

# Tax Update

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September 14, 2021

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# About me...

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Patrick is a co-founder of marrick wealth, an independent wealth management firm providing financial planning and investment management services to doctors, business owners, and corporate executives. He has over 18 years of experience counseling high net worth individuals in the areas of income tax, investments, and retirement planning.

Patrick earned his BS in Business Administration from the University of Southern California and an MBA from Cornell University. He is a licensed CPA, CERTIFIED FINANCIAL PLANNER™, and a Personal Financial Specialist (PFS). He currently resides in Orange County, CA, with his wife and two daughters.



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# Taxes

- Federal Gift & Estate Tax
- Property taxes
- Income taxes
- Potential Changes
- Planning Considerations

# Federal Gift & Estate Taxes

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**2021**

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Annual Gift Tax Exclusion	\$15,000
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Estate Exemption	\$11,700,000
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Estate Tax Rate (highest)	40%
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# Proposition 19

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- Persons 55+ can transfer tax base of primary residence 3x (anywhere in CA)
- Victims of natural disasters can transfer rate 1x
- Can no longer transfer \$1M of other real property without reassessment
- Primary residence transfers between parent and child must meet two conditions:
  - Must be used as primary residence of child
  - FMV cannot exceed the transferor's assessed value by > \$1M

# Income Taxes

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- Income
- Deductions
- Other Taxes
- SECURE Act (2019)



# Ordinary Income vs. Capital Gains

## Ordinary Income

- *Wages*
- *Interest and Non-qualified Dividends\**
- *Social Security*
- *Pension*
- *IRA Distributions*
- *Rental and Royalty Income\**
- *Gain on sale of asset owned < 1 year\**
- *Gain on sale of annuities*

## Capital Gains

- *Qualified Dividends\**
- *Gain on sale of asset owned > 1 year\**

Taxable Income		
Ordinary Income		
Rate	Single	MFJ
10%	\$0 - \$9,950	\$0 - \$19,900
12%	\$9,951 - \$40,525	\$19,900 - \$81,050
22%	\$40,526 - \$86,375	\$81,051 - \$172,750
24%	\$86,376 - \$164,925	\$172,751 - \$329,850
32%	\$164,926 - \$209,425	\$329,851 - \$418,850
35%	\$209,426 - \$523,600	\$418,851 - \$628,300
37%	\$523,601 +	\$628,301 +
Capital Gains		
Rate	Single	MFJ
0%	\$0 - \$40,400	\$0 - \$80,800
15%	\$40,401 - \$445,850	\$80,801 - \$501,600
20%	\$445,851 +	\$501,601 +

# Standard or Itemized Deductions?

## Standard Deduction

- Single \$12,550 + \$1,700 over age 65 or blind
- MFJ \$25,100 + \$1,350/spouse over age 65 or blind

## Itemized Deductions

- Medical & Dental Expenses (over 7.5% of AGI)
- Long-Term Care Premiums (over 10% of AGI)
- Taxes You Paid (\$10,000 limit)
- Interest You Paid
- Gifts to Charity (up to 60% of AGI)

**SCHEDULE A (Form 1040)**  
Department of the Treasury  
Internal Revenue Service (99)  
Name(s) shown on Form 1040

**Itemized Deductions**  
▶ Information about Schedule A and its separate instructions is at [www.irs.gov](http://www.irs.gov).  
▶ Attach to Form 1040.

**Medical and Dental Expenses**

**Taxes You Paid**

**Interest You Paid**

**Caution:** Do not include expenses reimbursed or paid by others.

**1** Enter amount from Form 1040, line 38 **2**

**3** Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead.

**4** Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-

**5** State and local (check only one box):  
a ☐ State and local income taxes (see instructions)  
b ☐ General sales taxes (see instructions)

**6** Real estate taxes (see instructions)

**7** Personal property taxes (see instructions)

**8** Other taxes. List type and amount on separate sheet.

**9** Add lines 5 through 8.

**10** Home mortgage interest and points not reported to the person from whom you bought the home and show that person's name, identifying number, and the amount of the interest and points not reported to you on Form 1040.

**11** Home mortgage interest and points not reported to the person from whom you bought the home and show that person's name, identifying number, and the amount of the interest and points not reported to you on Form 1040.

**Note:** - mortgage


Points not reported to you on Form 1040. See instructions for rules. Attach Form 40.



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# Other Income Taxes

- 3.8% Net Investment Income Tax
- 1% - 13.3% California State Income Tax



# SECURE Act (2019) Key Provisions

- RMDs for IRAs to start at age 72
- Non-spouse retirement account beneficiaries now have only 10 years to withdraw entire account
- Incentives for employer retirement plans

# Potential Income Tax Changes

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- Increase taxes on people earning more than \$400,000
- Additional Social Security taxes on earned income exceeding \$400k
- Raise IRA RMD age to 73 in 2022, 74 in 2029, & 75 in 2032
- Increase top marginal tax bracket from 37% to 39.6%
- Eliminate capital gains rates for those with income > \$1M
- Phaseouts: Section 199A deduction, itemized deduction cap at 28%
- Eliminate IRC Section 1031 tax-free exchanges of real estate
- Reduce opportunity zone investment benefits
- Impose wealth tax on value of all assets
- Limit size of retirement accounts/IRAs or assess penalties
- Increased credits: child/dependent care, renewable energy, first-time homebuyers, retirement savings
- Restore property/income tax and mortgage interest deductions
- Corporate tax rate increase from 21% to 28%

# Potential Estate Tax Changes

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- Eliminate cost basis step-up at death; use carryover basis instead
- Reduce the estate tax exemption from \$11.7M to \$5M or less (possibly retroactive)
- Increase the estate tax rates from 40% to over 75% on large estates
- Reducing/eliminating discounting techniques
- Taxing grantor trusts in the grantor's estate
- Eliminate federal estate taxes and recognize all capital gains at death
- Limit generation-skipping exemption to a specific term
- Reduce annual gift-tax exclusion (currently \$15,000/yr. per person to unlimited donees)

# Planning Considerations

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## Individual Income Taxes

- Defer charitable contributions for larger benefit if rates likely to increase
- Accelerate deductions to avoid limitations (28% itemized deductions)
- Qualified Charitable Distributions from IRAs qualify as RMD offset (Age 70 ½; \$100k/person)
- Charitable remainder trusts may not be as beneficial for those with income > \$1M
- Roth IRA conversions at lower rates
- Accelerate gains and defer loss-harvesting
- Business owners evaluate split between “reasonable” wages and S-corp dividends
- California AB 150: CA business owners may avoid Federal cap on state and local tax deductions for individuals
- Defer business expenses; accelerate income

## Estate Taxes

- Consider Large lifetime gifts to take advantage of estate/gift tax exemptions: \$11.7M/person

# Thank you!

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