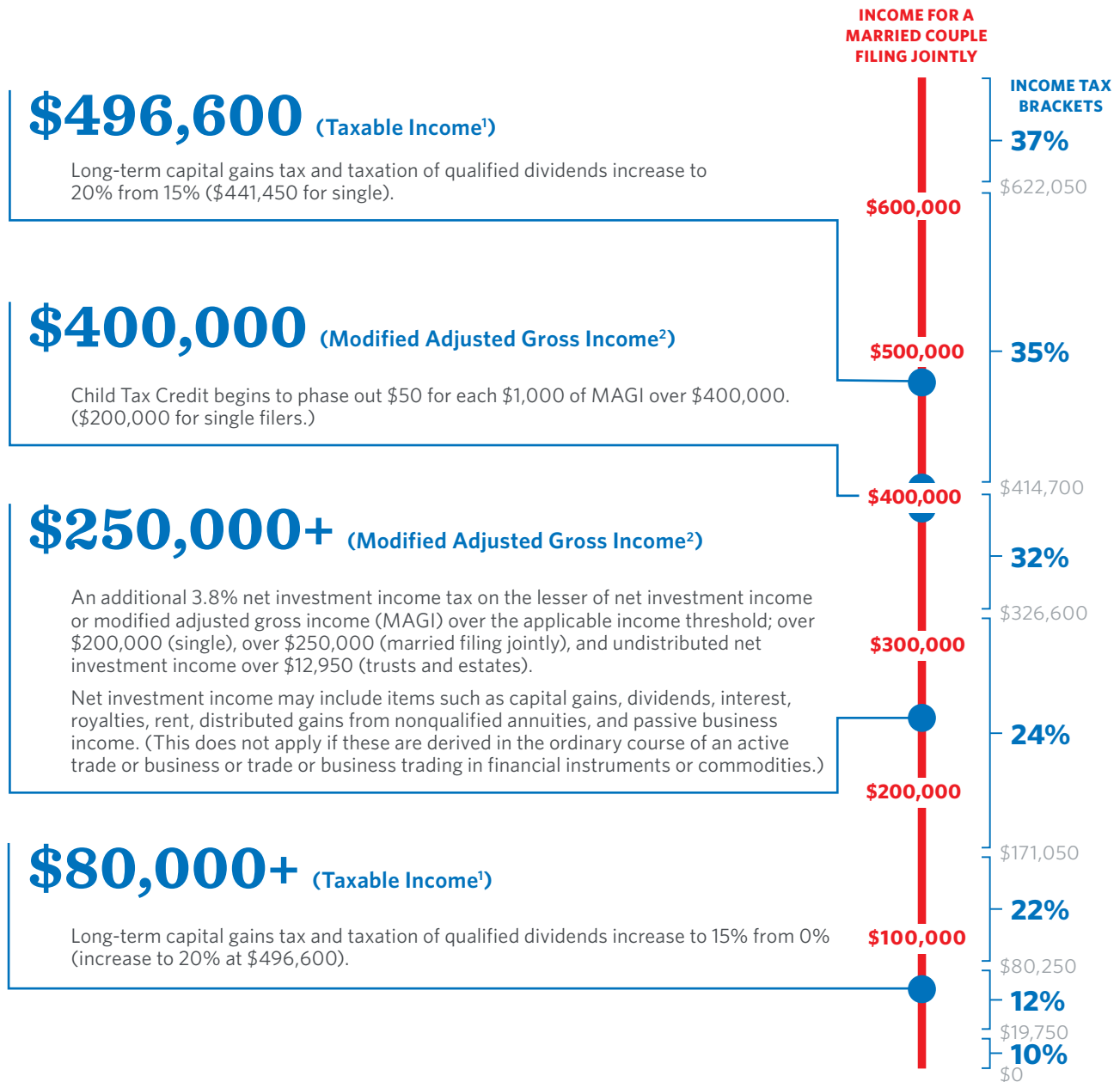


NAVIGATING THE FEDERAL TAX LANDSCAPE

One of the primary impacts of the American Taxpayer Relief Act (ATRA) of 2012, the Affordable Care Act, and the Protecting Americans from Tax Hikes Act of 2015 was to raise tax rates on high income earners. The goal of the Tax Cuts and Jobs Act (TCJA) of 2017 was to decrease taxes on low and middle income earners as well as businesses. The following is a summary of important numbers for 2020.



Thresholds are for 2020, filing in 2021.

¹ Taxable Income: Adjusted Gross Income (AGI) less the standard deduction or itemized deductions.

² Modified Adjusted Gross Income (MAGI): AGI modifications for those excluding foreign earned income and who own certain controlled foreign corporations and passive foreign investment companies.

INVESTMENT TAX

ATRA also increased the long-term capital gains and dividend tax rate from 15% to 20% for individuals and joint filers reaching certain income thresholds. In addition to the increase in capital gain and dividend rates, a 3.8% net investment income tax became effective in 2013. This tax is imposed in addition to the underlying investment tax. Here is a breakdown of the current capital gains brackets set by TCJA.

TAX ON LONG-TERM CAPITAL GAINS AND QUALIFIED DIVIDENDS

Rate of 20% For **single filers** with income over \$441,450
For **joint filers** with income over \$496,600
For **Trusts and estates** with income over \$13,150

Rate of 15% For **single filers** with income between \$40,000 and \$441,450
For **joint filers** with income between \$80,000 and \$496,600

Rate of 0% For **single filers** with income less than \$40,000³
For **joint filers** with income less than \$80,000³

ESTATE AND GIFT TAX

Under the TCJA the unified estate and gift tax exclusion is increased to \$11,580,000 (indexed for inflation) and the top federal estate and gift tax rate remains at 40%.

SPOUSAL PORTABILITY

The unified estate and gift tax exclusion is a per-person exclusion. For married couples, if one spouse dies without using his or her entire federal estate and gift tax exclusion, the unused portion may be transferred to the surviving spouse.

³Subject to certain exceptions (e.g., collectibles and 1250 recapture)

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OTHER PROVISIONS

ADDITIONAL MEDICARE TAX

0.9% on earned income above \$200,000 (single filers), \$250,000 (married filing joint return).

ALTERNATIVE MINIMUM TAX (AMT)

ATRA included a permanent and retroactive inflation indexing for individuals subject to the AMT. TCJA increased the thresholds to \$72,900 for individual filers, and \$113,400 for married filing jointly in 2020.

AMERICAN OPPORTUNITY TAX CREDIT

Provides a dollar-for-dollar credit of up to \$2,500 for each eligible college student per year. The credit is phased out for MAGI between \$80,000-\$90,000 (single) and \$160,000-\$180,000 (married filing joint).

CHILD TAX CREDIT

Under TCJA, the credit is increased to \$2,000 per qualifying child under age 17. (\$500 per dependent who is not a qualifying child — i.e. college-aged children and parents claimed as dependents.) The income phase outs increase to \$200,000 for individuals and \$400,000 for married couples. These thresholds are not indexed for inflation.

QUALIFIED CHARITABLE DISTRIBUTIONS (QCDs)

Certain IRA owners over the age of 70½ can gift IRA funds directly to charity without including them in income for the year. The QCD counts toward the required minimum distribution for the year and is capped at \$100,000 per individual. The ability to utilize QCDs was permanently extended beginning in tax year 2015.

SOCIAL SECURITY MAXIMUM TAXABLE EARNING

In 2020, the maximum annual earnings subject to Social Security tax is raised to \$137,700. This cap had previously been at \$132,900 for 2019.

