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Tax & Estate Planning for Your Retirement Savings

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Join the Retirement Planning Conversation

Marriage Has Its Benefits When It Comes to IRAs

This month marks the fifth anniversary of the landmark Supreme Court case *Obergefell v. Hodges*, supremecourt.gov/opinions/14pdf/14-556_3204.pdf, which legalized same-sex marriage. In the wake of this decision, millions of same-sex couples headed to the alter over the past five years.

Many of these newlyweds, never expecting to see a day when they would be allowed to marry, may not have paid much attention to the special breaks that married couples receive under the tax code. When it comes to IRA rules, spouses have many advantages, and couples in same-sex marriages are no exception. The anniversary of the *Obergefell* case is a great opportunity for advisors to reach out, not only to clients in same-sex marriages, but to all married clients, and remind them that when it comes to IRAs, marriage has its benefits.

Road to Marriage Equality

The road to marriage equality in the Supreme Court began in 2013 when the Court ruled in the *Windsor* case, supremecourt.gov/opinions/12pdf/12-307_6j37.pdf, that Section 3 of the federal Defense of Marriage Act (DOMA) was unconstitutional. In the wake of *Windsor*, the IRS and the Department of Labor announced they would treat all legally married same-sex couples as married individuals for federal purposes. This impacted income tax filings and IRA and company plan treatment of same-sex spouses.

In the *Obergefell* case, the Court took it one step further, ruling that all states must recognize same-sex marriages.

Lifetime IRA Tax Breaks for Spouses

Together, these two Supreme Court decisions opened the door for millions of same-sex couples to take advantage of lifetime IRA benefits – *tax breaks reserved exclusively for spouses.* Such benefits include:

Spousal IRA contributions: Clients who are not working may think they are ineligible to make an IRA contribution. That might not be the case.

If they are married, they may be able to contribute to their IRA based on their spouse's taxable compensation for the year. A client could make spousal IRA contributions in some years and regular IRA contributions in others.

Example 1: Lynn and Brittany are married. Even though Lynn is a stay-at-home parent in 2020, she can make a spousal contribution for 2020 based on Brittany's taxable

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Executive Summary

Marriage Has Its Benefits When It Comes to IRAs

- The *Windsor* and *Obergefell* Supreme Court decisions opened the door for millions of same-sex couples to take advantage of IRA benefits for spouses.
- Benefits of marriage include spousal IRA contributions, the ability to use the Joint Life Expectancy Table to calculate required minimum distributions (RMDs), and divorce benefits.
- Even if a spouse is one of several primary IRA beneficiaries, the spouse can still qualify as a sole beneficiary if her share is timely split into a separate IRA.
- Only a spouse beneficiary can roll over or transfer an inherited IRA from her deceased spouse into her own IRA, and there is no deadline for a spousal rollover.
- Keeping an inherited IRA when a spouse beneficiary is under age 59½ can be a smart planning strategy.

Qualified Charitable Distributions: *Alive and Well in 2020*

- The age limit for qualified charitable distributions (QCDs) remains at age 70½, and the maximum annual limit is $100,000 per person.
- QCDs are still a viable strategy for 2020, despite the waiver of RMDs.
- QCDs can be made from traditional IRAs, Roth IRAs and inactive SEP and SIMPLE IRAs.
- QCDs provide a valuable tax break since they exclude the distributed amount from taxable income.
- QCDs can still be made even if they are not used to offset RMDs.
- QCDs can become taxable when combined with post-70½ deductible IRA contributions.

5 Common 401(k)/Employer Plan COVID-19 Questions

- How does the required minimum distribution waiver work?
- What is the deadline by which I must roll over the amount that I distributed from my 401(k), because I thought I had to take an RMD?
- Are plans required to offer coronavirus-related distributions (CRDs)?
- Can I do a Roth conversion with my CRD?
- How does the loan repayment suspension work?

compensation. If Lynn goes back to work in 2021 and has taxable compensation herself, she could then make a regular contribution for 2021 to her same IRA.

To make a spousal contribution for 2020, you must be legally married on December 31, 2020 and file a joint federal income tax return for 2020. For same-sex couples, this would not include civil unions. If they are divorced or legally separated as of that date, neither is eligible for a spousal contribution, even if they were married earlier in the year.

