Talking Taxes
February 19th, 2021

Michael Clancy, MBA, CFP®, CLU
Director of Financial Planning
Drexel University College of Medicine
“In this world nothing can be said to be certain, except death and taxes.”

Benjamin Franklin 1789
Learning Objectives

- How Federal Taxes work
- What you can do about it
Disclaimer

Today’s talk does not constitute Tax Advice

Today’s talk reflects current Tax Rules as well as some comparisons to the rules prior to 2018 to reflect the tax law changes
All Sources of Income
+/- Adjustments
= Adjusted Gross Income (AGI)
- Deductions *(standard or Itemized)*
- Exemptions
= Taxable Income (look to the tax brackets)
  x Rates for each Tax Bracket
  = Tax
# 1040 Tax Return

## Front Page

### Tax Payer Information
- All dependents

### Filing Status
- Single
- Married filing jointly
- Married filing separately
- Head of household
- Qualifying widow(er)

### Wages
- Interest & Dividends
- IRA, Pension, Social Security

### Capital Gains (Net)

### Other Income

### Total Income
Front Page

Schedule 1

Adjustments To Income

= Adjusted Gross Income (AGI)

Schedule A

Deductions From Income

Single  ($12,400 in 2020)  
($12,550 in 2021)

Married  ($24,800 in 2020)  
($25,100 in 2021)

= Taxable Income
## 1040 Tax Return

### Adjustments – Schedule 1

#### Additional Income

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alimony Received (old)</td>
<td></td>
</tr>
<tr>
<td>Business Inc. (schedule C)</td>
<td></td>
</tr>
<tr>
<td><strong>Schedule E</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net</strong> Rental Income</td>
<td></td>
</tr>
<tr>
<td>Royalty</td>
<td></td>
</tr>
<tr>
<td>Partnership</td>
<td></td>
</tr>
<tr>
<td>Trust</td>
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<tr>
<td>Other Incomes</td>
<td></td>
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</table>

### Schedule E

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
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<tbody>
<tr>
<td>Additional Income</td>
<td></td>
</tr>
<tr>
<td><strong>Part I</strong></td>
<td></td>
</tr>
<tr>
<td>1 Taxable refunds, credits, or</td>
<td></td>
</tr>
<tr>
<td>offsets of state and local</td>
<td></td>
</tr>
<tr>
<td>income taxes</td>
<td></td>
</tr>
<tr>
<td>2a Alimony received</td>
<td></td>
</tr>
<tr>
<td>b Date of original divorce or</td>
<td></td>
</tr>
<tr>
<td>separation agreement (see</td>
<td></td>
</tr>
<tr>
<td>instructions)</td>
<td></td>
</tr>
<tr>
<td>3 Business income or (loss)</td>
<td></td>
</tr>
<tr>
<td>Attach Schedule C</td>
<td></td>
</tr>
<tr>
<td>4 Other gains or (losses)</td>
<td></td>
</tr>
<tr>
<td>Attach Form 4797</td>
<td></td>
</tr>
<tr>
<td>5 Rental real estate, royalties,</td>
<td></td>
</tr>
<tr>
<td>partnerships, S corporations,</td>
<td></td>
</tr>
<tr>
<td>trusts, etc. Attach Schedule</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td></td>
</tr>
<tr>
<td>6 Farm income or (loss)</td>
<td></td>
</tr>
<tr>
<td>Attach Schedule F</td>
<td></td>
</tr>
<tr>
<td>7 Unemployment compensation</td>
<td></td>
</tr>
<tr>
<td>8 Other income: List type and</td>
<td></td>
</tr>
<tr>
<td>amount</td>
<td></td>
</tr>
<tr>
<td>9 Combine lines 1 through 8.</td>
<td></td>
</tr>
<tr>
<td>Enter here and on Form</td>
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<tr>
<td>1040, 1040-SR, or 1040-NR,</td>
<td></td>
</tr>
<tr>
<td>line 8</td>
<td></td>
</tr>
<tr>
<td><strong>Part II</strong></td>
<td></td>
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<tr>
<td>10 Educator expenses</td>
<td></td>
</tr>
<tr>
<td>11 Certain business expenses</td>
<td></td>
</tr>
<tr>
<td>expenses of reservists,</td>
<td></td>
</tr>
<tr>
<td>performing artists, and fee-</td>
<td></td>
</tr>
<tr>
<td>basis government officials.</td>
<td></td>
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<td>Attach Form 2106</td>
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<tr>
<td>12 Health savings account</td>
<td></td>
</tr>
<tr>
<td>deduction. Attach Form 8889</td>
<td></td>
</tr>
<tr>
<td>13 Moving expenses for members</td>
<td></td>
</tr>
<tr>
<td>of the Armed Forces. Attach</td>
<td></td>
</tr>
<tr>
<td>Form 3903</td>
<td></td>
</tr>
<tr>
<td>14 Deductible part of self-</td>
<td></td>
</tr>
<tr>
<td>employment tax. Attach</td>
<td></td>
</tr>
<tr>
<td>Schedule SE</td>
<td></td>
</tr>
<tr>
<td>15 Self-employed SEP,</td>
<td></td>
</tr>
<tr>
<td>SIMPLE, and qualified plans.</td>
<td></td>
</tr>
<tr>
<td>16 Self-employed health</td>
<td></td>
</tr>
<tr>
<td>insurance deduction</td>
<td></td>
</tr>
<tr>
<td>17 Penalty on early withdrawal</td>
<td></td>
</tr>
<tr>
<td>of savings</td>
<td></td>
</tr>
<tr>
<td>18a Alimony paid</td>
<td></td>
</tr>
<tr>
<td>b Recipient’s SSN</td>
<td></td>
</tr>
<tr>
<td>c Date of original divorce or</td>
<td></td>
</tr>
<tr>
<td>separation agreement (see</td>
<td></td>
</tr>
<tr>
<td>instructions)</td>
<td></td>
</tr>
<tr>
<td>19 IRA deduction</td>
<td></td>
</tr>
<tr>
<td>20 Student loan interest</td>
<td></td>
</tr>
<tr>
<td>deduction</td>
<td></td>
</tr>
<tr>
<td>21 Tuition and fees deduction.</td>
<td></td>
</tr>
<tr>
<td>Attach Form 8917</td>
<td></td>
</tr>
<tr>
<td>22 Add lines 10 through 21.</td>
<td></td>
</tr>
<tr>
<td>These are your adjustments</td>
<td></td>
</tr>
<tr>
<td>to income. Enter here and on</td>
<td></td>
</tr>
<tr>
<td>Form 1040, 1040-SR, or 1040-NR,</td>
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</tr>
<tr>
<td>line 10a</td>
<td></td>
</tr>
</tbody>
</table>

