

Exceptional Care, Exceptionally Close

Welcome!

*Individual Taxation:
Wrapping up 2020 & Planning for 2021*

January 8, 2021

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Torrance Memorial Highlight



Nursing Excellence

Redesignation Review in process
January 6-8



Torrance Memorial Update

PLEASE

Wear mask/Wash hands/6' distance

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Types of Planned Gifts

1. **Bequest** – gift through will, living trust or designation in a qualified retirement plan.
2. **Immediate Charitable Gift Annuity** – Simple contract between donor and the Torrance Memorial Foundation whereby lifetime payments are made to one or two individuals.
3. **Deferred Charitable Gift Annuity** – Annuity payments are deferred until a specified date in the future.
4. **Charitable Remainder Trust** – Trust that provides fixed or variable payments to named beneficiaries for life or a specified term of years.
5. **Retained Life Estate** – Gift of remainder interest in home or farm. Donor retains the right to live in the home for life.
6. **IRA Beneficiary** – Naming Torrance Memorial as the beneficiary of your retirement accounts (percentages can be designated as desired)

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IRA Charitable Rollover

Also known as IRA Qualified Charitable Distribution (QCD)

- **Gift up to \$100,000 from your IRA to Torrance Memorial**
- **Qualifies as your RMD**
- **Must be 70½ years of age (SECURE Act did change minimum distribution age to 72 but not this QCD age limit)**
- **Donation must come directly to Torrance Memorial from IRA administrator (check payable to Torrance Memorial Foundation)**
- **Become member of Heritage Society**

Not included in your income for your tax return

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Resource for Planned Giving

www.TorranceMemorialFoundation.org/planned-giving

- Learn about the different arrangements available
- Plug in some numbers in the “gift calculator” to get an idea of how this type of gift might work for you
- **Download a FREE estate planning kit**
- Contact Sandy VandenBerge at (310) 784-4843
sandy.vandenberge@tmmc.com



Financial Health articles - www.torrancememorialfoundation.org/News

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How to Donate to Torrance Memorial Medical Center

Online

<https://www.torrancememorialfoundation.org/Donate>

By Phone

Please call Torrance Memorial Foundation at 310-517-4703.

You may charge your gift to your credit card or make a gift pledge.

By Mail

Check or credit card information to: Torrance Memorial Foundation
3330 Lomita Blvd.
Torrance, CA 90505

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Individual Taxation: Wrapping up 2020 & Planning for 2021

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New Years Resolutions

- I will pay attention to each Form 1099 (**Now 1099-NEC**)
- I will keep good records
- I will not believe everything on the Internet
- I will listen to my friends cautiously
- I will deal with notices promptly
- I will not be afraid of the IRS or FTB
- I will not speak with solicitors regarding income tax

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Agenda

- Tax Rates, AMT & Credits
- Marriage Penalty
- Charitable Contributions
- Estate and Gift Tax
- Social Security & Retirement
- Unemployment & Relief Payments
- Other Miscellaneous Items
- Tax Reform
- Future Potential Changes
- California law changes

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Just a few changes...

- **ACA (passed in 2010) and subsequent adjustments**
- **TCJA (end of 2017)**
- **SECURE Act (2019)**
- **CARES Act (2020)**
- **Consolidated Appropriations Act (2021)**
- **2021-2022 Modifications?**

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2020 Tax Rates/Tables

- The US Income tax system is progressive. As you make more money, that money is taxed at a higher rate
- The highest tax bracket is still 37% for anyone (single/MFJ)
- For those high-income folks, 37% is their marginal rate, meaning each additional dollar they make over a certain threshold amount is taxed at 37%
 - This doesn't mean, however, that a person making over a certain amount turns 37% of it over to the IRS!
 - Think of our tax system as a layered cake. The more layers you eat (more money you make), the more calories you consume (more taxes you pay)

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Tax Tables

Federal Tax Brackets

2020				2021			
Bracket	Single	HoH	MFJ	Bracket	Single	HoH	MFJ
10%	Up to \$9,875	Up to \$14,100	Up to \$19,750	10%	Up to \$9,950	Up to \$14,200	Up to \$19,900
12%	\$9,876 - \$40,125	\$14,101 - \$53,700	\$19,751 - \$80,250	12%	\$9,951 - \$40,525	\$14,201 - \$54,200	\$19,901 - \$81,050
22%	\$40,126 - \$85,525	\$53,701 - \$85,500	\$80,251 - \$171,050	22%	\$40,526 - \$86,375	\$54,201 - \$86,350	\$81,051 - \$172,750
24%	\$85,526 - \$163,300	\$85,501 - \$163,300	\$171,051 - \$326,600	24%	\$86,376 - \$164,925	\$86,351 - \$164,900	\$172,751 - \$329,850
32%	\$163,301 - \$207,350	\$163,301 - \$207,350	\$326,601 - \$414,700	32%	\$164,926 - \$209,425	\$164,901 - \$209,400	\$329,851 - \$418,850
35%	\$207,351 - \$518,400	\$207,301 - \$518,400	\$414,701 - \$622,050	35%	\$209,426 - \$523,600	\$209,401 - \$523,600	\$418,851 - \$628,300
37%	Over \$518,400	Over \$518,400	Over \$622,050	37%	Over \$523,600	Over \$523,600	Over \$628,000