Ability to use the Joint Life Expectancy Table: While the Coronavirus Aid, Relief, and Economic Security (CARES) Act waived required minimum distributions (RMDs) for 2020, they are scheduled to return in 2021. Some IRA owners who name a spouse as beneficiary get a break when it comes to RMDs.

IRA spouse beneficiaries who are more than ten years younger than the IRA owner may use the Joint Life Expectancy Table. This results in smaller RMDs versus using the Uniform Lifetime Table, which is required to be used to calculate lifetime RMDs for all other IRA owners. (IRA and tax tables are available to download at irahelp.com/2020.)

Divorce "benefits": Even for those individuals whose marriages do not work out, there are tax advantages. If all or part of an IRA is awarded to an ex-spouse in a divorce, it can be transferred without tax consequences if processed properly.

Spousal IRA Beneficiary Benefits

The Setting Every Community Up for Retirement Enhancement (SECURE) Act may have upended the rules for inherited IRAs, but the rules for spouse beneficiaries remain as advantageous as ever. In fact, naming a spouse as an IRA beneficiary is an even better option than before. Now, an older spouse beneficiary will get more favorable payout options than a much younger adult child.

Why? Because the adult child must use the 10-year payout rule.

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No such restrictions exist for spouses. The SECURE Act keeps all the benefits for spousal beneficiaries intact. These special rules for spouses only apply if the spouse is the sole IRA beneficiary.

However, even if the spouse is one of several primary IRA beneficiaries, the spouse can still qualify as a sole beneficiary if her share is split into a separate IRA by December 31st of the year following the year of the IRA owner's death. (Contingent beneficiaries have no impact on whether the spouse is a sole beneficiary or not.)

Spousal Rollover: Only a spouse beneficiary can roll over or transfer an inherited IRA from her deceased spouse into her own IRA. There is no deadline for a spousal rollover.

If the deceased spouse died on or after her required beginning date (RBD), the year-of-death RMD must be taken before a 60-day (spousal) rollover is permitted. But, an RMD can be transferred (trustee-to-trustee) to another account and taken later in the year.

Inherited IRAs for Spouses: Under the SECURE Act, most beneficiaries will need to empty the inherited IRA by December 31 of the tenth year following the year of death. However, eligible designated beneficiaries (EDBs) will still be able to take RMDs from the inherited IRA based on their own life expectancy. A spouse is one of those EDBs.

A spouse beneficiary can get a special break unavailable to non-spouse beneficiaries. If the spouse is the sole beneficiary, and if the IRA owner dies before his RBD, the spouse can delay RMDs from the inherited IRA until the later of December 31st of the year after the year of the account holder's death, or the year the original account holder would have attained age 72. That can mean a delay of many years before RMDs from the inherited IRA must begin.

Keeping the inherited IRA when the spouse beneficiary is under age 59½ can be a smart planning strategy. If a spousal rollover is done, the account is treated as the spouse beneficiary's own IRA.

If the spouse wants to withdraw any money before age 59½, there would be a 10% penalty if no other exception exists. This penalty is assessed on retirement plan owners who tap into retirement plan accounts before age 59½.

Only a spouse beneficiary can roll over or transfer an inherited IRA from her deceased spouse into her own IRA.

However, the 10% penalty does not apply to beneficiaries. After reaching age 59½, the spouse still has the rollover option available. Choosing to remain a beneficiary does not eliminate the spousal rollover option at a later date.

Be forewarned! Once the spousal rollover is done, there is no going back. Advisors must be cautious and not jump to a spousal rollover too quickly.

Example 2: Franco dies before his RBD, at age 50, and named his spouse, Jay, as IRA beneficiary. Jay is 53 years old. He has a choice: he can either keep an inherited IRA or do a spousal rollover.

If Jay chooses to remain the beneficiary, he does not have to begin taking RMDs from the inherited IRA until December 31 of the year that Franco would have attained age 72. That is more than 20 years with no RMDs. Jay also will be able to access the IRA funds without the 10% penalty, despite his age. He can decide at any time to do a spousal rollover.

