/Separate	Head of Household
10%	$0 to $9,875	$0 to $19,750	$0 to $9,875	$0 to $14,000
12%	$9,876 to $40,125	$19,751 to $80,250	$9,876 to $40,125	$14,101 to $53,700
22%	$40,126 to $85,525	$80,251 to $171,050	$40,126 to $85,525	$53,701 to $85,500
24%	$85,526 to $163,300	$171,051 to $326,600	$85,526 to $163,300	$85,501 to $163,300
32%	$163,301 to $207,350	$326,601 to $414,700	$163,301 to $207,350	$163,301 to $207,350
35%	$207,351 to $518,400	$414,701 to $622,050	$207,351 to $311,025	$207,351 to $518,400
37%	$518,401 or more	$622,051 or more	$311,026 or more	$518,401 or more

Jackson Roskelley Wealth Advisors – Year-end Tax Moves for 2020

Year-end Tax Planning for 2019

2020 is the third year for the new tax laws and new tax forms that were created by the 2017 Tax Cuts and Jobs Act (TCJA). One of our primary goals is to help our clients try to optimize their tax situations. This report offers many suggestions and reviews strategies that can be useful to achieve this goal.

Everyone's situation is unique but it is wise for every taxpayer to begin their final year-end planning now! Choosing the appropriate tactics will depend on your income as well as a number of other personal circumstances. As you read through this report it could be helpful to note those strategies that you feel may apply to your situation so you can discuss them with your tax preparer.

Some items to consider include

Evaluate the use of itemized deductions versus the standard deduction

For 2020, the standard deduction amounts will increase to $12,400 for individuals and married couples filing separately, $18,650 for heads of household, and $24,800 for married couples filing jointly and surviving spouses.

As a reminder, in 2018, the Tax Cuts and Jobs Act roughly doubled the standard deduction. It's reported that this helped decrease tax payments for many of those who typically claim this standard deduction. Although personal exemption deductions are no longer available, the larger standard deduction, combined with lower tax rates and an increased child tax credit, could result in less tax. You should consider running the numbers to assess the impact on your situation before deciding to take itemized deductions.

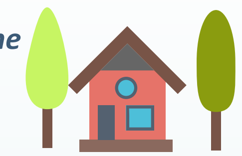
The TCJA still eliminates or limits many of the previous laws concerning itemized deductions. An example is the state and local tax deduction (SALT), which is now capped at $10,000 per year, or $5,000 for a married taxpayer filing separately.

Considering bunching charitable contributions or using a donor-advised fund

For many taxpayers, the larger standard deduction and changes to key itemized deductions resulted in them no longer itemizing. It was estimated that about 15 million filers used the charitable contribution write-off in 2018, a sharp decline from the 36 million who utilized it in 2017. For those taxpayers who are charitably inclined it makes sense to think about a plan. One way to utilize the tax advantages of charitable contributions is through a strategy referred to as "bunching." Bunching is the consolidation of donations and other deductions into targeted years so that in those years, the deduction amount will exceed the standard deduction amount. (wsj.com 2/15/2019)

Another strategy is to consider using a donor-advised fund. A donor-advised fund, or DAF, is a philanthropic vehicle established at a public charity. It allows donors to make a charitable contribution, receive an immediate tax benefit and then recommend grants from the fund over time. Taxpayers can take advantage of the charitable deduction when they're at a higher marginal tax rate while actual payouts from the fund can be deferred until later. It can be a win-win situation. If you are charitably inclined and need some guidance, please call us and we can assist you.

Reviewing your home equity debt interest



For mortgages taken out after October 13, 1987, and before December 16, 2017, mortgage interest is fully deductible up to the first $1,000,000 of mortgage debt. The threshold has been lowered to the first $750,000 or $375,000 (married filing separately) on homes purchased after December 15, 2017. All interest paid on any mortgage taken out before October 13, 1987 is fully deductible regardless of your mortgage amount (called "grandfathered debt"). This change under the TCJA law applies to all tax years between 2018 and 2025. Many mortgage holders refinanced for lower rates in the last few years so remember for larger mortgages, that could change your situation.

Home equity lines of credit (HELOCs) are deductible as well, but only if the funds were used to buy or substantially improve the home that secures the loan. Please share with your tax preparer how the proceeds of your home equity loan were used. If you used the cash to pay off credit card or other personal debts, then the interest isn't deductible.

