

It's Your Money!

Tax Update & Review

Fall 2020 Virtual Seminars
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Mark Prendergast MS CPA CFP® CDFA® MPAS®

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Agenda

1. Tax-Wise Decision Making
2. Income Items
3. “Itemized” vs. Standard Deduction
4. IRA / RMD update (& opportunities)
5. Miscellaneous (estate tax & Prop 13)



2020 TAX BRACKET-INDIVIDUALS

	<u>Single</u>	<u>MFJ</u>	<u>MFS</u>	<u>HOH</u>
10%	\$-0- to- \$9,875	\$-0- to- \$19,750	\$-0- to- \$9,875	\$-0- to- \$14,100
12%	\$9,875-to- \$40,125	\$19,750-to- \$80,250	\$9,875-to- \$40,125	\$14,100-to- \$53,700
22%	\$40,125-to- \$85,525	\$80,250-to- \$171,050	\$40,125-to- \$85,525	\$53,700-to- \$85,500
24%	\$85,525-to- \$163,300	\$171,050-to- \$326,600	\$85,525-to- \$163,300	\$85,500-to- \$163,300
32%	\$163,300-to- \$207,350	\$326,600-to- \$414,700	\$163,300-to- \$207,350	\$163,300-to- \$207,350
35%	\$207,350-to- \$518,400	\$414,700-to- \$622,050	\$207,350-to- \$311,025	\$207,350-to- \$518,400
37%	over \$518,400	over \$622,050	over \$311,025	over \$518,400



CAPITAL GAINS BRACKET

	<u>S</u>	<u>MFJ</u>	<u>MFS</u>	<u>HOH</u>
0%	\$-0-to-\$40,000	\$-0-to-\$80,000	\$-0-to-\$40,000	\$-0-to-\$53,600
15%	\$40,001-\$441,450	\$80,001-to-\$496,000	\$40,001-\$248,300	\$53,601-to-\$469,050
20%	Over \$441,450	Over \$496,000	Over \$248,300	Over \$469,050



STANDARD DEDUCTION vs ITEMIZED DEDUCTIONS

The **personal exemptions were repealed in 2018**;
used to be \$4,050 per person. Offset by:

Increased standard deduction

- MFJ - \$24,800 ** (2017 was \$12,700)
- Single - \$12,400 * (2017 was \$6,350)
- HOH - \$18,650 * (2017 was \$9,350)

* add \$1,650 for age 65+ (single)

** add \$1,300 for age 65+ (married)



ITEMIZED DEDUCTIONS

- Medical (10% AGI limitation; was 7.5% 2017-2019)
- State & Local Taxes (SALT limitation)
 - State income tax, property taxes, car and boat taxes
- Mortgage Interest (\$750k loan limitation post-2017 loans)
 - Old “large” mortgages grandfathered
 - HELOC interest non-deductible (generally)
- Charity (minor changes)
- ~~Miscellaneous “2% AGI” Deductions~~ (gone; but OK for Calif!)



K-12 EDUCATION PROVISION – SECTION 529 PLANS

- College Rules – no change
 - Tuition/ Books/Supplies/Room & Board
- **K-12 – withdrawals can be used for TUITION ONLY up to \$10,000**
- 2020 contribution amount is \$15,000.
 - Can fund 5 years in advance (\$75K x 2 for married)



MEDICARE SURTAX TIERS

<u>Modified AGI (2018)</u>		<u>2020 Rates</u>	
<u>Single filing status</u>	<u>Joint tax return</u>	<u>Monthly</u>	<u>Annual</u>
under \$87,000	under \$174,000	\$144.60	\$1,735.20
\$87,000-\$109,000	\$174,000-\$218,000	\$202.40	\$2,428.80
\$109,000-\$136,000	\$218,000-\$272,000	\$289.20	\$3,470.40
\$136,000-\$163,000	\$272,000-\$326,000	\$376.00	\$4,512.00
\$163,000-\$500,000	\$326,000-\$750,000	\$462.70	\$5,552.40
over \$500,000	over \$750,000	\$491.60	\$5,899.20



SECURE Act Provisions

Required Minimum Distributions (“RMD”) for the living

- Beginning age increased from age 70.5 to age 72

Inherited IRAs

- No change for spouses; can still rollover to survivor’s IRA
- Nonspouse beneficiaries – **no more lifetime stretch**
 - Natural persons – 10-year stretch
 - Trust – 5-year rule



CARES Act Provisions

Old news:

- 2019 tax filing deadline changed to July 15 (2020 only)
- 2020 estimated tax payments #1 & #2 deferred to July 15

- IRA distributions for RMD age (72 and older)
 - **No IRA distribution** = lower income, lower tax rates, lower tax?
 - Maybe some IRA distribution in 2020?
 - Maybe do a Roth Conversion?
 - Warning: what does it do to your Medicare tax in 2022?