Even when spouse beneficiaries are subject to RMDs, they receive a special break when calculating that amount. Non-spouse EDBs of an inherited IRA calculate RMDs by looking at the Single Life Expectancy Table in the year after they inherit to determine their initial life expectancy factor. Then, they subtract one in each successive year to determine their new RMD factor, until the account is empty.

Spouse beneficiaries, on the other hand, have the advantage of being able to recalculate their life expectancy. That means a spouse beneficiary, subject to RMDs, can look at the Single Life Expectancy Table each and every year to determine their life expectancy factor. Over time, this results in lower RMDs for spouse EDBs compared to non-spouse EDBs.

Example 3: Ann, age 39, inherited an IRA from her 74-year-old spouse in 2020. Ann decided to remain a beneficiary of the account.

In 2021, Ann will use her 40-year-old age to look up her life expectancy factor. Doing so will result in a factor of 43.6. Each year, going forward, Ann will continue to use her current age to look up her life expectancy factor. So, 15 years later when Ann is 55, her life expectancy factor will be 29.6. (*Note: by that time the IRS may have issued new life expectancy tables, beginning in 2021, so these payout periods will change slightly.)*

In contrast, if Ann had been a non-spouse EDB, her life expectancy factor in the fifteenth year would be 28.6 (43.6 – 15 = 28.6).

Qualification as a beneficiary of an IRA under an IRA agreement default provision: If an IRA owner neglects to name a beneficiary, a spouse may be the beneficiary by default.

Some IRA beneficiary forms provide that a spouse is the default beneficiary when no beneficiary

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is named. Relying on a default provision, of course, should only be used as a last resort.

Advisor Action Plan

Advisors can use the fifth anniversary of the *Obergefell* case as an opportunity to connect with married clients, both same-sex and opposite-sex.

- Reach out to same-sex married clients to be sure they take advantage of all the special tax breaks for spouses.
- Explain the benefits of spousal contributions to married clients with a non-working spouse.
- Evaluate thoroughly the strategy of keeping an inherited IRA for spouse beneficiaries before deciding whether to do a spousal rollover. Remember to use caution not to jump to a spousal rollover too quickly.
- Update beneficiary forms. Remind all married clients that naming a spouse as beneficiary is more advantageous than ever. ■

Qualified Charitable Distributions: *Alive and Well in 2020*

With all the recent tax law changes, your clients may be confused about whether qualified charitable distributions (QCDs) are still a viable strategy for 2020. That answer is *"Yes!"* QCDs remain a great tax break for many individuals. Beyond the tax benefits, QCDs are perfect for clients looking to lend a much-needed hand to charities facing extraordinary burdens during the coronavirus pandemic.

QCD Basics

IRA owners who are at least age 70½ are eligible to transfer up to $100,000 of contributions to charity directly from their IRA in 2020. Those who have not yet attained age 70½ cannot make QCDs – *even if they will reach age 70½ by the end of the year.*

Example 1: Yumi, age 70, is the beneficiary of her deceased brother's IRA. Yumi will not reach age 70½ until November 15, 2020. She may not make a 2020 QCD until November 15. This is the case even if her deceased brother had been older than age 70½.

The $100,000 annual limit applies per individual. This means that, for married couples filing jointly, each spouse can make QCDs of up to $100,000 from their own IRA, for a combined total of $200,000.

QCDs can be made from traditional IRAs, Roth IRAs and inactive SEP and SIMPLE IRAs. A SEP or SIMPLE IRA is deemed "inactive" for 2020 if no employer contribution is made for the plan year ending in 2020. QCDs cannot be made from company plans.

QCDs can only be made through a direct transfer of IRA funds to charities eligible to receive tax-deductible contributions under IRS rules. Gifts made to donor-advised funds, private foundations or charitable gift annuities do not qualify. Also, clients cannot receive anything of value from the charity in exchange for making a QCD.

This means that, for married couples filing jointly, each spouse can make QCDs of up to $100,000 from their own IRA, for a combined total of $200,000.

Example 2: In 2020, Patricia, age 73, made a donation via direct transfer of IRA funds to a local charity in the amount of $5,000. As a "thank you," Patricia received two tickets to an upcoming concert.

