Managing Your Finances

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Recent Updates

Biden American Rescue Plan - TENTATIVE

Stimulus check of $1,400 per person to eligible recipients. This money would be in addition to the $600 payments that were approved in December for a total of $2,000.

These new payments are intended for “everyone”, which includes adult dependents, mixed immigration status households, and spouses of undocumented immigrants with no SSN.

Boost of $400 in unemployment checks, this is expected to go in place in March when the $300 enhancement from December’s bill ends.

Provide $25 billion in rental assistance for low- and moderate-income households who have lost jobs during the pandemic. That's in addition to the $25 billion lawmakers provided in December.

Extend the federal eviction moratorium, set to expire at the end of January, to September 30, as well as allow people with **federally-guaranteed mortgages to apply for forbearance** until September 30.

Extend the 15% increase in food stamp benefits through September, instead of having it expire in June.

Boost the Child Tax Credit to $3,600 for children under age 6 and $3,000 for those between ages 6 and 17 for a year. The credit would also be made fully refundable, current Child Tax Credit is $2,000 per child.

Biden American Rescue Plan - TENTATIVE

Calling on Congress to subsidize the premiums of those who lost their work-based health insurance through September.

Increase and expand the Affordable Care Act's premium subsidies so that enrollees don't have to pay more than 8.5% of their income for coverage.

Reinstate the paid sick and family leave benefits that expired at the end of December until September 30.

It would extend the benefit to workers employed at businesses with more than 500 employees and less than 50, as well as federal workers who were excluded from the original program.

People who are sick or quarantining, or caring for a child whose school is closed, will receive **14 weeks of paid leave.** The government will reimburse employers with fewer than 500 workers for the full cost of providing the leave.

Providing $15 billion to create a new grant program for small business owners, separate from the existing Paycheck Protection Program.

Biden is calling on Congress to raise the **minimum wage to $15 an hour**, and to end the tipped minimum wage and the sub-minimum wage for people with disabilities.

And many more billions devoted to COVID vaccine distribution and infrastructure.

Student Loan Relief- TENTATIVE

Biden has signed an executive order to grant continued temporary student loan relief.

Currently, there is a temporary moratorium on federal student loan payments through January 31, 2021. The Cares Act instituted student loan relief through September 30, 2020. President Donald Trump then extended this student loan relief twice: first, through December 31, 2020 and then second, through January 31, 2021.

Biden will extend the following student loan relief through September 30, 2021:

- Pause federal student loan payments
- Stop accrual of new interest on federal student loans
- Halt collection of student loans in default

Note that the Cares Act granted student loan relief to federal student loans, but **not** FFELP Loans or Perkins Loans. FFELP was discontinued in 2010. Perkins was discontinued in 2018. Current federal student loans are called “Direct” loans.

Student Loan Relief- TENTATIVE

Biden has stated he plans to:
Offer $10K of federal student debt relief for every year of national or community service someone performs (for up to five years). Think: public school teachers, police officers, and Peace Corps, not-for-profit organizations.

Give a free pass to people making $25K or less per year (no loan or interest payments required). Also: make public college tuition-free for families making under $125K.

Forgive federal loans after 20 years for everyone else who has responsibly made payments, and significantly reduce the overall payment.

Cautions:

