

HAPPY NEW YEAR!!

The following tax rates and amounts are effective for 2021:

1. OASDI rate for employees remains at 6.2%. The wage base increases to \$142,800.
2. Medicare rate remains at 1.45% for employers. The employee portion is 1.45%, and a 0.9% Medicare surtax on earned income will be calculated on single filers with wages over \$200,000 and married filers with wages over \$250,000 as part of health care reform.
3. Social Security payments will increase by 1.3% beginning in January 2021. The maximum earnings one can earn before Social Security benefits will be completely withheld is \$50,250 for those who reach full retirement age during 2021. Those between age 62 and age 66 can earn \$18,960. For each \$2 earned above that, \$1 of benefits is lost. There is no limit on earnings for those older than 66. The retirement age for Social Security continues to rise this year. Those turning 62 this year are affected. They will get reduced benefits if they start receiving payments before they attain age 66 and 10 months.

Tax Highlights of the March 2020 Coronavirus Aid, Relief, and Economic Security Act “CARES Act” and the January 2021 Coronavirus Response and Relief Supplemental Appropriations Act that may impact our clients include:

4. Many businesses received crucial funds as a Paycheck Protection Program Loan (“PPP Loan”) in 2020. If the proceeds are used for qualifying payroll and business rent or business mortgage interest expenses, the loan proceeds may be forgiven. The January 2021 Coronavirus Response and Relief Supplemental Appropriations Act determined that the payroll, rent and mortgage interest paid with these loan funds are still able to be deductible business expenses, even if the loan is forgiven.

5. Paycheck Protection Program Loans that are forgiven will not be taxable income to the business in the year the loan is forgiven.

6. Many businesses received Economic Injury Disaster Loan Grants in 2020 and State and Local grants due to hardships created by the COVID-19 pandemic. These amounts are taxable income to the business in the year received unless proven otherwise with documentation from the granting authority.

7. Individuals were eligible for two rounds of stimulus payments if their 2020 income was below qualifying thresholds. The income threshold for singles is \$75,000 for a full stimulus payment. Payments are phased out when income exceeds this amount and fully eliminated at income of \$98,000. The income threshold for heads of household is \$112,500 for a full stimulus payment. Payments are phased out when income exceeds this amount and fully eliminated at income of \$150,000. The income threshold for married couples is \$99,000 for a full stimulus payment. Payments are phased out when income exceeds this amount and fully eliminated at income of \$198,000. Income thresholds are tied to a taxpayer’s 2020 tax return, although stimulus checks were issued using either the taxpayer’s 2018 or 2019 tax returns as a benchmark. If a taxpayer received the stimulus but does not qualify after their 2020 tax return is filed, they will not be asked to pay the stimulus back. If a taxpayer did not receive the stimulus payments but will qualify once their 2020 tax return is filed, they can claim the funds using the Refund Recovery Credit on the tax return filing.

8. The CARES Act gave flexibility in taking a required minimum distribution in 2020. The requirement to withdraw your required minimum distribution returns for 2021.

9. Certain tax and payroll credits may be available for businesses that retained employees despite shutdown orders for the COVID-19 pandemic.

The Tax Reform Bill passed in late December 2017 made some important changes to individual, business, estate and gift taxation beginning in the 2018 tax year. Many of these provisions sunset after 2025. Items 10 through 31 address changes specific to the 2017 Tax Reform Bill, which continue in 2021. While this list is not all inclusive, it represents the items that we feel are of greatest interest to our clients.