ROTH IRA & ROTH CONVERSION

What is a Roth IRA? – “after-tax dollars”

1. No tax deduction on contributions
2. Must have “earned income” to contribute
3. Income limitations (high-earners cannot)
4. Withdrawals after age 59.5 are tax-free
5. Tax-free growth; tax-free withdrawals

What is a Roth Conversion?

1. Transfer assets from Traditional IRA (or 401K) to a Roth IRA
2. Pay taxes on the value of assets transferred
3. Assets now grow tax-free, withdrawals will be tax-free



ROTH CONVERSION CONSIDERATIONS

1. What's your tax rate this year vs. the future? (No RMD year!)
2. Will reduce your future RMDs
3. Will you use up your IRA during your lifetime?
4. What about your children's tax brackets?
5. If married, once one of you "checks out", will the survivor be in a higher tax bracket? Note:
 1. Standard deduction is cut in half
 2. Tax brackets are compressed: likely to be in higher tax bracket
6. Is a charity the beneficiary of your IRA? (no Roth Conversion)
7. Beware affects on Medicare premiums.



Estate Taxes

Lifetime exclusion: currently \$11.58 million

- Over \$23 million for a married couple
- Expires in 2025 or when Congress changes the laws
- First spouse dies, strongly consider electing Portability
 - elect to carry Deceased Spouse's Unused Exemption to the survivor

Gift and Generation-Skipping exemptions: same \$11.58M

- No portability



Prop 13 & more (Calif)

Prop 13 - Limits increases in assessed value to 2% per year

Prop 58 – Gift/inheritance – kids take parent’s assessed value

- a. 100% for personal residence
- b. \$1 million limit – non-personal residence
- c. **Prop 193** – says Prop 58 allows grandchild in parent is deceased

Prop 60 – age 55+, move within the same County

- a. Downsize – “buy equal or lesser value”
- b. **Prop 90** –10 counties allow moving across County lines (incl. OC/LA/IE)



Planning Strategy 1: Donor-Advised Fund

- Contribute now, deduct now!
 - Can use appreciated stock; full deduction; avoid capital gains
- Can distribute over extended period
- AGI limitation of 30% if contribute capital gain property



Planning Strategy 1:

Donor-Advised Fund

Example:

- Person usually gifts \$10,000 per year to charity
- In Dec. 2020, contribute add'l \$40,000 to Donor Advised Fund
 - Distribute \$10,000 in 2021, 2022, 2023, 2024
- Results:
 - \$50,000 of charitable deductions in 2020
 - Itemized deductions will be greater than the Std Ded (\$25K)
 - Lower taxable income in 2020; Std Ded in 2021-2024



Planning Strategy 2:

Qualified Charitable Distributions (“QCD”)

Must be at least Age 70.5

- Distributions are made directly from IRA to a qualified charity
- Satisfies Required Minimum Distribution (RMD) in part or in whole
- Maximum QCD amount per year: \$100,000
- **The distribution will not appear as taxable income**
- **Lower AGI** has many benefits (minimize Medicare Premiums, reduce taxable income, maybe taxable amount of Social Security, increase your Medical Deductions, minimize AMT, and more)



Planning Strategy 2:

Qualified Charitable Distributions

Example

- Paul & Patty Pennypincher, both 72 years old, want to donate \$10,000 per year to charities from Paul's Traditional IRA
- The \$10,000 donation is sent directly to the charities each year via QCDs
- Results
 - The \$10,000 donation will not appear as IRA income Form 1040 (pg. 1)
 - No charitable deduction is allowed on Schedule A for Charitable Contributions



Planning Strategy 2:

Qualified Charitable Distributions

Example (cont.): Observations

- \$10,000 donation counts towards Paul's RMD
- Adjusted Gross Income (AGI) is reduced by \$10,000
 - If taking Standard Deduction, lowers taxable income!
 - Might lower future Medicare premiums
 - Might reduce taxable portion of Social Security
 - Might increase Medical Deductions
 - Might reduce AMT
 - Probably will save them income taxes (little? lots?)



Planning Strategy 3:

Roth Conversions

Will your tax bracket will be lower in 2020 through 2025 than afterwards?

- May be advantageous to fill in low bracket each year (e.g., 22% bracket up to \$171,000 for MFJ)
- If Taxpayer is going to reach Medicare age within 2 years: watch for the impact of the conversion on Medicare premiums in 2020 and beyond



RECAP

Today, we reviewed:

- Know your tax brackets
 - Ordinary income
 - Capital gains
- 3 tax strategies you can use:
 - Donor-Advised Fund
 - Qualified Charitable Distributions
 - Roth Conversions



Thank You!

Questions?

Take control of your finances because “It’s Your Money!”

For more information: www.inspiredfinancial.biz

Mark L Prendergast MS CPA CFP® CDFIA® MPAS®

Inspired Financial Tele: 714.971.0663

5011 Argosy Ave, Ste 7, Huntington Beach 92649

mark@InspiredFinancial.biz



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