

The WSJ Tax Guide 2021

With the latest on pandemic changes, taxes on remote work, and more

By Laura Saunders, Richard Rubin, and the staff of The Wall Street Journal

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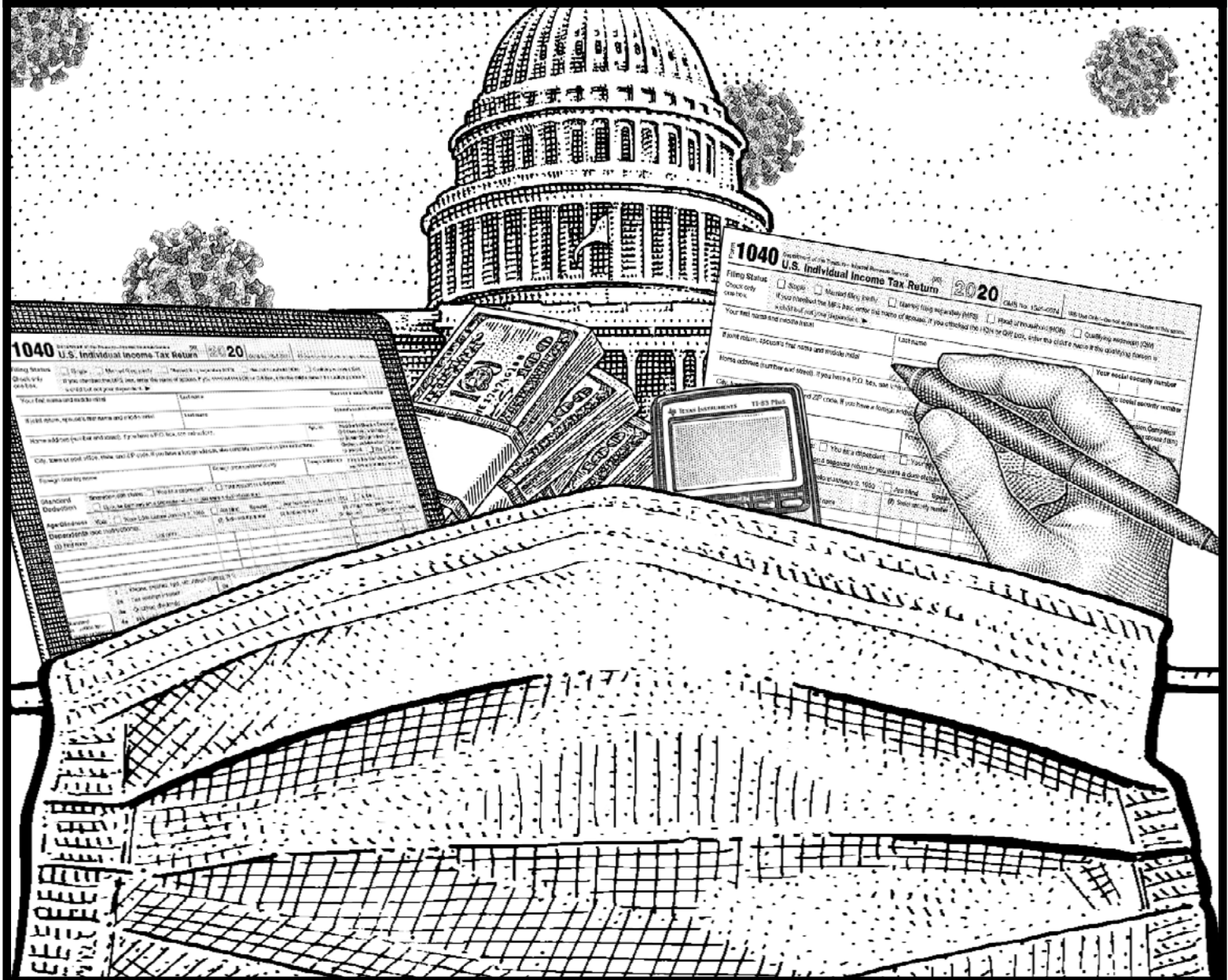


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FOR FIRST-TIME TAXPAYERS

FOR BUSINESS OWNERS

PRESIDENT BIDEN’S TAX AGENDA...AND WHAT IT COULD MEAN FOR YOU

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INTRODUCTION

2020 was a tax year like no other, due to the coronavirus pandemic.

In a historic move, the Internal Revenue Service chose to delay the April 15 filing deadline and others until July 15 to give overwhelmed taxpayers time to comply with the law. Congress mandated two rounds of stimulus payments to more than 160 million households, and it also passed two massive laws with dozens of tax changes to provide relief to individuals and businesses. Meanwhile, millions of workers fled their offices to telecommute from other states and may have to file returns and perhaps pay taxes to more than one state.

There were other key tax changes unrelated to the pandemic, such as for cryptocurrency enforcement, medical-expense deductions, and education benefits, plus the annual inflation adjustments that affect some tax benchmarks but not others.

Now, with the arrival of the tax-filing season for 2020, comes a flood of questions: How do I file for a stimulus payment through my tax return, and is it taxable? What about those Flexible Spending Account dollars I didn't use in 2020? Will I owe zero tax on my capital gains? What's the deadline for contributing to a Roth IRA?

The Wall Street Journal Tax Guide aims to answer these questions and many more that are confusing taxpayers. This is the fourth annual edition of this e-book, which was first written to dispel confusion after the 2017 tax changes. In addition to pandemic tax changes, this year's guide discusses a broad range of provisions and includes rates, brackets and other benchmarks for 2020 and 2021.

We hope this guide will help readers in the many different areas of their lives touched by taxes, such as saving for college, buying or selling a home, and using retirement plans, as well as with the pandemic disruptions. With this guide, Wall Street Journal readers have a head start on the 2021 world of taxes.

— *Laura Saunders and Richard Rubin*

THE BIG PICTURE

INCOME-TAX RATES AND BRACKETS

The coronavirus pandemic affected many tax provisions, but not tax rates and brackets

The individual tax code has seven income-tax brackets that currently range from 10% to 37%.

The 10% rate takes effect at the first dollar of taxable income, after benefits such as the standard deduction are applied.

The current rates and brackets are determined by the 2017 tax overhaul, and they expire at the end of 2025. For 2026, the top rate is set to return to 39.6%, though Congress may adjust rates before then.

The income-tax brackets are adjusted annually for inflation, although in 2017 Congress [switched to a less generous method](#) for calculating inflation adjustments to tax brackets and some other key provisions. This shift will cost Americans \$133.5 billion over a decade, according to Congress's Joint Committee on Taxation.

While many thresholds in the tax code are adjusted for inflation, there are important exceptions. [Among those that aren't adjusted](#) are some benefits for homeowners, thresholds for taxes on Social Security benefits, and certain taxes on investment income. As a result, millions of Americans are paying more to Uncle Sam than they would if these thresholds were adjusted for inflation.



THE TOP RATES

The top tax rate is 37%. For 2026, the top rate is set to return to 39.6%.

INCOME-TAX RATES AND BRACKETS

Key Inflation-Adjusted Tax Numbers for 2020

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

Source: Internal Revenue Service

Key Inflation-Adjusted Tax Numbers for 2021

Individual income tax RATE	Taxable income	
	SINGLE	MARRIED, FILING JOINTLY
10%	Up to \$9,950	Up to \$19,900
12%	\$9,951 to \$40,525	\$19,901 to \$81,050
22%	\$40,526 to \$86,375	\$81,051 to \$172,750
24%	\$86,376 to \$164,925	\$172,751 to \$329,850
32%	\$164,926 to \$209,425	\$329,851 to \$418,850
35%	\$209,426 to \$523,600	\$418,851 to \$628,300
37%	\$523,601 +	\$628,301 +

Source: Internal Revenue Service

INVESTMENT-TAX RATES AND BRACKETS

Congress didn't make changes to rates on long-term capital gains and many dividends for 2020

Favorable tax rates for long-term capital gains and many dividends, including a popular zero rate on investment income for some lower- and middle-income households, remain unchanged.

Long-term capital gains are net profits on investments held longer than a year. Short-term capital gains on investments held a year or less are taxed at the same rates as ordinary income, an important distinction day traders should note.



ROBINHOOD & RETAIL TRADERS

Day traders should note that capital gains on investments held a year or less are taxed at the same rates as ordinary income.

The favorable rates for dividends apply to those that are “qualified,” which most are. Nonqualified dividends are taxed at ordinary-income rates.

However, a 3.8% surtax applies to net investment income for most single filers whose adjusted gross income (AGI) exceeds \$200,000 and most couples filing jointly with AGI above \$250,000. This surtax applies only to the amount of net investment income above those thresholds.

For example, if a single filer has \$150,000 of ordinary income plus a \$50,000 taxable long-term gain plus \$25,000 of qualified dividends, then \$25,000 would be subject to the 3.8% surtax.

As a result, top-bracket taxpayers typically owe 23.8% instead of 20% on their long-term gains and dividends. Some investors in the 15% bracket for this income owe the 3.8% surtax on part or all of them because their adjusted gross income is above the \$250,000/\$200,000 thresholds.

INVESTMENT-TAX RATES AND BRACKETS

Say that David is a single filer with \$210,000 of adjusted gross income, and \$50,000 of that is a windfall from a long-term gain on an investment and some qualified dividends. In that case, David's investment income would likely be taxed at a 15% rate, but he would owe an extra 3.8% on \$10,000 because that is the amount of investment income above \$200,000 of AGI. Thus his tax rate on the \$10,000 would be 18.8%.

HOW THE ZERO RATE APPLIES

Some people owe no taxes on their capital gains and dividends after a sale. Here is a simplified example. Say that Janet is a single taxpayer with \$30,000 of taxable ordinary income for 2020 after deductions and exemptions, such as for tax-free municipal-bond

interest or the sale of her home. Her taxable income is subject to regular rates up to 12%, as detailed in the income-tax brackets.

