Tax Changes for 2020 and 2021

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If you have questions about how the tax code affects you personally, consult a tax professional.

Doing so may be well worthwhile if it helps you avoid an audit.

2021 Inflation Adjustments

- Many line items will increase by 1.5% or less
- Standard deduction will rise from $24,800 in 2020 to $25,100 for married joint filers ($12,400/$12,550 if single)
- 15% long-term capital gains and dividend tax applies to married joint taxable income of $80,000 to $496,600 in 2020; $80,800 to $501,600 in 2021

Tax Rule Changes

- The SECURE Act (Inherited IRAs, RMDs, IRA Contributions; Medical Expenses; Kiddie Tax)
- The CARES Act (RMDs, Charitable Deductions, IRA Withdrawals, Stimulus Checks)
- 2021 Inflation Adjustments

RMD Changes

- RMDs waived for 2020
- 60-day rollover rule applies
- RMDs start at age 72 instead of 70½
- Applies only to those turning 70½ on January 1, 2020 or later
- Qualified charitable donations (QCDs) still start at age 70½ (more on this soon)
- Revised life expectancy tables go into effect in 2022

Poll Question

If retired, how did you handle your RMDs this year?

1. Chose not to take them
2. Initially took withdrawals, but then put them back
3. Took some withdrawals, but not the full RMD
4. Took entire RMD

Retirement Savings Withdrawals

- Up to $100,000 can be withdrawn penalty-free for coronavirus-related expenses
- Taxes on coronavirus withdrawals are pro-rated over a three-year period
- Amended returns can be filed to recoup those taxes if coronavirus withdrawals are repaid within three years
- Only applies to 2020 without new legislation

10-Year Rule on Inherited IRAs

- Beneficiaries of inherited IRAs must take all withdrawals within 10 years of account owner’s passing
- Spouses can sidestep rule by making the IRA their own account
- Exceptions include those less than 10 years younger than deceased owner, minor child and disabled/chronically ill beneficiary

Inherited IRA Tax Strategies

- If your tax rate is lower than beneficiary's, consider doing a Roth IRA conversion
- Gift: $15,000 per person per year; $30,000 for consenting couples in 2020 and 2021
- Set up a charitable remainder trust
- Life insurance and annuities are another option

Charitable Giving

- Up to $300 of qualified cash donations can be deducted if standard deduction is taken in 2020
- Cap on deducting charitable donations of 100% of contribution base (AGI) in 2020; reverts to 60% in 2021
- QCDs allowed in 2020 even though RMDs are suspended; limit is $100,000

$300 Charitable Deduction Reduces Adjusted Gross Income

Attach Sch. B if required.	1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	
	2a	Tax-exempt interest	2a	**b** Taxable interest	2b	
	3a	Qualified dividends	3a	**b** Ordinary dividends	3b	
	4a	IRA distributions	4a	**b** Taxable amount	4b	
	5a	Pensions and annuities	5a	**b** Taxable amount	5b	
Standard Deduction for— • Single or Married filing separately, $12,400 • Married filing jointly or Qualifying widow(er), $24,800 • Head of household, $18,650 • If you checked any box under *Standard Deduction,* see instructions.	6a	Social security benefits	6a	**b** Taxable amount	6b	
	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐			7	
	8	Other income from Schedule 1, line 9			8	
	9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income** ▶			9	
	10	Adjustments to income:				
	a	From Schedule 1, line 22	10a			
	b	Charitable contributions if you take the standard deduction. See instructions	10b			
	c	Add lines 10a and 10b. These are your **total adjustments to income** ▶			10c	
	11	Subtract line 10c from line 9. This is your **adjusted gross income** ▶			11	
	12	**Standard deduction or itemized deductions** (from Schedule A)			12	
	13	Qualified business income deduction. Attach Form 8995 or Form 8995-A			13	
	14	Add lines 12 and 13			14	
	15	**Taxable income.** Subtract line 14 from line 11. If zero or less, enter -0-			15	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2020)

Source: "2020 Form 1040," IRS Draft Tax Forms.

