

2020 Tax Digest

Presented by: **Wayne McCullough, LUTCF**
Regional Brokerage Manager

Prepared for: **Valued Clients**

Income Tax Rates, Deductions and Credits

Tax Rates

Ordinary Income Tax Rates	10%, 12%, 22%, 24%, 32%, 35%, 37%
Capital Gains/Dividend Tax Rates	0% (income up to \$40,000 single, \$80,000 married), 15% (income between \$40,000-\$441,450 single, \$80,000-\$496,600 married), 20% (above \$441,450 single, \$496,600 married)
Medicare Contribution Tax	3.8% on unearned or net investment income above MAGI of \$200,000 single/\$250,000 married
Alternative Minimum Tax Exemption	\$72,900 single and head of household/\$113,400 married

Standard Deduction

Joint Returns and Surviving Spouses	\$24,800
Heads of Household	\$18,650
Single Taxpayers	\$12,400
Married Filing Separately	\$12,400
Age 65 and Older or Blind - Single or Head of Household	Additional \$1,650
Age 65 and Older or Blind - All Others	Additional \$1,300 each

"Kiddie" Tax (children under age 19 and dependent full-time students under age 24)

Tax Rates on Investment Gains	10% up to \$2,600; 24% from \$2,600 to \$9,300; 35% from \$9,300 to \$12,750; and 37% on unearned income above \$12,750
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Child/Dependent Tax Credit

Child Credit Amount	\$2,000 for each qualifying child under age 17
Refundable Amount	Up to \$1,400 per qualifying child
Qualifying Dependent Credit Amount	\$500 per qualifying dependent other than qualifying children (e.g., a dependent parent)
Credit Phaseout	Begins to phase out at AGI in excess of \$400,000 married joint filers/\$200,000 all others

Pass-Through Business Deduction

Pass-through business owners who pay tax on business income on their individual tax returns (sole proprietors, partners and shareholders of S-corporations, LLCs and limited partnerships) may be entitled to a deduction equal to the **lesser** of 20% of their allocable share of business income or 50% of the owner's share of W-2 wages paid by the business. **Alternatively**, the deduction is equal to 25% of the owner's share of W-2 wages paid by the business **PLUS** 2.5% of the owner's share of the unadjusted basis (original purchase price) of the property used in the production of income.

Education Deductions/Credits

American Opportunity Tax Credit Amount/Phaseouts:

100% of first \$2,000 of tuition and related college expenses	\$2,000
25% of next \$2,000	\$500
Maximum Credit	\$2,500
Phaseouts	\$160,000 - \$180,000 married joint filers; \$80,000 - \$90,000 all others

Lifetime Learning Credit Amount/Phaseouts:

Amount	20% of the first \$10,000 of qualified tuition and fees (\$2,000 maximum)
Phaseouts	\$118,000 - \$138,000 married joint filers; \$59,000 - \$69,000 all others

Student Loan Interest Deduction/Phaseouts:

Amount	\$2,500
Phaseouts	\$140,000 - \$170,000 married joint filers; \$70,000 - \$85,000 all others

Education Savings Account Deduction/Phaseouts:

Amount	\$2,000 per beneficiary
Phaseouts	Reduces to zero for AGIs between \$190,000 - \$220,000 for married joint filers; \$95,000 - \$110,000 all others

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Social Security/Medicare

OASDI - Earnings Base	\$137,700
Rate	6.20% Employer/6.20% Employee
Employer/Employee Maximum Tax Each	\$8,537.40 Employer/\$8,537.40 Employee
Self-Employed Maximum Tax	12.40%/\$17,074.80
HI (Medicare) Rate	1.45% of all earned income (employer and employee/2.9% if self-employed) plus an additional 0.9% on earned income in excess of \$200,00 single/\$250,000 married paid by employee only
Cost of Living Benefit Increase	1.6%
Quarter of Coverage Earnings	\$1,410
Normal Retirement Age (NRA) – 1943 - 1954 year of birth	66
Earnings Test - Retired under NRA all of 2020	\$18,240
Reach NRA during 2020	\$48,600

Health Savings Accounts

Coverage	Minimum Deductible	Maximum Annual Contribution	Maximum Out-of-Pocket
Self-Only	\$1,400	\$3,550	\$6,900
Family	\$2,800	\$7,100	\$13,800

Retirement Plan Contribution/Benefit Limits

Defined Benefit Plans	\$230,000 maximum benefit
Defined Contribution Plans	\$57,000 or 100% of compensation maximum contribution
Elective Deferral Limit for 401(k) Plans, SAR-SEPs and TSAs	\$19,500
Catch-up for 401(k) Plans, SAR-SEPs and TSAs (age 50 or older)	\$6,500
Elective Deferral Limit for SIMPLE IRAs and SIMPLE 401(k) Plans	\$13,500
Catch-up for SIMPLE IRAs and SIMPLE 401(k) Plans (age 50 or older)	\$3,000
Elective Deferral Limit for 457 Plans	\$19,500
Minimum Compensation Amount for SEPs	\$600
Maximum Compensation for Qualified Plans, SEPs, TSAs, VEBAs	\$285,000
Highly Compensated Employee Definition Limit	\$130,000
ESOP Payout Limits	\$230,000/\$1,150,000
Contribution Limit for IRAs (Traditional and Roth)	\$6,000
Catch-up for IRAs (Traditional and Roth) (age 50 or older)	\$1,000

Eligible Long-Term Care Insurance Amounts

Attained Age in 2019	Limitation on Deductible Premiums
40 or less	\$430
41 to 50	\$810
51 to 60	\$1,630
61 to 70	\$4,350
More than 70	\$5,430
Per Diem Tax-Free Benefit Limitation	\$380

Estate, Gift and Generation-Skipping Transfer (GST) Taxes

Top Tax Rate	40%
Annual Gift and GST Exclusion	\$15,000
Estate and Gift Tax Unified Credit/Unified Credit Equivalent	\$4,577,800/\$11,580,000
Estate Tax Deferral (Closely-Held Businesses)	\$628,000
Special Use Valuation Limitation	\$1,180,000
Qualified Conservation Easement Exclusion Limitation	\$500,000
GST Exemption/Exemption Equivalent	\$4,577,800/\$11,580,000