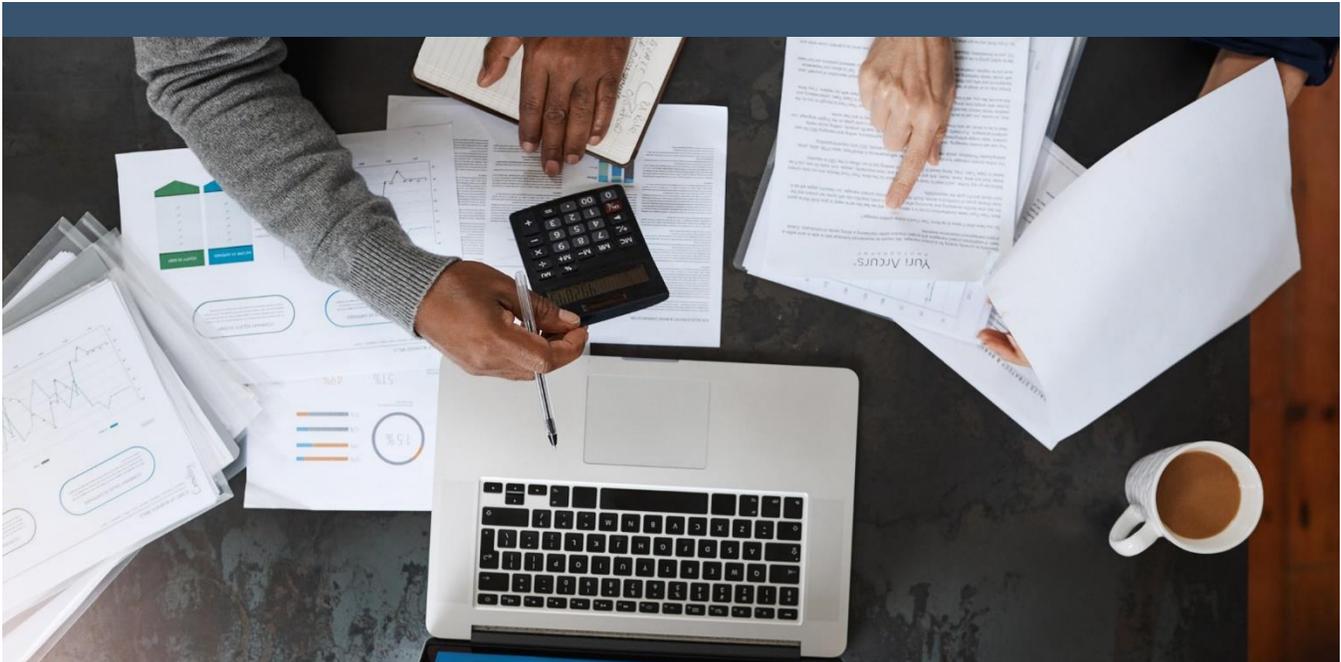




2021 Tax Planning



UNDERSTAND WHERE YOUR FEDERAL TAX DOLLARS GO

In this guide, we will explore where your tax dollars go and some of the ways tax filing may look different in 2021 as well as what you can do to prepare. Keep in mind, this guide is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before modifying your strategy.

Before we dive into the upcoming tax brackets and what you can do to prepare for 2021, it can be helpful to understand precisely where the government allocates your federal tax dollars.

In 2019, the federal government spent \$4.4 trillion, which equals 21% of the nation's gross domestic product (GDP). Further examination reveals that three significant areas of spending make up the majority of the budget.¹

HOW TO PREPARE FOR THE 2020 TAX SEASON MEDICARE, MEDICAID, MARKETPLACE SUBSIDIES, AND CHIP

The Medicare, Medicaid, Affordable Care Act (ACA) marketplace subsidies, and Children's Health Insurance Program (CHIP) together accounted for \$1.1 trillion in 2019 or 25% of the budget.¹

WWW.APEXWEALTHMANAGEMENT.COM

3300 S. Hiawassee Road, Suite 103 •
Orlando, FL 32835 • (407) 447-7688

DEFENSE SPENDING

Another \$697 billion was paid for defense and security-related international activities. The bulk of the spending in this category reflects the underlying costs of the Defense Department. This includes the cost of multiple defense initiatives and related activities, described as Overseas Contingency Operations in the budget.¹

SOCIAL SECURITY

Twenty-three percent of the budget, or \$1 trillion, was paid for Social Security, which provided monthly retirement benefits averaging \$1,503 to 45 million retired workers. Social Security also provided benefits to 3 million spouses and children of retired workers, 6 million surviving children and spouses of deceased workers, and 10 million disabled workers and their eligible dependents in December 2019.¹

