ABC Financial

2019 TAX REPORT FOR JOHN DOE AND JANE DOE

KEY FIGURES

Total Income:	$20,010	Filing Status:	Married Filing Jointly	Tax Exempt Interest:	$7,513
AGI:	$19,586	Marginal Rate:	10.0%	Qualified/Ordinary Dividends:	$5,563 / $8,864
Deductions:	$27,000	Average Rate:	4.2%	ST/LT Capital Gains:	$0 / ($54,465)
Taxable Income:	$0	2020 Safe Harbor:	$848	Carryforward Loss:	$54,465
Total Tax:	$848	Tax Exempt Pct. of Total Interest:	51.8%	Total/Taxable Social Security:	$16,810 / $1,168

MARGINAL TAX BRACKET INFORMATION

The marginal tax rate for your *ordinary income* is as follows:

Marginal Rate	Ordinary Income Threshold	
10.0%	$0 to $19,400	You: $0
12.0%	$19,400 to $78,950	
22.0%	$78,950 to $168,400	
24.0%	$168,400 to $321,450	
32.0%	$321,450 to $408,200	
35.0%	$408,200 to $612,350	
37.0%	$612,350 and above.	

The marginal tax rate for your *capital gains and qualified dividends income* is as follows:

Marginal Rate	Taxable Income Threshold		Qualified Income ($0 Total)
0.0%	$0	You: $0	$0
15.0%	$78,750		$0
20.0%	$488,850		$0

MODIFIED ADJUSTED GROSS INCOME TIERS

Planning Opportunity	Limits	Over/Under?
Net Investment Income Tax	$250,000	Under
Coverdell ESA	$190,000 - $220,000	Under
Roth IRA Contribution	$193,000 - $203,000	Under
Lifetime Learning Credit	$116,000 - $136,000	Under
Student Loan Interest Deduction	$140,000 - $170,000	Under
American Opportunity Credit	$160,000 - $180,000	Under
Child Tax Credit	$400,000 - $440,000	Under
Qualified Adoption Expenses Credit	$207,140 - $247,140	Under
Saver's Credit	$38,500 - $64,000	Under
IRA Contribution Deductibility - Covered Spouse	$103,000 - $123,000	Under
IRA Contribution Deductibility - Non-Covered Spouse	$193,000 - $203,000	Under

MEDICARE PART B/D PREMIUMS FOR 2021

Medicare Parts B and D premiums can be impacted by Modified Adjusted Gross Income* (MAGI). Amounts below are in addition to the base premiums.

*MAGI = AGI + Tax-Exempt Interest

MAGI Threshold	Part B Premium Adjustment	Part D Premium Adjustment	
$0 to $176,000	$0	$0	You: $27,099
$176,000 to $222,000	$59	$12	
$222,000 to $276,000	$149	$32	
$276,000 to $330,000	$238	$51	
$330,000 to $750,000	$327	$71	
$750,000 and above.	$356	$77	

OBSERVATIONS

Your taxable income appears to be low enough to allow you to recognize long term capital gains at a 0% tax rate. If you expect to have low taxable income this year as well, you might consider taking some or all of any unrealized capital gains you might have.

Given that you are in a lower marginal tax bracket, you may consider converting any eligible retirement accounts to Roth

Your Modified Adjusted Gross Income (MAGI) suggests you are eligible to contribute to a Roth IRA. Note that Roth contributions must come from what the IRS called "compensation income". The tax return does include some compensation income.

You had additional taxes due, over and above what you withheld and paid through estimated tax payments. If the additional taxes were due to a one-time event, no further action may be necessary, but if the additional tax was large and unexpected, you may need to adjust withholding for this year.

PENNSYLVANIA STATE TAX HINTS

State does not distinguish between long and short term capital gains

Federal and state pensions not taxed

Social security benefits not taxed

Retirement plan distributions not taxed (some limitations)

IRA distributions not taxed up to PA basis (since PA contributions not deductible)

In-state and out-of-state 529 contributions deductions per beneficiary - $15,000 single, $30,000 MFJ

Roth IRA distributions taxable over PA basis

Carried forward capital losses are NOT recognized - Gain not taxed at Federal level due to offset losses will be taxed in PA

when deciding on a business location, it helps to know if the municipality of choice has adopted the Business Privilege and/or Mercantile tax under Act 511. It assesses a set tax millage on GROSS receipts (not income). Typically the first $1 million of gross income only, then the remainder is exempt.