For Paperwork Reduction Act Notice, see your tax return instructions.
1040 Tax Return

Adjustments – Schedule 1

Adjustments To Income Income

Educator Expenses
Certain Business Expenses
Health Savings Accounts (H.S.A.)
Moving Expenses
Self-Employment Taxes & Insurances
Alimony Paid (old)
Traditional IRA deduction
Student Loan Interest
Tuition & Fees
## Itemized Deductions – Schedule A

### Medical and Dental

>7.5% 2020

### State & Local Taxes Paid (S.A.L.T.)

**Limit $10,000**

### Interest Paid (mortgages)

Charity, Theft, Other

### Job Related and Miscellaneous

No longer deductible

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### SCHEDULE A (Form 1040)

#### 1040 Tax Return

#### Itemized Deductions – Schedule A

<table>
<thead>
<tr>
<th>Itemized Deductions</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical and Dental</td>
<td>7.5%</td>
</tr>
<tr>
<td>State &amp; Local Taxes</td>
<td>Limit $10,000</td>
</tr>
<tr>
<td>Interest Paid</td>
<td>mortgages</td>
</tr>
<tr>
<td>Charity, Theft</td>
<td>Other</td>
</tr>
</tbody>
</table>

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**For Paperwork Reduction Act Notice, see the Instructions for Form 1040 and 1040-SR.**

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**Drexel UNIVERSITY**

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**Note:**

- Deductions claimed on Form 1040 and 1040-SR.
- Attach Form 1400 or 1040-SR, line 12.
- If you elect to itemize deductions even though they are less than your standard deduction, check this box.
- See instructions for line 16.
- For Paperwork Reduction Act Notice, see the Instructions for Form 1040 and 1040-SR.
Unreimbursed Employee Expenses no longer deductible

- Professional Society Dues
- Union Dues
- License and Regulatory Fees
- Malpractice Premiums
- Subscriptions, Professional and Trade Journals
- Tools and Supplies and work clothes
- Work Related Education (CE)
- Conferences and Travel To & From
Job Search Expenses no longer deductible

- Everything related to looking for a new job in your **same occupation**
- School to Job – NO
- Job ‘A’ to Job ‘B’ - **Yes**
1040 Tax Return

How To Reduce Income to Reduce Taxes?