Personal Exemption	\$0	\$0	\$0	Personal Exemption	\$0	\$0	\$0
Standard Deduction	\$12,400	\$18,650	\$24,800	Standard Deduction	\$12,550	\$18,800	\$25,100
Add't Deductions				Add't Deductions			
- Blind or Elderly	\$1,650	\$1,650	\$1,300	- Blind or Elderly	\$1,700	\$1,700	\$1,350
- Blind and Elderly	\$3,300	\$3,300	\$2,600	- Blind and Elderly	\$3,400	\$3,400	\$2,700

Personal Exemption is suspended through 2025 per TCJA, but the exemption amount is still adjusted for inflation for other purposes and will be \$4,300 for 2020 and 2021.

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Tax Rates – Single

Example 1 (Think of Layer Cake)

A single taxpayer has taxable income of \$35,000

2020 Tax table	
Not over \$9,875	10%
\$9,876 - \$40,125	12%

So you can see the full \$35k is taxed in layers!

1st Layer	9,875.00
Rate	<u>0.10</u>
10% tax	987.50
Taxable income	35,000.00
1st Layer	(9,875.00)
2nd Layer	25,125.00
Rate	<u>0.12</u>
12% tax	3,015.00
Total tax 1st & 2nd layers	<u><u>4,002.50</u></u>

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Tax Rates – Single

Example 1 Results...

Taxable income	Tax	
\$35,000	\$4,002	

Taxable income	Tax	
\$35,000 x .12 =	\$4,200	

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Tax Rates – Married Filing Joint (MFJ)

Example 2

A Married Filing Joint couple has the following taxable income:

Source	Amount
Wages (W2)	125,000
Wages (W2)	30,000
Interest income	200
Rental income	<u>14,000</u>
Total income	\$169,200

After itemized deductions of \$34,200, their taxable income is \$135,000

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Tax Rates – MFJ

Example 2 cont'd...(Think of Layer Cake)

After deductions, their taxable income is \$135,000. Their tax is calculated as follows:

2020 Tax table

Not over \$19,750	10%
19,751 – 80,250	12%
80,251 – 171,050	22%

			Base	Rate	Tax
1st Layer	19,750.00	0	19,750.00	10%	1,975.00
2nd Layer	80,250.00	(19,750.00)	60,500.00	12%	7,260.00
3rd Layer	135,000.00	(80,250.00)	54,750.00	22%	12,045.00
Total Tax Liability					21,280.00

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Tax Rates – MFJ

Example 2 Results...

Taxable income
\$135,000

Tax
\$21,280



Taxable income
\$135,000 x .22 =

Tax
\$29,700



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Capital Gains & Dividends

Dividend and capital gains rates unchanged

The top tax bracket for qualified dividends and capital gains is 20%
(23.8% if the net investment income tax applies)

0%

SINGLE ≤ \$40k income
HoH ≤ \$54k income
MFJ ≤ \$80k income

15%

SINGLE: \$40k to \$441k
HoH: \$54k to \$469k
MFJ: 80k to \$497k

20%

SINGLE: Over \$441,451
HoH: Over \$469,051
MFJ: Over \$496,601

Note! CA does not have a reduced capital gains rate

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Additional Medicare Tax on Unearned Income (Net Investment Income)

Additional Medicare tax on unearned income such as:

- Interest, dividends, annuities, royalties, rents
- Income from trade that is passive

A 3.8% Medicare tax is imposed on the lesser of:

- Net investment income for the tax year OR
- Modified adjusted gross income over the threshold amounts:

Single/HOH	200,000.00
MFS	125,000.00
MFJ	250,000.00

What is Net Investment Income?