Stimulus Checks

- $1,200 per individual/$2,400 for joint filers
- Plus $500 for each qualifying child
- Phased out for AGI above $150,000 for married joint, $112,500 for head of household and $75,000 for single filers
- AGI limits are $198,000, $136,500 and $99,000 respectively
- Based on 2020 AGI; Paid based on 2019 or 2018 AGI

Rebate Adjustment on 2020 Form 1040

Form 1040 (2020) Page **2**

16	**Tax** (see instructions). Check if any from Form(s): **1** ☐ 8814 **2** ☐ 4972 **3** ☐			16	
17	Amount from Schedule 2, line 3			17	
18	Add lines 16 and 17			18	
19	Child tax credit or credit for other dependents			19	
20	Amount from Schedule 3, line 7			20	
21	Add lines 19 and 20			21	
22	Subtract line 21 from line 18. If zero or less, enter -0-			22	
23	Other taxes, including self-employment tax, from Schedule 2, line 10			23	
24	Add lines 22 and 23. This is your **total tax** ▶			24	
25	Federal income tax withheld from:				
a	Form(s) W-2	25a			
b	Form(s) 1099	25b			
c	Other forms (see instructions)	25c			
d	Add lines 25a through 25c			25d	
26	2020 estimated tax payments and amount applied from 2019 return			26	
27	Earned income credit (EIC)	27			
28	Additional child tax credit. Attach Schedule 8812	28			
29	American opportunity credit from Form 8863, line 8	29			
30	Recovery rebate credit. See instructions	30			
31	Amount from Schedule 3, line 13	31			
32	Add lines 27 through 31. These are your **total other payments and refundable credits** ▶			32	
33	Add lines 25d, 26, and 32. These are your **total payments** ▶			33	

- If you have a qualifying child, attach Sch. EIC.
- If you have nontaxable combat pay, see instructions.

Source: "2020 Form 1040," IRS Draft Tax Forms.

2020 Rebate Adjustments

- **Paid too little:** If your AGI is lower in 2020 than in 2019 (or 2018), you can claim a credit for the additional stimulus on your Form 1040
- **Paid too much:** You get to keep the extra money
- Stimulus payments are not taxable

Poll Question

What did you do with your stimulus payment?

1. Saved or invested it
2. Spent and/or donated some of it
3. Spent and/or donated all of it
4. Did not receive a stimulus payment

Medical Deductions

- 7.5% of AGI in 2020
- Reverts to 10% of AGI without new legislation
- See IRS Publication 502 for list of deductible expenses

Retirement Account Contributions

- IRAs: $6,000 + $1,000 catch-up if 50 or older for 2020 and 2021
- Can contribute to a traditional IRA if over 70 and have earned income
- 401(k) plans: $19,500 + $6,500 catch-up if 50 or older for 2020 and 2021

Social Security

- Salary: First $137,700 of wages taxed in 2020; $142,800 in 2021
- Retirement earnings exemption if below full retirement age: $18,240 in 2020 and $18,960 in 2021
- 2021 Social Security benefit notices recently sent out

Other Tax Items

- Mutual fund distributions seem to be running lower than last year according to CapGainsValet
- Qualified real estate investment trust (REIT) distributions may be eligible for 20% qualified business income deduction
- Gains on cryptocurrencies like bitcoin are taxable

Future Changes

- At most, Democrats will only control 50 seats in Senate
- TCJA provisions for individuals sunset at end of 2025
- Year-end legislation could include extenders (medical expenses, mortgage insurance deduction, etc.)
- Larger catch-up contributions for 401(k), IRA and SIMPLE IRA accounts
- Higher cap on QCDs

Poll Question

How do you fill out your taxes?

1. Tax software (TurboTax, etc.)
2. Online (website, app, etc.)
3. By hand
4. Use a tax professional/CPA

Tax Resources I Use

- IRS.gov
- Wolters Kluwer
- J.K. Lasser's Your Income Tax
- The Kiplinger Tax Letter
- My Tax News Twitter List
- TurboTax
- AAII Tax Guide

Upcoming Webinars

Register at
www.aaii.com/webinars

Charles Rotblut on Key Year-End Financial Planning Steps
Wednesday, December 16, 2020, 7:30 p.m. CST

Wayne Thorp Rebroadcast of Making the Grade: Highlighting New Features of A+ Investor
Wednesday, January 13, 2021, 7:30 p.m. CST