Tax Tidbits

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A Fond Farewell

There comes a time when one eventually retires from a career he or she enjoys and, for me, that time has come. As some of you know, I have suffered some serious health issues over the last couple of years. Therefore, I decided it was time to retire. This month I formally gave notice.

Looking back on the beginning of my career as a CPA, there were many avenues of accounting to consider. While working for public and private firms in New York City and Long Island, I explored many of these fields. It wasn't until I focused on taxes that I found my true calling.

I enjoy working with people and helping them with their tax situations. Taxes were the reason that people needed help, but it was the conversations, life-long stories and friendships I made along the way that grew my passion for the profession.

I joined the Valicenti Advisory Services team in 2004 and it was a privilege to be promoted to Vice President of Tax and Business Services in 2011. I am very proud of the firm's accomplishments and the team we have built. As difficult a decision it was to retire, I can reassure you that Elizabeth Zarnoch and the tax team will provide nothing but exemplary service.

To enjoy retirement, my wife and I have relocated near Buffalo to be closer to family. I look forward to taking the grandkids to some Buffalo Bills games.

All my best – always,

Paul E. Hornbuckle, CPA

What Accomplishments!

Paul Hornbuckle, who started at Valicenti's in 2004 as Tax Manager and rose to Vice President in 2011, will be sorely missed during his retirement. Paul has been very active in his career and passionate about his work. He graduated from Binghamton University with a Bachelor's degree in Accounting and an Associate's degree in Business Administration from Alfred State College. Throughout his career, he continued to hold a CPA title while maintaining annual CPE credits. Paul has served as president, treasurer or a board member of a variety of volunteer organizations including the Chemung County Chamber of Commerce, the Chemung County Alcohol and Drug Abuse Council, the First Presbyterian Church of Elmira and Comprehensive Interdisciplinary Services (CIDS). Paul taught Principles of Accounting I & II at Elmira College. Paul always found the time for teaching and giving interviews to local news stations to educate the community.

Since 2004, Paul has provided Valicenti's with strategic leadership and he helped develop the firm to where it is today. After over 30 years of being active in the community, Paul is admired by many for his business efforts and teaching style. We are very proud of his accomplishments and are happy to have been a part of his career.

Looking forward, we are excited to see Elizabeth Zarnoch excel in her new role as Vice President. She has made incredible contributions to our team since she started in 2011.

All of us at Valicenti's will certainly miss having Paul in the office and we hope he enjoys his future adventures with his family during his retirement. Keep citing those IRS Tax Codes!

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400 East Water Street
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Proposed Tax Law Changes

There are several tax proposals in the Biden Administration as outlined in the American Families Plan and FY 2022 budget. The current Administration's proposals are designed to offset the cost of the proposed increases in spending and tax incentives of their long-term infrastructure and social programs.

One proposal would increase the highest marginal individual income tax rate to 39.6% from the current rate of 37%. The Tax Cut and Jobs Act (TCJA) temporarily reduced the top marginal individual income tax rate from 39.6% to 37% for tax years 2018 through 2025. This reduced rate is set to expire and to revert to 39.6% after December 31, 2025. For tax year 2021, the 37% rate applies to taxable income over $628,300 for married individuals filing a joint return and surviving spouses, $523,600 for unmarried individuals (other than surviving spouses) and head of household filers, and $314,150 for married individuals filing a separate return.

The administration's proposal would accelerate the date the TCJA's reduced rate is set to expire and revert the rate back to 39.6% for tax years beginning after December 31, 2021. In addition to restoring the top marginal individual income tax rate to its pre-TCJA level, the proposal would lower the top income bracket threshold to the level that was in effect during the 2017 tax year, as adjusted for inflation.

If enacted as proposed, beginning in tax year 2022, the 39.6% top marginal individual income tax rate would apply to taxable income over $509,300 for married individuals filing a joint return, $452,700 for unmarried individuals (other than surviving spouses), $481,000 for head of household filers and $254,650 for married individuals filing a separate return. Under the proposal, the income brackets subject to the top marginal individual income tax rate would be indexed for inflation after the 2022 tax year.

Another proposal would tax capital gains and qualified dividends at ordinary rates for high-income taxpayers. Under current law, long-term capital gains and qualified dividends are subject to income tax at a rate of 0%, 15% or 20%, with the applicable tax rate based on a taxpayer's taxable income and filing status. Additionally, single taxpayers with modified adjusted gross income (MAGI) in excess of $200,000 ($250,000 for married taxpayers filing jointly) are assessed an additional 3.8% net investment income tax, resulting in a current maximum tax rate of 23.8%.

