

Tax Update

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About me...

- I'm a creative CPA/PFS, CFP®!
- Over 18 years experience in tax, estate, and financial planning.
- Launched my career at Deloitte in 2003. I moved into wealth management in 2005.
- Prior to co-founding marrick wealth in 2012, Marty worked at two fee-only RIA firms and Northern Trust.
- I have serviced wealthy families throughout my career; my current practice serves families with investment portfolios of \$2 million - \$10 million.
- I'm married with 3 kids and a golden retriever. I enjoying surfing, swimming and yoga.



Taxes

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

Federal Gift & Estate Taxes

2021

Annual Gift Tax
Exclusion

\$15,000

Estate Exemption

\$11,700,000

Estate Tax Rate
(highest)

40%

Property Taxes in California

- 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

- 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. Attach to Form 1040.

Medical and Dental Expenses

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

- 1 Medical and dental expenses (see instructions)
- 2 Enter amount from Form 1040, line 38
- 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 2. If line 3 is more than line 2, enter 0
- 5 State, local (check only one box):
 - a General taxes
 - b Real estate taxes
- 6 Personal property taxes
- 7 Other taxes. List type
- 8 Add lines 5 through 8
- 9 Home mortgage interest not reported to the person from whom you bought the home and show that person's name, identifying no.
- 10 Home mortgage interest reported to the person from whom you bought the home and show that person's name, identifying no.
- 11 Points not reported to you on Form 1040


Taxes You Paid

Interest You Paid

Note: Home mortgage interest not reported to you on Form 1040

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

- 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%
- Increase capital gains rates to 25% for those with income > \$1M
- Impose a 3% surcharge on adjusted gross income > \$5M
- Phaseouts: Section 199A deduction, itemized deduction cap at 28%
- Eliminate IRC Section 1031 tax-free exchanges of real estate

Potential Income Tax Changes (cont.)

- Reduce opportunity zone investment benefits
- Impose wealth tax on value of all assets
- Limit size of retirement accounts/IRAs or assess penalties
- Prohibit Roth IRA conversions for high income earners (\$400k single, \$450k MFJ) as of 12/31/31
- Eliminate “back door” Roth IRA conversions and after-tax retirement plan conversions
- 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 26.5% for incomes > \$5M

Potential Estate Tax Changes

- 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

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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