

**Silicon Valley Chapter
American Association of Individual Investors**

Financial Planning Workshops
Taxes

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Silicon Valley Chapter American Association of Individual Investors

Please check us out!

- Chapter website: www.siliconvalleyaaii.org
- Meetups: www.meetup.com/AAll-Silicon-Valley-Meetup
- Facebook: www.facebook.com/sv.aa
- Slides and Recordings
www.siliconvalleyaaii.org/financialplanning/
- AAI National website: www.aaii.com
- My email address: dstikes.svaaii@gmail.com

Our Next Event and Special Interest Group Webcasts

- **Main Event**

- January 13th at 9:00am
- Nicholas Atkeson: How do you make money in a world where the financial experts are almost always wrong?

- **Group**

- Debra Stikes: Second Wednesday of each month at 6:30pm from September to June

- **Investing Discussion Group**

- Lynn Gillette: Fourth Monday of each month at 6:30pm except Dec.

- **Computerized Investing Group**

- Bill Paseman, Don Mauer: First Thursday of each month at 6:30pm

Financial Planning Workshops

We cover a full range of topics in the cycle:

- **Financial Planning ... The Big Picture**
- **Investing 1: Modern Portfolio Theory, Building a diversified portfolio**
- **Investing 2: Efficient Market Hypothesis; Can you beat the market?**
- **Taxes: Inflation Reduction Act and other Acts, Tax diversification, QCDs**
- **Retirement Planning 1: Tax-advantaged plans, RMDs**
- **Retirement Planning 2: Safe withdrawal rates, Bengen's 4% rule**
- **Risk Management/Insurance: Annuities, Long-term care, Litigation**
- **Social Security and Medicare: Claiming strategies, Medicare traps**
- **Estate Planning: Probate, Executor/trustee duties, Philanthropy**
- **Wrap-up: Case study reviewing previous material**

Overview for Today's Workshop

- **What taxes do we pay?**
- **Recent Federal tax acts**
 - **Inflation Reduction Act 2022**
 - **American Rescue Plan Act 2021**
 - **Tax Cuts and Jobs Act, TCJA**
 - **Setting Every Community Up for Retirement Enhancement Act 2.0 of 2020**
 - **Families First Coronavirus Response Act, FFCRA**
 - **Coronavirus Aid, Recovery, and Economic Stability Act, CARES**
- **California Proposition 19**
- **Tax Tips**
 - **Tax saving strategies**

What Taxes Do We Pay?

- **Federal taxes**
 - Income
 - Interest
 - Short-term and long-term capital gains
 - Qualified and non-qualified dividends
 - Net investment income surcharge
 - Import/export taxes, Tariffs, Excise tax, etc.
 - Estate taxes
- **State and local income tax**
- **Sales tax**
- **Property tax**
- **Gas taxes**

Overview of Temporary Legislation

- **Tax Cuts and Jobs Act (TCJA)**
 - **Corporate Tax reductions were permanent**
 - **Individual Tax changes expire 12/31/2025**
 - **GOP expected to win in 2020**
 - **Standard politics to make the expiration date the next Congress'/President's problem**
 - **No current significant tax changes for 2024**
 - **Inflation adjustments**

Inflation Reduction Act 2022

- Signed into law in August 2022
- Extends the Premium Tax Credit for ACA to 2025
- Medicare
 - Authorization for Medicare to negotiate prescription drug prices
 - Part D In 2024
 - 5% coinsurance during catastrophic phase is eliminated
 - Catastrophic threshold is \$8,000
 - Annual increase in premiums is limited to 6% which has the unintended result of increased premiums for 2024

Inflation Reduction Act 2022

- **Medicare**
 - **Limits monthly cost sharing for insulin products to no more than \$35, including insulin covered under both Part D and B, and no deductible applies**
 - **No cost sharing for covered adult vaccines**
 - **Part D payment during catastrophic phase increases to 20% from 15% which decreases Medicare's share**

Inflation Reduction Act 2022

- **Tax Credit for Solar**
 - **Extended to 2035**
 - **Purchased, not leased**
 - **Form 5695**
 - **Expands list of covered expenses to include storage components with a minimum rated capacity of three-kilowatt hours**
 - **Other covered expenses continue to include the cost of solar panels and their components, sales tax, permits, fees, essential wiring, inverter systems, hardware, site preparation and installation charges.**

