

# Tax Planning Guide

**2021 Edition**



What you need to know and how to take  
advantage of the tax code



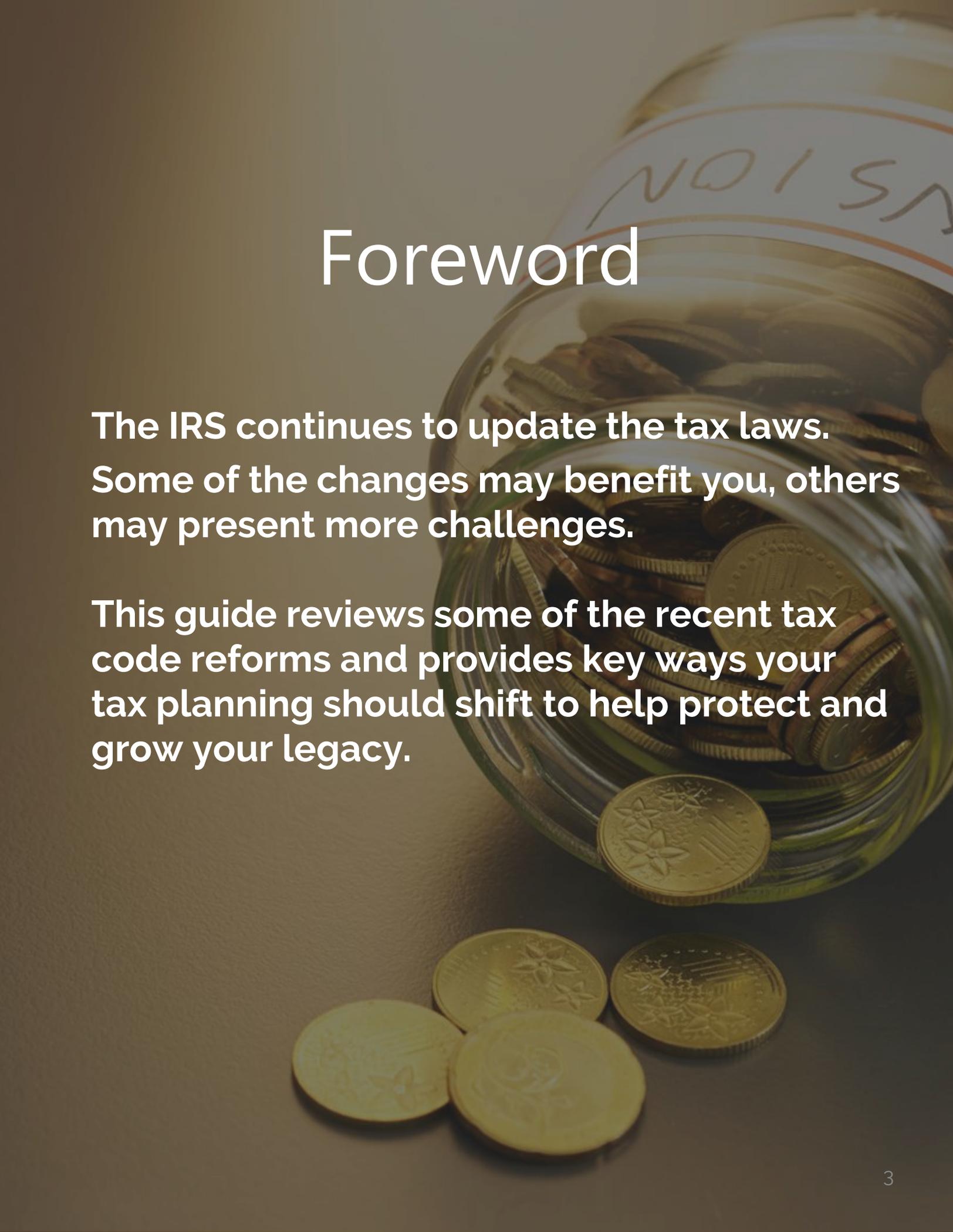
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# Foreword

**The IRS continues to update the tax laws. Some of the changes may benefit you, others may present more challenges.**

**This guide reviews some of the recent tax code reforms and provides key ways your tax planning should shift to help protect and grow your legacy.**

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**CHAPTER**

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**1**

**Making the Tax Code  
Work for You**

# The 7 Income-Tax Brackets



## IRS Inflation-Adjusted Tax Rates for Taxable Income

<b>RATE</b>	<b>SINGLE</b>	<b>MARRIED/JOINT</b>
10%	Up to \$9,950	\$Up to \$19,900
12%	\$9,951 – \$40,525	\$19,901 - \$81,050
22%	\$40,526 - \$86,375	\$81,050 - \$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%	\$523,600+	\$628,301+

Income-tax brackets are adjusted annually for inflation, although less generous now after the recent reforms of 2017. Rates above reflect current brackets at time of publishing (March 2021).

