

Summary

We will do our best to avoid using cliches to describe 2020. We as a country will probably feel the ramifications of what we went through for decades. For your wealth planning, it was certainly eventful. The investment markets experienced their fastest decline and then their fastest recovery in modern history. Several laws were passed that impacted and will continue to impact your finances. Estate planning changes came fast and furious at both the federal and state levels over the past 13 months.

The planning and investing processes Reliant Wealth utilizes were put to the test. The fundamental value of everything from liquidity reserve/buffer assets to tactical investment techniques to modeling future financial goal outcomes using more than one method were all validated. However, we will use the lessons learned to try to refine how we serve you even further. We have already begun analyzing what adjustments we should make to continue fulfilling our mandate to you, "Providing comfort by design."

Beginning of Year Update



All Things RMD (Required Minimum Distributions)

The CARES Act of 2020 saw a suspension of RMDs from retirement accounts for one year. That suspension has NOT been extended, so RMDs are back for 2021. That suspension delayed some changes that were created in the 2019 SECURE Act. Namely, RMD starting age is now pushed out to age 72 (with a bill in Congress to push it out further to 75, but we'll see). 2022 will see a further change, with IRS life expectancy tables being updated, which will have the effect of *lowering* all RMDs, as it is assumed that we will all live longer. Big changes occurred for RMDs from inherited retirement accounts. For those that inherited retirement accounts beginning in 2020, you have 10 years to remove the *entire* value of the account, as opposed to your lifetime, which is what folks that inherited a retirement account up to the end of 2019 can do.

Kentucky Specific Estate Planning Changes

KY Uniform Power of Attorney (POA) Act



KY updated its Power of Attorney laws in 2020. Now, certain actions, termed “super powers,” must be expressly allowed (no x-ray vision or super strength!). More like gifting, changing beneficiary designations, and/or gaining access to email accounts. No generic or implied statements will work. Also, there can be an optional form with quick references to other powers that can be selected if they may want to grant to their agent. Lastly, two witnesses are NO LONGER required.

Decanting by Amendment

Under certain circumstances (i.e. if everyone involved agrees), KY now allows the creator(s) of an irrevocable trust to change many terms of that trust by amendment, instead of having to go through a process called decanting (which basically distributes the original trust assets into a new trust). This (relatively) simple amendment process will allow the second trust to be a mere continuation of the original trust, avoiding having to obtain a new tax ID, or transferring assets into new accounts, etc. In effect, this amendment furthers the notion that in many instances an irrevocable trust is no longer *truly* irrevocable in Kentucky.

KY Uniform Fiduciary Access to Digital Assets Act

This law requires that an executor or agent (under a power of attorney) have express permission to access digital assets (emails, social media accounts, texts, etc.) within a legal document (will, Power of Attorney, etc). This has become necessary in our increasingly digital world. The law does state a provider’s online tool could supersede any legal instrument, but such a tool must meet several criteria to do so.

KY Change to Living Trusts

Kentucky now allows a living trust to be a Community Property Trust. A big impact of such a trust is it would allow a married couple to receive a 100% step-up of cost basis on jointly owned property (was only 50%) at the passing of the first spouse. This could mean big federal tax savings in some situations. It can complicate matters in the case of a divorce.

Note, President-elect Biden had announced he would like to significantly limit or eliminate step-up of cost basis at death, potentially making much of new KY law moot.





Charitable Gifting Changes

The ability to deduct \$300 in cash charitable contributions from your taxable income, even if you don't itemize, was scheduled to end in 2020 but has extended for 2021. And for 2021 only, those filing jointly can deduct \$600.

Also, the ability to opt to deduct up to 100% of your Adjusted Gross Income (AGI) when making an all-cash gift to a charity has been extended into 2021. This DOES NOT apply to gifts to Donor Advised Funds (DAFs). This is a noticeable increase from the 60% that would have been allowed without the extension. You can deduct 30% of your AGI if using appreciated assets (such as investments).

Flexible Spending Account (FSA) Relief

Normally, any money remaining in a Dependent or Healthcare Flexible Spending Accounts are forfeited at the end of the year. Employers can allow employees to roll over up to \$550 from the prior year or use prior year funds during the first 2 ½ months the following year. Given the circumstances of 2020 (layoffs, work-from-home, etc.) people may have too much remaining in such accounts. Thus, Congress has permitted employers to allow employees to roll over ANY unused balanced from 2020 into 2021. Employers also can allow employees to roll any unused portions in 2021 into 2022. It is not required, however, so you should ask your HR department if they are participating, and if not, urge them to do so.

Cost Transparency at Hospitals

For private markets to function properly, consumers must be able to understand the cost of a good or service. That will get easier in health care this year. A law goes into effect that requires hospitals to post online their negotiated rates with major health insurance providers for 300 common medical services. Note, that is NOT what you will pay, but rather what the hospital charges the insurer. What your out-of-pocket cost would be depends on your policy. However, that will be dealt with in 2023, when insurance companies must post a patient's estimated out-of-pocket cost for a variety of services from various providers.

Higher Education

2020 is the last year that Tuition and Related Expenses can be claimed as an above-the-line deduction. However, the Lifetime Learning Credit will have higher phaseout ranges. This should be a net benefit to most. Also, the suspension of required payments and interest on student loans ends 01/31/21. Then it's back to pre-CARES Act rules.



Take Below with a GIANT Grain of Salt!

The rates below are what is scheduled to happen. However, Democrats now control the White House, Senate, and House of Representatives. President-Elect Biden released a tax plan which, if passed, would change the numbers below. Whether this would be effective for 2021 or 2022 is a debate among advisors currently. Stay tuned...