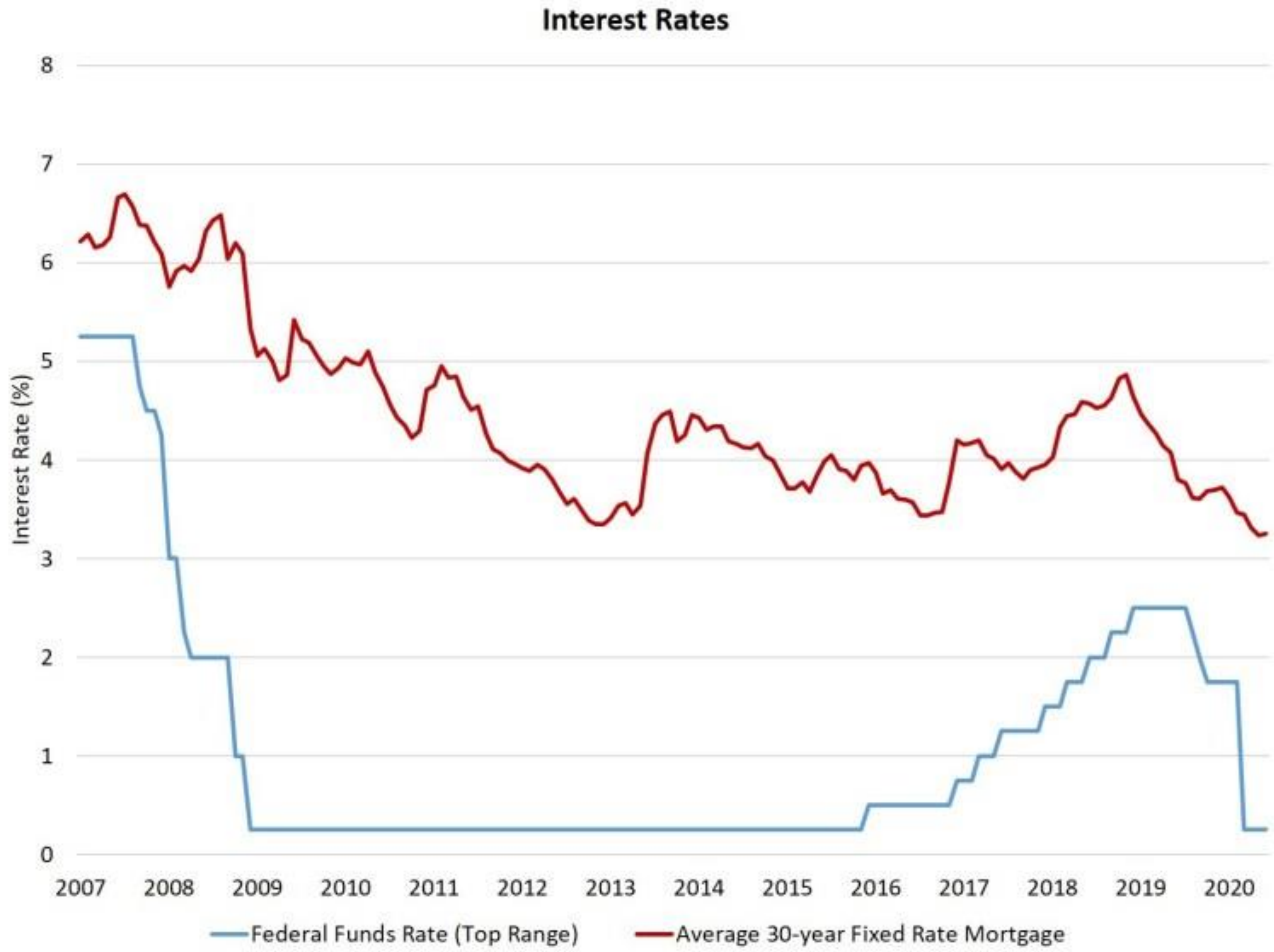
He does not plan on using Executive Order for these, instead he will work with Congress.

These are (as of this presentation) **not part of his stimulus package bill**.

Other Democrats have called for forgiveness of a larger amount, Republicans typically side against expanded forgiveness.

Year End Financial Considerations

- Are you able to max out your retirement accounts? (IRAs have until taxes are due.)
- Have you used all of your FSA money (2.5 month extension)? Have you maxed your HSA (tax time)?
- Have you explored all tax adjustments, deductions, and credits at tax time?
- Have you considered 529 college planning for children? Balance 529 and retirement?
- Have you checked your credit score/ report recently? One free per year. One free per week now.
- Do you know how much you’re paying in investment fees? Adviser, mutual funds, etfs?
- Have you revisited your retirement plan including taxable vs. tax free savings?
- Are you comfortable with your debt pay down vs. retirement savings decisions?
- What does your emergency fund look like? Where is it held?
- Do you financial habits reflect your goals?