Revisit the use of qualified tuition plans

Qualified tuition plans, also named 529 plans, are a great way to tax efficiently plan the financial burden of paying tuition for children or grandchildren to attend elementary or secondary schools. Earnings in a 529 plan originally could be withdrawn tax-free only when used for qualified higher education at colleges, universities, vocational schools or other post-secondary schools. However, they changed that so 529 plans can now be used to pay for tuition at an elementary or secondary public, private or religious school, up to $10,000 per year. Unlike IRAs, there are no annual contribution limits for 529 plans. Instead, there are maximum aggregate limits, which vary by plan. Under federal law, 529 plan balances cannot exceed the expected cost of the beneficiary's qualified higher education expenses. Limits vary by state, ranging from $235,000 to $529,000. Some states even offer a state tax credit or deduction up to a certain amount.

Contributions to a 529 plan are considered completed gifts for federal tax purposes, and in 2020 up to $15,000 per donor, per beneficiary, qualifies for the annual gift tax exclusion. Excess contributions above $15,000 must be reported on IRS Form 709 and will count against the taxpayer's lifetime estate and gift tax exemption amount ($11.58 million in 2020).

There is also an option to make a larger tax-free 529 plan contribution, if the contribution is treated as if it were spread evenly over a 5-year period. For example, a $75,000 lump sum contribution to a 529 plan can be applied as though it were $15,000 per year, as long as no other gifts are made to the same beneficiary over the next 5 years. Grandparents sometimes use this 5-year gift-tax averaging as an estate planning strategy. If you want to explore setting up a 529 plan, call us and we would be happy to assist you.

Maximize your qualified business income deduction (if applicable)

One of the most talked about changes from the Tax Cuts and Jobs Act is still the qualified business income deduction under Section 199A. Taxpayers who own interests in a sole proprietorship, partnership, LLC, or S corporation may be able to deduct up to 20 percent of their qualified business income. Please be careful because this deduction is subject to various rules and limitations.

There are planning strategies to consider for business owners. For example, business owners can adjust their business's W-2 wages to maximize the deduction. Also, it may be beneficial for business owners to convert their independent contractors to employees where possible, but before doing so, please make sure the benefit of the deduction outweighs the increased payroll tax burden and cost of providing employee benefits. Other planning strategies can include investing in short-lived depreciable assets, restructuring the business, and leasing or selling property between businesses. This piece of tax legislation would take an entire report to discuss, so we recommend that if you are a business owner, you should talk with a qualified tax professional about how this new Section 199A could potentially work for you.

Actions to Consider Before Year-End

- Guestimate your new tax rates.
- Review notable tax law changes for 2020 that may affect you.
- Review your capital gains and losses.
- Review your charitable giving.
- Review your retirement savings options.
- Consider Roth IRA conversions.
- Consider additional year-end tax strategies.
- Understand potential tax law proposals
- Review your tax strategies with a tax preparer

Our Team

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Consider All of Your Retirement Savings Options for 2020

If you have earned income or are working, you should consider contributing to retirement plans. This is an ideal time to make sure you maximize your intended use of retirement plans for 2020 and start thinking about your strategy for 2021. For many investors, retirement contributions represent one of the smarter tax moves that they can make.

Here are some retirement plan strategies we'd like to highlight.

- **401(k) contribution limits increased.** The elective deferral (contribution) limit for employees under the age of 50 who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $19,500, up from $19,000. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan increases also to an additional $6,500 ($26,000 total). **As a reminder, these contributions must be made in 2020.**
- **IRA contribution limits unchanged.** The limit on annual contributions to an Individual Retirement Account (IRA) which was increased in 2019, remains at $6,000 for 2020. 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 (for a total of $7,000). IRA contributions for 2020 can be made all the way up to the April 15, 2021 filing deadline.
- **Higher IRA income limits.** The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (MAGI) of $65,000 and $75,000 for 2020. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is $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 in 2020 as the couple's income reaches $196,000 and completely at $206,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range remains at $0 to $10,000 for 2020. Please keep in mind, if your earned income is less than your eligible contribution amount, your maximum contribution amount equals your earned income.
- **Increased Roth IRA income cutoffs.** The MAGI phase-out range for taxpayers making contributions to a Roth IRA is $196,000 - $206,000 for married couples filing jointly in 2020. For singles and heads of household, the income phase-out range is $124,000 - $139,000. For a married individual filing a separate return, the phase-out range remains at $0 to $10,000. Please keep in mind, if your earned income is less than your eligible contribution amount, your maximum contribution amount equals your earned income**.**
- **Larger saver's credit threshold.** The MAGI limit for the saver's credit (also known as the Retirement Savings Contribution Credit) for low- and moderate-income workers is $65,000 for married couples filing jointly in 2020, $48,700 for heads of household and $32,500 for all other filers.
- **Be careful of the IRA one rollover rule.** Investors are limited to only one rollover from all of their IRAs to another in any 12-month period. A second IRA-to-IRA rollover in a single year could result in income tax becoming due on the rollover, a 10% early withdrawal penalty, and a 6% per year excess contributions tax as long as that rollover remains in the IRA. Individuals can only make one IRA rollover during any 1-year period, but there is no limit on trustee-to-trustee transfers. Multiple trustee-to-trustee transfers between IRAs and conversions from traditional IRAs to Roth IRAs are allowed in the same year.