10. Personal and dependency exemptions have been eliminated under the new tax law. The IRS has established a revised Form W-4 to reflect this. Your employer's payroll department may request that you complete the new W-4 form.
11. Standard deduction increases to \$25,100 for married filing joint couples, plus \$1,350 for each spouse 65 or older, or blind or disabled. The standard deduction for a single filer increases to \$12,550, plus \$1,700 if you are 65 or older, blind or disabled. Head of household's standard deduction increases to \$18,800. For children who must file returns, it remains at \$1,100.
12. There will still be seven tax brackets consistent with 2020. Income tax rates will be 10%, 12%, 22%, 24%, 32%, 35%, and 37% for single taxpayers earning over \$523,600 or married taxpayers earning over \$628,300. The 20% top rate for long term capital gains and qualified dividend starts at a higher level for 2020; singles with taxable income over \$445,851 and joint filers above \$501,601. For those earning less than the thresholds, the tax rate has remained at 15%. Under the 2010 health care law, the 3.8% Medicare net investment income tax remains effective for single taxpayers earning more than \$200,000 and married taxpayers earning more than \$250,000.
13. Significantly fewer taxpayers are expected to be subject to the Alternative Minimum Tax as a result of changes under the 2017 Tax Reform Law. 200,000 individuals as opposed to 5,000,000. Alternative Minimum Tax exemption increases slightly in 2021, from 2020. Exemptions from the minimum tax will rise in 2021 to \$114,600 for couples and \$73,600 for singles. The phase-out levels for the exemptions were raised to \$1,047,200 for joint filers, up from \$1,036,800; and to \$523,600 for individuals, up from \$518,400.
14. The exemption from the Kiddie Tax for 2021 remains at \$2,200. The first \$1,100 of unearned income is tax-free. The next \$1,100 is taxed at the child's rate. If the Kiddie Tax applies, the child's net unearned income exceeding \$2,200 would be taxed using the parent's rate. The kiddie tax treatment under the Tax Reform Bill was repealed by the SECURE Act.
15. Bonus rate or flat rate withholding for supplemented wages less than \$1,000,000 remains at 22%. If more than \$1,000,000 the rate is 37%.
16. High income taxpayers can continue to convert their IRAs to ROTHs. The \$100,000 AGI cap is gone. Under the new tax law, the ability to undo a Roth IRA conversion after it has been completed is no longer available.
17. Federal estate, gift and generation skipping tax exemption increases to \$11,700,000. It applies to the estates of people who die after Dec. 31, 2018 but before Jan. 1, 2026 and to gifts made during this time period. The maximum Estate and Gift rate remains at 40%.
18. The federal deduction for state and local income and sales taxes, combined with property taxes has been capped at \$10,000, the national average.
19. The deduction for mortgage interest has changed under the 2017 Tax Reform Act.

Previously, taxpayers could deduct mortgage interest on principal balances up to \$1 million for multiple homes. A taxpayer could also deduct home equity mortgage interest on principal up to \$100,000. Under the new law, the deduction for mortgage interest is capped at \$750,000 of principal and limited to two homes. Home equity loan interest is no longer allowed. Home purchases prior to December 15, 2017 are grandfathered in under the prior laws, as are existing mortgage balances.

20. Mandatory health care payments under the Patient Protection and Affordable Care Act (Obamacare) which were effective after 12/31/13 are no longer required since the tax for being uninsured has been reduced to zero under the new tax law.
21. In 2021, a taxpayer may deduct medical expenses when they exceed 7.5% of adjusted gross income. This change has been made permanent.
22. The child tax credit remains at \$2,000 per child and will be refundable up to \$1,400. The phase-out for the credit, begins with adjusted gross income of more than \$400,000 for married filing joint couples and more than \$200,000 for all other taxpayers. The phase-out is not indexed for inflation. The definition of the child tax credit has been expanded to include dependents who are not children. The new law tax includes a \$500 nonrefundable credit for dependents who are not children. **As an added benefit for 2020 tax returns, taxpayers can use their 2019 or 2020 AGI to calculate their credit, whichever value is most beneficial to them.**
23. Pass thru business owners are eligible to deduct 20 percent of their Qualified Business Income from a partnership, S corporation and sole proprietorship. In 2021, this deduction begins phasing out for the deduction that begins at \$164,900 of individual adjusted gross income and \$329,800 of adjusted gross income for couples filing jointly. The deduction does not apply to specified service businesses, except when the income of those taxpayers fall below the phase-out thresholds described above. A specific tax form will be filed in 2021 for those claiming the QBI deduction.
24. Qualified withdrawals from 529 plans have been expanded to allow up to \$10,000 to be withdrawn annually for private secondary school expenses. In 2017 and prior, 529 plan qualified withdrawals were only allowed for higher education expenses. Note that many states, including New York, do not follow this new rule. New Jersey does allow these withdrawals.
25. Investment fees, tax preparation fees, and unreimbursed employee business expenses will not be deductible as Federal Miscellaneous Itemized Deductions. Previously, these items were deductible but subject to a 2% of adjusted gross income threshold. Some states still allow them.
26. Casualty losses continue in 2020 to only be deductible if they are caused by a Federally declared disaster. Personal losses, such as thefts and a house fire not caused by a Federal declared disaster, would no longer be deductible. We suggest you review your insurance policies to see if you have adequate coverage.
27. Alimony payments for divorce agreements entered into after January 1, 2019 are not deductible. Alimony payments received will not be taxable. Special rules exist for those wishing to modify divorce agreements entered into prior to that date but maintain the deductibility of their alimony payments.
28. Moving expenses continue to generally not be deductible in 2021. Some exceptions apply to members of the military.
29. The domestic production activities deduction has been repealed for C Corporations beginning January 1, 2019. Pass thru entities already had the deduction repealed in 2018.
30. Business meal deductibility is 100% for 2021 and 2022! This is designed to encourage restaurant dining. Business entertainment deductibility continues to be repealed.