Net Investment Income does not include:

- Active income in family partnerships & S corporations (can be different for family members depending on participation)
- Items taken into account in determining self-employment income
- Distributions from qualified employee benefit plans
- Interest on tax-exempt or tax-deferred vehicles such as:
 - Municipal bonds
 - Life insurance
 - Veteran's benefits
 - Excluded gain from sale of a personal residence
 - Other items otherwise excluded from gross income

Other Net Investment Income (NII)

NII is the sum of gross income from:

- Trade or business that is passive with respect to the taxpayer, a trade or business of trading in financial instruments, or a trade or business of trading in commodities.
- Net gain attributable to the disposition of property other than property held in any trade or business not described above
- Gain on the sale of personal residence in excess of the allowable exclusion (\$250,000 for single filers and \$500,000 for joint filers)

NII is reduced by any deductions allowable to such income

- Investment advisory fees – **not allowed for 2018-2025**
- Investment Interest (to the extent allowed)
- State income tax (allocated between investment & other income) – only portion deducted on Schedule A

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California Taxes

- CA income tax system is also progressive. As you make more money, that money is taxed at a higher rate.
- Tax rates go as high as 13.3%



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California Taxes

California Tax Brackets

2020				2021			
Bracket	Single	HoH	MFJ	Bracket	Single	HoH	MFJ
1%	Up to \$8,932	Up to \$17,876	Up to \$17,864	1%			
2%	\$8,933 - \$21,175	\$17,877 - \$42,353	\$17,865 - \$42,350	2%			
4%	\$21,176 - \$33,421	\$42,354 - \$54,597	\$42,350 - \$66,842	4%			
6%	\$33,422 - \$46,394	\$54,598 - \$67,569	\$66,843 - \$92,788	6%		TO BE ISSUED SOON	
8%	\$46,395 - \$58,634	\$67,570 - \$79,812	\$92,789 - \$117,268	8%			
9.3%	\$58,635 - \$299,508	\$79,813 - \$407,329	\$117,269 - \$599,016	9.3%			
10.3%	\$299,509 - \$359,407	\$407,330 - \$488,796	\$599,016 - \$718,814	10.3%			
11.3%	\$359,408 - \$599,012	\$488,797 - \$814,658	\$718,815-\$1,198,024	11.3%			
12.3%	Over \$599,012	Over \$814,658	Over \$1,198,024	12.3%			

California has a Mental Health Services 1% surtax on taxable income above \$1 million (for all filing statuses). This is not reflected in the brackets.

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California Taxes

- Numerous Exemption Credits as well (Blind, Age 65+, Dependent, etc.) that phaseout as Federal Adjusted Gross Income exceeds \$203,341/\$406,687.
- Standard Deductions: \$4,601 (Single) and \$9,202 (MFJ/HOH)
- Minimum Standard deduction for dependents: \$1,100
- AMT Phaseout: \$280,424 (Single/HOH) and \$373,899 (MFJ)
- Miscellaneous Credits:
 - Qualified Senior HoH Credit = 2% of CA taxable income with max AGI of \$79,539 (\$1,499 max credit)
 - Joint Custody HoH Credit and Dependent Parent Credit = 30% of net tax with max credit of \$491
 - Renter’s Credit = \$60 for Single and \$120 for Married (limited by AGI)

HoH=Head of Household / MFJ=Married Filing Jointly/AGI=Adjusted Gross Income

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Alternative Minimum Tax (AMT)

What is AMT?

- AMT is a parallel tax system created in the 1960s that operates in the shadow of the regular tax, in which it adds back income that is tax-free and disallows deductions allowed under regular tax code.
- Credits such as Child Care Credit, Adoption Credit, Child Tax Credit, to name a few, can offset AMT.
- AMT is an add-on to the regular amount of tax owed, NOT an amount you alternatively pay!
- Tax Cut and Jobs Act dramatically lowered taxpayers affected by AMT

Alternative Minimum Tax (AMT)

AMT Changes

Exemption Amounts

Filing Status	2020	2021
Single, Head of Household	72,900	73,600
Joint, SS	113,400	114,600
Married Filing Separate	56,700	57,300
Estates and Trusts	25,400	25,700

Exemption Phase-out Thresholds

Filing Status	2020	2021
Single, Head of Household	518,400	523,600
Joint, SS	1,036,800	1,047,200
Married Filing Separate	518,400	523,600
Estates and Trusts	84,800	85,650

Federal Credits

- Child Tax Credit (\$2,000 per qualifying child)
- Earned Income Tax Credit (\$538 to \$6,660) for low-income workers
- Adoption Credit (Up to \$14,440)
- Education Credits to include American Opportunity Tax Credit (up to \$2,500) and the Lifetime Learning Credit (up to \$2,000)
- Saver's Credit up to \$2,000
- Nonbusiness/residential energy credits (up to 22% of cost) and vehicle credits (\$7,500 max)

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Marriage Penalty

Marriage Penalty

- The “so-called” Marriage Penalty exists when the combined tax liability of a married couple filing jointly is greater than their tax liabilities would be if they each filed as single or Head of Household.
- Conversely, there is also a Marriage Bonus if less taxes are due as a result of marriage.
- Since TCJA passage, limited exposure to penalty on Federal tax return but still highly present in California.