The administration's proposal would increase the tax rate on long-term capital gains and qualified dividends for high-income taxpayers by taxing such income at ordinary income tax rates for taxpayers with adjusted gross income (AGI) in excess of $1,000,000 ($500,000 for married filing separately). This would mean that some capital gains could be taxed at 43.4%, consisting of 39.6% tax rate combined with the 3.8% net investment income tax. The proposal would be effective after the date of announcement. It is still unclear if that date would be retroactive to April 28, 2021, when President Biden announced the American Families Plan or after December 31, 2021.

Currently, the basis in property acquired from a decedent is generally the fair market value at date of death of the decedent, a stepped-up basis. If property was received as a gift, the basis is generally the same basis as the donor. Neither transfer, inherited or gifted, creates a taxable event until the asset is disposed of. The administration's proposal would treat transfers of appreciated property as a taxable event. Gain, equal to the excess of the fair market value of the asset over the donor's basis on date of death or gift, would be taxable income to the decedent or donor. The proposal would allow an exclusion of $1 million on capital gains, indexed for inflation, and exclude transfers by a decedent to a U.S. spouse or charity. The capital gain would not be recognized until the surviving spouse disposes of the assets or dies. The proposal provides any gain on tangible personal property such as household furnishings and personal effects, excluding collectibles, would be excluded from recognition. The $250,000 exclusion for capital gain on a principal residence would apply to all residences and would be portable to the decedent's surviving spouse.

Under TCJA, effective for tax years 2018 through 2025, taxpayers may claim a Child Tax Credit of up to $2,000 per qualifying dependent child under the age of 17 with a Social Security Number (SSN). The credit is generally refundable up to $1,400 per qualifying dependent child if the taxpayer has earned income of up to $2,500 and does not claim the foreign earned income exclusion. The TCJA also created a new, nonrefundable $500 credit for non-qualifying child dependents. Under the TCJA, the credit is phased out by $50 for each $1,000 by which a taxpayer's MAGI exceeds $200,000 ($400,000 for married couples filing jointly).

New for tax year 2021 only, the American Rescue Plan Act (ARPA):

- Increased the Child Tax Credit amount to $3,000 per qualifying dependent child age six and older and $3,600 per qualifying dependent child under the age of six,
- Increased the age limit of a qualifying child to include a dependent child under the age of 18,
- Made the Child Tax Credit fully refundable for taxpayers with a principal place of abode in the United States for more than one-half the tax year, and
- Beginning July 1, 2021, advanced payments to taxpayers for up to half of the Child Tax Credit based on 2019 (or 2020, if filed) tax return.

ARPA created a new phase-out range for the additional $1,000 per qualifying child (or $1,600 per qualifying child under age six) credit amount. The additional credit amount is phased out by $50 for each $1,000 by which a taxpayer's MAGI exceeds $75,000 ($112,500 for head of household; $150,000 for married couples filing jointly). The remaining $2,000 Child Tax Credit amount allowed under the TCJA is phased out by $50 for each $1,000 by which a taxpayer's MAGI exceeds $200,000 ($400,000 for married couples filing jointly).

See **Proposed** *on Page 3*

Proposed

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The Child Tax Credit will decrease to up to $1,000 per qualifying dependent child for tax years after 2025. The refundable portion of the Child Tax Credit will be the lesser of $1,000 per qualifying child or 15% of earnings in excess of $3,000. The Child Tax Credit will be phased out for taxpayers with MAGI over $75,000 ($110,000 for married couples filing jointly). The proposal would generally extend ARPA's temporary 2021 expansion and advance payment of the Child Tax Credit through tax year 2025. Additionally, the proposal would make the Child Tax Credit permanently fully refundable for all tax years going forward, regardless of a taxpayer's earned income.

The ARPA modified the Premium Tax Credit for tax years 2021 and 2022. The Premium Tax Credit is available to individuals who purchase health insurance through a marketplace exchange. The annual income percentage that households are required to contribute towards the premium and making individuals with income above 400% of the federal poverty level eligible for the credit. For 2020, taxpayers were not required to repay excess advanced Premium Tax Credit. Prior to the changes, household income between 100 and 400% of the federal poverty level were eligible. The proposal, effective after December 31, 2022, would permanently expand the Premium Tax Credit by decreasing the contribution percentages of household income used for determining the credit and permanently extending eligibility to taxpayers with household income above 400% of the federal poverty level.

