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THE NEW TAX NUMBERS FOR 2021: THINGS TO CONSIDER

On December 22, 2017, the president signed into law the Tax Cuts and Jobs Act of 2017. This Act brought about big changes to our tax system. Here's a review of those changes, and what they mean for 2021:

1. The Act eliminated the personal exemption, and nearly doubled the standard deduction. **Joint filers** in 2021 will have a standard deduction of **\$25,100**, **single filers** standard deduction will be **\$12,550** and head of **household filers** will have a standard deduction amount of **\$18,800**.
2. There are still seven income tax brackets. The **top personal income tax bracket is still 37 percent in 2021**.
3. Business income taxation remains with a potential deduction available to pass-through businesses, and the top C corporation income tax rate remains at 21 percent.

In addition, a number of figures used in retirement planning have been updated for 2021. For example:

1. The **maximum contribution** that can be made to a **defined contribution plan** in 2021 under Section 415 is the lesser of **\$58,000** or 100 percent of compensation—increasing slightly from 2020.
2. The **limit** on employee **elective deferrals** to **Section 401(k)** and **Section 403(b)** plans has remained the same at **\$19,500** in 2021. The limit for **Section 457** plan salary reductions is likewise **\$19,500** in 2021.
3. The maximum elective deferral for a **SIMPLE** or **401(k) SIMPLE** plan has remained the same at **\$13,500** in 2021.
4. The limit on **IRA contributions** remained the same at **\$6,000** for 2021. Those **50 and older** can still contribute an **extra \$1,000** under the age-based catch-up provision.

And here is some other 2021 information that may be important to you.

1. The **3.8 percent Medicare surtax** still applies to the investment income of high income taxpayers.
2. The maximum **capital gains** and **qualified dividend** rate of **15 percent** has been retained for most taxpayers, with the **20 percent rate** also constant for those with high income levels.
3. The **federal estate tax exemption** has been increased to **\$11.7 million** for 2021, as has the **lifetime gift tax exemption**.
4. The **annual gift tax exclusion** remained the same at **\$15,000**.
5. The **modified adjusted gross income (MAGI)** level at which Roth IRA contributions start to be phased out in 2021 are at **\$125,000 for single taxpayers** and **\$198,000 for married taxpayers filing jointly**.
6. The **personal income tax exemption** amount which was eliminated under the Tax Cuts and Jobs Act of 2017, remains eliminated.
7. The ability for those **older than 70 ½ to transfer up to \$100,000 directly from an IRA to charity** is still available.

These changes may affect your planning around income taxes, retirement and wealth transfer at death. I recommend you take time to review your existing plans in light of the 2021 numbers.

AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.

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