

Advanced Sales

# 2021 Tax Outlook



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\*Licensed, not practicing.

Each year when we turn the calendar to January we usher in new or updated tax laws. 2021 is no exception, although it may not be as typical as past Januaries. 2020 will be remembered for many things, not the least of which is the impact COVID-19 had on all aspects of life. One impact is that most tax changes for 2021 were already planned, rather than drafted the year prior.

Two exceptions to drafted legislation in 2020 are relief packages, such as The Coronavirus Aid, Relief and Economic Security (CARES) Act and the Coronavirus Response and Relief Supplemental Appropriations Act of 2021. These Acts provided much needed financial relief for many; however, they are not yet paid for.

We enter 2021 with one political party controlling both houses of Congress as well as the presidency. This may cause changes to income tax rates, the corporate tax rate, the applicable exemption, and much more. What remains to be seen is how Congress addresses the cost of relief packages along with any planned policy changes relating to taxes. All of which will likely have an influence on taxes as we navigate 2021.

## Tax limits for 2021\*

### Defined contribution plans.

The limit on the annual additions to a participant's defined contribution account under Code Sec. 415(c)(1)(A) increases from \$57,000 to \$58,000 for 2021.

### Annual compensation limit.

The maximum amount of annual compensation that can be taken into account for various qualified plan purposes, including Code Sec. 401(a)(17), Code Sec. 404(l), Code Sec. 408(k)(3)(C), and Code Sec. 408(k)(6)(D)(ii), increases from \$285,000 to \$290,000 for 2021.

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**TALK TO YOUR FINANCIAL PROFESSIONAL** about a plan to supplement your retirement. The Tax Cuts and Jobs Act lowered income tax brackets, we don't know what the rates will be in the future. A life insurance policy, when designed properly, can provide potential tax advantaged income to help in offsetting increasing tax brackets.

## Unchanged plan limits\*

### Retirement plan provisions:

- **Defined benefit plans.** The limitation on the annual benefit under a defined benefit plan under Code Sec. 415(b)(1)(A) remains unchanged at \$230,000 for 2021. For participants who separated from service before January 1, 2021, the 100% of average high-three-years' compensation under Code Sec. 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2020, by 1.0122.
- **Elective deferrals.** The Code Sec. 402(g)(1) limit on the exclusion for elective deferrals described in Code Sec. 402(g)(3) remains unchanged at \$19,500 for 2021. This limitation affects elective deferrals to Code Sec. 401(k) plans, Code Sec. 403(b) plans, and the Federal Government's Thrift Savings Plan.
- **Key employee in top-heavy plan.** The dollar limit under Code Sec. 416(i)(1)(A)(i) relating to the definition of a key employee in a top-heavy plan remains unchanged at \$185,000 for 2021.
  - **Highly compensated employee.** The dollar limit used in defining a highly compensated employee (HCE) under Code Sec. 414(q)(1)(B) remains unchanged at \$130,000 for 2021.
  - **Catch-up contributions.** The dollar limit under Code Sec. 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Code Sec. 401(k)(11) (SIMPLE 401(k) plan) or Code Sec. 408(p) (SIMPLE IRA) for individuals aged 50 or over remains unchanged at \$6,500 for 2021. The dollar limit under Code Sec. 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Code Sec. 401(k)(11) or Code Sec. 408(p) for individuals aged 50 or over remains at \$3,000 for 2021.
  - **SIMPLE accounts.** The maximum amount of compensation an employee may elect to defer under Code Sec. 408(p)(2)(E) for a SIMPLE plan remains unchanged at \$13,500 for 2021.



**TALK TO YOUR FINANCIAL PROFESSIONAL** about private premium financing opportunities in today's historically low interest rates.

Ultra-high-net-worth individuals and families can tap into the benefits of life insurance to eliminate the need for annual or lifetime gifts, and reduce estate taxes.

### Transfer tax provisions (estate and gift tax)

- **Unified estate and gift tax exclusion amount.** For gifts made and estates of decedents dying in 2021, the exclusion amount will be \$11,700,000 (up from \$11,580,000 for gifts made and estates of decedents dying in 2020).
- **Generation-skipping transfer (GST) tax exemption.** The exemption from GST tax will be \$11,700,000 for transfers in 2021 (up from \$11,580,000 for transfers in 2020).
- **Gift tax annual exclusion.** For gifts made in 2021, the gift tax annual exclusion will be \$15,000 (same as in 2020).
- **Special use valuation reduction limit.** For estates of decedents dying in 2021, the limit on the decrease in value that can result from the use of special valuation will be \$1,190,000 (up from \$1,180,000 for 2020).
- **Determining 2% portion for interest on deferred estate tax.** In determining the part of the estate tax that is deferred on a farm or closely-held business that is subject to interest at a rate of 2% a year, for decedents dying in 2021, the tentative tax will be computed on \$1,590,000 (up from \$1,570,000 for 2020) plus the applicable exclusion amount.