Employer Health Insurance
Premiums come out pre-tax

Employer Retirement Plans
Contribute Pre-Tax

Flexible Spending Accounts
Child Care & Medical

Other employer pre-tax benefits
Employee Benefits

Health Insurance Premiums

Flexible Spending Accounts
For out of pocket medical or child care

Health Savings Accounts
Need to have High Deductible Health Insurance
Why use a Flexible Spending Account?

- For out of pocket **Health** costs or **Child Care**
- Reduces your income dollar for dollar
- Do not need to itemize to do so.
- Need to have routine predictable expenses
- Use to be a use it or lose it condition
- Some let you carry over $500 to the next year
Student Loan Interest Deduction 2021

Deduct up to $2,500/year in student loan interest

- Phased out when income rises
  - $70,000 - $85,000 (single)
  - $140,000 - $170,000 (married filing Joint)

- No deduction for married filing separate

Receive a 1098-E from each loan servicer required to send if interest >= $600
Employer Retirement Plans

• 401k, 403b, 457, TSP etc. (Traditional versions, not Roth)
• Contributions come out of your paycheck pre-tax
  • Each pay period based on your % elected
  • $19,500/year maximum from your wages (2021)
• Accounts grow tax-deferred
• Entire account is taxed upon withdrawal in retirement
• Some Employers contribute Matching Dollars
  • Check eligibility and Vesting Schedule
• Roth 401k, Roth 403b, Roth TSP are with After Tax Dollars
Tax Return

- Contributions to Retirement Plans are Pre-Tax.
- Reduces Taxable Income
- $19,500 for 2021
- 22% Marginal Tax Bracket MTB
- $4,290 less Federal Taxes
# 2021 Tax Brackets (single)

<table>
<thead>
<tr>
<th>Taxable Income Ranges</th>
<th>Marginal Tax Rates</th>
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<tbody>
<tr>
<td>$0 - $9,950</td>
<td>10%</td>
</tr>
<tr>
<td>$40,525</td>
<td>12%</td>
</tr>
<tr>
<td>$86,375</td>
<td>22%</td>
</tr>
<tr>
<td>$164,925</td>
<td>24%</td>
</tr>
<tr>
<td>$209,425</td>
<td>32%</td>
</tr>
<tr>
<td>$523,600</td>
<td>35%</td>
</tr>
<tr>
<td>&gt;$523,600</td>
<td>37%</td>
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</tbody>
</table>
$65,000 Gross Income

- Contributions to Retirement Plans are Pre-Tax reduces Taxable Income

- $19,500 for 2021

- 22% Marginal Tax Bracket MTB

- $3,533 less Federal Tax

- But not all of it was in the 22% MTB
Types of Investment Accounts

• Taxable
  • Activity shows up on tax return
  • Interest, Dividends, Capital Gains
  • Can claim a capital loss
  • Tax-Free income has no impact on taxes (Municipal Bonds)

• Tax Deferred
  • Regardless of activity, is not reflected on tax return
  • No claiming capital loss
Types of Investment Accounts

• **Taxable**
  - Individual or Joint Account
  - Custodial Accounts (for minors)
  - Trust Accounts (estate planning)

• **Tax Deferred**
  - Retirement Plans (401k, 403b, 457, TSP)
  - IRA (Traditional, Rollover, Roth)
  - 529 (College Savings)
  - Annuities (retirement)
  - Life Insurance (Death Benefit, Estate & Business)
  - Health Savings Accounts (healthcare related expenses)
Capital Gains (Schedule D)

- Sales Price
- - Cost Basis*
- Gain or Loss

- Short Term: Owned less than 1 year
  - Taxed as Income
- Long Term: Owned > 1 year
  - Taxed at lower capital gain tax rate

*Cost Basis = purchase plus all reinvestments
Capital Gains

| Short Term Gain – Short Term Loss = Net Short Term |
| Long Term Gain – Long Term Loss = Net Long Term |

Net the two together to get a net Gain or Loss

Up to $3,000 of losses can be used to lower income

Carryover unused losses until all used up

Capital Gain rate is based on it’s own income ranges.
Capital Gains (Example)

In 2021, sell something at a $10,000 Loss with nothing sold as a gain (no offsetting).

- $3,000 is used to reduce income in 2021.
- $7,000 loss carryover into 2022.