Year	2022-2032	2033	2034	2035
ITC %	30%	26%	22%	0%

Inflation Reduction Act 2022

- **EV charging equipment**
 - **Non-refundable credit for home charging equipment lower of \$4,000 or 30%**

Inflation Reduction Act 2022

- **New EVs 2023**
 - **Up to \$7,500 non-refundable federal credit placed in service after 2022**
 - **Price limitation based on MSRP**
 - **MAGI limitations**
 - **Qualified models have North America assembly requirement and sourcing (non-China) requirements**
 - **Description of Plug-In Electric Vehicle Credit including link to Department of Energy list of EVs that MAY qualify. Specific information for a VIN can be displayed.**

<https://www.irs.gov/businesses/plug-in-electric-vehicle-credit-irc-30-and-irc-30d>

Inflation Reduction Act 2022

- **Used EVs 2023**
 - **Up to \$4,000 non-refundable federal credit**
 - **MAGI limitations**
 - **Model must be at least 2 years old at time of purchase**
 - **Purchase price less the \$25,000**
 - **Only on first transfer**
 - **Can be claimed every 3 years**

Inflation Reduction Act 2022

- **Revenue Generation**
 - **Minimum 15% income tax on corporations with over \$1B in revenue**
 - **\$80B to the IRS over the next 10 years**
 - Hire additional agents
 - Improve customer service
 - Clear backlog of unprocessed tax returns
 - Upgrade systems

Tax Cuts and Jobs Act, TCJA

- **Signed into law in December 2017**
 - Most significant revision to tax code in four decades
 - Effective 2018 tax year
 - Most changes to the individual tax code sunset in December 2025
- **Corporate taxes cut from 35% maximum in 2017 to 21% maximum in 2018**
 - Most Corporate tax changes were permanent

TCJA: Income Tax Brackets and Rates

Rate	2023 Single	2023 MFJ	2022 Single	2022 MFJ
10%	Up to \$11,000	Up to \$22,000	Up to \$10,275	Up to \$20,550
12%	\$11,001 to \$44,725	\$22,001 to \$89,450	\$10,276 to \$41,775	\$20,551 to \$83,550
22%	\$44,726 to \$95,375	\$89,451 to \$190,750	\$41,776 to \$89,075	\$83,551 to \$178,150
24%	\$95,376 to \$182,100	\$190,751 to \$364,200	\$89,076 to \$170,050	\$178,151 to \$340,100
32%	\$182,101 to \$231,250	\$364,201 to \$462,500	\$170,051 to \$215,950	\$340,101 to \$431,900
35%	\$231,251 to \$578,125	\$462,501 to \$693,750	\$215,951 to \$539,900	\$431,901 to \$647,850
37%	\$578,126 and above	\$693,751 and above	\$539,901 and above	\$647,851 and above

TCJA: Capital Gains and Dividend Taxes 2023

	Taxable Income	Taxable Income	Taxable Income
Single	< \$44,625	\$44,625 - \$492,300	> \$492,301
Married filing jointly	< \$89,250	\$89,250 - \$553,850	> \$553,851
Short-term cap gains	Taxed as income	Taxed as income	Taxed as income
Long-term cap gains	0%	15%	20%
Qualified dividends	0%	15%	20%

TCJA: Standard Deduction and Personal Exemption

	Pre-TCJA	2024	2023
<u>Standard deduction</u>			
Single	\$6,500	\$14,600	\$13,850
Married filing jointly	\$13,000	\$29,200	\$27,700
Additional > age 65			
Single	\$1,600	\$1,950	\$1,850
Married filing jointly /per person	\$1,300	\$1,550	\$1,500
<u>Personal exemption</u>			
Single	\$4,150	Eliminated	Eliminated
Married filing jointly	\$8,300	Eliminated	Eliminated

TCJA: Itemized Deductions

- Medical deduction floor 10% AGI → 7.5% AGI
- SALT deduction limit = \$10,000
 - State and local income taxes
 - Property tax
- Mortgage interest on \$1M property → \$750,000
- Interest on home equity loans only deductible if used to build or improve your home
- Gifts to charity still deductible
- Eliminated deductions for ...
 - Tax preparation fees and other misc deductions
 - Theft and other casualty losses
- Pease limitation on itemized deductions eliminated