Interest Rates
Interest Rate (%)
8
7
6
5
4
3
2
1
0
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Federal Funds Rate (Top Range)
Average 30-year Fixed Rate Mortgage

Taxes

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Taxable Income

Gross Income (this is your salary, or hourly wage times number of hours worked)

Minus Adjustments

Adjusted Gross Income (AGI)

Minus larger of i) Standard Deduction or ii) Itemized Deductions

Taxable Income

Calculate Federal Tax Liability (tax tables)

Minus Taxes Withheld (taxes already paid from paycheck)

Minus Tax Credits

Taxes Owed/ Received

- If this answer is a positive number, then you still owe the government
- If this answer is a negative number, then you will receive a refund

Progressive Income Tax Rates

2020

Tax Rate	Single	Married, filing jointly
10%	$0 - $9,875	$0 - $19,750
12%	$9,875 - $40,125	$19,750 - $80,250
22%	$40,125 - $85,525	$80,250 - $171,050
24%	$85,525 - $163,300	$171,050 - $326,600
32%	$163,300 - $207,350	$326,600 - $414,700
35%	$207,350 - $518,400	$414,700 - $622,050
37%	Above $518,400	Greater than $622,050

2021

Tax Rate	Single	Married, filing jointly
10%	$0 - $9,950	$0 - $19,900
12%	$9,950 - $40,525	$19,900 - $81,050
22%	$40,525 - $86,375	$81,050 - $172,750
24%	$86,375 - $164,925	$172,750 - $329,850
32%	$164,925 - $209,425	$329,850 - $418,850
35%	$209,425 - $523,600	$418,850 - $628,300
37%	Greater than $523,600	Greater than $628,301

Adjustments

Adjustments you can subtract from Gross Income to obtain your AGI, include (but are not limited to):

- Student loan interest
- Contributions to pre-tax retirement accounts (e.g., 401(k), IRA)
- Health Savings Account (HSA) or Flexible Spending Arrangment (FSA) contributions
- Tax-Loss Harvesting (capital losses) up to $3,000
- A variety of other expenses

These are often called “above the line deductions” (where the “line” is your AGI).

Note that each one of these adjustments may have income, or other limitations. Same goes for deductions and credits.

Deductions

You will either elect to take the Standard Deduction or the sum of your Itemized Deductions.

Standard Deduction

The standard deduction in 2020 is **$12,400** for a single filer, **$24,800** for a married filing jointly. This means that each individual receives $12,400 in "free" income each year. In other words, your AGI is lowered by $12,400 to arrive at your taxable income if you are single.

For 2021 the standard deduction is **$12,550** for single, and **$25,100** for married filing jointly.

Itemized Deductions

Itemized deductions include (but are not limited to):

Home mortgage interest, Property, state, and local income taxes, Investment interest expense, Medical expenses, Charitable contributions, Miscellaneous deductions

If your itemized deductions add up to more than your standard deduction, then you are likely to "itemize." Since the passage of the TCJA, most Americans take the Standard Deduction. This is due to a new $10,000 cap on SALT deductions, which remains the same for 2021.

Charitable Deductions

The Passage of the Cares Act in 2020 by the Trump Administration has direct implications for charitable giving in 2020.

New Deduction Available: Up to $300 per taxpayer ($600 for a married filing jointly) in annual charitable contributions.

This is available only to people who take the standard deduction (for taxpayers who do not itemize their deductions). It is an “above the line” adjustment to income that will reduce a donor’s adjusted gross income (AGI), and thereby reduce taxable income.

A donation to a donor advised fund (DAF) does not qualify for this new deduction.

Increased Itemized Deduction: Individuals can elect to deduct donations up to 100% of their 2020 AGI (up from 60% previously). Corporations may deduct up to 25% of taxable income, up from the previous limit of 10%.

Due to the TCJA, the number of taxpayers who itemize fell from roughly 30% to 10%.

Why You Might Want to Lower AGI

AGI is the first stop on the way to taxable income, so lowering AGI will lower your taxable income.