# Marriage and Children



**A marriage penalty** (increase in tax rate) applies only if you make more than \$400,000 after marriage.

**The child credit** is \$2,000 per child under seventeen (17). This applies to those with an income under \$400,000.

Income limits on the child credit are \$200,000 for single filers and \$400,000 for married filers. **This means all taxpayers coming in under these limits can take advantage of the tax credit.**

**529 plans** include private school tuition from kindergarten through high school (up to \$10,000/year), as well as public and private college tuition. Some states also allow a tax-free withdraw up to \$10,000 (lifetime limit, per borrower) to repay some student loans.

*A 529 account offers tax-deferred growth and a state tax deduction. This type of savings account allows tax-free withdrawals, meaning no income tax is paid on the growth when used for qualified educational expenses.*

# Alternative Minimum Tax And Personal Exemptions



## Big Benefits

**The alternative minimum tax**, which calculates the bare minimum of what each person should pay, is set at a \$1 million threshold.

**Standard deductions** aim to make tax filing simpler. They are currently set at \$12,400 for single and \$24,800 for married filing jointly.

**Personal exemptions** have been combined with the standard deduction through 2026. Any deductions over the standard amount can then be itemized. However, ***charitable donations up to \$300 single and \$600 joint may be deducted*** without itemizing (in 2020 and 2021).

*At the broad macro level, the 2017 and 2018 tax reforms have essentially benefited everyone. As Forbes.com puts it, "a rising tide floats all boats."*

# Retirement and The SECURE Act



The SECURE – ***Setting Every Community Up for Retirement Enhancement*** – Act took effect January 1, 2020 and offers some advantages that makes retirement finances an accessible goal for more people.

## SECURE Act Highlights

- 401k automatic enrollment caps are set at 15%
- You must begin taking RMDs at age 72.\*
- Contributions to an IRA may continue after 70½. This benefits those who work past traditional “retirement” age and would like to continue saving.

*\*Required minimum distributions from retirement accounts were waived in 2020 under the CARES Act and if already taken, were permitted to be rolled back into the retirement account.*



# The SECURE Act

## Additional Benefits of the SECURE Act

**Withdraw money from retirement plans penalty-free when a child is born or adopted**, up to \$5,000 per person. A couple could apply a total of \$10,000 of savings.

The SECURE Act also encourages younger people to save and enables that savings to be used for student loan debt and childbirth/adoption costs without early withdrawal fees.

Long-term, part-time workers may also be eligible for 401k plans.\*

\*The House Committee on Ways & Means notes that this is [particularly useful for women](#), who are more likely to work part-time, often due to childcare commitments.

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**CHAPTER**

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**2**

**What to Be  
Cautious Of**

# Reductions to Claim



What you can and cannot deduct have changed in recent reforms. These deductions **may reduce your investment savings**, so it's important to be aware of if and how they affect your personal tax return.

- **Above-the-line deduction for charitable giving.** For 2020 taxes, you can write off up to \$300 in cash donations on your person tax return (rather than itemize after the standard deduction).
- **The mortgage interest deduction starts at \$750,000** (married filing jointly). If your mortgage is over \$750,000, you must prorate how much you get to deduct as far as mortgage interest dollars.
- **Only \$10,000 of income and real estate can be deducted.** However, what some may lose on this may be made up by moving out of the alternative minimum tax threshold. Alternative minimum tax does not include state and local taxes.

# Disappearing Deductions



## Dead Deductions You Should Know About

- **Job-related moving expenses are only deductible for businesses.** Instead of bearing the expense, ask your company to pay.
- **Alimony payments are not deductible** and not counted in the income of the recipient (for divorce decrees 2018+).
- **No deductions on unreimbursed business expenses.** Broker and CPA fees cannot be deducted, either. Ask employers to reimburse these now.
- **No tax break on [IRA recharacterization](#)** (changing a Roth IRA back to a traditional 401k).



# The SECURE Act

## Considerations

While the SECURE Act can reduce fees and taxes in some areas, it may also negatively affect the ability of your beneficiaries to easily inherit the contents of a retirement plan in the event of your passing.