But Janet also has a \$20,000 long-term capital gain, and it "stacks" on top of her \$30,000 of taxable income for a total taxable income of \$50,000. For 2020, the 15% bracket for capital gains begins at \$40,000 of taxable income for single filers. As a result, Janet would owe zero tax on \$10,000 of her gain and 15% on the remaining \$10,000.

Key Inflation-Adjusted Tax Numbers for 2020

Capital gains, dividends RATE*	Taxable income	
	SINGLE	MARRIED, FILING JOINTLY
0%	Up to \$40,000	Up to \$80,000
15%	\$40,001 to \$441,450	\$80,001 to \$496,600
20%	\$441,451+	\$496,601+

*Applies to gains on assets held longer than a year and qualified dividends.
Source: Internal Revenue Service

Key Inflation-Adjusted Tax Numbers for 2021

Capital gains, dividends RATE*	Taxable income	
	SINGLE	MARRIED, FILING JOINTLY
0%	Up to \$40,400	Up to \$80,800
15%	\$40,401 to \$445,850	\$80,801 to \$501,600
20%	\$445,851 +	\$501,601 +

*Applies to gains on assets held longer than a year and qualified dividends.
Source: Internal Revenue Service

WITHHOLDING AND ESTIMATED TAXES, INCLUDING FOR UNEMPLOYMENT BENEFITS

The pandemic played havoc with many taxpayers' income and forced the IRS to postpone two quarterly due dates for estimated taxes. Filers with uneven earnings or unemployment payments should check for underpayments to avoid penalties.

The U.S. income tax is a pay-as-you-earn system. The law requires most employees and self-employed business owners to pay at least 90% of their tax due long before the April due date, which for 2020 is April 15, 2021. With some exceptions, penalties based on current interest rates apply to underpayments. Recently this rate was 3%.

To avoid these penalties, employees and many retirees typically have taxes withheld from paychecks or Social Security and pension payments by year-end. In a typical year, business owners and others who don't have withholding make quarterly tax estimated payments on April 15, June 15, Sept. 15 and Jan. 15 of the following year based on income earned during that period.

“Many employees had uneven earnings for 2020, and some received unemployment compensation.”

In 2020, the pandemic posed severe challenges both to taxpayers and the IRS. As a result, the agency postponed estimated tax payments due on April 15 and June 15 to July 15, 2020. Penalties on underpayments for those periods didn't begin to accrue until July 15.

Many employees had uneven earnings for 2020, and some received unemployment compensation. These payments are taxable, and recipients should expect to receive a Form 1099-G for the total that will be reported to the IRS by early February. The IRS has [posted a calculator](#) to help employees make withholding decisions, and it has been updated for 2021.

In past years the IRS has waived underpayment penalties for many filers after major disruptions. So far the agency hasn't announced such waivers for 2020 and has expressed reluctance to change the usual rules. Tax payments made after the deadlines but before the April 15 due date help to reduce these penalties.

For more information on withholding and estimated taxes, see [IRS Publication 505](#).

PANDEMIC STIMULUS PAYMENTS

Stimulus payments aren't taxable, and if you haven't received a payment you can claim it on your 2020 tax returns if you qualify

Congress authorized two rounds of stimulus payments in response to the coronavirus pandemic. In the spring of 2020, the IRS sent the first round of payments totaling more than \$270 billion to more than 160 million households. In late 2020 and early 2021 it sent another round of payments, estimated at more than \$164 billion.

Both rounds of stimulus payments were structured as an advance payment of a tax credit for 2020. This means that taxpayers can qualify for stimulus payments based on their 2020 income and family situation, even if they haven't received payments so far or are eligible to receive more than they got. Most payments sent by the IRS were based on recipients' 2018 or 2019 tax returns.

Stimulus payments aren't taxable, and overpayments don't need to be returned to the IRS in most cases. In addition, Congress said that stimulus payments can't be applied to prior-year taxes due, although some can be withheld for unpaid child support.

Taxpayers can claim stimulus amounts still due to them as a Recovery Rebate Credit, which is on line 30 of Form 1040 or 1040-SR for 2020. The instructions have a worksheet to determine the correct amount. In this case the normal rules on tax refunds seem to apply, so people who owe the government back taxes or owe back child support may not receive the full amounts of the credits they are claiming.

"Stimulus payments aren't taxable, and overpayments do not need to be returned to the IRS in most cases."

The Recovery Rebate Credit is calculated using 2020 income and family size data and the criteria Congress set for the first and second round of stimulus payments. First-round payments were of up to \$1,200 per eligible adult and up to \$500 per child under 17, and second-round payments were of up to \$600 per adult and \$600 per child under 17. In both rounds, dependents age 17 or older, such as a college student or an elderly relative, didn't qualify for stimulus payments.

PANDEMIC STIMULUS PAYMENTS

Both payments had phaseouts beginning at \$75,000 of adjusted gross income for single filers and \$150,000 for married couples filing jointly. The first-round phaseouts ended at \$99,000 for single filers and \$198,000 for joint filers without children, while second-round phaseouts ended at \$87,000 of AGI for single filers and \$174,000 for joint filers without eligible children.

To be eligible for stimulus payments or the Recovery Rebate Credit, a taxpayer has to have a Social Security number. But the first round of payments often bypassed all family members if one filer didn't have a Social Security number, while the second round included them if at least one spouse had an SSN and retroactively made that group eligible for the first payment. As a result, some couples who didn't receive a first-round payment because one spouse didn't have an SSN can claim a credit on their 2020 tax return.

Parents of children born in 2020 may also be eligible to claim a rebate credit on their 2020 returns. While the estates of people who died before Jan. 1, 2020 can't receive payments, estates of people who died during 2020 are eligible for them.

More payments may be coming soon as Congress considers President Biden's plan for \$1,400 per-person payments. People who suffered income declines during 2020 may want to consider filing their 2020 tax returns early while Congress debates a third pandemic stimulus payment.

Congress is likely to base the next payment on either 2019 or 2020 tax information, whatever it has available when the payments are made. That gives taxpayers an incentive to accelerate tax filing now if they want 2020 information used and to wait if they would fare better by having 2019 information used. The IRS may make supplemental payments to people based on 2020 income after they file their returns.

The final income thresholds and the timing of the payment haven't been set yet.

STATE TAXES ON REMOTE WORK

People who have worked remotely from another state may need to file and perhaps pay taxes to more than one state

The pandemic turned millions of Americans into telecommuters, with many working for much of the year in a state different from the one they usually work in. These people may be surprised to find they need to file returns and perhaps pay taxes to more than one state for 2020.

In many cases, this won't be easy. Each state's tax system is a unique mix of rules that consider how long a worker is there, what income is earned, and where the worker's true home, known as domicile, is. When a person owes income tax to more than one state, these systems often clash, and that person can wind up owing more tax, or

“While some states give credits for taxes paid to different states, others don’t—or the credit they give may not fully offset the amount paid elsewhere.”

the same, or (rarely) less unless the states have agreements in place with other states to coordinate systems.

In 2020 some states added more complexity by issuing special tax rules for the pandemic. Fifteen states and the District of Columbia announced they won't tax people working there remotely because of Covid-19, according to data compiled by the American Institute of CPAs.

That sounds generous, but some states offering this benefit, such as Massachusetts and Pennsylvania, also intend to tax remote workers whose jobs are based in-state while they are working remotely out of state due to the pandemic, according to Eileen Sherr, a state-tax specialist with the AICPA. The states these people are working from may have rules that tax them as well.

STATE TAXES ON REMOTE WORK

While some states give credits for taxes paid to different states, others don't—or the credit they give may not fully offset the amount paid elsewhere.

How will states know that someone has worked there? In various ways: employers will ask workers and tax preparers will ask clients about their work locations. Do-it-yourself filers using commercial software should remember that tax returns are signed under penalty of perjury.

For more information on this topic, including some tax rules for specific states, read the following Tax Report columns:

[How to File Your 2020 Taxes if You Worked Remotely in a Different State](#)

[Remote-Working From a Different State? Beware of a Tax Surprise](#)

[The Long Arm of State Tax Law Threatens Telecommuters](#)

CRYPTOCURRENCY

The IRS is on the warpath about cryptocurrency tax compliance

Cryptocurrency owners, beware: by making a change to the 2020 tax form, the IRS is trying to strip away excuses for millions of cryptocurrency owners who it thinks are ignoring tax rules.

The change moves a key question to the front page of the Form 1040, in a prominent position just below the taxpayer name and address. It says: *At any time during 2020, did you sell, receive, send, exchange or otherwise acquire any financial interest in any virtual currency?*

The taxpayer must check the box “Yes” or “No.”

Cryptocurrency owners who fail to answer the question or are untruthful risk higher penalties should the [IRS audit them](#), as it will be harder to claim ignorance of the rules.



The new position of the question, which first appeared in a less prominent place on the 2019 tax form, is the latest effort by the IRS to deter cryptocurrency tax cheating. The agency also sent letters to more than 10,000 cryptocurrency holders that year warning that they might have broken federal tax laws and should step forward if they weren't in compliance.

The IRS first released guidance on the taxation of digital currencies in 2014. It said that [bitcoin and its kin are property](#), not currencies like dollars or francs. Often they are investment property akin to stock shares or real estate. Sales proceeds are typically taxed as long-or short-term capital gains, and [losses can be used to offset gains](#).

This means that using bitcoin to buy coffee—or a car—isn't like using cash. The transfer typically triggers a taxable gain or loss as a sale of stock would, and tax may be due.

If cryptocurrencies are held for personal use, as a home is, rather than primarily as an

CRYPTOCURRENCY

investment, then profits are taxable but losses typically aren't deductible. The IRS hasn't issued guidance in this area.

In 2019, the agency issued more rules in this area, [including controversial rules on splits known as forks](#).

Cryptocurrency tax specialists urge holders to take care when answering the question on the 1040 form because of its broad wording.

“People who have bought cryptocurrencies during the year must check the box ‘Yes’ even if they haven't sold and don't have to fill out other tax forms. They don't have to do that with stocks or bonds,” says Chandan Lodha, co-founder of CoinTracker, a firm providing cryptocurrency tax compliance.