Although Patricia was happy to lend her support to the organization, by receiving the concert tickets, Patricia was in violation of the QCD rules, and the $5,000 now counts as taxable income.

Finally, only pre-tax IRA funds can be used for a QCD. This is an exception to the pro-rata rule, which prohibits an IRA owner from withdrawing only pre-tax (or only after-tax) monies. As a result, QCDs can only be made from the taxable portion of a Roth IRA.

QCDs Are a Great Tax Break

Although clients who make QCDs cannot also take a tax deduction for the charitable gift, QCDs still provide a valuable tax break since they exclude the distributed amount from taxable income. This tax break is even more advantageous following the Tax Cuts and Jobs Act of 2017. That legislation nearly doubled the standard deduction. For that reason, many clients are no longer itemizing deductions. By making a QCD, however, they can still reap a tax benefit from a charitable contribution.

QCDs are especially valuable because they can offset otherwise-taxable required minimum distributions (RMDs). This reduction in adjusted gross income (AGI) not only reduces taxes but also allows IRA owners to mitigate other "stealth" taxes based on AGI, such as the 3.8% Medicare surtax on net investment income and Medicare Part B and Part D surcharges.

Additionally, QCDs help maximize tax deductions like the qualified business income (QBI) deduction for self-employed business owners.

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QCDs and the CARES Act

Advisors should understand that QCDs can still be made even if they are not used to offset RMDs. So, although the Coronavirus Aid, Relief, and Economic Security (CARES) Act waives RMDs for 2020, that waiver has no effect on the ability to make 2020 QCDs.

Regardless of whether QCDs are used to offset an RMD, they still make sense for clients looking to receive a tax benefit for charitable contributions while taking the standard deduction. Due to the RMD waiver, many individuals are under the false impression that QCDs are unavailable this year. Advisors should make sure clients know that QCDs are alive and well in 2020.

> Regardless of whether QCDs are used to offset an RMD, they still make sense for clients looking to receive a tax benefit for charitable contributions while taking the standard deduction.

Be aware that the CARES Act also includes a provision that allows a limited deduction for 2020 charitable contributions made from an individual to a charity. This deduction is available even for individuals who use the standard deduction instead of itemizing. While the new deduction can be taken in addition to a QCD, it is capped at $300. As such, it does not lessen the value of QCDs.

QCDs and the SECURE Act

Three months before passing the CARES Act, Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The SECURE Act contains several provisions that indirectly affect QCDs.

For those born on or after July 1, 1949, the SECURE Act delays the first RMD year from age 70½ to age 72. However, this law does not change the QCD age limit. This means that for 2021 and beyond, QCDs will be available even before clients are faced with RMDs.

Unfortunately, the SECURE Act also dictates that QCDs can become taxable in certain situations. This unpleasant result stems from another part of the SECURE Act which removes the 70½ age limit for traditional IRA contributions. Individuals who are 70½ or older can now make both deductible IRA contributions and QCDs. Congress was apparently concerned that allowing tax breaks for both would amount to "double dipping."

To prevent this, the SECURE Act limits the amount of tax-free QCDs if an individual also makes post-70½ deductible IRA contributions. (The SECURE Act does not affect the deductibility of the IRA contribution.)

Example 3: Maria reaches age 70½ in 2020 and makes a QCD of $10,000. She also makes a $7,000 deductible IRA contribution. Although Maria's charity receives the full $10,000, the tax-free portion of the QCD is reduced by the $7,000 IRA contribution. As a result, only $3,000 is excluded from Maria's taxable income; the remaining $7,000 is taxable to her.

If post-70½ deductible IRA contributions are made in years before QCDs are made, the offset becomes more complicated. Each year's post-70½ IRA contribution is aggregated and used to convert QCDs made in future years into partially or fully taxable distributions.

Example 4: Andre turned age 70½ in 2020 and makes $7,000 deductible IRA contributions for the years 2020, 2021 and 2022. Andre now has a total of $21,000 in post-70½ deductible IRA contributions.