Disclaimer

This is NOT tax advice.

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CASH FLOW ISSUES

CASH FLOW ISSUES	YES	NO
Will your cash flow needs change? If so, consider developing a new income and expense plan.	☐	☐
Will you receive a pension? If so, consider the following: ■ There may be multiple payout options (single, joint). ■ Coordination strategies may exist between pension, Social Security, or life insurance.	☐	☐
Could there be pensions and/or retirement benefits from a previous employer that you may be forgetting?	☐	☐
Are you retiring early? If so, consider the following: ■ Social Security benefits may be reduced if you earn more than $18,240 and are collecting benefits prior to your full retirement age (FRA) or if you earn more than $48,600 in the year you reach FRA. ■ Social Security benefits will be reduced if you collect prior to your FRA. ■ You can access your 401(k) penalty-free if you leave your employer in the year you turn 55 or later.	☐	☐
Will you or your spouse receive a pension from an employer that did not withhold Social Security taxes? If so, consider the impact of the Social Security Windfall Elimination Provision or the Government Pension Offset.	☐	☐
Are you currently married? If so, consider additional Social Security claiming strategies.	☐	☐
Were you married previously and currently unmarried? If so, consider the following: ■ If the marriage lasted 10 years and ended in divorce, you may be eligible for benefits under your ex-spouse's record. See "Am I Eligible For Social Security Benefits As A Divorced Individual?" flowchart. ■ If the marriage lasted more than nine months and ended due to your spouse passing away, you may be eligible for benefits under your deceased spouse's record. See "Am I Eligible For Social Security Benefits As A Surviving Spouse?" flowchart.	☐	☐

HEALTH INSURANCE ISSUES

HEALTH INSURANCE ISSUES	YES	NO
Will you be retiring before age 65 and need health insurance? If so, consider the following: ■ You are not eligible for Medicare until age 65 (unless you qualify for an exception). ■ If household income is between $12,490 and $49,960 for one person in the household ($16,910 to $67,640 for two people in the household), you may be eligible for the Premium Assistance Tax Credit.	☐	☐
Will you have to change your employer-sponsored health insurance upon turning 65 or upon retiring from your employer? If so and you are under age of 65, you may need to look to COBRA or the Health Insurance Marketplace. If you are age 65 or over, you may need to sign up for Medicare.	☐	☐
Will you need additional insurance such as vision or dental coverage?	☐	☐
Are you contributing to an HSA? If so, consider HSA and Medicare coordination issues. See "Can I Make A Deductible Contribution To My HSA?" flowchart.	☐	☐
Will your MAGI exceed $87,000 (single) or $174,000 (MFJ)? If so, you may be subject to Medicare IRMAA Surcharges. Reference "Will I Avoid IRMAA Surcharges on Medicare Part B & Part D?" flowchart.	☐	☐
Are you disabled? If so, you may be eligible for certain benefits or have the ability to access benefits early.	☐	☐
Have your needs for life insurance changed?	☐	☐
Are you concerned about funding long-term care? If so, consider LTC insurance, self-insurance strategies, and assisted living communities.	☐	☐
If you have LTC insurance, does it need to be reviewed to ensure that it meets your needs?	☐	☐

2020 · WHAT ISSUES SHOULD I CONSIDER BEFORE I RETIRE?

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ASSET & DEBT ISSUES	YES	NO
Do you have stock options, grants, or restricted stock units? If so, consider how it will impact your tax liability and your cash flow planning.	☐	☐
Will your investment objectives or risk tolerance change?	☐	☐
If you are a business owner, do you need an exit strategy or a succession plan?	☐	☐
If you have annuities or illiquid assets, do they need to be reviewed to understand options?	☐	☐
Do you have a loan on any employer retirement plans? If so, you may need to plan for how to pay it back and be mindful before rolling the balance to another plan.	☐	☐
Do you have a deferred compensation plan? If so, coordination strategies may exist between pension, Social Security, or life insurance.	☐	☐
Do you have multiple accounts with similar tax treatment (multiple 401(k)s or IRAs)? If so, consider consolidating accounts to reduce complications.	☐	☐
Will you change your residence? If so, this may impact tax liability, cash flow planning, and your Medicare Advantage plan if you move out of the network.	☐	☐