The CARES Act allowed you to not take your Required Minimum Distributions (RMDs) in 2020. If you took an RMD in 2020, you had till August 31, 2020 to roll that distribution back into your IRA and this roll back was not subject to the 60 day or one per year rule. If you are rolling over an IRA or have any questions on IRAs, please call us.

Roth IRA Conversions

Some IRA owners may want to consider converting part or all of their traditional IRAs to a Roth IRA. This is never a simple or easy decision. Roth IRA conversions can be helpful, but they can also create immediate tax consequences and can bring additional rules and potential penalties. Under the new laws, you can no longer unwind a Roth conversion by re-characterizing it. It is best to run the numbers with a qualified professional and calculate the most appropriate strategy for your situation. **Call us if you would like to review your Roth IRA conversion options.**

Capital Gains and Losses

Looking at your investment portfolio can reveal a number of different tax saving opportunities. Start by reviewing the various sales you have realized so far this year on stocks, bonds and other investments. Then review what's left and determine whether these investments have an unrealized gain or loss. (Unrealized means you still own the investment, versus realized, which means you've actually sold the investment.)

Know your basis. In order to determine if you have unrealized gains or losses, you must know the tax basis of your investments, which is usually the cost of the investment when you bought it. However, it gets trickier with investments that allow you to reinvest your dividends and/or capital gain distributions. We will be glad to help you calculate your cost basis.

Consider loss harvesting. If your capital gains are larger than your losses, you might want to do some "loss harvesting." This means selling certain investments that will generate a loss. You can use an unlimited amount of capital losses to offset capital gains. However, you are limited to only $3,000 ($1,500 if married filing separately) of net capital losses that can offset other income, such as wages, interest and dividends. Any remaining unused capital losses can be carried forward into future years indefinitely.

Be aware of the "wash sale" rule. If you sell an investment at a loss and then buy it right back, the IRS disallows the deduction. The "wash sale" rule says you must wait at least 30 days before buying back the same security in order to be able to claim the original loss as a deduction. The deduction is also disallowed if you bought the same security within 30 days before the sale. However, while you cannot immediately buy a substantially identical security to replace the one you sold, you can buy a similar security, perhaps a different stock, in the same sector. This strategy allows you to maintain your general market position while utilizing a tax break.

Sell worthless investments. If you own an investment that you believe is worthless, ask your tax preparer if you can sell it to someone other than a related party for a minimal amount, say $1, to show that it is, in fact, worthless. The IRS often disallows a loss of 100% because they will usually argue that the investment has to have at least some value.

Always double-check brokerage firm reports. If you sold a security in 2020, the brokerage firm reports the basis on an IRS Form 1099-B in early 2021. Unfortunately, sometimes there could be problems when reporting your information, so we suggest you double-check these numbers to make sure that the basis is calculated correctly and does not result in a higher amount of tax than you need to pay.

Long-term Capital Gains Tax Rates

Tax rates on long-term capital gains and qualified dividends did not change for 2020, but the income thresholds to qualify for the various rates did go up. You may qualify for a 0% capital gains tax rate for some or all of your long-term capital gains realized in 2020. In 2020, the 0% rate applies for individual taxpayers with taxable income up to $40,000 on single returns, $53,600 for head-of-household filers and $80,000 for joint returns. If this is the case, then the strategy is to figure out how much long-term capital gains you might be able to recognize to take advantage of this tax break.