In late 2020, the Financial Crimes Enforcement Network (FinCEN), a Treasury Department unit separate from the IRS, announced that it may require U.S. taxpayers holding more than \$10,000 of cryptocurrencies offshore to file FinCEN Form 114, known as the FBAR, to report these holdings. This rule hasn't yet been adopted, so it wasn't in effect for 2020.

The image shows a 2020 U.S. Individual Income Tax Return (Form 1040) from the Department of the Treasury—Internal Revenue Service. The form is for the year 2020. A red circle highlights a specific question on the form: "At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?" with "Yes" and "No" options. The form also includes sections for Filing Status, Standard Deduction, and Dependents. The "Filing Status" section includes options for Single, Married filing jointly, Married filing separately (MFS), Head of household (HOH), and Qualifying widow(er) (QW). The "Standard Deduction" section includes options for Someone can claim: You as a dependent, Your spouse as a dependent, and Spouse itemizes on a separate return or you were a dual-status alien. The "Dependents" section includes options for Age/Blindness and First name. The "Foreign country name" and "Foreign province/state/county" fields are also visible.

ESTATE AND GIFT TAX

The expanded estate- and gift-tax exemption expires at the end of 2025

The federal estate- and gift-tax exemption applies to the total of an individual's taxable gifts made during life and assets left at death. In 2017, Congress doubled the exemption starting in 2018, and the amount will continue to rise with inflation through 2025. This expansion reduced the number of taxable estates to about 3,000 in 2019 from about 8,000 in 2017, according to estimates by the Tax Policy Center.

2021 Exemptions
\$11.7 million
per individual
\$23.4 million
per married couple

For 2020, the exemption was \$11.58 million per individual, or \$23.16 million per married couple. For 2021, an inflation adjustment has lifted it to \$11.7 million per individual and \$23.4 million per couple. For 2020 and 2021, the top estate-tax rate is 40%.

The increase in the exemption is set to lapse after 2025. But the Treasury Department and the IRS issued “grandfather” regulations in 2019 allowing

the increased exemption to apply to gifts made while it was in effect if Congress lowers the exemption after those gifts.

Here is a simplified example. Say that John gave assets of \$11 million to a trust for his heirs in 2020. This transfer was free of gift tax because the exemption was \$11.58 million for 2020.

Now say that in 2022 Congress lowers the exemption to \$5 million per person, and John dies in 2023 when that lower exemption is in effect. Under current Treasury rules, John's estate won't owe tax on his 2020 gift of \$11 million, even if \$6 million of it is above the \$5 million lifetime limit in effect at the time of his death.

CAPITAL GAINS AT DEATH

Under current law, investment assets held at death aren't subject to capital-gains tax. This is known as the “step-up in basis.”

ESTATE AND GIFT TAX

For example, say that Robert dies owning shares of stock worth \$100 each that he bought for \$5, and he held them in a taxable account rather than a tax-favored retirement plan such as an individual retirement account (IRA).

Because of the step-up provision, Robert's estate won't owe capital-gains tax on the \$95 of growth in each share of stock. Instead, the shares go into his estate at their full market value of \$100 each. Heirs who receive the shares then have a cost of \$100 each as a starting point for measuring taxable gain when they sell.

ANNUAL GIFT-TAX EXEMPTIONS

For both 2020 and 2021, the annual gift-tax exclusion is \$15,000 per donor, per recipient. Thus a giver can give anyone else—such as a relative, friend or even a stranger—up to \$15,000 in assets a year, free of federal gift taxes. A couple with two married children and six grandchildren could give away a total of \$300,000 per year to these 10 relatives, plus \$30,000 to as many friends as they want.

Above the annual exclusion, gifts are subtracted from the giver's lifetime gift- and estate-tax exemption. Annual gifts aren't deductible for income-tax purposes, and they aren't income to the recipient.

If the gift isn't cash, the giver's "cost basis" carries over to the recipient. So if Aunt Ruth gives her godchild Betty 15 shares of long-held stock worth a total of \$15,000 that she acquired for \$200 each, then Betty's starting point for measuring taxable gain when she sells is \$200 per share. If she sells a share for \$1,200, then her taxable gain would be \$1,000.

Gifts to pay tuition or medical expenses are also free of gift tax. To qualify for this break, the giver must make the payment directly to the institution.

BUNCHING GIFTS FOR COLLEGE

Using a different strategy, givers can "bunch" five years of annual \$15,000 gifts to a 529 education-savings plan, typically for children or grandchildren.

No tax is due, but the [IRS says a gift tax return](#) should be filed.

TAX DEDUCTIONS, CREDITS AND EXEMPTIONS

STANDARD DEDUCTION AND PERSONAL EXEMPTION

The expansion of the standard deduction and repeal of the personal exemption are affecting millions of Americans

The standard deduction is the amount taxpayers can subtract from income if they don't break out deductions for mortgage interest, charitable contributions, state and local taxes and other items separately on Schedule A. Listing these deductions separately is called "itemizing."

For 2020, the standard deduction is \$12,400 for single filers and \$24,800 for married couples filing jointly. For 2021, it is \$12,550 for singles and \$25,100 for married couples.



BUYING HOMES, MAKING DONATIONS

The larger standard deduction means tax returns will be simpler for millions of filers because they won't itemize their deductions. For 2020, Congress is allowing filers who don't itemize to deduct up to \$300 of charitable donations.

In 2017 Congress made a landmark change by nearly doubling the standard deduction, and the percentage of tax filers using it rose to 87% in 2019 from 68% two years

before, according to IRS data and an estimate by the Tax Policy Center. This shift has simplified returns for about 35 million filers and lightened the IRS's burden by reducing the number of deductions it needs to monitor.

However, people who take the standard deduction don't get a specific tax benefit for having mortgage interest or making midsize charitable donations. (For 2020 and 2021, Congress is allowing charitable deductions of small amounts by filers who don't itemize.) That's expected to affect many filers' future decisions about donations or owning a home.

PERSONAL EXEMPTION REPEALED UNTIL 2026

The 2017 repeal of the personal exemption was a landmark shift as well. This benefit was a subtraction from income for each person included on a tax return—typically the members of a family. The 2017 amount was \$4,050 per person, and it phased out for higher earners.

STANDARD DEDUCTION AND PERSONAL EXEMPTION

The personal exemption was also integral to figuring out an employee's correct withholding from pay.

The interaction of the expanded standard deduction, repealed personal exemption and expanded child credit is complex, and the effects on individuals have varied widely. In part this is because the personal exemption was a deduction from taxable income, while the child credit is a dollar-for-dollar offset of taxes—and some taxpayers can get a portion of it even if they don't owe income taxes.

The repeal of the personal exemption—and the expanded standard deduction and child credit—expire at the end of 2025.

CHILD OR OTHER DEPENDENT TAX CREDIT

The greatly expanded child tax credit expires at the end of 2025

Many families with younger children are coming out ahead after the 2017 tax overhaul, because Congress doubled the child credit for them and raised phaseout thresholds so that more families can take this break. But some other families aren't coming out ahead, if their dependents are age 17 or older.

For 2020 and 2021, the maximum child tax credit is \$2,000 for each child under age 17 at year-end. For dependents age 17 and older, such as college students or an elderly parent, the tax credit is \$500 and doesn't fully replace the repealed personal exemption for many households.



CHILD CREDIT VS. PERSONAL EXEMPTION

For many filers with children under 17, the expanded credit is a more valuable benefit than the personal exemption. A credit is a dollar-for-dollar offset of taxes, while the personal exemption was a deduction from income that phased out for higher earners.

Both credits begin to phase out at \$400,000 of adjusted gross income for most couples and \$200,000 for most singles. Low and moderate earners may be eligible for a payment of up to \$1,400 per child for the child tax credit, even if they don't owe income tax. In December 2020, Congress passed a pandemic provision allowing these families to claim the refundable portion of the credit based on either their 2019 or 2020 income.

The current expanded child tax credit expires at the end of 2025. The credit and income levels aren't adjusted for inflation, but the payment of up to \$1,400 per child to lower earners will be adjusted infrequently in coming years.

The current provisions don't alter longstanding tax rules defining who is a dependent, as described in [IRS Publication 501](#).

CHILD OR OTHER DEPENDENT TAX CREDIT

For many middle-income filers with children under 17, the expanded child tax credit is a more valuable benefit than the personal exemption, which was suspended by the overhaul. A credit is a dollar-for-dollar offset of taxes, while the personal exemption was a deduction from income that phased out for higher earners. For 2017, the deduction was typically \$4,050 for each household member.

STATE AND LOCAL TAX DEDUCTIONS

The limit for deducting state and local taxes is \$10,000 per return, but there is a new workaround for some business owners

One of the major changes of the 2017 tax overhaul was to cap the deduction for state and local property and income or sales taxes, known as SALT, at \$10,000 per return. Previously these deductions were unlimited for individuals, although many people who owed the alternative minimum tax lost the benefit of some or all of their SALT write-offs.

This \$10,000 cap expires at the end of 2025.

Here is how it works. Say that Tom is a single filer who owes \$6,000 of state income tax and \$6,000 of property tax on his home. For 2017, he could deduct the \$12,000 total of these taxes if he itemized his deductions. But for tax years 2018-2025, the deduction for state and local taxes is capped at \$10,000 per return, and it isn't indexed for inflation. This change has prompted many filers to switch to taking the standard deduction rather than itemizing write-offs on Schedule A.



STATES WITH HARDEST HIT TAXPAYERS

- New York
- New Jersey
- Connecticut
- California
- Maryland
- Oregon

According to the Tax Foundation, this change has hit taxpayers hardest in six high-tax states: New York, California, Connecticut, New Jersey, Maryland and Oregon. It has affected taxpayers least in Alaska, South Dakota, Tennessee, North Dakota, New Mexico and Washington.

Since the overhaul, a number of wealthy people, including former President [Donald Trump](#), have decided to leave high-tax northeastern states for Florida, [which doesn't have a state income tax](#). Some [other residents of high-taxed areas](#) are pulling up stakes as well.