As we monitor any new tax developments, information will be communicated. We may not know what tax legislation will be passed by Congress and signed into law, however, one thing is for sure, there will be some tax law changes coming our way.

Elizabeth A. Zarnoch, EA
Vice President of Tax
and Business Services

DocuSign

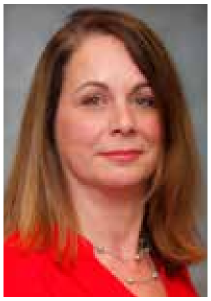
This year the tax department utilized DocuSign to aid in reviewing tax returns and to sign the electronic authorization forms. DocuSign is a secure and efficient way to receive your tax forms. After you have looked over your return, you can set up a conference call to review the return with your tax professional before the electronic signing is completed.

The DocuSign process is simple, does not require the client to download any software and is accessible from any device. Once the tax return is completed, the client receives a secure and encrypted email invitation. If the tax return is for a married couple, the spouse will also receive an email invitation. Within the email, there is a View Documents button for the client to click on. After clicking the View Documents button, the client is asked a series of security questions. The client is first asked for the mailing address that is on file. Once the address has been entered, the client is then prompted to answer three questions that are randomly generated from public records and credit reports. This is an IRS and Federal Agency requirement and the client's information is not shared, sold or published with anyone, including the tax preparer.

The client reads the consent information and checks the electronic consent box at the top of the screen. Once the client clicks to continue, Form 8879 IRS e-File signature authorization form appears. At the top of the screen, the client clicks on the yellow Start button and follows the steps on the screen. Once all of the steps are completed, the client clicks on the "adopt and sign" button, which completes the e-signature process. An automated e-signature email with a link to the client's documents is created once the e-signature process is complete.

Jessica M. Brenzo
Business Services Specialist

Planning for Retirement



In the midst of the COVID-19 pandemic and the relief measures that Congress has passed to boost the economy, markets regained the ground they lost in 2020 and then went even higher. If you are getting ready to retire, these market gains likely help you feel more confident about your post-retirement finances. Obviously, accumulating sufficient assets for retirement is an important part of retirement income planning, however, it's just as important to safeguard what you've saved so it lasts the 25 or 30 years that you may live in retirement. That is where tax planning comes in.

As President Biden's infrastructure plan begins to make its way through Congress, tax policy is in limbo. In addition, large budget deficits brought on by the pandemic relief have accelerated a rise in the federal budget deficit, which is estimated to reach the size of the entire economy in 2021, a level it hasn't reached since just after World War II.

At the same time, the Baby Boomers are retiring at a rate of 10,000 per day. As boomers retire, they will start their Social Security and Medicare benefits, which will strain the federal government's resources. The combination of these factors makes it more likely that taxes will increase during your retirement. Now is the time to figure out how to create a tax-efficient retirement where you can maximize deductions and credits while minimizing taxes.

Most retirees fund their retirement through ongoing contributions to employer-sponsored 401(k) plans. These plans offer a set menu of limited investment options, which may be good for saving for retirement but may not be the best for retirement tax-efficiency. That is where a partial in-service rollover comes in. Through this type of rollover, you may be able to move some of your retirement funds out of your 401(k) and into an IRA (with a larger variety of funds to choose from) before you retire and while you are working for your current employer. More than 70% of 401(k) plans allow this type of rollover.

Roth IRAs are a special kind of IRA funded with your after-tax dollars while you are still working. They are exempted from required minimum distributions and you do not have to pay taxes on the distributions you do take in retirement.

Diversification is not just for your investment portfolio. If you are actively saving for retirement, it is also a good idea to diversify how and when your savings will be taxed. You will need to consider not just your retirement savings, but also Social Security, pensions, investment accounts and any other potential sources of income. Doing so can help you understand two unknowns in retirement. How much of your income will be taxable? What will your tax rate be after you retire? Today's rates are relatively low by historical standards, but it is possible they could rise before and after you retire.

Amy M. Chacho
Business Services/Tax Specialist

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Please note that our Tax and Business Services Department, our Insurance Division and our Investment Advisors are available to answer any questions that you may have regarding the articles in this publication. We look forward to hearing from you.