The 3.8% surtax on net investment income stays the same for 2020. It starts for single people with modified AGI over $200,000 and for joint filers with modified AGI over $250,000.

Long-term Capital Gains Rate	Single Taxpayers	Married Filing Jointly	Head of Household
0%	Up to $40,000	Up to $80,000	Up to $53,600
15%	$40,001-$441,450	$80,001-$496,600	$53,601-$469,050
20%	Over $441,451	Over $496,601	Over $469,051

Source: irs.gov

NOTE: The 0%, 15% and 20% long-term capital gains tax rates only apply to "capital assets" (such as marketable securities) held longer than one year. Anything held one year or less is considered a "short-term capital gain" and those are taxed at ordinary income tax rates

Additional Year-end Tax Strategies and Ideas

MAKE USE OF THE ANNUAL GIFT TAX EXCLUSION. ou may gift up to $15,000 tax-free to each donee in 2020. These "annual exclusion gifts" do not reduce your $11,580,000 lifetime gift tax exemption. This annual exclusion gift is doubled to $30,000 per donee for gifts made by married couples of jointly held property or when one spouse consents to "gift-splitting" for gifts made by the other spouse.

HELP SOMEONE WITH MEDICAL OR EDUCATION EXPENSES. There are opportunities to give unlimited tax-free gifts when you pay the provider of the services directly. The medical expenses must meet the definition of deductible medical expenses. Qualified education expenses are tuition, books, fees, and related expenses, but not room and board. You can find the detailed qualifications in IRS Publications 950 and the instructions for IRS Form 709 at www.irs.gov.

MAKE GIFTS TO TRUSTS. These gifts often qualify as annual exclusion gifts ($15,000 in 2020) if the gift is direct and immediate. A gift that meets all the requirements removes the property from your estate. The annual exclusion gift can be contributed for each beneficiary of a trust. **We are happy to review the details with your estate planning attorney.**

Some Notable and Continuing Tax Changes for 2020

Some previous itemized deductions are still affected in 2020 under the tax laws. They include:

The floor for deductible medical expenses is still at 7.5%. The 2020 threshold for deducting medical expenses on Schedule A is 7.5% of AGI. The adjusted-gross-income threshold was slated to jump from 7.5% to 10% after 2018, but the 2019 government funding law revived the 7.5% figure for 2019 and 2020. The IRS on IRS.gov provides a long list of expenses that qualify as "medical expenses," so it can be a good idea to keep keeping track of yours if you think you may qualify.

State and local income, sales, and real and personal property taxes (SALT) are still limited to $10,000.

The deduction for casualty and theft losses is currently allowed only for presidentially declared disaster areas.

Alimony deductions. Under prior law, alimony and separate maintenance payments were deductible by the payor and includible in income by the payee. For divorce and separation instruments executed or modified after December 31, 2018, alimony and separate maintenance payments are not deductible by the payor-spouse, nor includible in the income of the payee-spouse.

Education Planning

The student loan interest deduction, education credits, exclusion for savings bond interest, tuition waivers for graduate students, and the educational assistance fringe benefit are all still available in 2020. Also, starting in 2020, 529 plan funds can now be used to pay for fees, books, supplies and equipment for certain apprenticeship programs. In addition, up to $10,000 in total (not annually) can now be withdrawn from 529 plans to pay off student loans. The 2020 lifetime learning credit, which allows you can claim 20% of your out-of-pocket costs for tuition, fees and books, up to $10,000, for a total of $2,000 phases out for couple at $118,000 to $138,000. The AGI range for singles is $59,000 to $69,000.

Charitable Giving

This is a great time of year to clean out your garage and give your items to charity. Please remember that you can only write off these donations to a charitable organization if you itemize your deductions. Sometimes your donations can be difficult to value. You can find estimated values for your donated items through a value guide offered by Goodwill at https://goodwillnne.org/donate/donation-value-guide/

Send cash donations to your favorite charity by December 31, 2020 and be sure to hold on to your cancelled check or credit card receipt as proof of your donation. If you contribute $250 or more, you also need a written acknowledgement from the charity. If you plan to make a significant gift to charity this year, consider gifting appreciated stocks or other investments that you have owned for more than one year. Doing so boosts the savings on your tax returns. Your charitable contribution deduction is the fair market value of the securities on the date of the gift, not the amount you paid for the asset and therefore you avoid having to pay taxes on the profit.