TCJA=Tax Cuts
& Jobs Act

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Marriage Penalty

Calculation of the Marriage Penalty for a Hypothetical Couple with Two Children
Tax year 2020

Item	Couple filing separately*		Couple filing jointly
	Spouse one	Spouse two	
Adjusted gross income	\$100,000	\$100,000	\$200,000
Standard deduction	\$12,400	\$18,650	\$24,800
Equals taxable income	\$87,600	\$81,350	\$175,200
Of which:			
Taxable at 10 percent	\$9,875	\$14,100	\$19,750
Taxable at 12 percent	\$30,250	\$39,600	\$60,500
Taxable at 22 percent	\$45,400	\$27,650	\$90,800
Taxable at 24 percent	\$2,075	\$0	\$4,150
Regular tax liability	\$15,104	\$12,245	\$30,207
Alternative minimum tax	\$0	\$0	\$0
Child tax credit	\$0	\$4,000	\$4,000
Tax liability after credits	\$15,104	\$8,245	\$26,207
Final tax liability		\$23,349	\$26,207
Marriage penalty (difference in tax liabilities)		\$2,858	
As share of adjusted gross income		1.4%	

Source: Urban-Brookings Tax Policy Center. Marriage Calculator. February 2020.

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Marriage Bonus

Calculation of the Marriage Bonus for a Hypothetical Couple with Two Children
Tax year 2020

Item	Couple filing separately*		Couple filing jointly
	Spouse one	Spouse two	
Adjusted gross income	\$0	\$200,000	\$200,000
Standard deduction	\$0	\$18,650	\$24,800
Equals taxable income	\$0	\$181,350	\$175,200
Of which:			
Taxable at 10 percent	\$0	\$14,100	\$19,750
Taxable at 12 percent	\$0	\$39,600	\$60,500
Taxable at 22 percent	\$0	\$31,800	\$90,800
Taxable at 24 percent	\$0	\$77,800	\$4,150
Taxable at 32 percent	\$0	\$18,050	\$0
Regular tax liability	\$0	\$37,606	\$30,207
Alternative minimum tax	\$0	\$0	\$0
Child tax credit	\$0	\$4,000	\$4,000
Tax liability after credits	\$0	\$33,606	\$26,207
Final tax liability		\$33,606	\$26,207
Marriage bonus (difference in tax liabilities)		\$7,399	
As share of adjusted gross income		3.7%	

Source: Urban-Brookings Tax Policy Center. Marriage Calculator. February 2020.

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Charitable Contributions

IRAs & Charity (Qualified Charitable Distribution)

- Individuals 70½ and older may make tax-free distributions (up to \$100,000) to public charities in lieu of required minimum distributions (RMDs) . . . extended permanently - PATH Act 2015
- Reduces AGI which changes rules for phase-outs
- Not subject to charitable contributions 60% limitation
- Does not apply to private foundations
- 1099-R does not report QCDs (**DO NOT include in income**)

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Charitable Contributions

CARES ACT

- For 2020, allows \$300 in cash contributions to be above-the-line for individuals who do not itemize (up to \$600 in 2021)
- Suspends charitable contribution limits (100% of AGI for individuals and 25% of taxable income for Corporations)
- Food inventory contributions limit increased to 25% from 15%
- Charitable contributions exceeding AGI limitation carried over for 5 years to deduct and extended to 15 years for qualified conservation contributions.

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Charitable Contributions

Documentation for charitable contributions has been tightened up

- The IRS is challenging many taxpayers' charitable contribution deductions
- It is imperative to maintain receipts for qualified charitable contributions such as a cancelled check, receipt or a letter showing the name of the charity, date of contribution and amount
- Check registers, credit card statements or personal notations are no longer sufficient to support charitable contributions
- Contributions of \$250 or more must have written acknowledgement dated before the end of the year from the donee (upon audit, must have letter dated by tax return filing)

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Charitable Contribution Court Case

Documentation Matters!

Ohde v Comm, TCM 2017-137

In 2011, the taxpayers claimed a noncash charitable deduction in the amount of \$146,611.

Details of the items donated

- 1,040 items of boys clothing
- 811 items of girls clothing
- 658 items of men's clothing
- 945 items of women's clothing
- 115 chairs
- 36 lamps
- 22 bookshelves
- 20 desks
- 20 chests of drawers
- 16 bedframes
- 14 filing cabinets
- 3,153 books

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Charitable Contribution Court Case

IRS Argument

For each delivery the taxpayers received a one-page printed receipt from Goodwill with limited details as to amounts of items received or condition of items. Even though the taxpayers presented an excel spreadsheet listing all the types of items, all items were rated as “high quality”. It also appeared the spreadsheet was prepared after the donation. The taxpayers also had no evidence for any of the cost basis included in the spreadsheet.