A NOTE REGARDING COVID-19 AND 2020

As many are no doubt aware, the coronavirus pandemic wrought massive changes to the financial landscape. Although it is highly unlikely that the same scale of change will be seen in 2021, these historic changes are worth noting. In 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act became law, giving taxpayers the option to skip required minimum distributions (RMDs) from traditional individual retirement accounts (IRAs) and 401(k)-style plans. In addition, the IRS allowed taxpayers an extension until July 15 to file their Form 1040. July 15 was also the deadline to pay any federal taxes owed for 2019.^{2,3}

THE TAX BRACKETS

The tax brackets are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.⁴

Here are the tax brackets and the corresponding income ranges:⁴

| 2020 TAX RATE | SINGLE | MARRIED FILING JOINTLY |
|---------------|---------------------|------------------------|
| 10% | \$0 to \$9,875 | \$0 to \$19,750 |
| 12% | \$9,876–\$40,125 | \$19,751–\$80,250 |
| 22% | \$40,126–\$85,525 | \$80,251–\$171,050 |
| 24% | \$85,526–\$163,300 | \$171,051–\$326,600 |
| 32% | \$163,301–\$207,350 | \$326,601–\$414,700 |
| 35% | \$207,351–\$518,400 | \$414,701–\$622,050 |
| 37% | \$518,401+ | \$622,051+ |

These modest changes to the tax brackets also mean that wage earners may fall into lower brackets. Here is one example. A single filer at \$83,000 in taxable income would fall into the 24% bracket for tax year 2018. The filer would be in the 22% tax bracket in 2020.

These new rates are scheduled to expire in 2025 unless Congress acts to make them permanent. Exemptions also changed under the new tax code.

Here is an overview of the standard deductions since 2018:⁵

| TAX YEAR | 2020 | 2019 | 2018 |
|---------------------------|----------|----------|----------|
| Single | \$12,400 | \$12,200 | \$12,000 |
| Married filing jointly | \$24,800 | \$24,400 | \$24,000 |
| Married filing separately | \$12,400 | \$12,200 | \$12,000 |
| Head of household | \$18,650 | \$18,350 | \$18,000 |
| Personal exemption | Repealed | Repealed | Repealed |

The higher standard deductions may make them more attractive (compared with itemizing) for many taxpayers. Taxpayers who had itemized—to take advantage of deductions for a high mortgage interest, large charity donations, or local taxes—may be unable to reach the standard deduction’s higher limit.

Under previous tax law, taxpayers could claim exemptions for themselves, their spouses, and dependents. This was changed in the 2017 Tax Cuts and Jobs Act.⁶

The Act eliminated all personal and dependent exemptions. The higher deduction is intended to fill that exemption gap.

JANUARY 15, 2021

If you are self-employed or have other fourth quarter income that requires you to pay quarterly estimated taxes, postmark this payment by January 15, 2021.

APRIL 15, 2021

2020 INDIVIDUAL TAX RETURNS DUE

Most taxpayers have until April 15 to file tax returns. Email or postmark your returns by midnight on this date.

INDIVIDUAL TAX RETURN EXTENSION FORM DUE

If you cannot file your taxes on time, file your request for an extension by April 15 to push your deadline back to October 15, 2021.

FIRST QUARTER 2021 ESTIMATED TAX PAYMENT DUE

Pay your first estimated tax payment for 2021 by this date.

LAST DAY TO MAKE A 2020 IRA CONTRIBUTION

If you have not already contributed fully to your retirement account for 2020, April 15 is your last chance to fund a traditional IRA or a Roth IRA.

JUNE 15, 2021

SECOND QUARTER 2021 ESTIMATED TAX PAYMENT DUE

Pay your second estimated tax payment for 2020 by this date.

SEPTEMBER 15, 2021

THIRD QUARTER 2021 ESTIMATED TAX PAYMENT DUE

OCTOBER 15, 2021

EXTENDED INDIVIDUAL TAX RETURNS DUE

If you received an extension, you have until October 15 to file your 2020 tax return.

HOW TO PREPARE

Get a checkup: As a starter, the IRS urges taxpayers to conduct paycheck checkups.

The agency provides tools and resources to help you calculate the correct amount to have withdrawn from your paycheck.

The calculator may help you determine if your employer is withholding adequate amounts from your paycheck.

The calculator asks for your projected gross income, your current withholding number, the current amount of federal taxes withheld, and other paycheck-related questions.

The calculator leads you through various screens that require you to enter requested numbers into boxes. The calculator looks similar to a tax-filing form.