31. The Tax Reform Bill increased the maximum amount a taxpayer may expense under Sec. 179 to \$1,050,000, up from \$1,040,000 and increased the phase-out threshold to \$2.62 million. Bonus depreciation continues to be extended and modified to deduct 100% of eligible property placed into service through 2022. The amount of allowable bonus depreciation will then be phased down over four years: 80% will be allowed for property placed in service in 2023, 60% in 2024, 40% in 2025, and 20% in 2026.
32. Back up withholding rate is 24%.
33. 401(k), 403(b), and 457 contribution pay-in limitation remains at \$19,500, with \$6,500 additional for employees 50 and older. Ceiling on SIMPLE plans remains at \$13,500 but folks age 50 or older can put in an additional \$3,000 in 2021.
34. Maximum level of pay on which pay-ins to plans can be based upon increases to \$290,000 from \$285,000 with the maximum pay-in for defined contribution plans increasing to \$58,000. Percentage of compensation that can be put in remains at 100%. Profit Sharing percentage remains at 25%.
35. Phaseout for Traditional IRA deductions start at \$105,000 and ends at \$125,000 for couples. Phaseout for singles is from \$66,000 to \$76,000. If only one spouse is covered by a plan, the phaseout zone for deducting a payin for the spouse who is not covered begins at \$198,000 of AGI and ends at \$208,000. Phaseout for Roth IRA deductions start at \$198,000 for couples and end at \$208,000, and start at \$125,000 and end at \$140,000 for singles. Contribution limit remains at \$6,000. If 50 or older, can contribute up to \$7,000.
36. The interest exclusion on U.S. Savings Bonds redeemed to pay qualified higher education expenses starts to phase out at AGI above \$124,800 for marrieds.
37. Eligible portion of long term care premium rises to \$5,640 for those age 71 and older, \$4,520 between ages 60 and 70, \$1,690 between ages 50 and 60, \$850 from 41 to 50 and \$450 for age 40 and under, deductible as medical expenses. Limit for tax-free payouts increases to \$400 per day.
38. Medicare Part B premium is \$148.50 monthly for most singles with AGI under \$88,000, although many taxpayers will pay less than that. The maximum premium rate is \$504.90 per month.
39. The Nanny tax threshold increases \$100 to \$2,300 in 2021. No social security tax is due for domestics paid \$2,300 or less this year. It is not indexed for inflation. FUTA is still due whenever a domestic employee is paid \$1,000 or more in a calendar quarter in the current or prior year.
40. Low and middle income savers can still get a tax credit of up to \$1,000 for contributions made to IRAs and qualified plans. Credit disappears for marrieds when AGI hits \$66,000, \$33,000 for singles.
41. Adoption tax credit increased to \$14,440 of expenses, from \$14,300. Phaseout starts at \$216,600 AGI.
42. The Lifetime Learning credit phaseout will rise to the same levels as the American Opportunity Credit in exchange for the elimination of the tuition and fees deduction. The credit provides a maximum annual amount of up to \$2,000 per tax return, calculated as 20% of the first \$10,000 of qualified expenses. Phaseout will rise from \$59,000 to \$80,000 for single filers and from \$118,000 to \$160,000 for joint filers.
43. Gift tax exclusion remains at \$15,000 per donee for gifts made in 2021.
44. The limit on deducting payins to Health Savings Accounts increases to \$7,200 for family coverage and \$3,600 for individual coverage. Account owners age 55 and older can put

in an additional \$1,000. Ceiling on out of pocket cost increases to \$14,000 for family coverage and \$7,000 for individual coverage. HSAs can be rolled into IRAs.