The IRS argued the taxpayer failed all substantiation tests and only allowed \$250 deduction.

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Charitable Contribution Court Case

IRS Argument

After aggregating like-donations, the IRS determined there were 11 categories of items in excess of \$500 and 4 categories of items in excess of \$5,000. For the donations over \$500 a Form 8283 is required and for donations over \$5,000 a qualified appraisal is also required. No such form was included in the return.

Since the documentation was missing the IRS argued the taxpayers were only allowed a deduction of \$250 for the donations.

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Charitable Contribution Court Case

Court's Ruling

The court agreed with the IRS resulting in an assessment of \$32,964 and an accuracy penalty of \$6,593.

Charitable Contributions

Other Items related to Charity

- *Commissioner v. Giannini* (1942): Refusal to accept bank salary and instead requested it go to charity (University of California) → Salary Not Income
- Consider contributing appreciated assets such as stock to a charitable organization rather than cash to receive a deduction of the full FMV (and no capital gain to claim on the stock)
- If a large payout in one year (i.e. sale of a business), taxpayers can establish a Donor Advised Fund to get a large current year deduction, the assets grow in the fund tax-free and charitable contributions are made over future years.

Federal Estate, Gift & GST Taxes

Federal Estate & Gift Tax

- For 2020, the lifetime estate exemption or lifetime gifting amount is \$11.7 million¹ (\$23.4 million for married couples)
- The annual tax-free gift amount is \$15,000
- Higher estate and gift tax exemption will sunset on December 31, 2025 and revert back to ~\$5 million (adjusted for inflation)

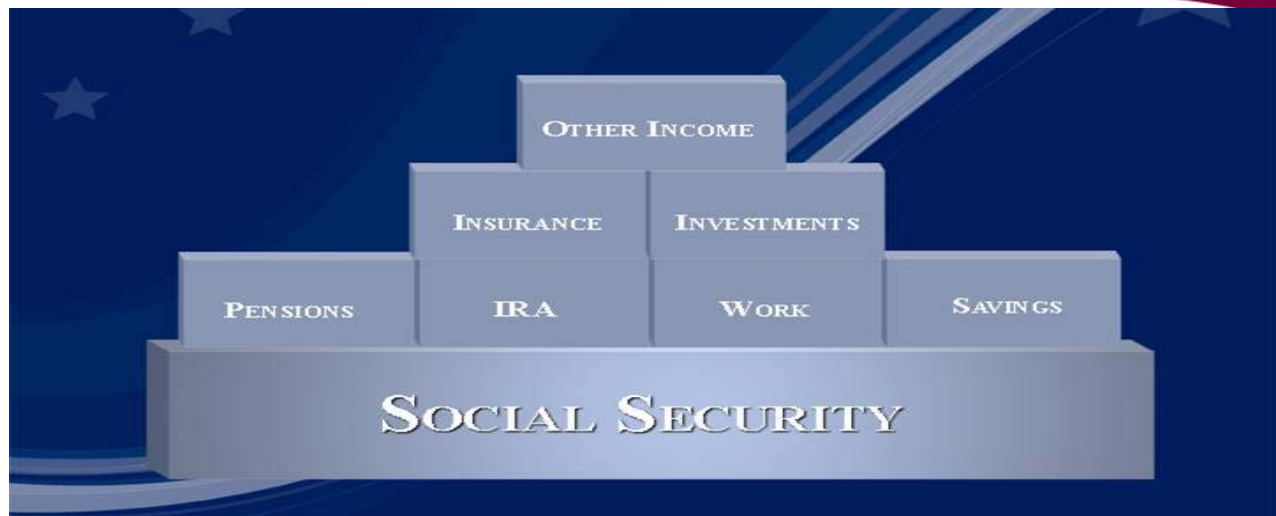
Exemption Type	2019	2020	2021
Lifetime Estate Exemption	\$11.4 Mil	\$11.58 Mil	\$11.7 Mil
Tax-Free Gift (per recipient)	\$15,000	\$15,000	\$15,000

¹Generation-skipping transfer

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Social Security and Retirement



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Eligibility for Social Security

Social Security eligibility is based on earning “credits”

- 2020 = each \$1,410 earned a credit for Social Security
- 2021 = each \$1,470 will earn a credit
- Can only earn 4 credits per any one year
- Once earn 40 credits, eligible for social security upon reaching retirement age
- Benefits based on the average of highest 35 years of income, adjusted for inflation

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Working and Social Security Benefits

Retirement age = 66 for people born 1943-1954

1955 and on = add two months for each year until 67 is reached

1960 or later = 67

- **Younger than retirement age**
\$1 reduction for every \$2 of income* above the annual limit. The 2020 income limit is \$18,240. In 2021 the limit increases to \$18,960.
- **In the year of full retirement age**
\$1 reduction for every \$3 of income* above the annual limit. The 2020 income limit is \$48,600. In 2021 the limit increases to \$50,520.
- **Once full retirement age is reached**
No reduction in benefits, no matter how much you earn

* Not included in the income calculation: interest, pension, annuities and investment income.

