



## 2020 TAX REPORT FOR BOBBY AXE SAMPLE AND WENDY RHODES SAMPLE

### KEY FIGURES

Total Income:	\$285,850	Filing Status:	Married Filing Jointly	Tax Exempt Interest:	\$3,700
AGI:	\$279,894	Marginal Rate:	24.0%	Qualified/Ordinary Dividends:	\$14,500 / \$17,500
Deductions:	\$46,450	Average Rate:	12.7%	ST/LT Capital Gains:	(\$1,500) / \$17,500
Taxable Income:	\$232,215	2021 Safe Harbor:	\$39,937	Carryforward Loss:	\$0
Total Tax:	\$36,306	Tax Exempt Pct. of Total Interest:	43.8%	Credits Claimed:	\$6,950

### MARGINAL TAX BRACKET INFORMATION

The marginal tax rate for your *ordinary income* is as follows:

Marginal Rate	Ordinary Income Threshold	
10.0%	\$0 to \$19,750	
12.0%	\$19,750 to \$80,250	
22.0%	\$80,250 to \$171,050	
24.0%	\$171,050 to \$326,600	<b>You: \$201,716</b>
32.0%	\$326,600 to \$414,700	
35.0%	\$414,700 to \$622,050	
37.0%	\$622,050 and above.	

The marginal tax rate for your *capital gains and qualified dividends income* is as follows:

Marginal Rate	Taxable Income Threshold	Qualified Income (\$30,500 Total)	
0.0%	\$0	\$0	
15.0%	\$80,000	\$30,500	<b>You: \$232,215</b>
20.0%	\$496,600	\$0	

The tax return also includes these extra Medicare taxes:

- \$63.00 additional Medicare tax on Form 8959.
- \$1,136.00 net investment income tax on Form 8960.

### MODIFIED ADJUSTED GROSS INCOME TIERS

Planning Opportunity	Limits	Over/Under?
Net Investment Income Tax	\$250k	Over
Coverdell ESA	\$190k - \$220k	Over
Roth IRA Contribution	\$196k - \$206k	Over
Lifetime Learning Credit	\$118k - \$138k	Over
Student Loan Interest Deduction	\$140k - \$170k	Over
American Opportunity Credit	\$160k - \$180k	Over
Child Tax Credit	\$400k - \$440k	Under
Qualified Adoption Expenses Credit	\$217k - \$257k	Over
Saver's Credit	\$39k - \$65k	Over
IRA Contribution Deductibility - Covered Spouse	\$104k - \$124k	Over
IRA Contribution Deductibility - Non-Covered Spouse	\$196k - \$206k	Over

### ITEMIZED DEDUCTION SUMMARY

Total Itemized Deductions: \$46,450 vs. Standard Deduction of \$24,800

Deduction	Amount Claimed
Health Care Expenses	\$0
Taxes Paid	\$10,000
Mortgage and Investment Interest Expense	\$11,000
Charity	\$25,450
<b>TOTAL</b>	<b>\$46,450</b>

**MEDICARE PART B/D PREMIUMS FOR 2022**

Medicare Parts B and D premiums can be impacted by Modified Adjusted Gross Income\* (MAGI). Amounts below are in addition to the base premiums. Amounts are monthly.

\*MAGI = AGI + Tax-Exempt Interest

MAGI Threshold	Part B Premium Adjustment	Part D Premium Adjustment
\$0 to \$182,000	\$0	\$0
\$182,000 to \$228,000	\$68	\$12
\$228,000 to \$284,000	\$170	\$32
\$284,000 to \$340,000	\$272	\$52
\$340,000 to \$750,000	\$374	\$71
\$750,000 and above.	\$408	\$78

**You: \$283,595**

**SCHEDULE B INCOME SOURCES**

The tax return listed the following income sources on Schedule B:

**INTEREST**

Description	Amount
BANK OF AMERICA	\$500
ALLY BANK	\$3,000
SCHWAB	\$1,250

**DIVIDENDS**

Description	Amount
VANGUARD	\$8,000
SCWHAB	\$9,500

**SCHEDULE D - CAPITAL GAINS/LOSSES**

The tax return listed the following sources of capital gains/losses:

**SHORT TERM**

Description	Amount
Short Term Loss Carryover from 2019	(\$3,500)
Short Term Gain/Loss for 2020	\$2,000
Total Short Term Gain/Loss for 2020	(\$1,500)

**LONG TERM**

Description	Amount
Long Term Loss Carryover from 2019	(\$5,000)
Long Term Gain/Loss for 2020	\$22,500
Total Long Term Gain/Loss for 2020	\$17,500

**TOTAL**

Total Gains/Losses for 2020	\$16,000
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**SCHEDULE C INCOME SOURCES**

The tax return listed the following businesses on Schedule C:

Business Name	Net Profit
SUPER DUPER CONSULTANTS	\$7,600

**SCHEDULE E INCOME SOURCES**

The tax return listed the following income sources on Schedule E:

**RENTAL REAL ESTATE AND ROYALTIES**

98 BEACHFRONT DRIVE AMITYVILLE, NC 27998

**OBSERVATIONS**

Given that you reported income on Schedule C, E, and/or F, your risk of costly errors is elevated. You may consider working with a tax professional next year.