Do not donate investments that have lost value. It is best to sell the asset with the loss first and then donate the proceeds, allowing you to take both the charitable contribution deduction and the capital loss. Also remember, if you give appreciated property to charity, the unrealized gain must be long-term capital gains in order for the entire fair market value to be deductible. (The amount of the charitable deduction must be reduced by any unrealized ordinary income, depreciation recapture and/or short-term gain.)

The law allowing taxpayers age 70½ and older to make a Qualified Charitable Distribution (QCD) in the form of a direct transfer of up to $100,000 directly from their IRA over to a charity, including all or part of the required minimum distribution (RMD) was made permanent in 2015. If you meet the qualifications to utilize this strategy, the funds must come ***out of your IRA by December 31, 2020.***

Estate, Gift and Generation-Skipping Tax Changes

Exemption amounts for gift, estate, and generation-skipping taxes for 2020 is $11.58 million, up from $11.4 million in 2019 ($23.16 million for married couples), and the income tax basis step up/down to fair market value at death continues. These changes provide high net worth individuals a significant planning window to make gifts and set up irrevocable trusts.

As a reminder, as of now, in 2026, the estate tax exclusion will return to $5 million (adjusted for inflation). On November 26, 2019, the Treasury Department and the Internal Revenue Service issued final regulations under IR-2019-189 confirming that individuals who take advantage of the increased gift tax exclusion or portability amounts in effect from 2018 to 2025 will not be adversely impacted when TCJA sunsets on January 1, 2026. Claiming the portable exemption will remain an important discussion topic for decedents with large estates.

Some Notable Coronavirus Aid, Relief, and Economic Security (CARES) Act & SECURE Act Changes

The CARES Act and the SECURE Act (passed in December 2019) had provisions that could affect you in 2020. This section reviews some of the changes for informational purposes only. You should discuss your impact with a qualified tax professional.

Recovery Rebates

Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, many Americans received direct economic recovery rebate payments of $1,200 ($2,400 for couples filing jointly), plus $500 more for each child under age 17. The payments started to phase out for joint filers with adjusted gross incomes above $150,000, head-of-household filers with adjusted gross incomes (AGIs) above $112,500, and single filers with AGIs above $75,000. Technically, the rebate is an advance payment of a special 2020 tax credit. You'll reconcile your rebate on your 2020 return. If you received a rebate please alert your tax preparer!

Retirement Plan Changes

There were several changes for retirement plans in 2020 from the SECURE Act, which was signed into law late in 2019. The CARES Act also included a few stipulations that affected retirement accounts.
Both acts significantly impact required minimum distributions (RMDs). One notable change is that under the SECURE Act, the beginning age for taking RMDs changes from 70½ to 72. (This change only applies to account owners who turn 70½ after 2019.) Reminder: The CARES Act allowed you to not take your RMDs in 2020. If you took an RMD in 2020, you had till August 31, 2020 to roll that distribution back into your IRA and this roll back was not subject to the 60 day or one per year rule.

The SECURE Act also provided that:

- People with earned income can make contributions to Traditional IRAs past the age of 70½ starting in 2020.
- Anyone having a baby or adopting a child can now take payouts from IRAs and 401(k)s of up to $5,000 without having to pay the 10% fine for pre-age-59½ withdrawals.
- Beginning in 2020, fellowships, stipends or similar payments to graduate or post-doctoral students are treated as compensation for purposes of making IRA contributions.
- Perhaps one of the biggest changes from the SECURE ACT was that the rules for withdrawing money from inherited IRAs and workplace retirement accounts were tightened and now most inherited retirement accounts need to be fully distributed within 10 years of the death of the IRA owner or 401(k) participant. This new rule is somewhat complex and requires some planning. Also, there are some exceptions, so please call us or see a tax professional for details. (Please note: Inherited IRAs from individuals who died before 2020 aren't affected by this change.)
- In addition to the RMD suspension mentioned above, the CARES Act includes a few other key retirement-related tax breaks for 2020 including:
- Waiving the 10% penalty on pre-age-59½ payouts from retirement accounts for up to $100,000 of coronavirus-related payouts. A coronavirus-related distribution can also be included in income in equal installments over a three-year period, and you have three years to put the money back into your retirement account and undo the tax consequences of the distribution.
- Allowing eligible individuals to borrow more from workplace plans such as 401(k)s—up to the lesser of $100,000 or 100% of the account balance—until September 23, 2020. Repayments on retirement plan loans due in 2020 are also delayed for one year.