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Medicare

Medicare Premiums

- One-off events like selling a home for a large gain can trigger a Medicare surcharge

If your yearly income in 2019 (for what you pay in 2021) was			
File individual tax return	File joint tax return	File married & separate tax return	You pay each month (in 2021)
\$88,000 or less	\$176,000 or less	\$88,000 or less	\$148.50
above \$88,000 up to \$111,000	above \$176,000 up to \$222,000	Not applicable	\$207.90
above \$111,000 up to \$138,000	above \$222,000 up to \$276,000	Not applicable	\$297.00
above \$138,000 up to \$165,000	above \$276,000 up to \$330,000	Not applicable	\$386.10
above \$165,000 up to \$500,000	above \$330,000 up to \$750,000	above \$88,000 and less than \$412,000	\$475.20
\$500,000 or above	\$750,000 and above	\$412,000 and above	\$504.90

Medical and Long-Term Care

Medical Expense Deduction

- 7.5% of AGI expense threshold to be deductible (now permanent threshold per the COVID Relief Bill)
- Deductions include medical premiums, copays, vision, surgeries, dental care, medications, glasses, at-home care, hearing aids, mileage, etc.
- Cannot deduct purchases for general health not medically prescribed (gym memberships, daily vitamins, elective surgeries, diet food, etc.)
- In 2020, up to \$5,430 in premiums paid for long-term care insurance per person qualifies as a deductible expense
- Retirement communities move-in high costs can be partly allocated to this deduction
- In-home pools, air conditioning and saunas...

Retirement

- IRA contribution remains \$6,000 in 2021 (\$1,000 catch-up for age 50 and older)
 - IRA contributions only up to earned income (which now includes alimony)
 - SECURE Act also added fellowships, stipends and IHSS payments as income qualifiers
 - Beginning in 2020, no age restriction to contributions (but no California deduction allowed)
 - Deductible IRA Contributions made after age 70½ will reduce QCD made in later years
 - Spousal IRA contribution allowed even if spouse does not earn income
- Back door Roth conversion still an option
 - Allows high-income individuals to make nondeductible contributions to Roth IRAs
 - Also, a useful tool in low-income years to reduce future RMDs and take advantage of low tax rates

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Retirement

- **Required Minimum Distributions (RMDs)**
 - Yearly RMD Calculation = Retirement Plan Balance divided by a life expectancy factor
 - RMDs suspended for 2020
 - Can wait to take RMDs until the age of 72
- **Coronavirus-related distributions made in 2020 up to \$100,000 are penalty-free**
 - Can be spread over 3 years
 - 3 years to repay to avoid taxable income
 - Loans also allowed (check with provider)

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Unemployment

Millions of unemployment claims in 2020

- In California, taxpayers could have received up to \$31,200 of unemployment compensation during 2020
 - \$450 per week for regular unemployment up to 46 weeks
 - \$600 per week for Pandemic assistance up to 16 weeks
 - \$300 per week of Lost Wages (Presidential memo) up to 3 weeks
- Taxable income on Federal but California does not tax benefits
- Paid sick and family leave taxable by both
- December COVID bill extended Unemployment benefits

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Relief Payments

Economic Impact Payments

- “Stimulus Checks” authorized by Cares Act and December’s Relief Package
- Payments phased out as income increases and based on AGI from 2019 or 2018 returns
- Taxpayers not required to repay any credit, even if 2020 income higher than previous years
 - If income went the opposite way, taxpayers can claim the credit on 2020 tax return
- Checks are not subject to tax but are technically an advance against a 2020 tax credit
- Be on the lookout for Notice 1444 to help you reconcile the credit on the 2020 tax return.

