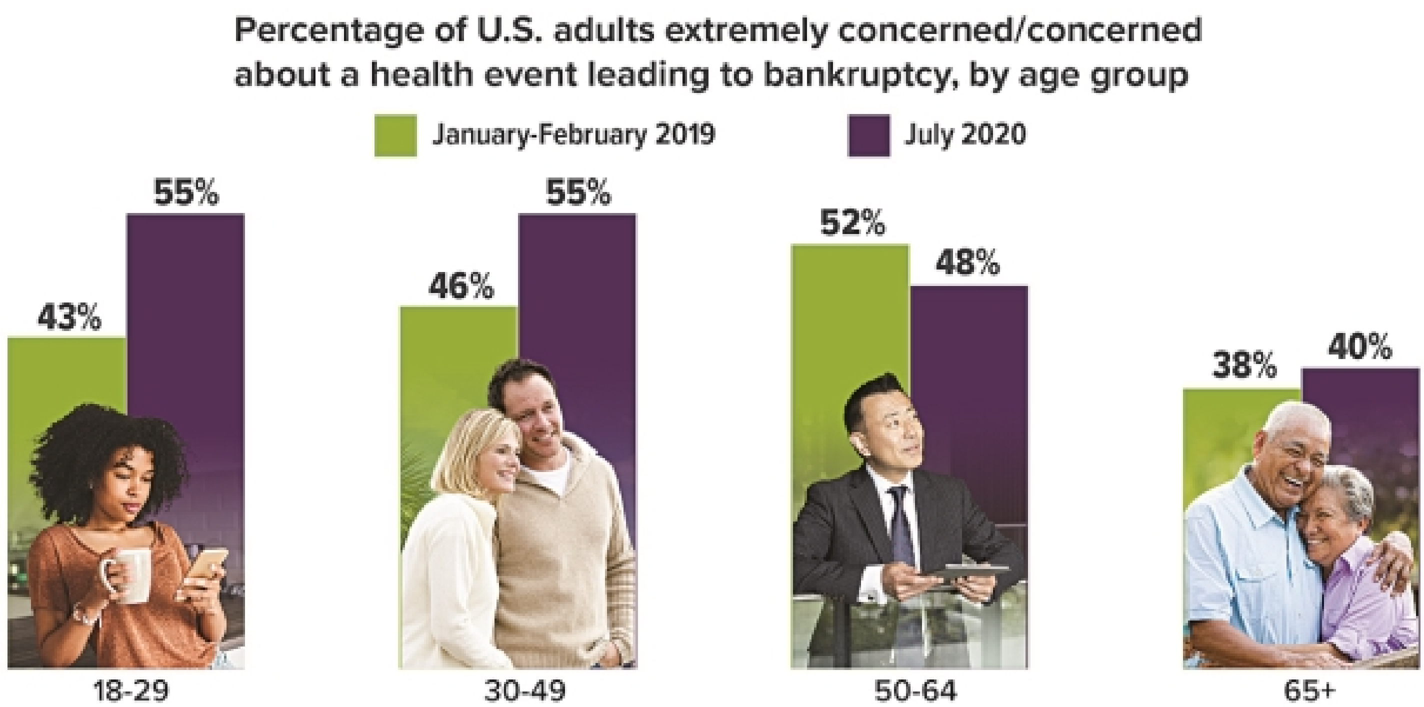
Your Money Your Way

Helping You Live Your Abundant Life

Marianne Gular
Financial Planner
J.C. Warrick & Company
1109 W Main St • Norristown • PA • 19401
610-310-4077
mgular@brokersifs.com • www.realclearfinancialadvice.com

Half of U.S. Adults Fear Health-Related Bankruptcy

In July 2020, half of U.S. adults were concerned that a major health event in their household could lead to bankruptcy, compared with 45% in early 2019. Health-related bankruptcy fears increased significantly for younger people.



Source: Gallup, 2020

Key Retirement and Tax Numbers for 2021

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2021.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2021 is $15,000, the same as in 2020.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2021 is $11,700,000, up from $11,580,000 in 2020.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2021, the standard deduction is:

- $12,550 (up from $12,400 in 2020) for single filers or married individuals filing separate returns
- $25,100 (up from $24,800 in 2020) for married individuals filing joint returns
- $18,800 (up from $18,650 in 2020) for heads of households

The additional standard deduction amount for the blind or aged (age 65 or older) in 2021 is:

- $1,700 (up from $1,650 in 2020) for single filers and heads of households
- $1,350 (up from $1,300 in 2020) for all other filing statuses

Special rules apply if you can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2021 (the same as in 2020), with individuals age 50 and older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges. (The limit on nondeductible contributions to a traditional IRA is not subject to phase-out based on MAGI.)

MAGI Ranges: Contributions to a Roth IRA

	2020	2021
Single/Head of household	$124,000–$139,000	$125,000–$140,000
Married filing jointly	$196,000–$206,000	$198,000–$208,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Contributions to a Traditional IRA

	2020	2021
Single/Head of household	$65,000–$75,000	$66,000–$76,000
Married filing jointly	$104,000–$124,000	$105,000–$125,000

The 2021 phaseout range is $198,000–$208,000 (up from $196,000–$206,000 in 2020) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a plan.

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2021 (the same as in 2020); employees age 50 and older can defer up to an additional $6,500 in 2021 (the same as in 2020).
- Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2021 (the same as in 2020), and employees age 50 and older can defer up to an additional $3,000 in 2021 (the same as in 2020).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,200 in 2021 (the same as in 2020) is taxed using the parents' tax rates.

Test Your Knowledge of College Financial Aid

Financial aid is essential for many families, even more so now in light of COVID-19. How much do you know about this important piece of the college financing puzzle?