Lawmakers in some states have also adopted strategies that preserve the deductibility of state and local taxes in some cases. The most popular is a provision for owners of “pass-

STATE AND LOCAL TAX DEDUCTIONS

through” businesses such as partnerships, S-Corps., and limited-liability companies that usually pass profits and losses through to the owners for inclusion in their own taxable income. This allows them to bypass corporate tax on a business’s earnings. For more see Page 54.

Using the workaround, pass-through owners can deduct state taxes on their business income at the entity level, which avoids the \$10,000 SALT cap that applies only once the income shows up on an individual tax return. As a result, a smaller amount of taxable income passes through to the owner’s personal return. The Treasury Department issued guidance approving this change in November, 2020 but hasn’t yet issued regulations detailing what’s allowed.

According to state-tax specialist Jamie Yesnowitz of Grant Thornton, the states that now allow this strategy include Connecticut, New Jersey, Maryland, Louisiana, Oklahoma and Wisconsin, while New York, California and others are considering it.

Mr. Yesnowitz notes that the workaround helps only with state taxes on business income, not state taxes on wages, investment income or property.

The SALT cap is affecting many married couples more than singles, because the \$10,000 SALT limit is per return, not per person.

Can two spouses file separately and claim two \$10,000 deductions? The answer is no. Although married couples can file separate returns, in this case each spouse would get a \$5,000 deduction for state and local taxes. To qualify for two \$10,000 deductions, the couple would have to divorce and file as two single taxpayers.

MORTGAGE-INTEREST DEDUCTION

Near-doubling of standard deduction, caps on eligible mortgages mean that many fewer filers are taking this popular write-off

Less than half of filers who took deductions for mortgage interest in 2017 did so in 2019, in part because the 2017 tax overhaul enacted both direct and indirect curbs on deductions for mortgage interest. These changes expire at the end of 2025.

A big reason for the change is that millions more filers are claiming the expanded standard deduction rather than listing write-offs separately on Schedule A. For example, if a married couple's mortgage interest, state taxes and charitable contributions total \$22,000 in 2020 or 2021, they won't benefit from itemizing deductions on Schedule A in either year. That's because their standard deduction is \$24,800 for 2020 and \$25,100 for 2021.



In addition, Congress imposed new limits on the amount of mortgage debt that new purchasers can deduct interest on.

The upshot is that about 15 million filers likely deducted home mortgage interest in 2019 vs. about 34 million in 2017, according to IRS data and an estimate from the Tax Policy Center.

LIMITS ON ELIGIBLE MORTGAGE DEBT

Limits apply for taxpayers who do take mortgage-interest deductions, although they are more generous for homeowners with older mortgages.

For new mortgages issued after Dec. 15, 2017, [taxpayers can deduct interest on a total of \\$750,000 of debt](#) for a first and second home. However, homeowners with existing mortgages on or before that date can still deduct interest on a total of \$1 million of debt for a first and second home. These limits aren't indexed for inflation.

MORTGAGE-INTEREST DEDUCTION

Here's an example: John had a \$750,000 mortgage on a first home and a \$200,000 mortgage on a second home as of December 15, 2017, so he can continue to deduct the interest on both on Schedule A. But if he bought one home with a \$750,000 mortgage in 2015 and then bought a second home with a \$200,000 mortgage in 2020, he can't deduct the interest on the second loan.

MORTGAGE REFINANCING

Homeowners can refinance mortgage debt up to \$1 million that existed on Dec. 15, 2017 and still deduct the interest—but often the new loan can't exceed the amount of the mortgage being refinanced.

Here's an example provided by Evan Liddiard, a CPA with the National Association of Realtors: If Linda has a \$1 million mortgage she has paid down to \$800,000, then she can refinance up to \$800,000 of debt and continue to deduct interest on it. If she refinances for \$900,000 and uses \$100,000 of cash to make substantial improvements to the home, she could also deduct the interest on \$900,000, according to the NAR.

But if Linda refinances for \$900,000 and simply pockets \$100,000 of cash, then she can deduct interest on only \$800,000 of the refinancing.

HOME-EQUITY LOANS AND LINES OF CREDIT (HELOCS)

The law now [prohibits interest deductions](#) for such debt unless the funds are used for certain types of home improvement. Before 2018, homeowners could deduct the interest on up to \$100,000 of home-equity debt used for any purpose.

To be deductible, the borrowing must now be used to “buy, build, or substantially improve” a first or second home. The debt must also be secured by the home it applies to, so a Heloc on a first home can't be used to buy or expand a second home.

For more information and a list of improvements that are eligible, see IRS Publications [936](#) and [523](#).

CHARITABLE-DONATION DEDUCTION

For 2020 and 2021, taxpayers who don't itemize deductions on Schedule A can still deduct some charitable donations. There is also a temporary tax break for donors of large gifts.

The pandemic provisions passed by Congress temporarily expand the number of tax filers who can deduct charitable donations.

For 2020, filers who don't itemize on Schedule A can deduct up to \$300 of charitable donations. For 2021, single filers who don't itemize can deduct up to \$300, and married joint filers can deduct up to \$600.

For 2021, those who
don't itemize can deduct:

\$300
single filers

\$600
married joint filers

In both cases, to be eligible the donations must be of cash—such as by check, credit card or similar transfer—rather than property such as used clothing or furniture, and they can't be made to donor-advised funds. As with other donations, the gifts must be made by year-end to be deductible on that year's tax return.

The normal rules for proving these write-offs apply to these gifts as well.

Typically the donor typically must have a letter in hand from the charity stating the amount of the deduction before filing his or her tax return.

Also for 2020 and 2021, many taxpayers who make large cash donations can immediately deduct amounts up to 100% of their adjusted gross income. Absent this provision, the limit would be 60% of AGI. As in other years, excess donations can carry forward for use in future years.

The \$300 and \$600 deductions for non-itemizers respond to charities' concerns following the 2017 tax changes. Those changes didn't limit charitable deductions outright, but they did so indirectly by greatly expanding the standard deduction.

CHARITABLE-DONATION DEDUCTIONS

Here is why. In 2017, the standard deduction was \$6,350 for single filers and \$12,700 for married joint filers. But the overhaul nearly doubled the standard deduction starting in 2018. For 2020, it is \$12,400 for single filers and \$24,800 for married joint filers and slightly higher in 2021, due to inflation adjustments.

For example, say that Jane and her husband, Robert, donate about \$10,000 to charities each year, but their mortgage is paid off and their only other itemized deduction is \$10,000 of state and local taxes, for a total of \$20,000.

Before 2018, this couple filed Schedule A, because the total of their write-offs exceeded their standard deduction. But since then, they have opted for the standard deduction because it is higher than their total itemized write-offs. So they aren't getting a specific tax break for giving to charity on their 2020 return.



DONOR-ADVISED FUNDS

Donors can bunch smaller gifts into one larger deduction, but payments to charities can be made over several years. Meanwhile, the assets can be invested and grow tax free. These accounts save paperwork but have fees.

According to IRS data and an estimate by the Tax Policy Center, the number of filers deducting donations on Schedule A dropped to about 16 million for 2019 from about 38 million in 2017.

For charitable donors who want a tax break, there are ways around this change beyond the temporary pandemic write-offs. One is to “bunch” donations every few years to surmount the higher standard deduction. If Jane and Robert donate \$20,000 every other year instead of \$10,000 every year, they could itemize on Schedule A in the years that they donate \$20,000 and then claim the standard deduction in the years they don't donate.

Such givers can also consider so-called donor-advised funds. These popular accounts enable donors to bunch smaller gifts into one large amount and take a deduction in the

CHARITABLE-DONATION DEDUCTIONS

year of the gift. The donor then designates later which charities will be recipients of gifts. Meanwhile, the assets can be invested and grow tax-free, although the accounts have fees.

Donors who are 70½ or older have [another good strategy](#) if they have individual retirement accounts. Many benefit from contributing up to \$100,000 of IRA assets directly to one or more charities, as noted in more detail in the Retiree Tax Issues section (Page 39.)

MEDICAL-EXPENSES DEDUCTION

The income threshold for deducting medical expenses is now permanent

In December 2020, Congress enacted a permanent threshold of 7.5% of adjusted gross income for taxpayers who want to deduct medical expenses. This means that filers can deduct eligible expenses only to the extent that they exceed 7.5% of their AGI.

7.5%
Income threshold above
which medical expenses
are deductible

This threshold has varied over the years, and without the recent change it would have risen to 10%.

Relatively few taxpayers benefit from this write-off because their expenses don't exceed the threshold. But it covers a wide range of unreimbursed costs when

it does apply, and it is valuable to people with large medical expenses such as nursing-home costs. Other eligible costs include insurance premiums paid with after-tax dollars, prostheses, eyeglasses, and even a wig if needed after chemotherapy, among other things.

This deduction is only available to those who itemize. For more information and a long list of eligible expenses, see IRS Publication 502.

RETIREMENT ACCOUNTS, INCLUDING PANDEMIC WITHDRAWALS

Congress hasn't authorized emergency pandemic withdrawals from retirement accounts for 2021

To aid Covid-19 victims, Congress allowed taxpayers affected by the pandemic to make withdrawals of up to \$100,000 from retirement-plan accounts such as 401(k)s. The income and taxes on such withdrawals are spread over three years, although amounts put back into these accounts aren't taxable. For more on this complex area, see [IRS Form 8915-E](#).

In addition, eligible taxpayers making such withdrawals won't owe the 10% penalty on early withdrawals even if they are under age 59½.

So far, Congress hasn't allowed pandemic victims to make similar tax-favored withdrawals in 2021.

CONTRIBUTION LIMITS FOR 2020 AND 2021

With a traditional IRA or 401(k) plan, savers typically get a tax deduction for contributions and owe ordinary income tax on withdrawals. With Roth IRAs and 401(k)s, there's no upfront tax deduction, but withdrawals are often tax-free in retirement.

While the money is in both types of accounts, its growth is tax-free.

For both 2020 and 2021, the limit on contributions to traditional IRAs and Roth IRAs is \$6,000, plus \$1,000 for those age 50 and above. As of 2020, there is no age cap for individuals contributing to traditional IRAs, although savers must still earn wages or self-employment income to be eligible to contribute to these accounts or have a spouse who does. Other limits may apply, based on income or participation in a workplace retirement plan such as a 401(k).

