

High-Income Taxpayers



BrickTaxes.com

88 Queen Ann Rd * Brick, NJ 08723

732-540-1040

IRS eFile Agent & Tax Preparer

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High-Income Taxpayers

In addition to being subject to higher federal tax rates, taxpayers whose income exceeds certain levels have tax deductions and credits that are reduced or eliminated.

The provisions listed may have additional qualifications and restrictions. Other provisions of the tax code, such as fringe benefit limitations and taxation on the sale of a principal residence, may further restrict a taxpayer's ability to take deductions or cause the taxpayer to pay additional tax. Ask your tax professional for more details.

Home mortgage interest. A taxpayer may treat no more than \$750,000 as acquisition indebtedness (\$375,000 MFS). The \$1,000,000 (\$500,000 MFS) limitation continues to apply for any indebtedness incurred prior to December 15, 2017.

The deduction for home equity indebtedness (other than debt for acquisition or improvement) is not allowed.

Personal exemptions. The deduction for personal exemptions is suspended for tax years 2018 through 2025.

Capital Gain Tax Rates

| Long-Term Capital Gain and Qualified Dividend Income Maximum Tax Rates | | | |
|--|--------------|----------------------------|--------------|
| Taxable Income | Maximum Rate | Taxable Income | Maximum Rate |
| Single | | MFJ or QW | |
| \$0 to \$40,000..... | 0% | \$0 to \$80,000..... | 0% |
| \$40,001 to \$441,450..... | 15% | \$80,001 to \$496,600..... | 15% |
| \$441,451 and over..... | 20% | \$496,601 and over..... | 20% |
| HOH | | MFS | |
| \$0 to \$53,600..... | 0% | \$0 to \$40,000..... | 0% |
| \$53,601 to \$469,050..... | 15% | \$40,001 to \$248,300..... | 15% |
| \$469,051 and over..... | 20% | \$248,301 and over..... | 20% |
| Estates and Trusts | | | |
| \$0 to \$2,650..... | 0% | | |
| \$2,651 to \$13,150..... | 15% | | |
| \$13,151 and over..... | 20% | | |

Individual Retirement Arrangements (IRAs)

| IRA Individual Contribution Limits | | |
|------------------------------------|--------------|---------|
| | 2020 | 2019 |
| Under age 50..... | \$6,000..... | \$6,000 |
| Age 50 or older..... | \$7,000..... | \$7,000 |

Traditional IRA Phaseout Based on Modified AGI (MAGI)

If an individual is an active participant in an employer-sponsored pension plan, the deduction for a traditional IRA contribution is phased out when MAGI is between the following.

| Tax Year | MFJ | Single, HOH | MFS |
|-----------|-----------------------------|---------------------------|-----------------|
| 2020..... | \$104,000 to \$124,000..... | \$65,000 to \$75,000..... | \$0 to \$10,000 |
| 2019..... | \$103,000 to \$123,000..... | \$64,000 to \$74,000..... | \$0 to \$10,000 |

If the individual is not an active participant, but the spouse is, the non-active participant's deduction is phased out when modified AGI is between the following.

| Tax Year | MFJ | MFS |
|-----------|-----------------------------|-----------------|
| 2020..... | \$196,000 to \$206,000..... | \$0 to \$10,000 |
| 2019..... | \$193,000 to \$203,000..... | \$0 to \$10,000 |

Itemized Deductions and Personal Exemptions

Taxes paid. The itemized deduction for state and local taxes is limited to \$10,000 (\$5,000 MFS). Foreign real property taxes are not deductible.



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Roth IRA Phaseouts

| | 2020 | 2019 |
|---------------------------|-----------------------------|------------------------|
| MFJ or QW | \$196,000 to \$206,000..... | \$193,000 to \$203,000 |
| Single, HOH or MFS* | \$124,000 to \$139,000..... | \$122,000 to \$137,000 |
| MFS..... | \$0 to \$10,000..... | \$0 to \$10,000 |

* MFS and did not live with spouse during the year.

Retirement Savings Contribution Credit (Saver's Credit)

2020 Retirement Savings Contribution Credit Percentage

| Rate | MFJ | HOH | Single, QW, MFS |
|------|---------------------|---------------------|---------------------|
| 50% | \$0 – \$39,000 | \$0 – \$29,250 | \$0 – \$19,500 |
| 20% | \$39,001 – \$42,500 | \$29,251 – \$31,875 | \$19,501 – \$21,250 |
| 10% | \$42,501 – \$65,000 | \$31,876 – \$48,750 | \$21,251 – \$32,500 |
| 0% | Over \$65,000 | Over \$48,750 | Over \$32,500 |

Up to a maximum credit of \$1,000.

Child Tax Credit

AGI phaseout. The credit (up to \$2,000 per qualifying child) is reduced by \$50 for each \$1,000 of modified AGI above:

- \$400,000 Married Filing Jointly.
- \$200,000 Single, Head of Household, Qualifying Widow(er), or Married Filing Separately.

Credit for Other Dependents

A nonrefundable credit of up to \$500 is allowed for dependents other than a qualifying child for the Child Tax Credit.

Adoption Expenses

| | |
|----------------------------------|-----------------------|
| 2020 maximum credit..... | \$14,300 |
| 2020 maximum exclusion..... | \$14,300 |
| AGI phaseout..... | \$214,520 – \$254,520 |
| Unused credit carryforward | 5 years |

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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Additional Medicare Tax

Increased Medicare Tax on Earned Income

The employee portion of the hospital insurance (Medicare) tax is increased by an additional tax of 0.9% on wages received in excess of the threshold amount. However, unlike the general 1.45% hospital insurance (Medicare) tax on wages, this additional tax is on the combined wages of the employee and the employee's spouse, in the case of a joint return.

Medicare Tax on Unearned Income

Individuals. The tax is 3.8% on the lesser of net investment income or the excess of modified adjusted gross income over the threshold amount.

Threshold Amount

| | |
|---|-----------|
| Joint return or surviving spouse..... | \$250,000 |
| Married individual filing separately..... | \$125,000 |
| All other tax filers | \$200,000 |

Education Benefits

2020 Education Benefits Comparison Chart

| | Benefit | Annual Limit | Modified AGI Phaseout |
|--|---|---|---|
| <i>American Opportunity/ Hope Credit</i> | 40% of the credit may be refundable (limited to \$1,000). | \$2,500 credit per student. | \$80,000 – \$90,000 \$160,000 – \$180,000 (MFJ) |
| <i>Lifetime Learning Credit</i> | Tax credit (non-refundable). | \$2,000 credit per tax return. | \$59,000 – \$69,000 \$118,000 – \$138,000 (MFJ) |
| <i>Coverdell Education Savings Account (ESA)</i> | Tax-free earnings. | \$2,000 contribution per beneficiary. | \$95,000 – \$110,000 \$190,000 – \$220,000 (MFJ) |
| <i>U.S. Savings Bond Interest Exclusion</i> | Tax-free interest. | Amount of qualified education expenses. | \$82,350 – \$97,350 \$123,550 – \$153,550 (MFJ) |
| <i>Student Loan Interest Deduction</i> | Above-the-line tax deduction. | \$2,500 deduction. | \$70,000 – \$85,000 \$140,000 – \$170,000 (MFJ) |

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.