Increase Itemized Deductions where some are based on AGI

Decrease Phase-outs / Increase Exemptions for example with Roth IRA contributions

Lower Medicare Premiums The Medicare premium surcharge is based on AGI. If you're close to a surcharge line, lowering your AGI might be able to shave a few dollars off your monthly premium

Decrease Alternative Minimum Tax (AMT) AMT is not based on AGI, but depending on what you do to reduce your AGI, you may be able to move out of (or into) AMT

Increase Financial Aid Income (as assessed by your AGI) is counted five times more than your assets when assessing financial aid for college. Remember that the FAFSA looks at income two years prior

Do More Roth Conversion. If you're trying to squeeze as much Roth conversion into a calendar year, then lowering your AGI can help lower your tax bill on the conversion

Qualify for Welfare or Subsidies A lot of welfare programs are based on AGI

Note that some of the above utilize Modified AGI (MAGI), for most people MAGI is very close to AGI.

Most Common Tax Credits

Earned Income Tax Credit: Established in 1975—in part to offset the burden of Social Security taxes and to provide an incentive to work for low-income individuals. A person must be at least 25 years old and younger than 65 to qualify, among other qualifications.

American Opportunity Tax Credit: Depending on your income (the credit drops as income increases), you may receive up to $2,500 of the cost of qualified tuition and course materials paid during the taxable year. The student must be enrolled at least half-time for at least one academic period.

Child tax credit: This could get you up to $2,000 per kid and $500 for a non-child dependent.

Child and Dependent Care Credit: Helps defray costs of babysitting or daycare. It's available to people who must pay for childcare for dependents under age 13 in order to work or look for work.

Savers Tax Credit: Is for eligible contributions to retirement plans, such as qualified investment retirement accounts, 401(k)s and certain other retirement plans. Taxpayers with the least income qualify for the greatest credit—up to $1,000 for those filing as single, or $2,000 if filing jointly.

W-4 and Taxes Withheld

The W-4 form is a form you fill out whenever you start a new job. You can update your W-4 form whenever you want. This form tells your employer how much to withhold from your paycheck for taxes.

The single biggest driver behind whether you will receive a refund or have to pay taxes at the end of the year is how much in tax you have already paid the federal government. How much you pay every paycheck is a direct result of how you filled out the W-4 form.

The W-4 form has historically been very confusing to fill out.

The IRS has recently released a new Tax Withholding Estimator: https://www.irs.gov/individuals/tax-withholding-estimator

If you have a simple profile, this form is rather simple to fill out. If you hold multiple jobs, have various sources of income, multiple dependents, or have a complicated profile, the form can be a bit more complicated.

Additional Notes

The federal, and state, tax filing deadline is Thursday, April 15th, 2021.

The IRS will begin to accept tax returns on Friday, February 12th, 2021.

If you request an extension you will have until October 15th, 2021.

Most taxpayers get their refunds within three weeks of submitting their return. You can check the status of your refund on the IRS website.

Last year's average tax refund was more than $2,500.

You can file your taxes online for free through the IRS Free File if your adjusted gross income (AGI) was $72,000 or under in 2020. You can do so through the popular third-party tax preparers, including TurboTax, H&R Block, and TaxAct.

See: https://www.irs.gov/filing/free-file-do-your-federal-taxes-for-free

The IRS strongly recommends filing electronically. Paired with direct deposit, it's the fastest way to get your refund.

Don’t forget about FICA Taxes – Social Security (6.2%) and Medicare (1.45%).

Investment Taxes

You can have three types of income from stocks and bonds:

Interest (from checking/ savings accounts/ bonds)

- Count as Income, you pay your marginal income tax rate

Dividends (from stocks)

- Ordinary dividends (if held stock for short period of time) taxed as income
- Qualified dividends (if held stock for longer than 60-90 days) taxed at capital gains tax rate

Capital Gains (Selling stocks or bonds at a higher price than you bought them at, opposite: Capital Losses). Must hold asset for longer than one year to count as long-term capital gain tax rate.