- **Annual exclusion for gifts to noncitizen spouses.** For gifts made in 2021, the annual exclusion for gifts to noncitizen spouses will be \$159,000 (up from \$157,000 for 2020).
- **Reporting foreign gifts.** If the value of the aggregate “foreign gifts” received by a U.S. person (other than an exempt Code Sec. 501(c) organization) exceeds a threshold amount, the U.S. person must report each “foreign gift” to IRS. (Code Sec. 6039F(a)) Different reporting thresholds apply for gifts received from (a) nonresident alien individuals or foreign estates, and (b) foreign partnerships or foreign corporations. For gifts from a nonresident alien individual or foreign estate, reporting is required only if the aggregate amount of gifts from that person exceeds \$100,000 during the tax year. For gifts from foreign corporations and foreign partnerships, the reporting threshold amount will be \$16,815 in 2021 (up from \$16,649 for 2020).

## Income tax rates\*

### Individual taxpayers

If taxable income is between	The tax is due
\$0 – \$9,950	10% of taxable income
\$9,951 – \$40,525	\$995 + 12% of the amount over \$9,950
\$40,526 – \$83,375	\$4,664 + 22% of the amount over \$40,525
\$86,376 – \$164,925	\$14,751 + 24% of the amount over \$86,375
\$164,926 – \$209,425	\$33,603 + 32% of the amount over \$164,925
\$209,426 – \$523,600	\$47,843 + 35% of the amount over \$209,425
\$523,601	\$157,804.25 + 37% of the amount over \$523,600

### Married individual filing joint returns and surviving spouses

If taxable income is between	The tax is due
\$0 – \$19,900	10% of taxable income
\$19,901 – \$81,050	\$1,990 + 12% of the amount over \$19,900
\$81,051 – \$172,750	\$9,328 + 22% of the amount over \$81,050
\$172,751 – \$329,850	\$29,502 + 24% of the amount over \$172,750
\$329,851 – \$418,850	\$67,206 + 32% of the amount over \$329,850
\$418,851 – \$628,300	\$95,686 + 35% of the amount over \$418,850
\$628,301	\$168,993.50 + 37% of the amount over \$628,300

## Capital gains

0% capital gains rate	2021 adjusted net capital gains of up to	2020 adjusted net capital gains of up to
Joint returns and surviving spouses	\$80,800	\$80,000
Single filers and married taxpayers filing separately	\$40,400	\$40,000
Heads of household	\$54,100	\$53,600
Estates and trusts	\$2,700	\$2,650

## Kiddie tax

The exemption from the kiddie tax for 2021 will be \$2,200 (the same as 2020). A parent will be able to elect to include a child's income on the parent's return for 2021 if the child's income is \$1,100 and less than \$11,000 (same as for 2020).

Married individual filing joint returns and surviving spouses	2021	2020	The exemption amounts phase out in 2021 when AMTI exceeds
Joint returns and surviving spouses	\$114,600	\$113,400	\$1,047,200
Single filers and heads of household	\$73,600	\$72,900	\$523,600
Married individuals, filing separately	\$57,300	\$56,700	\$523,600
Estates and trusts	\$25,700	\$25,400	\$85,650

Income-based limitations on Sec. 199A/qualified business income deduction	2021	2020
	Taxpayers with taxable income above	
Joint returns and surviving spouses	\$329,800	\$326,600
Single filers and heads of household	\$164,900	\$163,300
Married individuals, filing separately	\$164,925	\$163,300
Estates and trusts	\$25,700	\$25,400

**Adoption exclusion**

The maximum amount that may be excluded from an employee’s gross income under an employer-provided adoption assistance program for the adoption of a child will be \$14,440 (up from \$14,300). These include the 2021 tax rate tables, earned income credit amounts, and standard deduction amounts.

**Modified Adjusted Growth Income (MAGI limits) for making contributions to Roth IRAs.**

Individuals may make nondeductible contributions to a Roth IRA subject to the overall limit in IRA contributions.

	2021 MAGI	2020 MAGI	Roth IRA Contribution limit
Joint returns and surviving spouses	Less than \$198,000	Less than \$196,000	\$6,000 (\$7,000 if 50 or older)
	\$198,000 up to \$208,000	\$196,000 up to \$206,000	Contribution is reduced
	\$208,000 or more	\$206,000 or more	No contribution allowed
Single filers and heads of household	Less than \$1254,000	Less than \$124,000	\$6,000 (\$7,000 if 50 or older)
	\$125,000 up to \$140,000	\$124,000 up to \$139,000	Contribution is reduced
	\$140,000 or more	\$139,000 or more	No contribution allowed
Married individuals, filing separately	Less than \$10,000	Less than \$10,000	Contribution is reduced
	\$10,000 or more	\$10,000 or more	No contribution allowed

\*IRS. All tax rates are as of January 1, 2021, and subject to change.

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