In 2022, he decides to make a $15,000 QCD. Andre's entire QCD will be included in his taxable income. *Why?* Because $15,000 of his $21,000 post-70½ deductible IRA contributions will be applied to convert the QCD into a fully taxable distribution. This conversion of future QCDs will continue until all of Andre's post-70½ deductible IRA contributions are "used up."

To avoid this tax trap, advisors should counsel post-70½ clients who wish to make both QCDs and IRA contributions to strongly consider Roth IRA contributions. If their income is too high for a Roth contribution, suggest the backdoor Roth IRA.

Advisor Action Plan

Both the CARES Act and the SECURE Act have made significant changes to retirement plan rules, including several provisions that indirectly impact QCDs. But, none of these new provisions change the fact that, for 2020, QCDs remain a vital tax-saving strategy for charitably-minded clients.

- Ask your clients if they are looking to make charitable contributions directly from their IRAs.
- Explain to IRA owners the benefits of QCDs, including the valuable tax break of excluding distributions from taxable income.
- Educate IRA owners on how QCDs allow them to mitigate other "stealth taxes", based on AGI, such as the Medicare surtax on net investment income and Medicare Part B and Part D surcharges.
- Remind clients of the tax-free QCD limits if they are making post-70½ deductible IRA contributions. ■

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5 Common 401(k)/Employer Plan COVID-19 Questions

Guest Expert

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Many Americans face adverse financial consequence as a result of the outbreak of SARS-CoV-2, the novel coronavirus that causes coronavirus disease 2019 (COVID-19). In response to this and other adverse consequences, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was signed into law on March 27, 2020. The CARES Act provides relief that includes special distribution, rollover and loan rules for retirement accounts.

I continue to receive a large volume of questions about these rules. In this article, I will provide the answers to the top 5 questions about employer plan provisions.

Required Minimum Distributions

Background: The owner of a retirement account must start taking required minimum distributions (RMDs) for the year in which she reaches age 70½ (now 72) and continue for every year thereafter. If an employer plan document allows, the starting age can be deferred past age 70½ until the year in which the owner separates from service with the employer that sponsors the plan.

An RMD is generally required to be distributed by December 31 of the year for which it is due. An exception applies to the first RMD year, permitting the RMD for that year to be deferred to as late as April 1 of the following year.

Reminder: The age 70½ requirement is increased to age 72 for retirement account owners who reach age 70½ after December 31, 2019. *For details about this, see the January 2020 issue of this newsletter.*

The CARES Act waives RMDs that are required to be taken from defined contribution plans, such as 401(k)s, profit-sharing, 403(b), and governmental 457(b) plans during 2020. This includes any first-year RMD that was due for 2019 that the participant chose to defer to 2020 — *up to April 1, 2020.*

The CARES Act does not waive RMDs for defined benefit pension plans.

RMD Questions

1. Is it up to my employer to determine whether or not I should take my RMD for 2020?

No. The waiver of a 2020 RMD is law. As a result, you do not have an RMD for 2020; and any distribution that you receive that would have otherwise been an RMD is eligible to be rolled over to an eligible retirement account.

2. What is the deadline by which I must roll over the amount that I distributed from my 401(k), because I thought I had to take an RMD?

Generally, you have 60 days from the date of receipt to roll over a distribution. If you are past the 60-day deadline, you might be eligible for a waiver.

Options for a waiver include the following:

- You are eligible to self-certify that you qualify for a waiver under Revenue Procedure 2016-47. Eligibility includes meeting one of the listed reasons for missing the 60-day deadline. The full list and other requirements are available at irs.gov/pub/irs-drop/rp-16-47.pdf. If you qualify, the rollover must be completed as soon as practicably possible *— but generally within 30 days after the reason no longer prevents you from making the rollover contribution.*
- Your 60-day deadline fell on April 1, 2020 up to July 14, 2020. In this case, you would have until July 15, 2020 to complete the rollover.
- Your distribution is eligible to be treated as a coronavirus-related distribution (see below). In this case, the 60-day period would be extended to three years.

As a last resort, you may submit a private letter ruling (PLR) request to the IRS, requesting a waiver, if you satisfy the requirements of Revenue Procedure 2003-16 and Revenue Procedure 2020-4 (updated annually). The IRS charges a fee of $10,000 to review a PLR request and there is no guarantee that the response would be favorable.