The final figure: Once the calculator generates the estimated taxes, you can expect to owe or be refunded; it offers suggestions on how to change your withholding amount or request to get additional money withheld from your check.

If the calculator shows you are projected to owe taxes at the end of the year, you may file a new Form W-4, Employee's Withholding Allowance Certificate,¹¹ following the guidance provided by the calculator. The IRS-provided calculator is designed to provide feedback based on certain assumptions. It is not intended to provide specific tax, legal, or accounting advice. The calculator is not a replacement for real-life advice, so please make sure to consult a professional before modifying your tax strategy.

Advice may include changing the number of allowances you are claiming (line 5) or requesting your employer to withhold additional money (line 6).

Taxpayers who receive pension income may use Form W-4P.¹¹ Once completed, send the form to your payer if you are adjusting or making changes.

WHAT DO YOU NEED TO HAVE TO USE THE CALCULATOR?

To generate a calculation, you will need to have these documents:

- A recent pay stub
- A recent income tax return
- A copy of a completed Form 1040, which will help you estimate your income

The calculator will not request you provide personal or private information. It will, however, ask you the number of children you expect to claim for the Child Tax Credit and the Earned Income Tax Credit.

Taxpayers with more complex tax issues may follow the instructions in Publication 505, Tax Withholding and Estimated Tax.⁷

WHO SHOULD USE THE CALCULATOR?

The IRS urges taxpayers who have questions or concerns about changes in the tax code to use the calculator. Specifically, the agency advises you to check your withholding if you meet the following criteria:

- Have a two-income household.
- Have two or more jobs.
- Work only part of the year.
- Can claim child tax and other credits.
- Have dependents who are 17 and older.
- Itemized your deductions last year.
- Are a high earner or have a complex tax return.
- Received a large tax refund or paid a large tax bill for 2019.

LOOKING AT ITEMIZING

Note that, in 2019, the IRS revamped the way itemized deductions can be claimed on Schedule A; these changes still apply for the upcoming tax season. Schedule A is a separate tax form attached to standard 1040 forms.⁷

Changes to the itemized deductions include the following:

- Itemized deductions are not limited if your adjusted gross income (AGI) exceeds a certain amount. Your AGI is the portion of your income that is taxable.⁸
- Job-related and other miscellaneous expenses can no longer be deducted.
- Certain other expenses, such as gambling losses, can still be deducted.
- The cash charity contribution limit is 60% of your AGI.

Other changes in deductibles include the following:

You may no longer deduct moving expenses unless you are on active duty in the U.S. military.

The child tax credit remains at \$2,000 per qualifying child. The refundable portion of the credit (referred to as the additional child tax credit) is limited to \$1,400 and applies when taxpayers are unable to fully use the \$2,000 nonrefundable tax credit to offset their taxes.

The credits phase out at income thresholds of \$200,000 or \$400,000 for married taxpayers filing jointly.⁹

The tax code established a tax credit of up to \$500 for other dependents who may not qualify for the child tax credit. Children who you plan to claim as dependents must have Social Security numbers prior to the due date of your tax return. Children who do not have Social Security numbers but have individual taxpayer identification numbers may be claimed under the new credit for other dependents.

PREPARING FOR THE TAX SEASON

Planning well in advance of the tax season may help better prepare you for the unexpected. Here are several reasons to begin planning early:¹⁰

- Your home, job, or relationships changed in 2020.
- You need to start saving money if you think you may owe taxes.
- You want to ensure you qualify for tax deductions.

You can make changes throughout the year to ensure your tax preparations go smoothly.

In particular, you can make periodic assessments of your paycheck withholdings so that you will get a refund or can reduce or eliminate your tax burden.

You should keep track of and store your tax and other financial records to avoid delays or frantic preparations as the filing deadline approaches. Records may include W-2 forms, canceled checks, certain receipts, and previous year returns.

Here is a list of other items to start gathering:

- Pay stubs
- Mortgage payment records
- Closing paperwork on home purchases
- Receipts for items or services you may want to claim as itemized deductions
- Records on charity giving and donations
- Mileage logs on cars used for business
- Business travel receipts
- Credit card and bank statements to verify deduction
- Medical bills

- 1099-G forms for state and local taxes
- 1099 forms for dividend or other income

During the first three months of 2021, make sure you receive your W-2 and 1099 forms as well as other tax documents. Leave adequate time to collect documents and prepare to file your taxes prior to the April 15, 2021 deadline.

TIGHTENING THE NUTS AND BOLTS

Although the 2019 tax season is more than six months behind us, the final months of 2020 provide taxpayers with some unique opportunities to avoid unpleasant surprises and scrambling as the finish line draws near.