Income exceeds the threshold for the 3.8% Net Investment Income Tax (NIIT). Consider strategies to reduce taxable income and be mindful of realized capital gains.

You are in the 24.0% marginal bracket. Depending on your age and income projections, you might consider a Roth conversion.

The safe harbor for underpayment penalties is your total tax x 110%, or \$39,937. Note that the timing of your payments is also important with respect to avoiding penalties. Withholding from a paycheck or retirement account distributions are considered to have happened throughout the year, but estimated tax payments should be timed to correspond with the timing of the income earned. A tax professional should be able to help in cases where income is uneven throughout the year.

Your Modified Adjusted Gross Income (MAGI) suggests you are not eligible to contribute directly to a Roth IRA. You do have eligible compensation though, so you might discuss the feasibility of the "Backdoor Roth" strategy.

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You deducted mortgage interest this year on your tax return. Given the high standard deduction, itemized deductions on mortgage interest are less valuable.

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You had charitable contribution in excess of \$10,000 this year. If you plan to do donations of similar size in future years, you may consider grouping them into alternative tax years to maximize your deductions. A "Donor Advised Fund" can facilitate this strategy.

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Bobby, you are age 50 in 2020 and thus are eligible to start making catch-up contributions to retirement accounts.

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You owed additional taxes beyond any withholding or estimated tax payments. If this was due to a one-time event, you may not need to take any action. If not, consider adjusting your withholding to avoid any surprise lump sum payments due at tax time.

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You were unable to deduct \$20,750 of state and local taxes due to the \$10,000 maximum cap created by the Tax Cuts and Jobs Act.

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An HSA distribution was made to cover qualified medical expenses. It may be beneficial to cover medical expenses from other sources and keep funds inside the HSA. This would allow for tax-deferred growth, tax-free withdrawals for qualified medical expenses in the future, and penalty-free distributions for any reason after age 65.

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Schedule C does not include any expenses on line 9, car and truck expenses. Do you use a vehicle for any business-related activities?

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Review employer-provided benefits to ensure you are taking full advantage of any pre-tax options.

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Keep track of your home improvement expenses for determining your adjusted cost basis in the event of a home sale.

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Your tax return lists HSA contributions totaling \$4,500.00. The 2020 limits for HSA contributions were \$7,100 for families and \$3,550 for individuals, with an extra \$1,000 catch up provision for taxpayers age 55 or older.

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## CALIFORNIA STATE TAX HINTS

Social Security benefits not taxed

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HSA contributions get added back to AGI for CA tax purposes

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529 plan withdrawals for K-12 tuition is taxable plus a 2.5% penalty

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Misc. deductions can be itemized, subject to 2% state AGI floor

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Section 179 deductions limited to \$25,000 and bonus depreciation not available

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Losses from active real estate participants not deductible

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Use tax on out-of-state purchases is due if sales tax was not paid at time of purchase or if sales tax paid was lower than that of California

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Capital gains are taxed as ordinary income

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Safe harbor on estimated taxes not allowed if California adjusted gross income over \$1 million (\$500,000 MFS) . Must pay estimated taxes based on the actual expected tax. Also, quarterly payment rules are more stringent than at the Federal level, so take care to avoid penalties (for example, in the event of a large capital gain during the year).

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Alimony received treated as income. Alimony paid is deductible.

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There is no 3rd quarter estimated payment. California has an estimated payment schedule of 1Q: 30%, 2Q: 40%, 4Q: 30%.

- NIIT = AGI + Excluded Foreign Earned Income
- Coverdell, Lifetime Learning, American Opportunity, Child Tax Credit MAGI, Adoption Credit, Saver's Credit = AGI + Excluded Foreign Earned Income + Housing
- Roth MAGI = AGI - Taxable Roth Conversions + IRA Deduction + Student Loan Interest Deduction + Tuition Deduction + Excluded Foreign Earned Income + Housing
- Student Loan Deduction MAGI = AGI not including student loan interest
- IRA Deduction MAGI = AGI + Student Loan Interest Deduction + Tuition and Fees Deduction + Excluded Foreign Earned Income + Housing