If something is sold at a gain in 2022, the losses are already there to offset it. If not, $3,000 will reduce income for tax purposes.

Any unused losses carry over until all used up.
### Capital Gains Depends on Taxable Income Levels

<table>
<thead>
<tr>
<th>Status</th>
<th>0% Rate</th>
<th>15% Rate</th>
<th>20% Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>&lt; $40,400</td>
<td>$40,400 - $445,850</td>
<td>&gt; $445,850</td>
</tr>
<tr>
<td>Married - Joint</td>
<td>&lt; $80,800</td>
<td>$80,800 - $501,600</td>
<td>&gt; $501,600</td>
</tr>
</tbody>
</table>
Capital Gains on Home Sale

Original Purchase Price
+ All Additions
= Cost Basis

Net Sales Price – Cost Basis = Gain

$250,000 of Gains are free of Capital Gains Tax (Single)
$500,000 for married couples

Must occupy the house as a primary residency for 24 months of the prior five years.
Putting all the pieces together
2020 Compare Taxes (Single $75,000 AGI)

- Std. Ded. $12,400

Taxable Income $62,600  22% Marginal Tax Bracket

Tax $9,562

Effective Rate 15%
2020 Compare Taxes (Single $150,000 AGI)

- Std. Ded. $12,400

Taxable Income $137,600 24% Marginal Tax Bracket

Tax $27,104

Effective Rate 20%
2020 Compare Taxes (Married/Joint $150,000 AGI)

- Std. Ded.  $24,800

Taxable Income  $125,200  22% Marginal Tax Bracket

Tax  $19,124

Effective Rate  15%
2020 Compare Taxes (Married/Joint $150,000 AGI)

- Std. Ded. $24,800

Taxable Income $125,200  22% Marginal Tax Bracket

Tax  $19,124

Effective Rate  15%

Local Taxes (PA & Philly) total = $10,319
S.A.L.T. limited to $10,000
Single Buyer - $60,000/Year Income

Assumptions:
- $5,000 per month Gross Income
- Want to do 5% Down
- Good Credit (700+)
Single Buyer - $60,000/Year Income

Assumptions:
• $200,000 Purchase Price
• $10,000 Down Payment
• $2,400 Real Estate Taxes
• $1,200 Homeowner’s Insurance
• 4.20% Interest Rate
Mortgage Payment

- Principal and Interest - $929
- Real Estate Taxes- $200
- Homeowners Insurance- $100
- PMI- $123*

- Total Housing Payment $1,352

How Much is Your Rent?????

*Fluctuates based on Loan-to-debt value and credit scores
• Income of $60,000

• Student Loan Interest Deduction of $2,500

• AGI = $57,500
• AGI = $57,500

• Standard Deduction $12,400

• Taxable Income of $45,100

• Taxes of $5,712
### Itemized Deductions

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>State/Local Income Taxes</td>
<td>$4,171</td>
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<tr>
<td>Real Estate Taxes</td>
<td>$2,400</td>
</tr>
<tr>
<td><strong>Mortgage Interest Deduction</strong></td>
<td>$7,918</td>
</tr>
<tr>
<td><strong>Can now take itemized deductions</strong></td>
<td><strong>$14,489</strong></td>
</tr>
</tbody>
</table>

instead of standard deduction

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**SCHEDULE A**

<table>
<thead>
<tr>
<th>Itemized Deductions</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Expenses</td>
<td></td>
</tr>
<tr>
<td>Dental Expenses</td>
<td></td>
</tr>
<tr>
<td>State/Local Income Taxes</td>
<td>$4,171</td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>$2,400</td>
</tr>
<tr>
<td>Mortgage Interest Deduction</td>
<td>$7,918</td>
</tr>
<tr>
<td><strong>Total Itemized Deductions</strong></td>
<td><strong>$14,489</strong></td>
</tr>
</tbody>
</table>

Can now take itemized deductions instead of standard deduction.
Homeowner Tax Return

- AGI = $57,500
- Itemized Deduction $14,489
- Taxable Income of $43,011
- Taxes of $5,252
- Additional $460 back!
S.A.L.T. Limited to $10,000