The limit on contributions to regular 401(k) and Roth 401(k) savings plans is higher: up to \$19,500 per worker, plus \$6,500 for those age 50 and above, both for 2020 and 2021.

For 2020, the limit on contributions to SEP IRAs and Solo 401(k) plans is \$57,000, plus an additional \$6,500 for Solo 401(k) plans for people who are 50 and older. For 2021, the base

RETIREMENT ACCOUNTS, INCLUDING PANDEMIC WITHDRAWALS

limit rises to \$58,000.

For more information, see [IRS Publication 590-A](#).

The deadline for contributing to traditional IRAs and Roth IRAs for 2020 is April 15, 2021.

In many cases, savers with SEP IRAs and Solo 401(k)s can make contributions for 2020 until Oct. 15, 2021 if they have an extension to file their returns.

ROTH IRA CONVERSIONS

Savers can convert all or part of a traditional IRA to a Roth IRA, but they will owe income tax on the transfer. That can make sense for people who expect their future tax rates to be higher than their current tax rate. Future tax-free withdrawals from the Roth account won't push the saver into a higher tax bracket or trigger higher Medicare premiums.

However, savers can no longer undo a Roth conversion by “recharacterizing” it by the October tax-filing date of the year following the original conversion.

INHERITED IRAS

A law change in 2019 means that many heirs of Roth or traditional IRAs whose original owners died after Dec. 31, 2019 [will have to empty the accounts within 10 years](#). Annual payouts aren't required during this period.

Under prior law, younger heirs could often take required withdrawals over many decades, a technique known as the Stretch IRA.

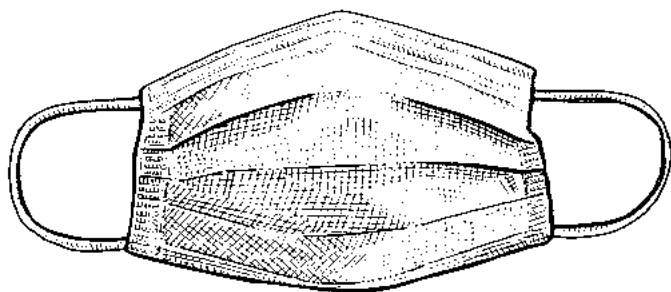
This law has exemptions for some heirs, including surviving spouses. They can continue to stretch required payouts—and taxes on them—over their lifetimes. For minor children of the deceased IRA owner, the 10-year withdrawal period often begins when they reach the age of majority, which is 18 in most states. Students may be able to delay the 10-year period up to age 26.

FLEXIBLE SPENDING ACCOUNTS

The pandemic prompted Congress to loosen the rules for workers who use pretax dollars to pay for certain health-care and dependent-care expenses

Flexible spending accounts (FSAs) are employer-sponsored plans that allow workers to set aside pretax dollars to pay for unreimbursed health expenses—such as glasses, over-the-counter medication, menstrual-care products or a wig after chemotherapy—or certain dependent-care expenses, such as after-school programs or summer camp.

For health-care FSAs, the limit per employee per year is \$2,750 for both 2020 and 2021, so a couple could put in up to \$5,500 each year if plans are offered by their employers. For dependent-care FSAs, the limit is \$5,000 per family, and it's not indexed for inflation.



Many FSA participants didn't use all the money in their 2020 accounts because of the pandemic. The IRS has limited ability to ease FSA rules, but Congress did so at the end of 2020. Workers can now carry over unused funds from 2020 to 2021 and 2021 to 2022, or for up to 12 months for companies with plans on fiscal years.

For dependent-care accounts, lawmakers extended the age limit from 12 to 13 for some carried-over funds.

For workers to take advantage of these changes, however, company plans often must opt into the new rules.

The tax code also has a credit for dependent-care expenses. It is typically 20% of qualified expenses up to \$3,000 of expenses for one child or other dependent such as disabled adult, or up to \$6,000 of such expenses for two or more dependents.

For middle-and upper-income taxpayers, a dependent-care FSA is often a more valuable benefit than the dependent-care credit if they have access. Filers can't double-dip and get a dependent-care credit for expenses paid with FSA dollars. For example, a family with two or more children that is reimbursed for \$5,000 of expenses from a dependent-care FSA could take a tax credit only for \$1,000 of other eligible expenses.

For more information, talk to your employer and see [IRS Publication 503](#).

HOME-SELLERS' EXEMPTION

The tax benefit for home sellers remains in the tax code, despite attempts by some lawmakers to restrict it in 2017

Married couples filing jointly can exclude \$500,000 of profit on the sale of a primary home from taxes. For single filers, the exemption is \$250,000 of profit. These amounts aren't indexed for inflation.

For example, say that John and Jane bought a home many years ago for \$120,000 and later made improvements that added \$100,000 to its cost. This year, they sell the home for \$600,000.

The gain, or profit, on the sale is \$380,000. All of it would be exempt from capital-gains tax due to their \$500,000 exemption.

To be eligible for this benefit, the homeowner must have used the house as a primary residence for two of the previous five years. In general, taxpayers aren't eligible for the full exemption if they excluded the gain from the sale of another home during the two years before the sale.

Other limits and exceptions apply, such as for certain military personnel. For more information, see [IRS Publication 523](#), Selling Your Home.



OTHER DEDUCTIONS, SUCH AS FOR HOME OFFICES

Taxpayers can't deduct a range of expenses that were once allowed, such as a home office used by an employee working remotely during the pandemic

In 2017, Congress disallowed many miscellaneous deductions or imposed new limits on them. These changes generally expire at the end of 2025.

As a result, employees can't deduct home-office expenses for 2020—a benefit that might have been useful to millions of filers working at home during the pandemic. (Home-office deductions can still be taken by business owners.)

However, [employers can receive a tax benefit from reimbursing workers for a wide range of costs](#) they incurred due to the pandemic. If a firm reimburses its staffers for, say, office equipment or faster internet they need for their work, the company can likely deduct the costs on its own tax return for 2020.

Other miscellaneous deductions repealed until 2026 include write-offs for unreimbursed expenses for employee travel, meals, and entertainment; union dues; safe-deposit box fees; tax-preparation fees; and subscriptions, among others.

Also suspended is the deduction for investment-advisory fees. [This change](#) affects investors who pay fees for advice based on a percentage of their assets, including many with tax-efficient separately managed accounts. It can also hit investors in hedge funds or other funds structured as partnerships, if they owe tax on profits before hefty fees are deducted.

Under prior law, many taxpayers found the miscellaneous-expenses deduction hard to qualify for, because total eligible expenses had to exceed 2% of adjusted gross income.

Also on Schedule A, lawmakers curtailed the deduction for most casualty and theft losses other than from federally declared disasters. Some other itemized deductions are still allowed, such as for certain gambling losses. They are listed in the instructions for Schedule A.

Elsewhere on the return, Congress ended the deduction for moving expenses by taxpayers who aren't in the military. However, educators can still deduct up to \$250 of unreimbursed expenses for classroom supplies, even if they don't itemize on Schedule A.

TAX BREAKS FOR EDUCATION

*The Lifetime Learning Credit has been expanded
and the tuition-and-fees deduction has been repealed*

Late in 2020, Congress permanently repealed the longstanding tuition-and-fees deduction, beginning in 2021, and expanded the Lifetime Learning Credit. It and the American Opportunity Credit are now the principal education tax credits.

For 2021 and beyond, both credits now have the same income phaseout: \$80,000 to \$90,000 of adjusted gross income for most single filers, and \$160,000 to \$180,000 for most married couples filing jointly. These limits aren't adjusted for inflation.

But they apply differently. The American Opportunity Credit provides a maximum tax reduction of \$2,500 per student per year, which is composed of 100% of the first \$2,000 of eligible expenses and 25% of the next \$2,000. It is typically available for the first four years of undergraduate education, and applies to tuition and course-related expenses, but not room and board.

The Lifetime Learning Credit is typically less generous but applies to a broader range of education expenses. It is a tax offset of 20% of up to \$10,000 of eligible expenses, or up to \$2,000 per taxpayer per year. It can be used not only for undergraduate education but also for graduate education, continuing education, and jobs-skills classes even if the skills aren't related to current employment. A taxpayer can't claim more than one of these credits for the same student and same expenses in a year.

For more information, see [IRS Publication 970](#).

DEDUCTION FOR STUDENT-LOAN INTEREST

Taxpayers with student-loan debt can typically deduct up to \$2,500 of interest a year. This limit applies per tax return, so it is the same both for singles and for married couples filing jointly. For tax year 2020, the deduction phases out beginning at \$70,000 of adjusted gross income for most single filers and \$140,000 for most married joint filers.

In 2017, Congress made an important change for people with student loans who die or become disabled: forgiveness of such debt due to death or disability is no longer taxable. This provision expires at the end of 2025.

529 EDUCATION-SAVINGS ACCOUNTS

These plans can now be used to pay up to \$10,000 of private school tuition and up to \$10,000 of student-loan debt, but clarifications are needed in some states

Named after a section of the tax code enacted two decades ago, 529 accounts allow savers to contribute dollars after federal taxes have been paid on them. The assets are invested and can grow free of federal and state taxes.

Withdrawals from the accounts are tax-free if they are used to pay eligible education expenses such as college tuition, books, and often room and board.

\$10,000
Amount from a
529 account that
may be used to pay
student-loan debt

These plans are popular with middle- and upper-income families. According to Mark Kantrowitz, a college-savings specialist, assets in 529 plans grew to nearly \$375 billion in June 2020 vs. \$135 billion a decade earlier.

Most 529 plans are offered by states, and nearly all states and the District of Columbia have them. More than 30 states offer a tax

break for contributions, says Mr. Kantrowitz. Savers dissatisfied with their own state's investment offerings or fees can go elsewhere, although investment options are limited in most plans.

PAYING FOR K-12 EDUCATION

In 2017 Congress allowed 529 plan assets to be used for tuition for K-12 for up to \$10,000 per year, per student. This change provides savers who have a 529 plan with more flexibility.