TCJA: Estate Taxes

- **Exclusion**
 - \$13.16M per spouse in 2024, \$12.09M in 2023
 - Exclusion is portable for use by second spouse
 - IRS now allows 5 years to file estate tax return for portability unused estate tax exemption (Form 706)
- **Tax rate**
 - Maximum 40% rate for taxable amounts >\$1M
- **Challenge**
 - How do you do estate tax planning (inherently long-range) with a tax law that sunsets in 2025?
 - Hint: There's a lot more to estate planning than saving taxes

TCJA: Miscellaneous Issues

- Roth IRAs
 - Recharacterization of a Roth IRA conversion has been repealed by TCJA
- Alimony payments
 - For agreements after December 18, 2018: No longer deductible by paying spouse, nor reportable as income by receiving spouse

● AMT exemption	<u>2023</u>	<u>2022</u>
● Single	\$81,300	\$85,700
● Married filing jointly	\$126,500	\$133,300
● Phaseout: Single	\$578,150	\$609,350
● Phaseout: MFJ	\$1,156,300	\$1,218,700

Setting Every Community Up for Retirement Enhancement (SECURE) Act

- **Signed into law in December 2019**
 - effective on January 1, 2020
 - Largest retirement reform since 2006
- **Required minimum distributions, RMDs**
 - **Begin at age 72 instead of 70.5**

Applies to those who turn 70.5 in 2020 or later, i.e. born on or after July 1, 1949
 - **Starting 2023, Begin at age 73 if reaching 72 after April 1, 2023**
- **Traditional IRAs**
 - **No age limit for contributing to an IRA provided you have earned income**

SECURE Act: Inherited Retirement Accounts

- **Stretch IRA is gone, except for ...**
 - **Surviving spouse of original owner**
 - **Minor child < age of majority**
 - **Person >10 years younger than the decedent**
 - **Disabled individuals**
 - **Chronically ill individuals**
- **For all others the account must be completely distributed within 10 years of the original owner's death, but there are no annual RMD requirements**

The Families First Coronavirus Response Act (FFCRA)

- Signed into law in March 18, 2020
 - Operational from April 1 thru December 31, 2020
- Mandates that employer must provide leave for a Coronavirus illness or quarantine
- Provides payroll tax credits to reimburse employers for up to 2 weeks
 - Enables employers to keep workers on their payrolls
 - Workers do not have to choose between paychecks and public health
- Credits are also available for self-employed

Coronavirus Aid, Relief, and Economic Security (CARES) Act

- **Signed into law on March 27th, 2020**
 - **\$2.2T economic stimulus bill to fight the nationwide impact of the Coronavirus pandemic**
 - **Largest economic stimulus package in U.S. history**
 - **10% of total U.S. gross domestic product**
- **Unemployment benefits**
 - **Additional \$600 per week on top of state benefits**
 - **Benefits up to 39 weeks**
 - **Also available to gig workers**

CARES Act: Personal and Business Help

- **Stimulus checks**
 - Grants up to \$1,200 per adult, \$500 per child
 - Available for workers with 2019 AGI < \$75,000
 - Phased out for AGI from \$75,001 - \$99,000
- **Charitable donations**
 - Allows up to \$300 to be deducted above the line
 - Useful for those who take the standard deduction
- **Paycheck Protection Program for small businesses**
 - Lends up to 8 weeks expenses
 - Loan converts to a grant if used for payroll, rent, or utilities

CARES Act: Retirement Plans

- Enables COVID-19 affected people to withdraw up to \$100,000 from their IRA or 401(k) plan without a 10% early withdrawal penalty
 - Taxes must still be paid on the withdrawal, but can be stretched over a 3-year period, 2020 - 2022
 - Funds can be paid back into the account within 3 years
- Required minimum distributions
 - RMDs for IRAs and 401(k)s waived for 2020
 - Window to return RMD already taken expired 8/31/20
 - Also applies to inherited IRAs

America Rescue Plan Act

- **Third stimulus payment of \$1,400 paid in 2021**
- **Extended Federal Unemployment for those who couldn't safely return to work until Sept 6, 2021**
- **Exempted \$10,200 of 2020 Federal Unemployment from Federal Taxes for incomes less than \$150,000**
- **Expanded Child Tax Credit for 2021**
- **Expanded EITC eligibility for 2021**
- **Expanded ACA subsidies**
 - **The only part that applies to 2022 tax year**