> The CARES Act waives RMDs that are required to be taken from defined contribution plans.

Coronavirus-Related Distributions

Background: Participants are generally permitted to take distributions from an employer plan only if they satisfy the plan's triggering-event requirements. Triggering events can vary among plans and may include a participant being at least age 59½ or separated from service with the plan sponsor. The CARES Act allows coronavirus-related distributions (CRDs) of up to $100,000, regardless of whether a participant meets the plan's

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triggering-event requirements. *See the May 2020 issue of this newsletter for a definition of CRDs and eligibility.*

Distributions that are eligible for rollover, and are paid to the participant instead of being directly rolled over to an eligible retirement plan, are subject to a mandatory 20% tax withholding on any pre-tax amount. CRDs, while eligible to be rolled over, are exempt from this requirement.

CRD Questions

3. I submitted a distribution request for a CRD from my 401(k) account. However, my plan administrator rejected the request with an explanation that such distributions are not available for my 401(k) account. Do they have the right to do that?

Yes. CRDs are an optional provision. Therefore, your employer may choose whether or not to amend their 401(k) plan to include those provisions.

Tip: *If you are otherwise eligible to take a distribution from your 401(k) account, you are permitted to treat it as a CRD, provided you meet the requirements for such a distribution. This means treating it as a CRD on your tax return by spreading the taxable amount over three years, treating it as a distribution that is exempt from the 10% early distribution penalty, and having the three-year period to roll over any portion that you want to roll over. You may avoid the 20% mandatory withholding, on the advice of your CPA, by rolling over the amount to an IRA and then taking the distribution from the IRA.*

4. I know that I can include the taxable income from a CRD over a three-year period starting with 2020. I also know that I can roll over a CRD to an eligible retirement plan, which by definition includes a Roth IRA. Does this mean, then, that I can take a CRD from my traditional 401(k) account, roll over the amount to my Roth IRA (resulting in a Roth conversion), and spread the income from the distribution over a three-year period?

I have carefully reviewed the applicable regulations, sections of the tax code, current versions of related IRS publications, and the instructions on how to report disaster-related distributions, which would include CRDs, on tax returns. I found no provision that would permit a simultaneous conversion and ratable three-year spread of taxable income from a disaster-related distribution.

> CRDs are an optional [employer plan] provision.

Employer Plan Loans

Background: If an employer plan includes a loan provision, a participant may borrow up to 50% of his vested account balance, not to exceed $50,000. Loan repayments are generally required to be made in substantially equal quarterly installments over a five-year period. Exceptions may apply to the 5-year period for loans taken to help acquire the principal residence of the participant.

The CARES Act increased the dollar limit to $100,000 and the percentage limit to 100%. The CARES Act also provides that any plan loan repayment due March 27, 2020 to December 31, 2020, may be delayed for up to one year.

A plan sponsor may choose whether or not to amend its plan to include the coronavirus loan provisions.

Employer Plan Loan Questions

5. The 401(k) plan in which I participate permits participants to defer loan payments for a year, as is provided under the CARES Act. If I choose to defer my loan payments for up to a year, will interest continue to accrue on those amounts?

Yes. Any subsequent repayments for the loan shall be appropriately adjusted to reflect the delay and any interest accruing for such delay. As a result, when your loan repayments resume, the payments would be increased to reflect such adjustments. ■

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IRS Issues Q&As on CRDs

On May 4, the IRS released a set of questions and answers pertaining to the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In these new Q&As, the IRS said that, based on comments received, it is considering an expansion of the definition of "qualified individual." That definition determines who is eligible to take coronavirus-related distributions (CRDs) from IRAs and company plans and who is eligible for special tax relief for CRDs and plan loans.

Furthermore, the Q&As clarify that employers are not required to offer CRDs or the temporary plan loan changes outlined in the CARES Act.

However, if your client's company plan does not offer CRDs, the client can still use the tax breaks on up to $100,000 of other withdrawals made in 2020 if he is a "qualified individual." The IRS said individuals taking a CRD would use IRS Form 8915-E (which is expected to be available before the end of 2020) to report any repayment of a CRD and to determine the amount of a CRD includible in income for the year.

