



The More Things Change, the  
More They Stay the Same

## **A Tax and Financial Update**

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# HERE'S WHAT WE'LL COVER...

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I. Adapting to the New Rules

II. Retirement Topics

III. Business Issues

IV. Market Conditions



# Adapting to the New Rules

TCJA (2017) CARES ACT (2020) SECURE ACT (2020) ARPA (2021)

# TCJA: Tax Cuts and Jobs Act

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- Massive Tax Cuts
- Reshaped and limited itemized deductions
- Reduced corporate taxes
- Gave small businesses a new deduction

# CARES Act: Coronavirus Aid, Relief, and Economic Security

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- PPP and EIDL programs
- Economic Stimulus checks
- IRA access
- Coronavirus assistance

# SECURE Act: Setting Every Community Up for Economic Security

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- Moved Required Minimum Distribution age to 72
- Took away the Stretch IRA
- Enhanced IRA and 401(k) contributions

# ARPA: American Rescue Plan Act

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- Additional stimulus payments
- Increased Child Tax Credit
- Advanced Child Tax Credit payments
- Increased Child and Dependent Care benefits
- Unemployment boost
- Increased below the line Charitable Subtraction

# IT'S HARDER TO ITEMIZE NOW

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- Income and RE tax deductions limited
- Miscellaneous deductions gone
- No more home equity interest deduction

**AND...** No more personal exemptions

**But ...** A New Charitable Subtraction



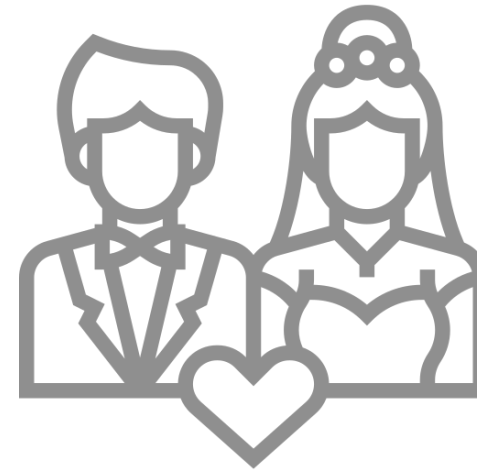
# THERE IS GOOD NEWS...

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2021 Standard Deduction increased for inflation



Single: **\$12,550**



Married filing joint: **\$25,100**

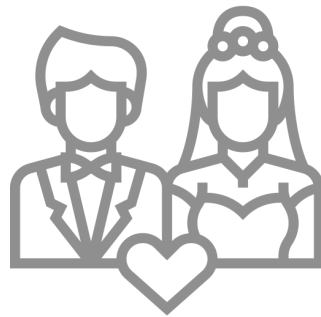
# AND...

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## Increased Additional Standard Deduction for Age or Blindness



Single: **\$1,700**



Married filing joint: **\$1,350**

Double for age AND blindness

### Example:

*Single taxpayer over 65 and blind*

*(12,400 + 1700 + 1700)*

Standard deduction: **\$15,950**

# The New Increased Charitable Subtraction

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- Subtraction.... Not a deduction
- \$300 single filer / \$600 married filing joint

## And one more charitable allowance

- Cash contributions allowed up to 100% of AGI



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# QUESTIONS

and comments...



# DOUBLING UP DEDUCTIONS CAN STILL WORK...

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- Watch for high medical combined with charitable
- Consider transfer of appreciated investment
- Beware of the \$10,000 tax deduction limitation

# And one more way to aid doubling up....

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## Donor Advised Funds .... How do they work?

- Full charitable contribution in the year funds go in
- One-time contributions or multiple year contributions allowed
- Donor can determine timing of distributions
- Donor chooses the charities
- Donor can choose from investment strategies offered by the custodian

# And one more way to aid doubling up....

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## Donor Advised Funds .... Do the research?

- Look for flexible terms on transfers and distributions
- Consider the investment options
- Watch out for high fees

# A DIFFERENT APPROACH...

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## Qualified Charitable Deduction

- Must be qualified charitable organization
- Must come from an IRA, no employer plans
- The IRA owner must be 70 ½ or older
- Transfer to charity satisfies required minimum distribution
- No inclusion in income / but no charitable deduction



# WHY DOES IT WORK?

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- No income inclusion means no tax
- Adjusted gross income is lower
  - May reduce social security inclusion
  - May keep Medicare premium lower
  - May increase includable medical deduction
- Reduces reportable income even if not itemizing

# ARE THERE STILL SOME CREDITS LEFT FOR US?

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## Residential Energy Efficiency Improvements

10% of cost with maximum lifetime credit of \$500

### Energy Efficient Equipment



**Water heaters, AC Units,  
Furnaces**

### Energy Efficient Components



**Exterior Doors, Windows,  
Insulation, Specific  
Roofing Materials**

# ARE THERE STILL SOME CREDITS LEFT FOR US?

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## Residential renewable energy tax credit

### Solar & Geothermal and Biomass:



**26% OF EQUIPMENT COST**

on principal or secondary residence

Non-refundable but can be carried forward.

### Fuel Cell:



Capped at

**\$1000 PER KILOWATT**

Personal residence only.

# And One More Energy Credit (New in 2021)

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- **\$2,000 Energy Efficient Home Credit**
  - Homeowner gets the credit
  - Must be qualified builder
  - Principal residence only



# QUESTIONS

and comments...