California Proposition 19

- **On and after 4/1/2021, an owner of a primary residence who is over the age of 55, severely disabled, or a victim of a wildfire or other natural disaster to transfer the property tax value to a replacement primary residence anywhere in the state within 2 years of the sale of the original primary residence. Limited to 3 transfers for persons over 55 or severely disabled.**

California Proposition 19

- **Changed property tax basis for inherited or transfer of real property to child or grandchild**
 - **Limits the transfer of property tax basis to grandchild**
 - **Parents of the grandchild must be deceased**
 - **Limits amount of the transfer of property tax basis**
 - **Current assessed value + \$1M**
 - **Property must be a primary residence for both**

Tax Tips: Start With The Basics

- **Traditional IRA**
 - Contribution limit of \$6,500 in 2023 and \$7,000 in 2023 plus additional \$1,000 for age 50 and older
 - Deduction phased out if covered by employer plan
MAGI 2023 > \$73,000 for single and \$116,000 for MFJ
MAGI 2024 > \$77,000 for single and \$123,000 for MFJ
 - Growth is tax deferred
 - Distributions are taxed at ordinary income level
- **Roth IRA**
 - Same combined contribution limit as traditional IRA
 - Income phase out \$138,000 - \$153,000 for singles and \$218,000 - \$228,000 for MFJ in 2023
 - No tax deduction for contribution
 - Qualified distributions are tax-free

Tax Tips: Employer Retirement Plans

- **401(k) and 403(b) plans**
 - Defer \$22,500 contribution 2023 and \$23,000 in 2024 plus additional \$6,500 for age 50 and older
 - Growth is tax deferred
 - Distributions are taxed at ordinary income level
- **SIMPLE plan**
 - Defer \$15,500 contribution in 2023 and \$16,000 in 2024 plus additional \$3,500 for age 50 and older
 - Growth is tax deferred
 - Distributions are taxed at ordinary income level

Tax Tips: Health Savings Account, HSA

- **Eligibility: Must have a high-deductible health insurance plan**
 - Cannot be on Medicare
 - Part A coverage is the lesser of 6 months retroactive or to age 65
- **Triple tax benefits**
 - Contributions are tax-deductible
 - Investments grow tax-free
 - Qualified medical distributions are tax-free
 - Distributions for non-medical expenses are taxed as ordinary income
- **Contribute up to \$3,850/person, \$7,750/family plus \$1,000 catch-up/person if age 55 or older (2023)**
- **Can make withdrawals in retirement after you no longer qualify for contributions**

Tax Tips: Be Aware of Tax Efficiency

- **Tax-inefficient assets, e.g. CDs, bonds, REITs, etc.**
 - Spin off interest
 - Non-qualified dividends
 - Short-term capital gains
 - Taxed as ordinary income (37% maximum)
 - Most suitable for tax-advantaged accounts
- **Tax-efficient assets, e.g. muni bonds, stocks, etc.**
 - Spin off qualified dividends or tax exempt
 - Long-term capital gains
 - Taxed at preferential rate (20% maximum)
 - Suitable for taxable accounts

Tax Tips: Asset Location

	<u>Trad. IRA</u>	<u>Taxable a/c</u>	<u>Roth IRA</u>
Contributions	Deductible	Income	Income
Distributions	Income	Inc./Cap Gains	No tax*¹
Inheritances ...	Worst	Good	Best
... taxed as ...	Income	Step-up	No tax*¹
Tax-inefficient assets	*****	*	*
Tax-efficient assets	****	*****	****
High growth, REITS, etc.	*	*	*****

- *1 – Qualified Distributions are not taxed.