But private schools will likely want to know about families' 529 savings and may take that information into account when making financial-aid decisions. Those who want to use this new break should also check carefully to make sure that these withdrawals are approved for their specific 529 plan.

529 EDUCATION-SAVINGS ACCOUNTS

USING 529 ASSETS TO PAY STUDENT LOANS

Parents and others with 529 education savings accounts in some states are now able to take tax-free withdrawals for repayments of some student loans for each beneficiary and the beneficiary's siblings. There is a lifetime limit of \$10,000 per borrower. Not all states have adopted this rule, and a 529 payout for student debt may incur state tax.

In addition, some costs for apprenticeships are eligible for tax-free withdrawals from 529 accounts.

TRANSFERS TO '529 ABLE' ACCOUNTS

In another significant change in 2017, Congress enabled savers to transfer funds from 529 plans to 529 ABLE accounts. ABLE accounts are for people who become blind or disabled before age 26, and they don't limit the person's access to Medicaid and Supplemental Security Income (SSI) benefits, or federal student aid.

Like 529 plans, 529 ABLE accounts allow assets to grow tax-free. Annual contributions are capped at \$15,000, and withdrawals can be tax-free if used to pay expenses such as housing, legal fees and employment training. Total assets in an account can reach \$100,000 without affecting SSI benefits.

The recent change allows transfers of up to \$15,000 a year from a regular 529 plan to a 529 ABLE account. The ability to make such transfers avoids a significant drawback.

After the disabled person's death, remaining funds in an ABLE account typically go to the state to repay benefits if the person was receiving Medicaid—as many are. But under the new rules, someone could fund a 529 account for a disabled person and transfer money from it as needed to a 529 ABLE account, according to Mr. Kantrowitz. This arrangement offers tax-free growth and perhaps a state-tax deduction, without giving up ownership of assets.

Owners of 529 and 529 ABLE accounts who want to use this new benefit should check their state plans to make sure it is allowed.

RETIREE TAX ISSUES

RETIREE TAX ISSUES

Congress suspended required payouts from retirement accounts for 2020, but it hasn't done so for 2021

STANDARD DEDUCTION

The near-doubling of the standard deduction has been positive for many retirees. For individuals it is \$12,400 for 2020 and \$12,550 for 2021, while for married couples filing jointly it is \$24,800 for 2020 and \$25,100 for 2021. The expanded standard deduction expires at the end of 2025.

The standard deduction is the amount taxpayers deduct if they don't list write-offs for state taxes, charitable donations, mortgage interest and such on Schedule A. Many retirees who have paid off their mortgages take the standard deduction. Moreover, an "additional standard deduction" continues to apply for taxpayers age 65 and older. For single filers, it is \$1,650 for 2020 and \$1,700 for 2021. For married couples filing jointly, it is \$1,300 for 2020 and \$1,350 for 2021 for each spouse age 65 and older.



ADDITIONAL STANDARD DEDUCTION

People age 65 and older are eligible to take the additional standard deduction.

FOR 2021:

- \$1,700 for singles
- \$1,350 for each partner of a married couple

IRA WITHDRAWALS

Due to the pandemic, Congress suspended required minimum distributions (RMDs) from retirement accounts such as IRAs for 2020. Lawmakers also allowed many people who had already taken payouts for 2020 to put them back into their accounts.

The IRS is advising taxpayers to treat the re-contributions of required payouts for 2020, which had to be back in the account by Aug. 31, 2020, as a permitted rollover on the tax return. This treatment is explained on pages 25-27 of the instructions for Form 1040.

RETIREE TAX ISSUES

Lawmakers haven't passed a similar suspension of RMDs for 2021, and it isn't on the horizon—for now. Congress, rather than the IRS, must make that change.

For people born after June 30, 1949, required minimum payouts from these accounts begin for the year in which they turn age 72. Those born earlier had to begin withdrawing for the year in which they turned 70½, but savers required to withdraw for the first time for 2020 had this requirement suspended due to the pandemic.

For more information on required withdrawals, see [IRS Publication 590-B](#).

IRA CHARITABLE TRANSFERS

This popular benefit allows retirees 70½ or older to donate IRA assets up to \$100,000 directly to one or more charities and have the donations count toward their required annual payout.

For IRA owners who give to charity, this is often a tax-efficient move. Donors can take the standard deduction and still receive a tax break for their giving.

While there is no charitable deduction for gifts of IRA assets, the withdrawal doesn't count as taxable income. This can help reduce Medicare premiums that rise with income and taxes on other investment income, among other things. However, such transfers can't be made to a donor-advised fund.

Givers should also make sure they account for the charitable transfer on their tax return, as the IRA sponsors such as brokers and banks record the gross withdrawal on the 1099-R.

BEYOND THE BASICS

THE ‘KIDDIE TAX’

This provision can change the tax rate on children’s unearned income

The “Kiddie Tax” is a levy on a child’s “unearned” income above \$2,200 for 2020 and the same for 2021. Above the exemption, the income is taxed at the parent’s rate.

This tax typically applies to investment income such as dividends, interest, and capital gains—although it can also apply to taxable financial aid for education and certain other payouts, such as a taxable survivor’s benefit. It doesn’t apply to a young person’s earned income, such as from mowing lawns or designing websites.

“Generous parents, grandparents and others need to take yet another look at the income-tax effects of making gifts to young people.”

Congress passed the Kiddie Tax in 1986 to prevent affluent people from taking advantage of their children’s lower tax rates by shifting income-producing assets to them. Today, the tax applies to nearly all children under 18 and many who are under 24, if they are full-time students and aren’t self-supporting.

The 2017 tax changes simplified the Kiddie Tax by making a youngster’s unearned taxable income subject to trust tax rates rather than the parents’ income-tax rate. But the [unanticipated result of the change](#) was that, while the tax was often lower or the same for children of high-income parents, it often rose sharply for children of parents in lower tax brackets.

In 2019, Congress restored prior law for 2020 and beyond, so generous parents, grandparents and others need to take yet another look at [the income-tax effects of making gifts to young people](#).

ALTERNATIVE MINIMUM TAX

This levy affects far fewer taxpayers than it once did, although prior rules are set to return in 2026

Congress's changes to the tax law in 2017 greatly lessened the impact of the alternative minimum tax, or AMT, a parallel tax system sometimes criticized for being complex and arbitrary. However, these changes are scheduled to sunset at the end of 2025.

The purpose of the AMT is to limit tax breaks allowed by the regular tax system and ensure that high earners can't legally avoid all taxes. The 2017 tax changes reduced or repealed several key AMT triggers, such as state and local tax deductions, personal exemptions and miscellaneous deductions. The AMT exemption was also expanded as part of the 2017 changes.

As a result, the AMT now applies to far fewer taxpayers than it once did—200,000 filers for 2019 vs. 5.2 million filers for 2017, according to data from the Congressional Budget Office and an estimate by the Tax Policy Center.

Tax specialists say the breaks triggering the AMT now are likely to be more unusual items, such as incentive stock options, interest from certain municipal bonds, and net operating losses.

THE INDIVIDUAL MANDATE

Obamacare requirement to have health insurance or pay a penalty doesn't apply for 2020

Republicans used the 2017 tax changes to achieve a health-policy aim: eliminating the penalty attached to the individual mandate to have health insurance, a centerpiece of the 2010 Affordable Care Act.

Under the ACA, often called Obamacare, most individuals had to pay a penalty if they didn't have health coverage meeting federal standards. The law exempted certain groups from the payment, including the very poor, members of certain religious groups and people with brief coverage gaps. Those exemptions were expanded in 2018, enabling people to claim the exemption without showing supporting documents.

FEWER INSURED

Health plans worry that fewer young, low-risk people will get insurance, forcing up premiums further. Some analysts counter that the mandate has never been particularly aggressively enforced and has had little impact.

Some states have, or are considering, their own statewide penalties and insurance coverage requirements.

In short, people who didn't have coverage during 2020 don't owe a federal penalty. President Biden has said he supports bringing back the penalty.

—*Stephanie Armour*

ALIMONY

Alimony is losing favor with divorcing couples

In 2017, Congress made a major, permanent change to the tax status of alimony payments. As a result, payers can't deduct alimony on their federal tax returns for divorce and separation agreements signed after 2018.

At the same time, alimony recipients no longer have to report these payments as income, making the tax treatment of them similar to the treatment of child support.

Deductions are still allowed for alimony paid as a result of agreements signed in 2018 and before, and such payments will still be taxable to the recipients.

Before the law changed, alimony—also called maintenance—was often used when one spouse of a divorcing couple earned far more than the other. Alimony was deductible at the payer's higher rate, and taxed at the recipient's lower rate, creating what was known as the "IRS divorce subsidy." Payments typically continued for a period of years and helped defray the expenses of splitting one household into two.

Elena Karabatos, a divorce attorney with Schlissel Ostrow Karabatos, says that in many cases the 2017 changes to the tax treatment of alimony can result in reduced cash-flow for both spouses and lead to lower alimony payments to the lower-earning spouse.

**FOR FIRST-TIME
TAXPAYERS**

FOR FIRST-TIME TAXPAYERS

If you're filing for the first time this year, congratulations! You've arrived. Welcome to the strange, confusing world of U.S. income taxes.

You're joining more than 200 million Americans each year who gather forms, face complex calculations, and file an income-tax return with the Internal Revenue Service by the April 15 deadline.

You'll likely be filing income taxes for a long time, so here are answers to basic questions.

HOW MUCH MONEY CAN I EARN BEFORE I OWE FEDERAL INCOME TAXES?

The short answer is \$12,400 for 2020 and \$12,550 for 2021.

"People paying student-loan interest get a special deduction of up to \$2,500 for such interest per return."

That is the "standard deduction" for most single people for these years. For most married couples it doubles to \$24,800 for 2020 and \$25,100 for 2021.

With taxes, a deduction is something everyone wants. Deductions are amounts subtracted from income the government taxes you on, so having them lowers your tax bill.