# Retirement Topics

Things to know

# The New Required Minimum Distribution Rules

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- Old Rule...quick review
  - 70 ½ WAS the minimum age
- New Rule
  - No distribution required until age 72
  - Can take at any time in the year
  - Single or multiple distributions in a year



# Other IRA Rules and Warnings

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- Contributions allowed after age 70
- But no more stretch IRA
  - Distributions to non-spouse out in 10 years
  - Includes Roth IRA's
- Consider charities as IRA beneficiaries





# Ida May Fuller

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- Social Security withdrawals began August 14<sup>th</sup>, 1935
- On January 31, 1940, the first monthly retirement check was issued to **Ida May Fuller** of Ludlow, Vermont, in the amount of \$22.54. Miss Fuller, a Legal Secretary, retired in November 1939. She started collecting benefits in January 1940 at age 65 and lived to be 100 years old, dying in 1975.



# Social Security Taxability

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- Social Security was first taxed in 1984
- Three tier approach to reporting as income
  - Under the lower threshold = not reportable as income
    - \$25,000 Single / \$32,000 Married Filing Joint
  - Middle tier = 50% reportable as income
  - Above the upper threshold = 85% reportable as income
    - \$34,000 Single / \$44,000 Married Filing Joint
  - Thresholds have never been adjusted for inflation

# Calculation Example

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- Married couple with \$16,000 pension income, \$4,000 investment income, \$28,000 social security
- AGI = \$16,000 + \$4,000 + \$14,000 (1/2 of social security benefits) = \$34,000
- Reportable social security = 50% x (\$34,000 - \$32,000) = \$1,000

Good Calculator Site:

- <https://www.covisum.com/resources/taxable-social-security-calculator>

# Example Continued

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## Will this couple owe taxes?

- Total income including reportable social security = \$21,000
  - Standard deduction = \$27,800
  - Zero taxable income
- Applying a 7% increase in pension and 2.5% increase in social security
  - Pension = \$17,120    Social Security = \$28,700    Other income = \$4,000
  - Reportable Social Security = \$1,735
  - Total Income = \$22,855
  - Taxable Income = \$0

# Those Other Taxing Issues

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- Gift Tax
  - 2021 limit on non-taxable gifts to individuals = \$15,000
  - Gift Splitting maximum for a couple to their married child = \$60,000
  - Gifts in excess reduce the lifetime estate exclusion
  - Excess gifts create a filing requirement but not a tax.
- Lifetime Estate Exclusion for 2021 = \$11,700,000 per individual



# QUESTIONS

and comments...





# Business Taxes

Some tips for the Self Employed

# Just a Couple of Tips in Case

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- Standard Mileage Rates
  - Business use of vehicle = \$.56 per mile
  - Medical = \$.16 per mile
  - Charitable = \$.14 per mile
- Don't forget your home office if it exists
  - Safe harbor of \$5 per square foot up to 300 square feet
- Qualified Business Income Deduction up to 20% of Net Business Income





# Market Conditions

what's the market reacting to?

# A Year Ago



# COVID-19?

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## Business Closures and Massive Unemployment

- Sharp decline with relatively quick rebound
- What is causing this resilience?

Massive Government Stimulus

Business in the New Normal

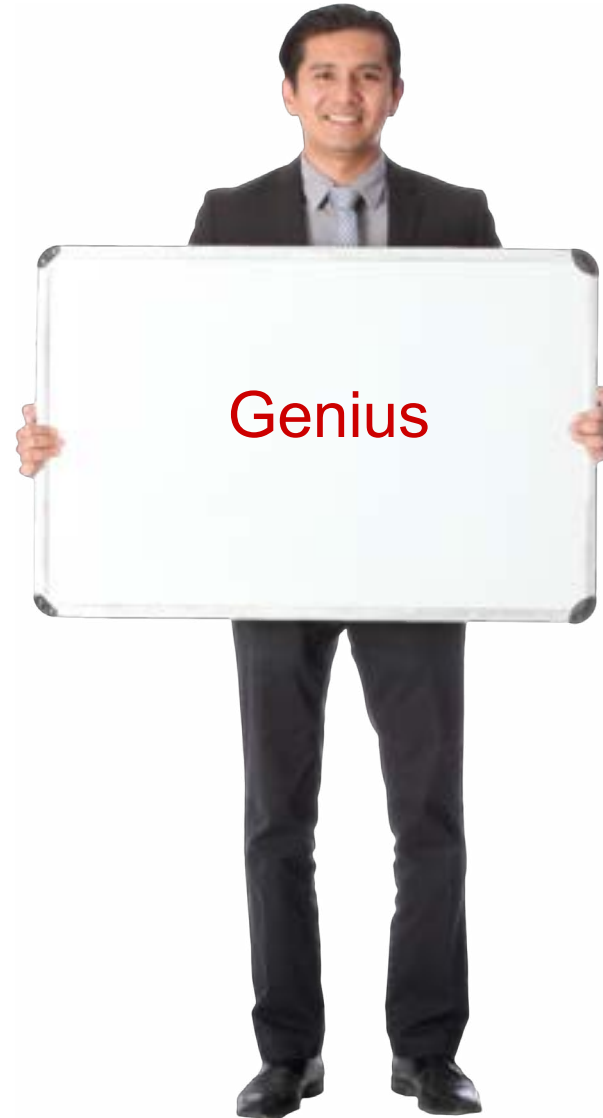
Medical...Technology... Adaptation and New Business



# What Actually Happened

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- Just about what I predicted
  - Market continued to be positive
  - Jobs have recovered
  - Shift in industries
- What has surprised (Sort of)
  - Employers struggling to find workers
  - Push for higher wages



# How Long Will This Market Last

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- Being right once is luck
- Being right twice is coincidence
- Pretending you can be right three times in a row....ill advised

A truly wise person once said, “Always quit while you are ahead.”

# QUESTIONS

and comments...



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