

Taxes

Tax Cuts and Jobs Act (TCJA) of 2017: Major changes in Federal law, but CA did not follow suit.

Corporate tax: Cut from 35% maximum in 2017 to 21% maximum in 2018

Individual taxes: Most provisions expire on December 31, 2025

<u>2019 Tax Rates</u>			<u>Long-Term Capital Gains and Qualified Dividends</u>		
<u>Rate</u>	<u>Single</u>	<u>MFJ</u>	<u>Rate</u>	<u>Single</u>	<u>MFJ</u>
10%	\$0 - \$9,700	\$0 - \$19,400	0%	<\$39,375	<\$78,750
12%	\$9,700 - \$39,475	\$19,400 - \$78,950	15%	\$39,375 - \$434,550	\$78,750 - \$488,850
22%	\$39,475 - \$84,200	\$78,950 - \$168,400	20%	>\$434,550	>\$488,850
24%	\$84,200 - \$160,725	\$168,400 - \$321,450			
32%	\$160,725 - \$204,100	\$321,450 - \$408,200			
35%	\$204,100 - \$510,300	\$408,200 - \$612,350			
37%	>\$510,300	>\$612,350			

Short-Term Gains and Non-Qual Dividends
are still taxed as ordinary income under the TCJA

The 0.9% additional **Medicare tax** and 3.8% surtax on **net investment income** (NII) are unchanged, and apply to singles with incomes above \$200,000 and MFJ files above \$250,000.

	<u>Single</u>	<u>MFJ</u>
Standard deduction	\$12,200	\$24,400
Additional ... age 65+	\$1,650	\$1,300
Additional ... blind	\$1,650	\$1,300

Itemized deductions

Medical expenses	>7.5% of AGI for 2019 (>10% of AGI for 2020)
State/local income, property tax and sales taxes	Up to \$10,000 per household for single and MFJ filers
Miscellaneous deductions	No longer deductible
Deduction phaseout	Not applicable

Personal exemption

\$0

AMT exemption amount

\$71,700 for singles, \$111,700 for MFJ

Pass-Thru entities

New 20% deduction for certain pass-thru entities such as LLPs, LLCs, etc. Talk to your attorney.

Estate taxes

40%

Exclusion \$11.4M per spouse (portable)

Challenge: How do you do estate planning (inherently long range) with a tax law that sunsets in 2025? Hint: There's a lot more to estate planning than saving taxes.

Inflation adjustment for breakpoints, deductibles, etc.

TCJA switched from a traditional CPI adjustment for inflation to a chained CPI; slower rate of price increases.

Alimony payments used to be deductible for the paying spouse, and declared as income by the receiving spouse. With the TCJA the paying spouse can no longer deduct the payments, and the receiving spouse need not declare them as income after January 1, 2019.

Roth IRAs

Recharacterization of a Roth IRA conversion has been repealed.

Setting Every Community Up for Retirement Enhancement (SECURE) Act

Traditional IRAs

No age limit for contributing to a traditional IRA for tax years 2020 and beyond.

Required Minimum Distributions

For anyone turning 70.5 in 2020 and beyond the RMDs begin in the year they turn 72.

Inherited Retirement Accounts

The stretch IRA is gone except for a surviving spouse of the original owner, minor child, etc. For all others the account must be distributed within 10 years of the original owner's death, but there are no annual RMD requirements.

Annuities

Safe harbor protection reduces the liability for retirement plan sponsors to offer annuities.

Deduction bunching

Pulling deductions into a year when you plan to itemize may save on taxes; then take the standard deduction the following year.

A **Donor Advised Fund**, DAF, may be a great tool to help bunch charitable deductions.

Qualified Charitable Distributions, QCDs

Very tax-efficient way to make charitable donations from your traditional IRA; must be over 70½
Make donation directly from your IRA to an accredited charity; counts towards your RMD
Pay no taxes on the withdrawal; does not add to your AGI, no impact on Medicare charges
Cannot be used with a Donor Advised Fund, DAF

Alternative #1 to QCD

Take RMD from traditional IRA; use some/all RMD to make charitable donation to DAF
RMD will add to your AGI which may bump you into a higher Medicare bracket ...
... but charitable donation is deductible and does not increase taxable income

Alternative #2 to QCD

Make charitable donation from appreciated stock in your taxable account
Avoid paying capital gain tax; You get a deduction of the full value of the stock ...
... but your AGI may bump you into a higher Medicare bracket

Tax Diversification	<u>Traditional IRA</u>	<u>Taxable Account</u>	<u>Roth IRA</u>
Contributions taxed as	Deductible	Ordinary income	Ordinary income
Distributions taxed as	Ordinary income	Ord. income / Cap gains	No tax
Inheritance taxed as	Ordinary income	Step-up in basis	No tax
 Fixed income / Non-qual divs CDs, bonds, value stocks, etc.	 *****	 *	 *
Stocks/Qualified dividends Everything else !	 ***	 ***	 ***
High growth / Non-qual divs REITs, Small caps, Emerg.Mkts, etc.	 *	 *	 *****

Final take-away: Don't let the tax tail wag the financial planning dog!

Risk Management / Insurance: March 11th, 2020

Social Security/Medicare: April 8th, 2020

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