People can either list key deductions for items like state taxes or charitable donations on a special form known as Schedule A or they can skip that process and choose the standard deduction. This year nearly 90% of filers will opt for the standard deduction because it will save them more.

Often the tax threshold is higher than the standard deduction, however. People paying student-loan interest get a special deduction of up to \$2,500 for such interest per return. So a single person taking it for 2020 could earn up to \$14,900 before owing tax.

FOR FIRST-TIME TAXPAYERS

Workers who contribute to retirement accounts like a traditional IRA or 401(k) can raise their nontaxable amount by \$6,000 or more. Less often, taxpayers qualify for credits that reduce their actual taxes rather than just their income.

WHAT ARE THE RATES ON TAXABLE INCOME?

For now they range from a low of 10% to a high of 37%. (See Income-Tax Rates and Brackets, Page 5.) The rates phase in as income rises, so 10% applies to the first slice of income, 12% applies to the second slice, 22% applies to the third slice, and so on. State or local income taxes are on top of that.

OK, SO WHY DID THE COMPANY THAT PAID ME A PITTANCE FOR AN INTERNSHIP TAKE OUT SO MUCH FOR TAXES?

The answer is withholding—and it has nothing to do with emotional style. The U.S. tax system is pay-as-you-earn. Employers usually must send part of each worker's paychecks to the government so the workers don't have to cope with a big bill at tax time. These payments are called withholding.



TIP

Use the [IRS calculator](#) to adjust your withholding.

To be safe, your employer may have withheld more income taxes than you'll actually owe. In that case, you get this extra back by filing a tax return and claiming a refund.

Meanwhile, you may be able to adjust your withholding and get higher take-home pay by filling out an IRS Form W-4 and giving it to the business. There is a useful IRS calculator for this.

But beware of withholding too little. The law requires most filers to pay 90% of the income tax they owe before year-end or soon after, or face penalties.

Also, check your pay stub. Maybe the withholding is mostly for Social Security and Medicare taxes, not income taxes.

FOR FIRST-TIME TAXPAYERS

WHY ARE MY SOCIAL SECURITY AND MEDICARE TAXES SO HIGH?

Lower earners often owe more for these social-insurance taxes than for income tax, because they can kick in on the first dollar of pay.

For example, the Social Security and Medicare tax on the first \$12,400 of pay for a single employee in 2020 comes to \$949 while the federal income tax on it can be \$0 due to the standard deduction.

The Social Security tax is a flat 6.2% per employee, plus 6.2% for the employer, on the first \$137,700 of wages for 2020. Employees don't see the employer's share on their pay stub. The Medicare tax is 1.45% each for the employer and the employee, and it applies to all pay.

People who are self-employed, like gig workers and business owners, can owe even more in these taxes.

HOW ARE EDUCATION SCHOLARSHIPS AND STIPENDS TAXED?

Scholarships that are used to pay for tuition, fees and textbooks are usually tax-free if the student is pursuing a degree or certificate. Tuition waivers for graduate student teaching and research are often tax-free as well.



TIP

Scholarships that are used to pay for tuition, fees and textbooks are usually tax-free.

Among other things, financial aid and stipends used to pay for living expenses such as room, board and transportation are taxable, says Mark Kantrowitz, a specialist in education benefits.

However, many colleges don't detail what part of an aid package is taxable, and currently they don't have to report taxable aid to the IRS. Tax specialists say the IRS doesn't seem to be enforcing the law in this area.

FOR FIRST-TIME TAXPAYERS

HOW DO I FILE MY TAXES IF I DON'T HAVE A PERMANENT ADDRESS, OR IF I LIVED IN SEVERAL STATES IN THE PAST YEAR?

The IRS communicates with people by mail, so it needs a mailing address for each filer. If you don't have someone you trust to accept mail, consider a post office box.

Note that refund checks can be deposited directly to financial accounts. They don't have to be sent to the address on the tax return. Workers who lived in more than one state during the year should check with each state to see if they need to file state returns there.

I'M A GIG-ECONOMY WORKER. ARE MY TAXES DIFFERENT?

So different! This is a vast topic discussed in the section for business owners, but here's a quick outline.

If you're paid for work, but you aren't a business's employee, then you're "self-employed." Businesses that hire you likely won't withhold taxes from your pay, even if they pay you regularly. You'll be responsible for paying estimated taxes quarterly, but you'll also likely be able to deduct business expenses that employees can't.



And you'll likely owe higher Social Security and Medicare taxes because gig workers owe both the employer and employee portion of these taxes, although they get a deduction for half of it.

TIP

Gig workers owe higher Social Security and Medicare taxes because they owe both the employer and employee portion of these taxes, although they get a deduction for half of it.

Advice for gig workers: take your taxes seriously now, not later. The penalties for getting them wrong can be severe, and the IRS can be relentless. Consider asking a tax professional to outline the obligations, traps and benefits you're facing, even if you do your own taxes. Always, always keep good records.

WHAT'S THE CHEAPEST WAY TO DO MY TAXES?

Get ready to do research.

FOR FIRST-TIME TAXPAYERS

In theory, about 100 million filers earning below about \$72,000 for 2020 have access to free online tax prep provided by commercial firms through an IRS program known as [Free File](#).

Yet less than 5% of eligible taxpayers use Free File to prepare their returns, leading to charges that some firms have made it difficult on purpose. In 2019, changes were made so that Free File would be less confusing.

If you want to use Free File, be sure to go through the IRS's website rather than individual providers' sites. Many states also offer free state tax-prep online, and some are linked to IRS Free File.

If you use commercial software, consider paying the fee yourself rather than having it subtracted from your refund, as the fee for this convenience can be high. While the IRS still accepts returns on paper, e-filing is the typically the fastest way to get a refund.

**FOR BUSINESS
OWNERS**

FOR BUSINESS OWNERS

For most U.S. business owners, the political fighting over the corporate tax rate and taxation of foreign income is irrelevant. That is because most U.S. businesses are organized as so-called pass-through entities for tax purposes, so that the income and expenses pass through to the owners' individual tax returns and any taxes are paid at individual tax rates.

That means everything that affects individual taxpayers also affects the owners of S corporations, partnerships, limited liability companies and sole proprietorships.

But there are a bunch of tax provisions that matter only to businesses, and some of them changed in 2020.

The definition of business owner can also be quite broad. Gig workers and others who are independent contractors are technically treated as business owners under the tax system. That comes with additional tax obligations, because they must pay their own payroll taxes through the self-employment tax system. Many business owners can deduct a variety of expenses that employees can't deduct on their individual returns, as long as they keep careful records. These business deductions can include costs related to driving, maintaining a home office, tax-preparation fees and business meals.

PASS-THROUGH DEDUCTION

For many, the most important tax-code feature is the special deduction for pass-through businesses. Congress created this 20% deduction in 2017 as part of the tax cuts pushed by then-President Donald Trump, and it was designed to give them an effective tax rate cut just like the one that corporations received.



INCOME LIMITS

Pass-through owners can often claim the full 20% deduction if their taxable income for 2020 is under:

- \$326,600 for joint filers
- \$163,300 for single filers

FOR BUSINESS OWNERS

In 2020, for individuals with taxable income up to \$163,300 and married couples with taxable income up to \$326,600, the pass-through deduction is unlimited, regardless of industry, employees and assets. Those numbers move up to \$164,900 and \$329,800 for tax year 2021.

Above those thresholds, there are limits. Specified service businesses—including medical practices and accounting firms—start losing the deduction. For others, the deduction is limited by a formula that takes into account the wages they pay and the tangible assets they have.

For more information, see [IRS Publication 535](#).

PANDEMIC RESPONSES

During 2020, Congress made a series of tax-law changes designed to help businesses weather the pandemic. Here are highlights.

NET OPERATING LOSSES

Under the 2017 tax law, businesses were no longer allowed to deduct current losses from past profits and they were limited in how they deducted losses against current profits.

Congress changed that in 2020 to help companies during the pandemic get money now that they otherwise would have had to wait to receive as they earned profits. For tax years 2018, 2019 and 2020, business owners can carry losses back for up to five years to offset past profits. They can file amended tax returns to claim refunds.

Congress also removed a rule that limited how much taxpayers can use their business losses to offset nonbusiness income. The limit for such losses—\$500,000 for married couples and \$250,000 for individuals, indexed to inflation—doesn't apply for 2018, 2019 and 2020. The biggest beneficiaries are people who have large investment profits but losses in businesses that they own.

FOR BUSINESS OWNERS

PAYCHECK PROTECTION PROGRAM

The Paycheck Protection Program created plenty of tax controversy during 2020, but most of it got resolved.

The program was designed as forgivable, low-interest loans to businesses that kept employees on the payroll. The law specifically said that forgiven loans wouldn't be treated as taxable income, but the Treasury Department issued a ruling that businesses receiving forgiven loans couldn't take the normal deductions for expenses tied to those loans.

That ruling would have negated much of the benefit of making the loans tax-free, and businesses successfully lobbied lawmakers, who said they had intended to allow the deductions.

Congress overturned the IRS decision in late December 2020, so that businesses will be able to take deductions for those payroll costs just like they would do in a normal year. However, some businesses may still face this issue on their state income-tax returns.



NO DOUBLE DIP

The employee retention tax credit can't be used for the same expenses as a PPP loan.

EMPLOYEE RETENTION TAX CREDIT

Congress also created and expanded a tax credit for businesses that retain employees. It can't be used for the same expenses as a PPP loan.

The credit, as expanded in December, effectively operates as a wage subsidy. It covers 50% of wages from March 13, 2020 through the end of the year and 70% of wages paid in 2021 through June. Businesses can receive up to \$5,000 per employee for 2020 and up to \$14,000 in 2021.

For 2020, businesses are generally eligible to receive the credit if they suffered a quarterly revenue decline, compared with 2019, of 50% in 2020.

FOR BUSINESS OWNERS

For 2021, the decline only needs to be 20%, which should make more employers eligible for this benefit. Businesses can also become eligible if they were subject to government restrictions or closures.

Businesses with 500 or fewer workers in 2021 can generally get the credit to cover their workers; that threshold was 100 for 2020. Above those levels, larger businesses are limited in that they can generally get the credit only if they are paying people not to work.

