

Money Talks By Dave Helscher

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You may recall that last year there was a substantial change in the federal income tax forms as well as significant changes in the tax law. The good news is that the changes from 2019 to 2020 were not as substantial. But there are a number of differences to be aware of when preparing and reviewing your taxes.

You may recall that the personal exemptions provisions under prior law were eliminated starting with the 2018 tax reporting year. This was replaced with the standard deduction for all taxpayers. Last year, a single individual (S) received a standard deduction of \$12,200 and married filing jointly (MFJ) received a standard deduction of \$24,400. This deduction has been increased for 2020 to \$12,400 for S and to \$24,800 for MFJ. There is an additional deduction for blind or those over age 65 equal to \$1,650 for S and \$1,300 for MFJ. Should you have allowable itemized deductions in excess of the applicable standard deduction mentioned above, you would likely itemize these and deduct the permissible amount.

Another small change is the change in the threshold for taxable income. There are a number of tax brackets, ranging from 10% (for S up to \$9,875, MFJ \$19,750) to a maximum bracket of 37% (taxable income for S in excess of \$518,400, for MFJ \$622,050). There is a slight increase in the taxable income brackets. To illustrate, for last year, S was subject to a tax rate of 10% on taxable income up to \$9,700 while this year S is subject to a tax rate of 10% on taxable income up to \$9,875. For MFJ, the amount subject to a 10% tax rate was increased from \$19,400 to \$19,750. There is a similar increase in amounts to different tax rates depending on the amount of taxable income.

There are marginal changes in the maximum tax on long-term capital gains and qualified dividends. For S, in 2018 the tax rate for long-term capital gains and qualified dividends was 0% up to \$38,600, for 2019 \$39,375, and for 2020 up to \$40,000. For MFJ, these thresholds were \$77,200, \$78,750, and \$80,000 in 2020. The next bracket is 15% and for 2020 the taxable income thresholds for S is \$441,450 and for MFJ, \$496,800. A 20% tax rate could apply for long-term capital gains and qualified dividends in excess of these threshold amounts.

We still have the net investment income tax. This is sometimes referred to as the unearned income Medicare contribution tax. This applies to the lesser of net investment income or modified adjusted gross income exceeding the applicable thresholds. For S, this threshold is \$200,000, and for MFJ, it is on the amount in excess of \$250,000. The tax rate is 3.8%. Excluded from the threshold amounts are municipal bond interest and qualified plan and IRA withdrawals.

Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. To the extent this material concerns tax matters, it is not intended or written to be used by a taxpayer for purposes of avoiding penalties that may be imposed by law.