Here are some ways to prepare this year for next year's tax season:¹¹

Look at last year: Take one more look at last year's return. In the months ahead, you may still have the opportunity to contribute more to your retirement plan, which may lower your taxable income.

Donating to charity: How about "bunching" your charitable donations?

Bunching provides you with the ability to optimize your deduction allowances by making two or more years' worth of charity donations in one year to boost the amount.

Let us say you are married, you plan to itemize your deductions, and you plan to make \$15,000 in annual donations. By donating \$30,000 in one year and skipping the next, you may be able to qualify for the higher amount.¹⁰

The IRS allows you to deduct an amount of up to 60% of your AGI to charity; however, the agency sets 20% and 30% limits in some cases. The IRS provides a list of deduction limit codes for different kinds of organizations.¹⁰

Capital losses: If you are investing in the financial markets, you may want to consider deducting capital losses; you have the opportunity to claim deductions if you experienced losses.

You can claim losses only if they exceed capital gains. You are allowed to claim the difference of up to \$3,000 per year if you are married filing jointly or \$1,500 if you are filing separate returns. Net losses that exceed \$3,000 can be carried over into future years.¹⁰

Deductions for capital losses can only be applied to investment property sales but not to the sale of investment property that was held for personal use.

Get organized: Find a place to store your tax documents until it is time to prepare to file. A good record-keeping system may alleviate concerns later as the deadline gets closer.

If you have your documents or prior-year returns stored on your computer, make sure you back them up on a thumb drive or other device or system in case your computer is hacked or stolen.

Other taxes: Keep watch on local and state government requirements. Changes produced on the federal level with the Tax Cuts and Jobs Act may affect your tax situation with state and local governments.

HOW LONG?

The IRS provides recommended timelines for retaining financial documents:¹²

1. You should keep your tax records for three years if #4 below does not apply to you.
2. You should keep records for three years from your original filing date of your return or two years from the date you paid your taxes. Select whichever is the later date. This is if you claimed a credit or refund after you filed your return.
3. You should keep your records for seven years if you claimed a loss from worthless securities or a bad debt deduction.
4. You should keep your records for six years if you failed to report income that you should have, and the income was more than 25% of the gross income listed on your return.
5. You should keep employment tax records for at least four years after the due date on the taxes or after you paid the taxes. Select whichever is later.

CONCLUSION

We hope you found this report to be educational and informative. You may incorporate the principles and tips in this report into your tax preparation strategy.

Planning well in advance may enable you to take advantage of the opportunities and benefits available under the new tax code.

Discussing your unique situation with both a financial professional and a tax professional may help you make the best choices as tax season approaches. The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult with legal or tax professionals with expertise in this area for specific information regarding your situation.

If you or anyone close to you would like to discuss how to manage your financial situation, please give our office a call at (407) 447-7688 to schedule a consultation.

FOOTNOTES, DISCLOSURES, AND SOURCES

Securities and advisory services offered through Triad Advisors, LLC. Member FINRA/SIPC. Apex Wealth Management, LLC and Triad Advisors, LLC are not affiliated. Neither the named representative nor the named broker/dealer gives tax or legal advice. Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice.)

This material is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Past performance does not guarantee future results.

Consult your financial professional before making any investment decision.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Please consult your financial professional for further information.

These are the views of FMG Suite, LLC, and not necessarily those of the named representative, broker/dealer, or investment advisor and should not be construed as investment advice. Neither the named representative nor the named broker/dealer nor the investment advisor gives tax or legal advice.

By clicking on these links, you will leave our server, as they are located on another server. We have not independently verified the information available through these links. They are provided to you as a matter of interest. Please click on the links below to leave and proceed to the selected site.

1. Cbpp.org, April 9, 2020

2. Under the SECURE Act, once you reach age 72, you must begin taking required minimum distributions from your 401(k) or other defined contribution plans in most circumstances. Withdrawals from your 401(k) or other defined contribution plans taxes as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

Also under the SECURE Act, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA) in most circumstances. Withdrawals from Traditional IRAs are taxes as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

The CARES Act temporarily suspended the 10% federal income tax for both defined contribution plans and IRAs for coronavirus-related distributions.

3. IRS.gov, June 23, 2020

4. Debt.org, October 19, 2020

5. Consumerismcommentary.com, May 31, 2020

6. HRblock.com, October 24, 2019

7. IRS.gov, 2020

8. IRS.gov, 2020

9. IRS.gov, 2020

10. IRS.gov, 2020

11. Efile.com, August 17, 2020

12. IRS.gov, 2020