45. Monthly limitation on contributions to transit flexible spending accounts for tax-free parking and transit remains at \$270 for 2021.
46. U.S. taxpayers working abroad have a higher exclusion, \$108,700, up from \$107,600.
47. Federal minimum wage remains unchanged at \$7.25, food service employees, \$2.13. New Jersey increased to \$12.00 as of January 1, 2021 and New York increased to \$12.50, \$14.00 in Long Island and Westchester and \$15.00 in New York City. Different rates apply for the New York hospitality industry. Connecticut minimum wage increased to \$12.00. Pennsylvania minimum wage remains at \$7.25 with tipped employees \$2.83.
48. Credit and Debit Card companies will continue to issue 1099s on payments made to merchants in 2021. Third party networks, such as PayPal, will issue 1099s to payees with over 200 sales transactions and more than \$20,000 in sales income.
49. S Corporations and partnerships will owe a penalty of \$210 per owner or partner per month for up to 12 months for failure to file on time. This includes returns that are required when no business activity takes place.
50. Nearly all businesses must wire tax deposits to the IRS.
51. Standard mileage allowance for business declines 1.5¢ to 56.0¢ per mile. The rate declines to 16¢ a mile for medical purposes and job related moves. Remains at 14¢ per mile for charitable driving.
52. Tax-free direct payouts from IRAs to charity of up to \$100,000 for individuals age 72 and older continue to be allowable.
53. Professional development costs continue to be deductible as part of the \$250 of teacher classroom supplies deduction.

Secure Act

The “Setting Every Community Up For Retirement Enhancement”, or SECURE ACT was signed into law in January 2020. Some highlights of the bill include:

54. Small business tax incentives are available for small businesses to set up automatic enrollment in retirement plans for its workers, or join multi-employer plans.
55. The maximum age cap for worker contributions to Traditional IRA accounts has been removed.
56. The required minimum distribution age increases from 70½ to 72 for those individuals who have not yet turned 70½ in 2021.
57. Stretch IRA rules have changed. Non-spousal account inheritors could previously stretch distributions over their lifetime. The Secure Act changes the withdrawal rules to be 10 years. This will boost the tax obligations of those inheritors, potentially in their prime earning years.

Investment Management Performance Reports

All of our investment management clients are automatically enrolled in Albridge, which is a sophisticated financial aggregation software. One of the abilities of Albridge is to be able to provide performance reports for various periods of time.

The most common period of time for performance reporting is the preceding year. The most common performance report metric is the benchmark chosen that you want to be compared

to. Our chosen benchmark is one created by us, is the one that we think most closely approximates that of a balanced portfolio, that is one that has income (bond) and growth (equity) characteristics. Our benchmark is 40% income (Barclay's Bond Aggregate) and 60% growth (Standard & Poors 500 Index), which is commonly used for balanced portfolios.

If you would like to see how your portfolio did in 2020, and as against the benchmark, we encourage you to go to the Albridge website and use your password information to enter and then go to Reports. Once in Reports, you should choose Last Year's performance, Program 1 and composite Benchmark 40/60, which you will be able to view. Of course, now that you know how to run a report, you can choose other time periods to run your own reports. If it is too difficult or cumbersome for you to do this, you can send us an email affirmatively authorizing us to prepare the report either on a one time basis or annually and provide us with the email address to which you would like the report sent. This is necessary in order to satisfy both Compliance and Privacy concerns.

If you have any questions about this additional benefit, we are providing to you free of charge, please call us.

As always, if you have any questions about these or any other matters, do not hesitate to call us.

Remember, We're Here For You!

Sincerely yours,

Melissa Rosenfeld, CPA
Howard Lisch Esq., CPA