TAX PLANNING ISSUES	YES	NO
Do you expect to have large Required Minimum Distributions? If so, consider strategies to reduce the RMD such as Roth conversions.	☐	☐
Upon retirement, do you expect your income to be lower? If so, consider deferring any Roth conversions until you are in a lower tax bracket. Reference "Should I Consider Doing A Roth Conversion?" flowchart.	☐	☐

LONG-TERM PLANNING ISSUES	YES	NO
Do you expect your estate will exceed $11,580,000 or will your combined estate (if you are married) exceed $23,160,000? If so, consider strategies to plan for a possible federal estate tax liability.	☐	☐
Are you charitably inclined? If so, consider charitable giving strategies to reduce your tax burden.	☐	☐
Is your estate plan old or possibly outdated? If so, reference "What Issues Should I Consider Before I Update My Estate Plan?" checklist.	☐	☐
Do the account beneficiaries need to be reviewed and possibly updated? This includes retirement plans, life insurance, and TOD accounts.	☐	☐

OTHER ISSUES	YES	NO
Do you have any unused vacation days? If so, you may be eligible to use them prior to retiring or you may receive compensation.	☐	☐
Are there any state-specific issues that should be considered (such as unique taxation rules)?	☐	☐

2020 · SHOULD I CONSIDER DOING A ROTH CONVERSION?

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Start Here

Will you need the distributions from your retirement account?

- No → Are the beneficiaries of your retirement accounts qualified charitable organizations?
- Yes → Do you expect to be subject to lower income tax rates during most of your retirement either due to income levels or future tax reform?

Are the beneficiaries of your retirement accounts qualified charitable organizations?

- Yes → Sorry, a Roth conversion offers little advantage to you, and none to your beneficiaries. Consider making QCDs during your lifetime and transferring your traditional retirement accounts at your death.
  - → Reference "Can I Do a Qualified Charitable Distribution From My IRA?" flowchart.
- No → Do you expect your beneficiaries to be subject to high income tax rates in the future?

Do you expect to be subject to lower income tax rates during most of your retirement either due to income levels or future tax reform?

- Yes → Sorry, converting and paying tax today at a higher rate may not be advantageous. Consider deferring tax liability until distributions are needed and/or required.
- No → Do you have cash outside of your retirement accounts to pay the income taxes due upon conversion?

Do you expect your beneficiaries to be subject to high income tax rates in the future?

- No → Sorry, if your beneficiaries are in low tax brackets, the cost of conversion may not be justified.
- Yes → Do you have cash outside of your retirement accounts to pay the income taxes due upon conversion?

Do you have cash outside of your retirement accounts to pay the income taxes due upon conversion?

- No → Using retirement funds to pay tax erodes the value of a Roth conversion, but you may still benefit if you have a long time horizon to enjoy tax-free growth and your future income tax rates will remain high.
  - → After your death, income tax-free distributions will be advantageous to your beneficiaries.
- Yes → Consider doing Roth conversions. The Roth IRA will not be subject to RMDs, and it can allow the account to grow tax-free.
  - → After your death, income tax-free distributions will be advantageous to your beneficiaries.

After your death, income tax-free distributions will be advantageous to your beneficiaries.

→ Inheriting Roth assets will be particularly valuable to "Non-Eligible Designated Beneficiaries," who are subject to the 10-Year Rule, which accelerates distributions (and therefore taxation) if the assets remained in an IRA.

→ Will you need distributions from the Roth IRA within five years of converting?

Will you need distributions from the Roth IRA within five years of converting?

- Yes → Be mindful of the 5-year rule. Reference "Will My Roth IRA Conversion Be Penalty Free?" flowchart.
  - → Are you currently, or will you in the near future become, a participant in programs where your eligibility/treatment is income-based (such as Medicare/IRMAA, financial aid, or ACA subsidies)?
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- No → Low asset valuations (due to a market correction, etc.) or expiring carryforwards and credits could provide additional incentives to do a Roth conversion.
- Yes → Increasing your income with Roth conversions could impact the amount you pay/receive through income-based programs.
  - → Low asset valuations (due to a market correction, etc.) or expiring carryforwards and credits could provide additional incentives to do a Roth conversion.