Filing Status (2020)	**0% rate** applies when taxable income is	**15% rate** applies when taxable income is	**20% rate** applies when taxable income is
Single	Less than $40,000	$40,000 to $441,450	More than $441,450
Married Filing Jointly	Less than $80,000	$80,000 to $496,600	More than $496,600

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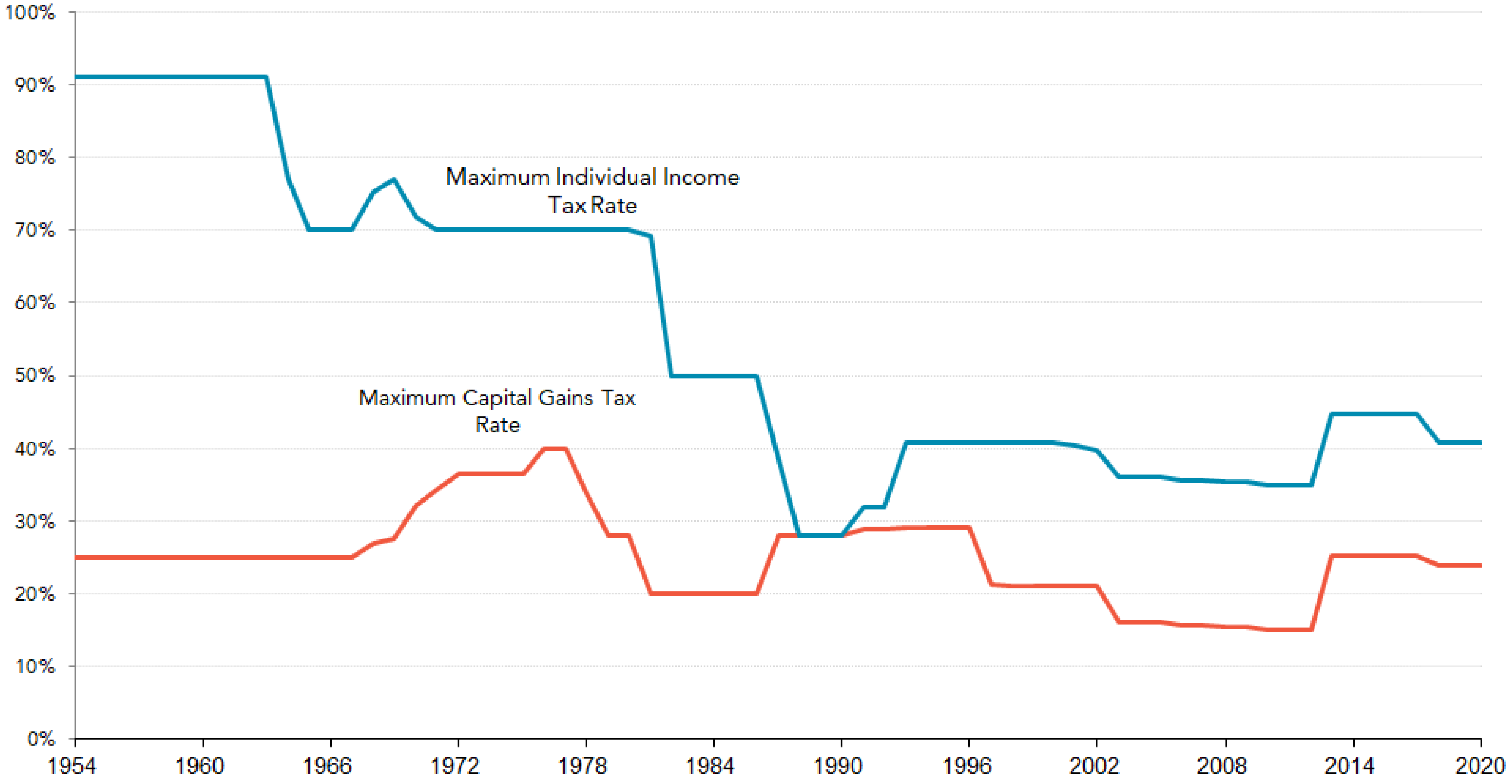
Taxes

FIGURE 1

Maximum Capital Gains and Individual Income Tax Rate

Tax years 1954–2020



Sources: US Department of the Treasury, Office of Tax Analysis (2016); Urban-Brookings Tax Policy Center calculations.
Note: The maximum rates include the 3.8 percent tax on net investment income (2013-) and adjusts for the phaseout of itemized deductions (1991–2009, 2013–2017).