1. If my child attends a more expensive college, we'll get more aid

Not necessarily. Colleges determine your expected family contribution, or EFC, based on the income and asset information you provide on the government's financial aid form, the Free Application for Federal Student Aid (FAFSA), and, where applicable, the College Scholarship Service (CSS) Profile (a form generally used by private colleges). Your EFC stays the same no matter what college your child attends. The difference between the cost of a particular college and your EFC equals your child's financial need, sometimes referred to as "demonstrated need." The more expensive a college is, the greater your child's financial need. But a greater financial need doesn't automatically translate into a bigger financial aid package. Colleges aren't required to meet 100% of your child's financial need.

Tip: Due to their large endowments, many elite colleges offer to meet 100% of demonstrated need, and they may also replace federal student loan awards with college grants in their aid packages. But not all colleges are so generous. "Percentage of need met" is a data point you can easily research for any college. This year, though, some colleges that are facing lower revenues due to the pandemic may need to adjust their financial aid guidelines and set higher thresholds for their aid awards.

2. I lost my job after submitting aid forms, but there's nothing I can do now

Not true. Generally, if your financial circumstances change significantly after you file the FAFSA (or the CSS Profile) and you can support this change with documentation, you can ask the financial aid counselor at your child's school to revisit your aid package; the financial aid office has the authority to make adjustments if there have been material changes to your family's income or assets.

Amid the pandemic, annual income projections for some families may now look very different than they did two years ago based on "prior-prior year" income (see graphic). Families who have lost jobs or received cuts in income may qualify for more aid than the FAFSA first calculated.

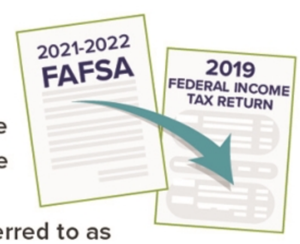
Tip: Parents should first check the school's financial aid website for instructions on how to proceed. An initial email is usually appropriate to create a record of correspondence, followed by documentation and likely additional communication. Keep in mind that financial aid offices are likely to be inundated with such requests this year, so inquire early and be proactive to help ensure that your request doesn't get lost in the shuffle.

3. My child won't qualify for aid because we make too much money

Not necessarily. While it's true that parent income is the main factor in determining aid eligibility, it's not the only factor. The number of children you'll have in college at the same time is a significant factor; for example, having two children in college will cut your EFC in half. Your assets, overall family size, and age of the older parent also factor into the equation.

Tip: Even if you think your child won't qualify for aid, there are still two reasons to consider submitting the FAFSA. First, all students, regardless of family income, who attend school at least half-time are eligible for unsubsidized federal Direct Loans, and the FAFSA is a prerequisite for these loans. ("Unsubsidized" means the student pays the interest that accrues during college, the grace period, and any loan deferment periods.) So if you want your child to have some "skin in the game" by taking on a small student loan, you'll need to submit the FAFSA. Second, the FAFSA is *always* a prerequisite for college need-based aid and is *sometimes* a prerequisite for college merit-based aid, so it's usually a good idea to submit this form to maximize your child's eligibility for both.

Prior-Prior Year for Income



The FAFSA relies on current asset information (as of the date you fill out the form) and income information based on your tax return from two years prior, referred to as the "prior-prior year." For example, the **2021-2022 FAFSA** relies on information from your **2019** tax return.

4. We own our home, so my child won't qualify for aid

It depends on the source of aid. The FAFSA does not take home equity into account when determining a family's expected family contribution, so owning your home won't affect your child's eligibility for aid. The FAFSA also excludes the value of retirement accounts, cash-value life insurance, and annuities.

Tip: The CSS Profile does collect home equity and vacation home information, and some colleges *may* use it when distributing their own institutional need-based aid.

Tax Filing Information for Coronavirus Distributions

In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation included a provision that allowed qualified retirement plan participants and IRA account holders to take penalty-free early distributions totaling no more than $100,000 between January 1 and December 31, 2020. If you took advantage of this measure, here's what you need to know for tax filing.

What Is a Coronavirus Distribution?

In order for a distribution to be qualified under the CARES Act, it must have been made to a qualifying individual before December 31, 2020. You qualify if you, your spouse, or dependents were diagnosed with the virus, or if you, your spouse, or someone who shares your principal residence experienced a pandemic-related financial setback as a result of:

- A quarantine, furlough, layoff, or reduced work hours
- An inability to work due to lack of child care
- Owning a business forced to close or reduce hours
- Reduced pay or self-employment income
- A rescinded job offer or delayed start date for a job

The Three-Year Rules

A key provision in the Act allows the distribution(s) to be spread "ratably" over three years for purposes of calculating tax payments. In other words, the total can be reported in equal amounts on your 2020, 2021, and 2022 tax returns. For example, if you received a $15,000 distribution, you could report $5,000 in income for each of the three years. However, if you prefer, you can generally report the entire distribution in your 2020 tax filing.

Another provision allows you to repay all or a part of your coronavirus distribution to an eligible retirement plan within three years from the day after the date the distribution was received. Repayments will be treated as if you enacted a trustee-to-trustee transfer, and no federal income taxes will be owed. (A repayment to an IRA is not considered a rollover for purposes of the one-rollover-per-year rule.)

If you pay your income taxes prior to repaying the distribution, your repayment will reduce the amount of the distribution income you report in a subsequent year. Or instead, you may file an amended return, depending on your specific situation.

Consider speaking with a tax professional before making any final decisions.

How to Report Distribution Income

If you received a coronavirus distribution(s) in 2020, you should use Form 8915-E, Qualified Disaster Retirement Plan Distributions and Repayments, to report the income as part of your 2020 federal income tax filing. You can also use this form to report any recontributed amounts.