NEW Charitable Deduction Changes for 2020

The CARES Act created a new charitable deduction available to taxpayers who do not itemize their deductions in 2020. This new benefit known as a universal deduction, allows for an above the line charitable deduction of up to $300 per individual ($600 for married filing jointly). To qualify, the charitable gift must cash (or cash equivalent) be made to a qualified charity (501(c)(3)). This contribution must be made on or before 12/31/2020.

For those who are itemizing, in 2020, the CARES Act allow you to take deductions up to 100% of your 2020 AGI (up from 60%) for cash contributions to qualified charities.

WHAT'S Happening! AT JRWA

The Covid 19 quarantine hasn't been all bad. The Roskelley family welcomed Roxy, a Boxer puppy from Texas, to their family. She is 15 weeks old and quickly learning the ropes from her big sister, Lucy.

Possible Tax Changes if Joe Biden Wins

While the election has not been decided, Democratic Party nominee Joe Biden has released some possible tax law changes he would like to make if he unseats incumbent Republican Donald Trump for the presidency come November. While these would be future changes and have to be approved by Congress, to help you think about planning your future strategies here are some of the proposed changes to be aware of:

INCREASE CORPORATE TAX RATES. Under the TCJA, the peak marginal corporate tax rate was reduced from 35% to 21%. Under the Biden tax plan, the corporate tax rate would be increased to 28%.

INCREASE THE MARGINAL TAX RATE FOR TOP EARNERS. Biden's tax plan would raise the top marginal income-tax bracket from 37% to 39.6% (please note that the TCJA lowered the top marginal bracket from 39.6% to 37% in 2018).

RAISE THE CAPITAL GAINS TAX ON FILERS WITH INCOMES ABOVE $1 MILLION. Biden's tax proposal calls for filers with over $1 million in income to pay ordinary tax rates on their gains, no matter how long they've held an asset. This would imply 39.6%, plus the NIIT, for a total tax rate of over 43%.

LIMIT ITEMIZED DEDUCTIONS. Biden's tax plan includes a cap on itemized deductions of 28%. This means for each dollar of itemized tax deductions, including charitable contributions, a taxpayer or couple filing jointly would only receive a maximum benefit of $0.28. This 28% limit would hold true even if a filer is paying a higher marginal tax rate.

PHASE OUT SMALL BUSINESS INCOME DEDUCTIONS OVER $400,000. Biden's tax plan aims to keep QBI deductions in place for those with less than $400,000 in earnings but phasing out pass-through deductions for those with over $400,000 in earnings.

ELIMINATE STEP-UP IN BASIS. Biden's tax plan wants to put an end to the step-up in basis. A step-up in basis refers to the cost basis of assets or property transferrable to an heir upon death. If, as an example, an individual purchased a home for $300,000, but it was worth $600,000 at the time of their death, their heir would pay capital gains on anything over $600,000 if the home were ever sold. If Biden's tax proposal were to become law, heirs would not "inherit" a stepped-up cost basis.

REDUCE ESTATE TAX EXEMPTION. Biden's tax plan wants to reduce estate tax exemptions back down to $3.5 million immediately. This means estates over that value would be taxed.

Conclusion

One of our primary goals is to keep clients aware of tax law changes and updates. This report is not a substitute for using a tax professional. Please note that many states do not follow the same rules and computations as the federal income tax rules. Make sure you check with your tax preparer to see what tax rates and rules apply for your particular state.

There are many other additional tax reduction strategies that will vary depending on your financial picture. We encourage you to come in so that we can review your particular situation and hopefully take advantage of those tax rules that apply to you. Also, there are some pending legislative proposals like the SECURE ACT which could change your tax planning direction. **We will try to monitor impactful changes and as always, we appreciate the opportunity to assist you in addressing your financial matters and look forward to seeing you soon!**

Complimentary Financial Check-up

If you are currently not a client of Jackson Rosekelley Wealth Advisors, we would like to offer you a complimentary, one-hour, private consultation with one of our professionals at absolutely no cost or obligation to you.

To schedule your financial check-up, please call Kyle Robertson at 480.609.1055.

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