Investment Considerations

2020 Markets

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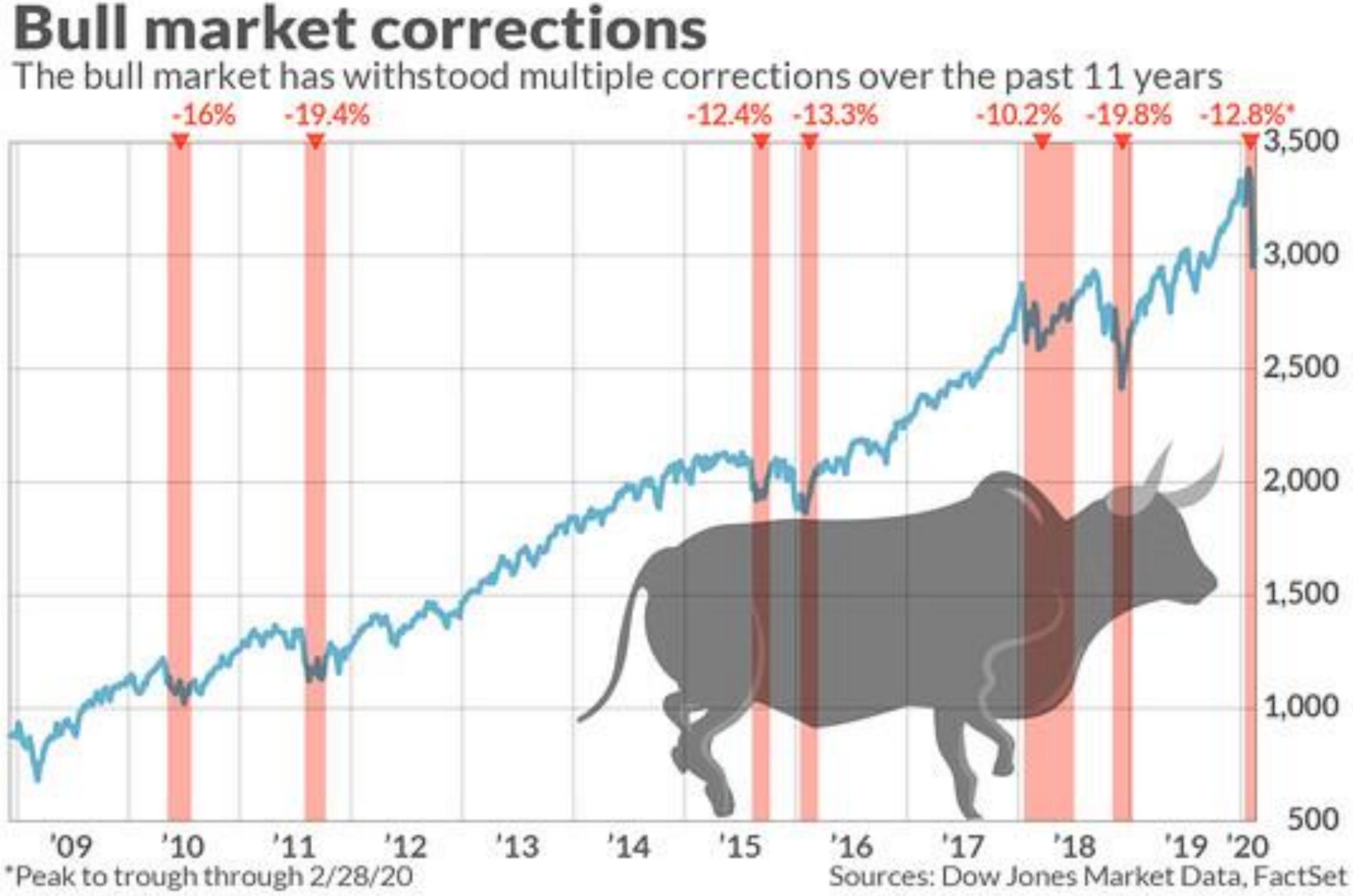
10 Year Bull Run



Retirement Account Contribution Limits

Account	2020 Limit	2021 Limit	Catch-up, Age 50+
IRA[1]	$6,000	$6,000	+$1,000
401(k) Elective[2]	$19,500	$19,500	+$6,500
401(k) Total[3]	$57,000	$58,000	
HSA[4]	$3,550/ $7,100	$3,600/ $7,200	$1,000

[1]However, if your taxable income is lower than this amount, you can only contribute up to your taxable income.