<table>
<thead>
<tr>
<th>2020</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Income</td>
<td>Gross Income</td>
</tr>
<tr>
<td>$60,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>PA Taxes</td>
<td>PA Taxes</td>
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<tr>
<td>$1,842</td>
<td>$4,605</td>
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<tr>
<td>Philly Taxes</td>
<td>Philly Taxes</td>
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<tr>
<td>$2,329</td>
<td>$5,713</td>
</tr>
<tr>
<td>+ Real Estate Tax</td>
<td>=</td>
</tr>
<tr>
<td>$2,400</td>
<td>=</td>
</tr>
<tr>
<td>=</td>
<td>$10,318</td>
</tr>
<tr>
<td>= $6,565</td>
<td>= $6,565</td>
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</tbody>
</table>

Real Estate Tax isn’t even counted
Tax Math

All Sources of Income
+/- Adjustments
= Adjusted Gross Income
- Deductions (standard or Itemized)
= Taxable Income (look to the tax brackets)
x Rates for each Tax Bracket
= Tax
Result: REFUND or OWE
Tax Math

- All Federal Tax Withholdings from Paychecks and Retirement account withdrawals
- Quarterly Estimated Payments
- Eligible Tax Credits

Used to offset the Tax Bill

Result: REFUND or OWE
Tax Credits

- **Child Tax Credit**
  - up to $2,000/child dependent <=16
  - up to $1,400 can be refundable
  - $500/Qualifying dependent

Under $200,000 (single)
Under $400,000 (married/Joint)
Note: not married/separate
**Child & Dependent Care Tax Credit**

- 20% to 35% of up to $3,000/care
- Or up to $6,000/care for two or more

- Child age <13, Incapacitated Spouse, Parent, Dependent

- Single or married/Joint
- SSN or TIN of provider
- Not relative or dependent
Earned Income Tax Credit (EIC)

For low and moderate income
Refundable
Based on Income limits and number of claimed children
Maximum for 2021 is $6,728 for those with three or more children
Note: not for married filing separately
Tax Credits

Lifetime Learning Credit

20% of up to $10,000

Qualified Higher Education Expenses

Single up to $59,000 - $69,000 (2020)
Single up to $80,000 - $90,000 (2021)

Married/Joint up to $118,000 - $138,000 (2020)
Married/Joint up to $160,000 - $180,000 (2021)
Roth IRA

• Individual retirement account that you set up
• Contribute dollars “After-Tax”
• Account grows Tax-Deferred
• Entire account is tax free in retirement

• Your contributions can be used at any time with no penalty or tax
• Contributions subject to income limits

<table>
<thead>
<tr>
<th></th>
<th>Income Limits</th>
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<tbody>
<tr>
<td>Single</td>
<td>$124,000 - $139,000 (2020)</td>
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<tr>
<td>Single</td>
<td>$125,000 - $140,000 (2021)</td>
</tr>
<tr>
<td>Married/Joint</td>
<td>$196,000 - $206,000 (2020)</td>
</tr>
<tr>
<td>Married/Joint</td>
<td>$198,000 - $208,000 (2021)</td>
</tr>
</tbody>
</table>

NOTE: Not for Married/Separate!
Back-Door Roth IRA

For those with income above phase-outs or those filing taxes Married/Separate

1. Make a contribution to a non-deductible Traditional IRA

2. Convert that account to a Roth IRA
   • It already was after-tax money so no new tax
   • Should be your only IRA money to avoid pro-rata conversion.

- Don’t “Rollover” when leaving employer, put in new employer retirement plan (transfer).
Changing Employers
Five Options

1. Leave Existing Retirement Plan where it is

2. Lateral Move to New Employer’s Retirement Plan

3. “Rollover” to a Traditional IRA

4. “Convert” that account to a Roth IRA

5. Withdraw and Spend it
Back Door Roth IRA Steps

- Contribute to a non-deductible Traditional IRA
- Convert those funds to a Roth IRA
  It is entirely after-tax money so no tax or penalty to do so
  No income limit to do so
Back Door Roth IRA Problem

Rollover IRA is a Traditional IRA with Pre-Tax Dollars from your employer plan. SEP-IRA is where accountants recommend you put your independent contractor income to lower your tax bill. Maybe use a Solo-401k instead.
Back Door Roth IRA Problem

Rollover IRA & SEP-IRA has Pre-Tax Dollars
IRS will tax the conversion dollars on a pro-rata basis
Michael R. Clancy, MBA, CFP®, CLU
Dir. of Financial Planning
Division of Medical Education

Drexel University College of Medicine
2900 Queen Lane, Room 111
Philadelphia, PA 19129
Tel: 215.991.8595 | Fax: 215.843.0214
Michael.Clancy@DrexelMed.edu