In 2021, smaller employers can also request advance payment of the credit to assist with cash flow.

PAYROLL TAX DEFERRALS

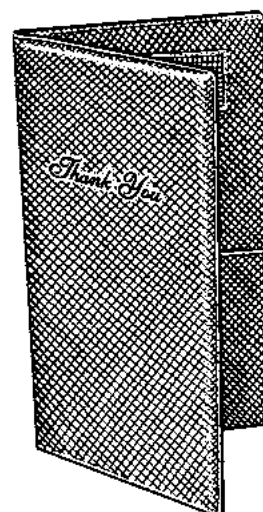
During 2020, employers were allowed to defer paying their half of Social Security payroll taxes as a way of giving them a temporary cash cushion. They are required to pay the money back in two installments, half by the end of 2021 and half by the end of 2022.

That is separate from the payroll tax deferral that then-President Donald Trump authorized by executive action. That was for the employee share of the tax and few employers decided to participate in that. For those who did, the deferred taxes from the final four months of 2020 must be paid back during 2021.

BUSINESS MEALS

In December, Congress expanded the tax deduction for business meals, fulfilling a priority for President Trump, who wanted the change to boost the ailing restaurant industry as the economy recovers.

Before the change, business meals were 50% deductible. They will now be 100% deductible for 2021 and 2022, but not for meals purchased during 2020. The deduction applies to delivery and carryout meals as well as to those consumed in restaurants.



FOR BUSINESS OWNERS

OTHER TAX BREAKS

Congress also extended a variety of other tax breaks that had been scheduled to expire at the end of 2020. For businesses, those include the deduction for energy-efficient commercial buildings, lower excise taxes on alcohol, and the work opportunity tax credit that provides an incentive for hiring people from disadvantaged groups.

Other extended breaks with more limited application include a tax credit for maintenance of short-line railroads, accelerated depreciation for racehorses, a credit for two-wheeled plug-in vehicles and expensing rules for film, television and theater productions.

**PRESIDENT BIDEN'S
TAX AGENDA...
AND WHAT IT COULD
MEAN FOR YOU**

PRESIDENT BIDEN'S TAX AGENDA... AND WHAT IT COULD MEAN FOR YOU

Democratic control of the Senate gives President Biden a much stronger chance of raising taxes on corporations and high-income households, sending another round of stimulus payments and expanding the child tax credit.

With Democrats holding the White House, Senate and House simultaneously for the first time in more than a decade, they are poised to use that power.

During his presidential campaign, [Mr. Biden proposed](#) raising taxes on corporations, estates and high-income households, reversing key parts of the 2017 tax cuts passed by Republicans and reprising policies that the Obama administration couldn't get through Congress.

Now some of Mr. Biden's ideas are much more likely to become law, said Steve Wamhoff of the progressive Institute on Taxation and Economic Policy, who said that the president's plans are less far-reaching than some Democratic alternatives and are broadly popular with the public.



"The issue was always, could Democrats get something on the floor? And the answer to that is now clearly 'yes,'" Mr. Wamhoff said. "Biden did win after campaigning on raising taxes on corporations and raising taxes on the rich."

Even so, Democrats face a series of tough challenges to turn those proposals into law with narrow legislative margins, a weak economy and a still-raging pandemic. The results might look quite different from the campaign-trail outlines, and the slim majorities may yield less than the \$3 trillion in tax increases that Mr. Biden sought.

The Senate is divided 50-50, and Democrats have [Kamala Harris](#) to break ties as vice president. That means they can't lose a single vote, pushing them to look for policies that

PRESIDENT BIDEN'S TAX AGENDA... AND WHAT IT COULD MEAN FOR YOU

unite progressives eager to address income inequality and moderates worried about the effects of tax increases on the economic recovery. The same dynamic holds in the House, where Democrats have a slim margin.

“One vote is a pretty narrow majority,” said Mark Mazur, a Treasury Department official who spoke before joining the administration in January. “It’s going to be a matter of persuading people. But at least you have a chance.”

Mr. Biden has said repeatedly that he wants to work with Republicans. But unlike other policy areas, tax changes can pass with a simple majority of senators, instead of the 60-vote majority often needed for most other legislation. Democrats will face pressure from their base to deliver.

The likely result: [Up to \\$2 trillion worth of tax increases](#) over the next decade, says Donald Schneider, an economist and former House Republican aide at advisory firm Cornerstone Macro. That is shy of what Mr. Biden proposed but still a significant bump in federal revenue to pay for new programs and targeted tax cuts and far beyond what could happen if Republicans had held the Senate.

In the short run, Democrats are more likely to focus on tax cuts. Mr. Biden’s \$1.9 trillion coronavirus relief bill includes a round of \$1,400 per-person stimulus payments, taking the \$600 payments approved in December up to \$2,000. He also proposed increasing the child tax credit from \$2,000 to \$3,000 and adding \$600 for young children. He would make that credit fully refundable, which means that it would become a near-universal child allowance with the option of monthly payments.

House Democrats’ version of that plan would start reducing the stimulus payments once income reaches \$75,000 for individuals and \$150,000 for married couples. All dependents, including adults, would be eligible. And the payments would phase out by the time income reaches \$100,000 for individuals and \$200,000 for married couples. Their plan also would extend several pandemic-related tax breaks, while expanding tax subsidies for child

PRESIDENT BIDEN'S TAX AGENDA... AND WHAT IT COULD MEAN FOR YOU

care and health care. The details of the proposal may change as it works its way through Congress. Looking forward, here's a rundown of Mr. Biden's tax-increase wish list and how it could affect you:

RAISE INCOME-TAX RATES

Mr. Biden has promised to raise taxes on the richest, cut them for others, and raise benefits for the lowest earners. These rates would revert to pre-2018 levels for taxpayers with more than \$400,000 of taxable income. That would mean a top rate of 39.6%, versus 37% now.

In general, the incoming Biden administration draws the line at earners with more than \$400,000 of annual income, which is higher than the Obama administration's threshold of \$250,000.

MAKE TARGETED TAX CUTS

Mr. Biden also proposed some targeted tax cuts. Notably, he called for expanding the child tax credit to \$3,000 from \$2,000, adding \$600 for young children and making those payments monthly instead of once a year in tax refunds. He also proposed tax credits for caregivers, renters and first-time home buyers.

Democrats may also try to cut some taxes for high-income constituents by repealing the \$10,000 limit on state and local tax deductions. That is important to Senate Majority Leader Chuck Schumer (D., N.Y.) and lawmakers from high-tax states such as New York and New Jersey. But other Democrats, including progressives and those from states without income taxes, may object.

RAISE RATES ON LONG-TERM CAPITAL GAINS AND DIVIDENDS

Long-term gains and many dividends would be taxed at the same rates as ordinary income for people with taxable income above \$1 million. The top rate could be as high as 39.6%, versus 23.8% now.

PRESIDENT BIDEN'S TAX AGENDA... AND WHAT IT COULD MEAN FOR YOU

Such a rate would be the highest on this income in decades, so there will be pressure to moderate it.

RAISE TAXES ON INVESTMENTS HELD AT DEATH

One proposal would tax capital gains on investments held at the time of a taxpayer's death, such as stock or real estate. This is a radical change, as current law treats such gains as freebies.

Here's why. Say that John owns shares of XYZ stock worth \$200 each that he bought for \$10 many years ago. If he died in 2020, his estate owes no capital-gains tax on \$190 of growth, which is called the step-up tax break. If John's heir Jan then sells these shares for \$201 each, she would owe tax only on \$1 of gain per share, saving tax up to about \$45 per share at current rates.

Without the step-up tax break, John's estate could owe capital-gains tax on \$190 of gain per share, increasing his taxes due at death. The Biden policy team hasn't specified which taxpayers would be affected by this proposal, and they are likely to limit it to very wealthy individuals.

RAISE GIFT AND ESTATE TAXES

Another proposal would shift estate and gift taxes back to the 2009 law. Among other changes, this would lower the estate-tax exemption to \$3.5 million per person, a 70% decrease from its 2020 level of \$11.58 million.

If Congress reverts to the 2009 gift-and-estate tax rules, many people with annual incomes well below \$400,000 could owe estate taxes. Allan Roth, a financial planner with Wealth Logic in Colorado Springs, says a retired, single taxpayer with \$5 million of assets might typically have \$175,000 of annual income or less, yet this person's estate could owe tax on \$1.5 million.

EXPAND SOCIAL SECURITY TAXES

The current Social Security tax of 12.4% would apply to employment and self-employment earnings above \$400,000.

PRESIDENT BIDEN'S TAX AGENDA... AND WHAT IT COULD MEAN FOR YOU

The 2021 income cap for this tax is \$142,800, so there would be a “doughnut hole” of employment income between that amount and \$400,000 that is not subject to the increase. Proposed changes to Social Security taxes could face higher procedural hurdles in Congress than other Biden proposals.

LIMIT THE VALUE OF ITEMIZED DEDUCTIONS

The current income tax is symmetrical: If a taxpayer's top rate is 37%, then deductions typically save 37 cents on the dollar.

Under Mr. Biden's proposal, a tax deduction would save a taxpayer with more than \$400,000 of income no more than 28 cents on the dollar, even if that person's top tax bracket is higher. This change, which echoes an Obama administration proposal, is complex and will have many opponents, especially among nonprofit groups that receive tax-deductible donations.

LIMIT THE 199A PASS-THROUGH DEDUCTION

The 2017 tax overhaul added a 20% deduction for the net income of many businesses that pass through profits and losses to their owners' tax returns, including rental real estate.

There is no explicit proposal from the Biden camp to phase out this tax break for business owners earning more than \$400,000, but the Tax Policy Center's analysis assumes this change is consistent with the president-elect's stated goal of rescinding 2017 tax breaks for high earners.

RAISE THE CORPORATE TAX RATE

For corporations, the tax rate would rise to 28% from 21%, impose a minimum tax on companies with lower effective tax rates and increase taxes on U.S. companies' foreign earnings.

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