[2]Roth and Traditional combined. [2]Roth + Traditional + After-tax + Employer contributions

[3]For 401(k), 403(b), and most 457 plans

[4]HSA catchup for 55 and older

2021 Retirement Account Income Limits

Account	2020 MAGI Income Limit	2021 MAGI Income Limit
Traditional IRA[1]	$75,000/ $124,000	$76,000/ $125,000
Roth IRA[2]	$139,000/ $206,000	$140,000/ $208,000
401(k)/403(b)/457[3]	No Income Limit	No Income Limit

Remember you have until the tax filling date to make contributions to your IRAs for the prior year. This date is April 15th, unless it gets pushed back like it did in 2020.

[1]Assuming you are covered by retirement plan through work.

[1]Deductible contribution phaseout starts at $66,000/ $105,000 for 2021. If over limit, can still contribute, just cannot deduct contributions, contributions are “nondeductible”.

[2]Contribution phaseout starts at $125,000/ $198,000 for 2021. Backdoor options available, consider pro rata rule.

[3]Certain plans may restrict highly compensated employee contributions and employer match starting at $290,000.

SECURE Act of 2019 – Major changes

Removed IRA stretched provision for non-spousal inherited IRAs and implemented a 10-year distribution rule.

Increased the age requirement of taking RMDs from 70½ to 72.

Eliminated the age limit of when a person can contribute to an IRA, which was 70½.

A person of any age with earned income can now contribute to an IRA.

Long-term part-time employees who work at least 500 hours in at least three consecutive years will be eligible to participate in their company's 401(k) plan

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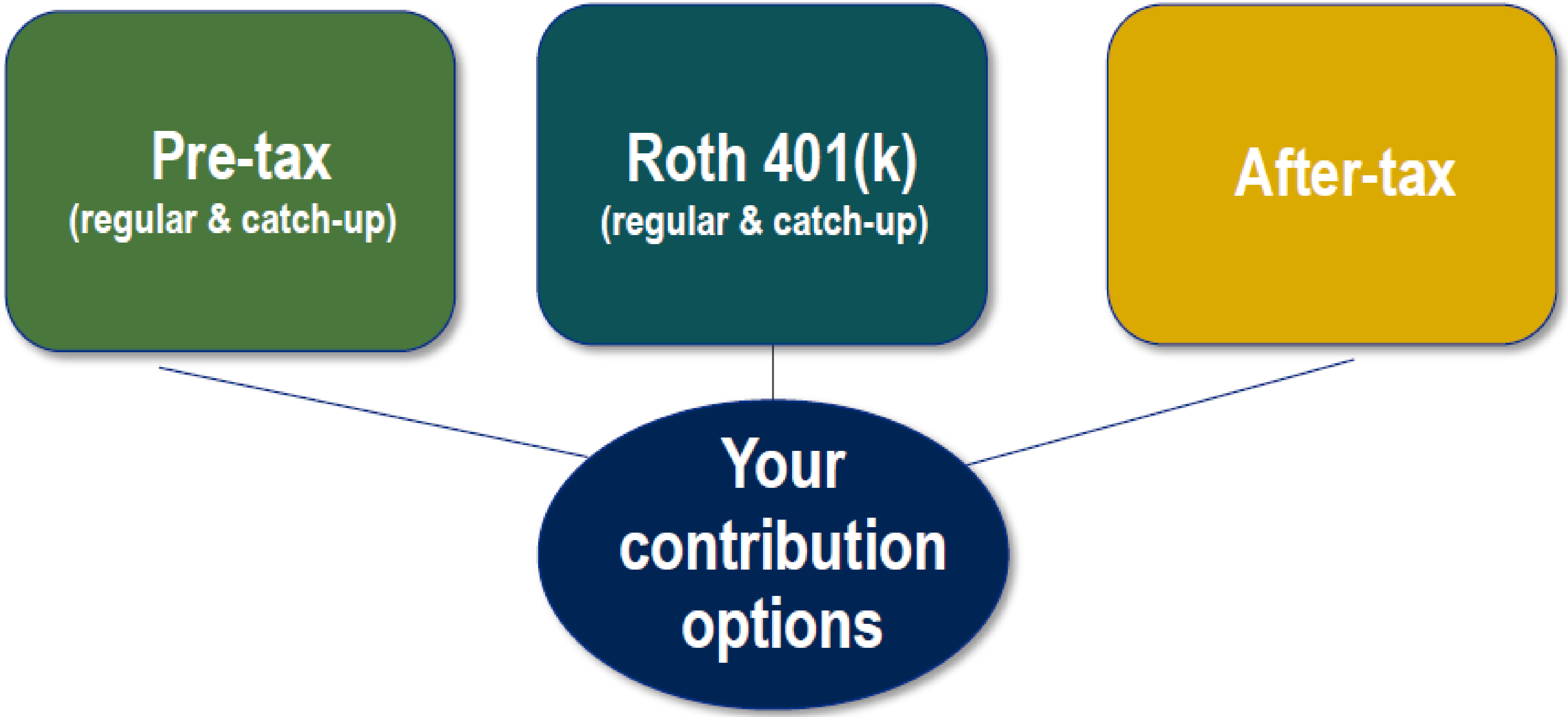
401(k) and 403(b) plans