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Other Miscellaneous Items

Virtual Currency

- Per Notice 2014-21, Virtual Currency is treated as property, not as currency.
- IRS began sending letters out in July 2019 to all prior owners of virtual currency, warning them they may owe tax (very few people were reporting the transactions in prior years)
- Roblox and V-Bucks are not currency (ask young children what these are)
- The new 1040 form requires all taxpayers to answer a question if they owned virtual currency during the 2020 tax year (top of 1040)

Other Miscellaneous Items

Popular Tax Scams

- Identity Theft
- Pervasive Telephone Scams – **THE IRS NEVER CALLS FIRST!**
- Soliciting W-2 forms from payroll companies or HR professionals
- Impersonation of Charitable Organizations
- False Income, Expenses or Exemptions

Reporting Tax Scams

- Can complete referral form found at: www.irs.gov/scams
- Report identity theft via: www.ftc.gov/idtheft
- CA - email ftbtaxscams@ftb.ca.gov

Tax Reform 2018

General information on Tax Reform

- Bill known as the **Tax Cuts and Jobs Act (TCJA)** is legally titled *An Act to provide for reconciliation pursuant to Title II and V of the concurrent resolution on the budget for fiscal year 2018* because the Senate did not pass the bill with the short title
- Largest tax reform since the Tax Reform Act of 1986
 - ✓ The 1986 Act took approximately 18 months from first draft to signing and had bipartisan support and influence
 - ✓ TCJA took 50 days from first draft to signing and was strictly a partisan draft and vote
- The original bill had handwritten notes in the margins throughout the document
- Contains 115 new provisions and includes 165 references to additional regulations needed to be made by the Treasury (IRS)

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Tax Reform 2018

Changes related to Individual Income Taxes

- All filing status remain unchanged
- State/Local Taxes (includes property taxes) – limited to \$10k total (\$5k if MFS)
- Mortgage Interest
 - ✓ Debt prior to 12/15/2017 – limited to \$1 million of acquisition debt (no change)
 - Refinanced debt allowed at same limitation as long as debt **does not increase**
 - ✓ All new debt is limited to \$750,000 of acquisition debt
 - ✓ No equity debt allowed for old or new debt
- Misc. itemized deductions and exemptions eliminated through 2025: tax prep fees, legal fees, investment expenses, safety deposit box rental, **unreimbursed employee business expenses** and credit card convenience fee (paying tax online)

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Tax Reform 2018

Changes related to Individual Income Taxes (cont'd)

- Misc. above the line deductions
 - ✓ Moving expenses: suspended 2018 – 2025 except for military pursuant to military order
 - ✓ Teacher deduction (\$250) – remains
- Gambling losses – retained and now includes expenses related to gambling but still limited to winnings
- Alimony
 - ✓ For decrees finalized thru 12/31/2018 – no change
 - ✓ For decrees finalized after 12/31/2018 – not deductible to payer, not includable by recipient and not earned income for purposes of IRA contributions

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Tax Reform 2018

Changes related to Individual Income Taxes (cont'd)

- Roth re-characterization – can no longer undo a Traditional to Roth conversion after 12/31/2017
- Affordable Care Act Provisions
 - ✓ Individual mandate repealed beginning in 2019
 - ✓ 3.8% net investment tax – remains
 - ✓ 0.9% additional Medicare tax – remains
 - ✓ California enacted SB 78 on June 27, 2019 to require healthcare insurance starting 2020
- Kiddie Tax – tax on unearned income of child
 - ✓ No longer tied to parents return; child must file own return (Remodified in 2020 and retroactive in 2018 and 2019 if elected)
 - ✓ If considering going back and amending, calculate tax under TCJA and SECURE rules

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Tax Reform 2018

Changes related to Individual Income Taxes (cont'd)

- Tax credits
 - ✓ Child Tax Credit – increased to \$2,000 with \$1,400 as refundable
 - ✓ Other Dependent Credit - \$500 nonrefundable
 - ✓ Phase-outs for both credits increased \$400,000 MFJ (from \$110,000) and \$200,000 all others (from \$55,000)
 - ✓ Electric Vehicle, Residential Energy (including solar) and adoption credits all retained
- Education Benefits
 - ✓ 529 Plans – added \$10,000 per year for K-12 education expenses (**Not California**)
 - ✓ Higher education interest expense retained for up to \$2,500 of interest
 - ✓ American Opportunity Tax Credit & Lifetime Learning Credit – both retained

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Filing Requirements

Individual Income Tax Return must be filed if:

- Income is over the standard deduction; or
 - Self-employment income is \$400 or more
- **Nanny Tax must be prepared if:**
 - Payments exceed \$2,200 (2021 = \$2,300)
 - Must be reported on Schedule H

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New Biden Administration

The dangers of planning based upon uncertainty....

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California

Very limited conformity to federal tax law changes!