Unfortunately, the IRS did not address many of the cloudy issues surrounding CRDs left unanswered in the CARES Act itself, nor did the Q&As speak to the possible further expansion of the current 60-day rollover waiver. However, the IRS did promise additional guidance "in the near future."

The full text can be found at irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers. ■

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2020 Tax Planning

Taxable Income Brackets for 2020 *Ordinary* Income Tax Rates

Marginal Tax Rate	Married Filing Joint	Single
10%	$0 – $19,750	$0 – $9,875
12%	$19,751 – $80,250	$9,876 – $40,125
22%	$80,251 – $171,050	$40,126 – $85,525
24%	$171,051 – $326,600	$85,526 – $163,300
32%	$326,601 – $414,700	$163,301 – $207,350
35%	$414,701 – $622,050	$207,351 – $518,400
37%*	Over $622,050	Over $518,400

* The top rate is effectively 40.8% for those subject to the 3.8% Medicare surtax on net investment income

2020 Trust Tax Rates

Rate	Bracket	Rate	Bracket
10%	$0 - $2,600	35%	$9,451 - $12,950
24%	$2,601 - $9,450	37%	Over $12,950

Qualified Business Income (QBI) Deduction

20% Deduction Phase-Out Ranges

$326,600 – $426,600 - Married Joint

$163,300 – $213,300 - Single, and all others

Standard Deductions

Married-Joint	$24,800
Single	$12,400
Head of Household	$18,650

Extra Standard Deduction for Age 65 or Blind
$1,300 (married-joint)
$1,650 (single)

Taxable Income Brackets for 2020 *Long Term Capital Gains and Qualified Dividends Tax*

Long Term Capital Gains Rate	Married Filing Joint	Single
0%	$0 – $80,000	$0 – $40,000
15%*	$80,001 – $496,600	$40,001 – $441,450
20% **	Over $496,600	Over $441,450

*The 15% rate is effectively 18.8% for those subject to the 3.8% Medicare surtax on net investment income (those with MAGI over the thresholds of $250,000 joint filers/$200,000 single filers)

**The top rate is effectively 23.8% for those subject to the 3.8% Medicare surtax on net investment income

2020 Transfer Taxes

Transfer Tax	Exemption*	Maximum Rate
Estate, Gift, GST Tax	$11,580,000	40%

*The estate and gift exemptions are portable. The unused amount can be transferred to a surviving spouse. The GST exemption is NOT portable.

Annual Gift Tax Exclusion **$15,000**

Qualified Charitable Distributions

Available only to IRA owners and IRA beneficiaries who are 70½ or older. QCDs are more valuable due to the larger number of taxpayers that are using the increased standard deduction.

Itemized Deductions

Medical expenses for 2019 and 2020 are deductible in excess of 7.5% of AGI

State and local taxes limited to $10,000 overall

Charitable contribution limit for cash donations is 60% of AGI

2020 Tax Bracket Management at a Glance

Pay attention to tax brackets for each different type of tax – These will generally affect higher income clients.

Top Income and Capital Gain Rates

	Top Income Rate	Top Capital Gain Rate
Married Joint	$622,050	$496,600
Single	$518,400	$441,450

Top Trust Income and Capital Gain Rates

Top Trust Income Tax Rate	$12,950
Top Trust Capital Gain Rate	$13,150

From $0 to $2,650, the trust capital gains rate is -0-%

From $2,651 to $13,150, the rate is 15%

Over $13,150, the rate is 20%

3.8% Tax on Net Investment Income
0.9% Tax on Earned Income

The 3.8% tax is based on **modified adjusted gross income**

$250,000 married joint
$200,000 single

The 0.9% tax is based on **earned income** over these limits (wages and self-employment income)

Trust Tax Rates – Distributions from inherited IRAs that exceed **$12,950** and are made to and retained in discretionary trusts will be subject to the top 37% rate. After the SECURE Act, inherited IRA funds will have to be paid out to most of these trusts under the 10-year rule, accelerating trust taxes. Roth conversions during the IRA owner's life become more valuable if the IRA beneficiary is a trust.

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