Tax Tips: Tax Loss Harvesting

- Only useful with taxable accounts
- Sell an underperforming investment to reduce taxable capital gains, and potentially offset ordinary income up to \$3,000
- Excess loss can be carried forward to reduce gains in future years
- Can use the proceeds from sale to purchase a similar security
- Beware the wash-sale rule
 - Must not purchase a “substantially identical” security within 30 days before or after the sale
 - Tax deduction is lost if a wash-sale is created from a taxable account to a tax deferred account
- Most beneficial for legacy investments

Tax Tips: Tax Bracket Management

- If you are in a low bracket this year consider filling up to the top of the range to avoid a higher tax rate in later years
 - Harvest capital gains on long-term equities
 - Roth conversion
- Beware bumping into higher Medicare bracket
 - Modified Adjusted Gross Income, MAGI
$$\text{MAGI} = \text{AGI} + \text{Tax-free income}$$
 - Must pay Income Related Monthly Adjustment Amount (IRMAA) if MAGI exceeds base
 - Base is <\$103,000 for singles, \$206,000 for MFJ
(2024 data from 2022 tax return)

Income Related Monthly Adjustment Amount, IRMAA (2024 data from 2022 tax return)

MAGI: Single	MAGI: MFJ	Part B Premium	Part D IRMAA
< 103,000	<206,000	\$174.90	N/A
\$103,001 to \$129,000	\$206,001 to \$258,000	\$224.60	\$12.90
\$129,001 to \$161,000	\$258,001 to \$322,000	\$349.40	\$33.30
\$161,001 to \$193,000	\$322,001 to \$386,000	\$454.20	\$53.80
\$193,001 to \$500,000	\$386,001 to \$750,000	\$559.00	\$74.20
>\$500,000	> \$750,000	\$594.00	\$81.00

Tax Tips: Qualified Charitable Distributions, QCDs

- **Donation directly from IRA to charity**
 - Skips Form 1040; Does not add to total income
 - Does not add to AGI; no Medicare increase
 - Counts against your RMD
 - Especially useful strategy for taxpayers who take standard deduction
- **Limits**
 - Annual \$100,000
 - Cannot go to a Donor Advised Fund, DAF
 - At least, 70 ½ (Even if RMD is not required)

Tax Tips: Bunch Deductions

	Standard	Bunched
Year 1 SALT Charities Deduction	\$10,000 \$12,000 \$24,800	\$10,000 \$36,000 \$46,000
Year 2 SALT Charities Deduction	\$10,000 \$12,000 \$24,800	\$10,000 \$0 \$24,800
Year 3 SALT Charities Deduction	\$10,000 \$12,000 \$24,800	\$10,000 \$0 \$24,800
3-Year Total Deductions	\$74,400	\$95,600

Tax Tips: Consider Lifetime Gifting

- **Annual gift exclusion**
 - \$17,000 per person, \$34,000 per couple in 2023
 - Unlimited recipients
 - Increases to \$18,000/\$36,000 in 2024
- **Excess donations reduce your lifetime estate tax exclusion**
 - Must file disclosure on Form 709 along with 1040
- **Can make direct payments to medical and educational providers on behalf of a loved one**

1031 Exchanges

- A 1031 exchange is a swap of properties that are held for business or investment purposes
- The properties being exchanged must be considered like-kind by the IRS for capital gains taxes to be deferred
- The rules can apply to a FORMER primary residence under very specific conditions
- Escrow service for sale proceeds is required
- Strict time limits
- Professional advice is strongly recommended

To Probe Further

- **Guide to Tax on Your Personal Investments, AAI Staff, AAI Journal, December 2020**
- **Tax Guide Update: Staying Current on the New Rules, Charles Rotblut, AAI Journal, December 2020**
- **Tap Into Tax-Related Information on Stocks and Funds, Charles Rotblut, AAI Journal, December 2020**
- **SECURE Act Takeaways, Schwab.com**
- **CARES Act Offers Economic Stimulus to Fight Impact of Coronavirus, Kenneth Terrell, AARP, April 2020**
- **What the Pandemic Means for the Future of Spending and Saving, Christine Benz, Morningstar.com, Q4 2020**
- **Smart Tax Moves to Make Before Year's End, Charles Rotblut, AAI Journal, December 2019**
- **How to Make Your Money Last, Jane Bryant Quinn, Simon & Schuster**

Useful Websites

- aaii.com Broad selection of investing material
- siliconvalleyaaii.org Previous presentations on various topics
- irs.gov
- morningstar.com
- vanguard.com
- scclld.org/ login then search for Value Line - Santa Clara Library -
Two version of logins – online only or also physical access
- retirementresearcher.com Wade Pfau, Bob French
- obliviousinvestor.com/index-funds/ Mike Piper blog
- rickferri.com/investment-philosophy/ Rick Ferri blog

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