401(k), 403(b), 457 plans

	Before-tax Plan ("Traditional")	Roth Plan	After-tax Plan
Contributions	Before-tax	After-tax	After-tax
Tax consequences on retirement withdrawals	Contributions and growth taxed as ordinary income upon withdrawal	Contributions and growth are tax-free upon withdrawal after 5 years and age 59.5, death or disability	**Only** contributions are tax-free upon withdrawal after 5 years and age 59.5, death or disability. Growth of contributions are taxable.
Early withdrawals (prior to age 59.5)	10% penalty applies to full distribution unless an exception is met		10% penalty on earnings unless an exception is met

Individual Retirement Account (IRA)

An IRA is NOT tied to your employer. You open an IRA with a financial firm (see Vanguard, Fidelity).

Option	Traditional IRAs	Roth IRAs
Contributions	• Pre-tax (not taxed)	• After-tax (already taxed)
Income Limitation	• None, becomes non-deductible (i.e., after tax) when MAGI is above $76,000 ($125,000 married) if covered by work plan	• Your MAGI must be below $139,000 ($206,000 married) in order to contribute to the Roth (Backdoor option)
Leave in IRA after age 72	• Must begin mandatory withdrawals • Potential for 50% penalty if not enough withdrawn	• Tax deferral continues*
Withdrawals	• **Taxable** • Potential for 10% penalty on early withdrawals (before 59.5). Penalty is applied on tax return. • Non-deductible contributions are tax free	• **Nontaxable** • 5-year rule for investment gains • Can always withdraw contributions • Potential for 10% penalty on early withdraws (before 59.5)
Additional Notes	• Catch-up Contributions • No income limitations (there are deductibility phase-outs)	• Catch-up contributions • Income limitations • Back door options available

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Traditional and Roth

Consider BEFORE-TAX - Traditional - contributions if you…	Consider the AFTER-TAX - Roth -contributions if you…
• Are “near retirement”, typically higher income • Want to lower your current tax liability • Expect to be in a lower tax bracket in retirement • Observe income limits on contributions to a Roth IRA (back-door options) • Cannot wait 5 years to withdraw funds	• Are early in your career, typically lower income • Want to have both before-tax and after-tax assets • Expect to be in a higher tax bracket later or in retirement • Do not want required distributions beginning at 72 (must be in an IRA) • Do not want distributions to count in the formula that determines how much of your Social Security benefits are taxable • Want tax-free estate assets

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Above all else…