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California Changes

AB 5 codified Dynamex ruling in 2019

- A three-factor test, referred to as the ABC test, applied to workers to treat as an independent contractor
 - ✓ Worker is free from control
 - ✓ Worker performs work outside the usual course of hiring entity's business
 - ✓ Worker is customarily engaged in independent established trade
- Exempted: Physicians, lawyers, accountants, real estate agents, fishermen, brokers, architects, etc. Borello case continues to be guideline for these professionals.
- Proposition 22 and recent Governor signed exemptions began peeling this back.

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California Changes (cont'd)

Individual Health Care Mandate

- Mirrors original ACA
- Required for all California residents to have health insurance beginning 1/1/2020 unless qualified for an exemption
- If loss of insurance due to job loss, taxpayers likely have 3 months to obtain replacement insurance or face penalties on the 2020 tax return.

Tax Increase bills (AB 1253 and AB 2088)

- Two bills proposed would increase California taxes on high net worth individuals
- Potential increase of maximum income tax rate to 16.8% and/or a 0.4% net worth tax
- Proposals did not come up for a vote before 2020 session ended. Delayed to 2021

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California Changes (cont'd)

Proposition 19 – BIG CHANGES FOR PROPERTY TAXES

- **More flexibility for property tax basis transfer by seniors**
- **Transfers from parents to children severely limited**
 - Primary residence subject to cap
 - Deadline of Feb. 15, 2021 accelerated because of holiday closures

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California Changes (cont'd)

CVRP Credits

- California electric vehicle rebates issued by the California Clean Vehicle Rebate Project (CVRP) for the purchase of a new hybrid, electric or fuel cell vehicle are taxable.
- Taxpayers must apply directly to CVRP for up to \$7,000
- No 1099 will be issued, but should be treated as part of gross income

Tax Opt Out Not Recommended

- *Appeal of Briscoe, 2020-OTA-116*
- Taxpayer's response to FTB's request for a tax return by saying he was "opting out" of the tax year in question...This request was denied and penalties were applied.

FTB=Franchise Tax Board

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Tax Returns 2020

- The IRS will **begin** accepting and processing **electronically** filed tax returns on/about **January 25** and will issue refunds within ~21 days
- Paper tax returns will also begin processing on **January 25, 2021** but with limited resources they will take much longer to process
- IRS and FTB are backlogged...Expectations should be measured this year.

Filing deadline for 2020 tax returns
Thursday, April 15, 2021

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Thank you!

Questions?

Disclosure

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. To determine what is appropriate for you, please consult a qualified professional.

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Follow-up questions

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Federal Tax Brackets

(from Torrance Memorial financial health Zoom seminar 1/8/2021)

2020

Bracket	Single	Head of Household	MFJ
10%	Up to \$9,875	Up to \$14,100	Up to \$19,750
12%	\$9,876 - \$40,125	\$14,101 - \$53,700	\$19,751 - \$80,250
22%	\$40,126 - \$85,525	\$53,701 - \$85,500	\$80,251 - \$171,050
24%	\$85,526 - \$163,300	\$85,501 - \$163,300	\$171,051 - \$326,600
32%	\$163,301 - \$207,350	\$163,301 - \$207,350	\$326,601 - \$414,700
35%	\$207,351 - \$518,400	\$207,301 - \$518,400	\$414,701 - \$622,050
37%	Over \$518,400	Over \$518,400	Over \$622,050

Personal Exemption	\$0	\$0	\$0
Standard Deduction	\$12,400	\$18,650	\$24,800
Add'l Deductions			
- Blind or Elderly	\$1,650	\$1,650	\$1,300
- Blind and Elderly	\$3,300	\$3,300	\$2,600

2021

Bracket	Single	Head of Household	MFJ
10%	Up to \$9,950	Up to \$14,200	Up to \$19,900
12%	\$9,951 - \$40,525	\$14,201 - \$54,200	\$19,901 - \$81,050
22%	\$40,526 - \$86,375	\$54,201 - \$86,350	\$81,051 - \$172,750
24%	\$86,376 - \$164,925	\$86,351 - \$164,900	\$172,751 - \$329,850
32%	\$164,926 - \$209,425	\$164,901 - \$209,400	\$329,851 - \$418,850
35%	\$209,426 - \$523,600	\$209,401 - \$523,600	\$418,851 - \$628,300
37%	Over \$523,600	Over \$523,600	Over \$628,000

Personal Exemption	\$0	\$0	\$0
Standard Deduction	\$12,550	\$18,800	\$25,100
Add'l Deductions			
- Blind or Elderly	\$1,700	\$1,700	\$1,350
- Blind and Elderly	\$3,400	\$3,400	\$2,700

Personal Exemption is suspended through 2025 per Tax Cuts & Jobs Act (TCJA), but the exemption amount is still adjusted for inflation for other purposes and will be \$4,300 for 2020 and 2021.