



## IRS Inflation-Adjusted Tax Items

March 2021

### Overview

In review of 2020, there were not a lot of meaningful tax-related legislative developments. However, the Biden administration and the new Congress are expected to address various pieces of tax legislation in 2021. For now, this memorandum highlights many of the standard IRS inflation adjustments that already apply during 2021 until new tax legislation is advanced.

### Key Income, Net Investment Tax, AMT Exemptions and Rates

The standard deduction for single taxpayers that do not itemize is \$12,550. Married couples filing joint returns that do not itemize will have a standard deduction of \$25,100. For itemizers, state and local tax (SALT) deductions continue to remain capped at \$10,000. The following tables reflect applicable ordinary income, long and short-term capital gains, qualifying dividends and net investment income tax brackets for 2021 compared to 2020.

2020 and 2021 Top Federal Income Tax Rates	
Ordinary earned income, not including short-term capital gains or passive income <sup>1</sup>	37.0%
Ordinary income including net investment income (interest, short-term capital gains, non-qualified dividends and other passive income) <sup>2</sup>	40.8%
Long-term capital gains <sup>3</sup>	23.8%
Qualified dividends <sup>4</sup>	23.8%
<b>Notes:</b>	
1 Medicare surcharge of 0.9% applied to wages and self-employment income that exceeds \$200K for singles and \$250K for couples	
2 Includes interest, dividends, royalties, net rental income and other passive income	
3 Includes 3.8% surtax on net investment income over \$200K for singles and over \$250K for couples	
4 Includes 3.8% surtax on net investment income over \$200K for singles and over \$250K for couples	

2020 Federal Income Tax Brackets					
Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estates & Trusts	Marginal Rate
Up to \$9,875	Up to \$19,750	Up to \$9,875	Up to \$14,100	Up to \$2,600	10%
\$9,876 to \$40,125	\$19,751 to \$80,250	\$9,876 to \$40,125	\$14,101 to \$53,700	NA	12%
\$40,126 to \$85,525	\$80,251 to \$171,050	\$40,126 to \$85,525	\$53,701 to \$85,500	NA	22%
\$85,526 to \$163,300	\$171,051 to \$326,600	\$85,526 to \$163,300	\$85,501 to \$163,300	\$2,601 to \$9,450	24%
\$163,301 to \$207,350	\$326,601 to \$414,700	\$163,301 to \$207,350	\$163,301 to \$207,350	NA	32%
\$207,351 to \$518,400	\$414,701 to \$622,050	\$207,351 to \$311,025	\$207,351 to \$518,400	\$9,451 to \$12,950	35%
Over \$518,400	Over \$622,050	Over \$311,025	Over \$518,400	Over \$12,950	37%

2021 Federal Income Tax Brackets					
Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estates & Trusts	Marginal Rate
Up to \$9,950	Up to \$19,900	Up to \$9,950	Up to \$14,200	Up to \$2,650	10%
\$9,951 to \$40,525	\$19,901 to \$81,050	\$9,951 to \$40,525	\$14,201 to \$54,200	NA	12%
\$40,526 to \$86,375	\$81,051 to \$172,750	\$40,526 to \$86,375	\$54,201 to \$86,350	NA	22%
\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,376 to \$164,925	\$86,351 to \$164,900	\$2,651 to \$9,550	24%
\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,926 to \$209,425	\$164,901 to \$209,400	NA	32%
\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,426 to \$314,150	\$209,401 to \$523,600	\$9,551 to \$13,050	35%
Over \$523,600	Over \$628,300	Over \$314,150	Over \$523,600	Over \$13,050	37%

2020 Total Income		2021 Total Income		Long Term Capital Gains Rate
Single Filers	Married Filing Joint	Single Filers	Married Filing Joint	
Up to \$40,000	Up to \$80,000	Up to \$40,400	Up to \$80,800	0%
\$40,001 to \$441,450	\$80,001 to \$496,600	\$40,401 to \$445,850	\$80,801 to \$501,600	15%
More than \$441,550	More than \$496,600	More than \$445,850	More than \$501,600	20%

2020 Net Investment Income Tax (MAGI Thresholds)		2021 Net Investment Income Tax (MAGI Thresholds)	
Single Filers	Married Filing Joint	Single Filers	Married Filing Joint
Over \$200,000	Over \$250,000	Over \$200,000	Over \$250,000