2021 Tax Brackets

Tax Rate	Single	Married, Filing Jointly
10%	\$0 to \$9,950	\$0 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 and up	\$628,301 and up

2021 Cap Gains Tax Rates

Tax Rate	Single	Married, Filing Jointly
0%	\$0 to \$40,400	\$0 to \$80,800
15%	\$40,401 to \$445,849	\$80,801 to \$501,599
20%	\$445,850 and up	\$501,600 and up
+3.8% Medicare Net Investment Income Tax (NIIT)	on the LESSER of net investment income (interest, dividends, cap gains, etc.) or modified adjusted gross income (MAGI) over \$200,000 \$250,000	

Federal Tax Tidbits

Standard Deduction:

Single \$12,550
Filing Jointly \$25,100

Personal Exemption: still eliminated

Gift Tax Exclusion: Each person may gift to as many people as they wish \$15,000 annually.

SALT tax deduction cap: Cap on claiming property taxes, state and local income taxes, and state/local sales tax as federal income tax deductions is \$10,000 annually for both joint and single filers.

Additional Medicare Tax: Some high-income taxpayers owe an additional 0.9% tax on *earned and self-employed income* over \$200,000 for single filers and \$250,000 for joint filers.

Medical Deductions

2021 was supposed to see only medical deductions that exceeded 10% of your Adjusted Gross Income (AGI) could be deducted from your taxable income. That has been permanently rolled back so that the limit is the former 7.5% of AGI. What was old is new again.



Social Security

SS tax paid on earned income up to \$142,800	% withheld	Maximum tax payable
Employee Pays	6.2%	\$8,853.60
Employer Pays	6.2%	\$8,853.60
Self-employed pays	12.4%	\$17,707.20
Earnings Allowed before Full Retirement Age (FRA)		
Retirement earnings exempt amounts	\$18,960 if age under FRA \$50,520 during year will reach FRA No Limit after reaching FRA	

Medicare

Medicare Part B monthly premium for new beneficiary in 2021 = \$148.50

Medicare looks back two years at income to determine if there will be a surcharge based on higher income levels. See below

Single 2019 MAGI	Joint 2019 MAGI	2021 Part B Premium	2021 Part D adjustment
\$0-\$88,000	\$0-\$176,000	\$148.50	\$0.00
\$88,001-\$111,000	\$176,001-\$222,000	\$207.90	+\$12.30
\$111,001-\$138,000	\$222,001-\$276,000	\$297.00	+\$31.80
\$138,001-\$165,000	\$276,001-\$330,000	\$386.10	+\$51.20
\$165,001-\$500,000	\$330,001-\$750,000	\$475.20	+\$70.70
Over \$500,000	Over \$750,000	\$504.90	+\$77.10

Social Security COLA

Each October Social Security determines what the change has been in the Consumer's Price Index (CPI) over the last 12 months and makes Cost of Living Adjustments (COLA) to Social Security payments for the coming year. **For 2021, Social Security benefits will receive a 1.3% COLA.**

2021 Retirement Plan Contribution Limits

Annual compensation used to determine contribution for most plans \$290,000

Defined-contribution plans, basic limit \$58,000

401(k), 403(b), 457 plans elective deferral limit \$19,500

Catch-up for age 50 and over, 401(k), 403(b), 457 \$6,500

SIMPLE plans, elective deferral limit \$13,500

SIMPLE Plans, catch-up for age 50 and older \$3,000

2021 Retirement Accounts

IRA Type	Contribution Limit	Catch-Up at 50+	Income Limit / Notes
Traditional nondeductible	\$6,000	\$1,000	None
Traditional deductible	\$6,000	\$1,000	If covered by employer plan: \$105k-\$125k joint \$66k-\$76k single, HOH If spouse is covered by plan: \$198K-\$208K
Roth	\$6,000	\$1,000	\$198k-\$208k Joint \$125k-\$140k single, HOH
Roth Conversion	Up to total value of tax deferred retirement accts	N/A	No income limit / Ability to recharacterize (undo) a Roth conversion was eliminated in 2018

Federal Estate Law

You may have noticed there was no section on Federal Estate law changes. That is because there were big changes at the end of 2019, which we outlined in last year's letter (the elimination of the stretch IRA for beneficiaries, the impact of that on trusts as beneficiaries, etc.) and in 2020, no major legislation passed making large, permanent adjustments for 2021.

That may all change during the year. Just as President-Elect Biden proposed large changes to certain individual and corporate tax laws, he also proposed changes to Federal Estate issues. These include:

- Reduction of the Lifetime Exemption Amount (currently \$11.58 million per person) to what he called "historically reasonable levels." (\$3.5 – 5 mill ???)
- Increasing the Federal Estate Tax Rate to "historical norms." It is currently 40%. Speculation is that it could be raised to around 45-50%, but with some guessing a rate as high as 70%.
- Elimination of the Step-Up in cost basis at death. This is the one that could have the most impact on the largest number of people. President-Elect Biden did not say if he would like to see assets under a certain value exempted, if there would be a carry forward of the existing basis, or if the inheritor would have to pay capital gains taxes on the unrealized appreciation at the time of inheritance.

Obviously, Congress must act to make any of these proposals law. The President's party will control both houses of Congress. We will keep you informed as any actions occur.

Fun Trivia Fact

February 2021 is Laura's and Shaun's 20th anniversary of working together as business partners, across three different firms.



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