**IRA inheritance windows** start from the date of death. Drawdowns must occur and empty the account by the end of the 10th calendar year. You can extend this by strategically considering who may have exclusions from this rule: disabled individuals, spouses, minor children (until the age of majority) and individuals within 10 years of the account holder's age.

*IRAs may also be spread out between several different heirs, reducing the tax burden over time.*

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**CHAPTER**

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**3**

**Business Benefits  
And Pitfalls**

A photograph of three business professionals in a meeting. A man in a dark suit and glasses is pointing at a laptop screen. A younger man in a grey suit is looking at the screen. A woman in a dark blazer is looking towards the man with glasses. The text 'Business Owners Benefits' is overlaid in white on the image.

# Business Owners Benefits

**The tax rate applicable to “C” corporations is a flat 21%.** The idea of this flat rate is to make corporations more globally competitive while encouraging investment in the economy.

**For small business owners making \$150,000 or less (married filing jointly),** the first \$75,000 in income is at a 9% rate (being phased in and not fully available until 2022).

**For small business owners making over \$260,000 a year,** 30% of income may be taxed at 25% (lowering the max tax rate).

Passive pass-through income for **investors in small businesses** qualifies for the lower 25% rate on the entire 100% of income.

**Purchasing expensive business equipment** by 2023 means companies can immediately write off 100% of the purchases, rather than depreciating over many years.

*Direct expenses of capital assets for small businesses is \$1 million.*

# Business Pitfalls



## Business Pitfalls to Be Aware Of

Although several businesses are benefitting from tax updates, there are certainly those at a disadvantage.

While pass-through entities like LLCs and S Corps are taking advantage of a low tax rate, **pass-through entities categorized as a service business, or consultants, are explicitly denied the lower rates.**

Stock options do not offer employees at startup and tech companies any tax benefits. **Stock options are taxed when vested instead of when sold.**

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**CHAPTER**

**4**

**Tax Tips**



# Tried and True Tax Tips

## 4 Tax Tips to Take Throughout the Year

**The goal of tax planning is to reduce overall taxes.** Taking four simple steps throughout the year can help you achieve breaks on your tax return, as well as put your money to work.

**1. Maximize retirement savings**, including 401k, self-employed plans, other retirement plans, and IRAs. ***This lowers your taxable income.***

**2. Fund a health savings account (HSA).** This is a tax-advantaged medical savings account and makes for an above-the-line deduction directly against your income. In 2021, a family can save \$7,200 in an HSA and get a deduction. ***This is a tax benefit on medical expenses.***

*Stay up-to-date on contribution limits. Tax contribution limits are updated regularly, so be sure you know how much you can contribute to both retirement and HSA accounts.*

# Gifts & Credits



**3. Utilize the gift tax exclusion.** If your estate is under the \$11.7 million threshold, this can be a good way to save on taxes. Each person can gift up to \$15,000 to a recipient per year.

*For example, both a father and mother can give the full \$15,000 to one child in the same year, for a total of \$30,000 tax-free.*

Bonus: You can also “bunch” five years of annual \$15,000 gifts to a 529 account. No tax is due, but a [gift tax return](#) is required.

**4. Take tax credits.** Some states, like Arizona, have credits which allow taxpayers to ***decide where their tax dollars go***. Arizona’s tax credits include public school, private school, working poor and foster care categories. And you can contribute the maximum to **each category**.

*Credits make for better reductions on taxes than deductions*



# Bonus Tax Tips

## A Word About Filing

File on time. Filing a return late can result in a penalty of **4.5% of the tax owed, paid each month the return is past due up to five months** (capped at 25%).

For returns 60+ days late, you'll be charged a minimum of \$205 or 100% of your unpaid tax, whichever is less. A late-payment penalty may also be applied: 0.5% of the tax due, per month past due, plus interest.

If you are owed a refund, penalties do not apply.

If you can't finish your return by the deadline, file [Form 4868](#) for a six-month extension. **You still must pay at least 90% of your owed taxes by the April tax deadline** to avoid the late payment penalty.

**Work from home?** Don't neglect the [home office tax deduction](#). The eligibility for claiming a home office has been loosened to allow more self-employed filers to claim this tax break.

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## Tax Planning

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# Consult With Us



To learn more about how the tax reforms affect your personal and business tax returns, [contact Stableford](#) by calling 480.493.2300.

**Request Your  
15 Minute Consult**



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