### Alternative Minimum Tax (AMT)

The AMT is a separate tax calculation that requires individual taxpayers, estates and trusts to add back certain deductions that would otherwise be deductible against their regular tax calculation. The AMT tax rate is generally lower than the highest regular income tax rate, but the base upon which the tax is applied is higher due to the addback of various deductions. While there are several factors that could contribute to a taxpayer being subject to AMT, a combination of the following preferences typically will trigger an AMT liability since the deduction for state and local taxes is capped at \$10,000:

- Significant long-term capital gains
- Exercise of incentive stock options
- Accelerated depreciation deductions

Alternative Minimum Tax (AMT)	2020	2021
Maximum AMT exemption amount	Married Filing Joint \$113,400 Single \$72,900	Married Filing Joint \$114,600 Single \$73,600
Exemption phaseout threshold	Married Filing Joint \$1,036,800 Single \$518,400	Married Filing Joint \$1,047,200 Single \$523,600
26% rate applies to AMT income (AMTI) at or below this amount (28% rate applies to AMTI above this amount)	Married Filing Joint \$197,900 Single \$98,950	Married Filing Joint \$199,900 Single \$99,950

To the extent that a taxpayer is subject to AMT, a common practice is to consider deferring certain deductions (preference items) into the subsequent year and/or accelerating income into the current year if doing so is favorable when factoring in the lower AMT tax rates versus the higher regular ordinary income tax rates.

### Estate, Gift and Generation-Skipping Adjustments

The exemption amounts for the estate, gift and generation-skipping taxes increase to \$11.7 million in 2021. (\$23.40 million per couple). The annual exclusion amount for gifts will remain \$15,000 per year. These changes provide high net worth individuals a significant planning window to make gifts, set up irrevocable

trusts and analyze strategies to swap high basis assets included in their taxable estate with low basis assets currently titled in irrevocable trusts.

### Retirement Plan and IRA Key Numbers

The following tables reflect IRS elective deferral limits, IRA contribution limits and income phase-out ranges for traditional and Roth IRAs.

Elective Deferral Limits	2020	2021
401(k), 403(b), 457(b), Profit-Sharing Plans	Lesser of \$19,500 or 100% of participant's compensation (\$26,000 if age 50 or older) <sup>2</sup>	Lesser of \$19,500 or 100% of participant's compensation (\$26,000 if age 50 or older) <sup>2</sup>
Defined Contribution Plans, SEPs	Lesser of \$57,000 or 25% of participant's compensation	Lesser of \$58,000 or 25% of participant's compensation
SIMPLE 401(k) plans and SIMPLE IRA plans <sup>1</sup>	Lesser of \$13,500 or 100% of participant's compensation (\$16,500 if age 50 or older)	Lesser of \$13,500 or 100% of participant's compensation (\$16,500 if age 50 or older)
1 Must aggregate employee deferrals to all 401(k), 403(b) and SIMPLE plans of all employers; 457(b) contributions are not aggregated. 2 Special catch-up limits may also apply to 403(b) and 457(b) plan participants.		

The chart below compares the 2020 and 2021 IRA contribution limits.

IRA contribution limits	2020	2021
Traditional and Roth IRAs	Lesser of \$6,000 or 100% of earned income (\$7,000 if age 50 or older)	Lesser of \$6,000 or 100% of earned income (\$7,000 if age 50 or older)

  

Income phaseout range for determining deductibility of traditional IRA contributions for taxpayers:	2020	2021
1. Covered by an employer-sponsored plan and filing as:		
Single/Head of household	\$65,000 - \$75,000	\$66,000 - \$76,000
Married filing jointly	\$104,000 - \$124,000	\$105,000 - \$125,000
Married filing separately	\$0 - \$10,000	\$0 - \$10,000
2. Not covered by an employer-sponsored retirement plan, but filing joint return with a spouse who is covered by a plan	\$196,000 - \$206,000	\$198,000 - \$208,000

  

Income phaseout range for determining ability to fund a Roth IRA for taxpayers filing as:	2020	2021
Single/Head of household	\$124,000 - \$139,000	\$125,000 - \$140,000
Married filing jointly	\$196,000 to \$206,000	\$198,000 to \$208,000

Source: Internal Revenue Service

### Spousal IRA Planning

A contribution to a Traditional or Roth IRA is allowed only if the taxpayer has earned income. An exception exists for non-working spouses as long as the couple has at least \$12,000 of combined earned income. This allows the working spouse to contribute \$6,000 to their own IRA and \$6,000 to their spouse's IRA. Deductible contributions for 2020 are allowed until the return due date (April 2021 plus extensions).

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