UBS

Advanced Planning Group

2021 tax planning guide

Advice. Beyond investing. plan access save borrow grow* protect give

* Investing involves risks, including the potential of losing money or the decline in value of the investment. Performance is not guaranteed.

We are committed to helping you confirm that your current and future tax strategy supports your larger financial goals.

In today's world, pursuing your life's goals is being challenged in new ways. Which makes now the perfect time to review your goals in terms of "Advice. Beyond investing." Because when we collaborate on what matters most to you, we can create a plan tailored for you.

2021 dividends and capital gains tax rates

Type of income	Holding period	Top rate for lower incomes	Top rate for middle incomes	Top rate for high incomes
2021 break points		Single[2]: $0 – $40,339	Single: $40,400 – $445,849	Single: $445,850+
		MFJ[3]: $0 – $80,799	MFJ: $80,000 – $501,599	MFJ: $501,600+
		HOH[4]: $0 – $54,099	HOH: $54,100 – $473,479	HOH: $473,750+
Ordinary dividends	(See below)	Ordinary income tax rate	Ordinary income tax rate	Ordinary income tax rate
Qualified dividends	(See below)	0%	15%	20%
Short-term capital gains	12 months or less	Ordinary income tax rate	Ordinary income tax rate	Ordinary income tax rate
Long-term capital gains	More than 12 months[1]	0%	15%	20%

Notes

[1] A special rule applies to carried interest. It does not qualify for long-term capital gain treatment unless a person holds it for more than three years.
[2] "Single" means an unmarried individual.
[3] "MFJ" means Married Filing Jointly.
[4] "HOH" means Head of a Household.

Qualified dividends

A dividend is considered qualified if it is paid by a US corporation or a qualified foreign corporation. A qualified foreign corporation includes: a foreign corporation incorporated in a US possession; a foreign corporation whose dividend-paying security is readily traded on an established securities market in the US; and a foreign corporation entitled to the benefits of a tax treaty with the US that includes an exchange of information requirement.

Passive Foreign Investment Companies (PFICs) are not qualified foreign corporations. A foreign-based corporation is classified as a PFIC if either 75% or more of the corporation's income is considered passive or at least 50% of the company's assets are investments that produce interest, dividends, or capital gains.

To be eligible for the lower qualified dividend tax rate, a taxpayer must have held the dividend-paying stock for more than 60 days during the 121-day period that began 60 days prior to the ex-dividend date. For dividends received on certain preferred stock (generally dividends that represent an earnings period of more than one year), the taxpayer must have held the stock for more than 90 days during the 181-day period that began 90 days before the ex-dividend date.

Up to $3,000 of net capital losses may be deducted each year against ordinary income.

Capital losses

Capital losses are deductible—dollar for dollar—against capital gains. Up to $3,000 ($1,500 for married taxpayers filing separately) of net capital losses (either short-term or long-term) may be deducted each year against ordinary income. Net capital loss amounts in excess of $3,000 may be carried forward indefinitely.

Capital losses expire at death. These losses belong to the individual who incurred them and cannot be transferred to a spouse or the individual's estate or revocable trust at death.

Other preferential capital gains rates

- Long-term capital gains attributable to real estate depreciation (known as unrecaptured Section 1250 gains) are taxed at a maximum rate of 25%
- Capital gains on collectibles (e.g., gold and art) held for more than one year are taxed at a rate of 28%
- Subject to certain limitations, capital gains on Qualified Small Business Stock (QSBS) may be excluded from taxation up to the greater of $10 million or 10 times the adjusted basis of the investment
- A taxpayer may exclude up to $250,000 ($500,000 for certain joint return filers) of gain from the sale or exchange of property that the taxpayer has owned and used as the taxpayer's principal residence for periods of two years or more during the five-year period ending on the date of the sale or exchange

The 3.8% Net Investment Income Tax (NIIT) remains in effect.

Net investment income tax

The 3.8% Net Investment Income Tax (NIIT) remains in effect. The tax is 3.8% of the lesser of: (1) net investment income and (2) the excess of Modified Adjusted Gross Income (MAGI) over the threshold amount. The NIIT will be assessed on taxpayers with MAGI exceeding the following threshold amounts:

- $250,000 for taxpayers who are married filing jointly or qualifying surviving spouses
- $125,000 for taxpayers who are married filing separately; and
- $200,000 for all other taxpayers

Income derived from real estate activities may be excluded from net investment income for purposes of calculating NIIT if an individual qualifies as a real estate professional. The rules are complex; consult your tax advisor if you think you qualify as a real estate professional.

Similarly, certain investment income earned by a trader in financial instruments is exempt from the NIIT. Again, the rules are complex, and you should consult your tax advisor if you think you qualify as a trader in financial instruments.

Worthless securities

If a security that is a capital asset becomes worthless at any time during the tax year, it is treated as if it were sold on the last day of the tax year in which it became worthless.

A tax loss may be claimed in the year the security becomes worthless. A security that became worthless in a prior year may not be claimed as a capital loss in the current year (but the loss may be claimed by amending the tax return for the year the loss occurred). Generally, the refund limitation for carrybacks is three years, but it may extend up to seven years in certain situations. The taxpayer must have evidence that the security is worthless.

Wash sales

A wash sale occurs when an individual sells or disposes of securities (such as stock) at a loss and—within the 61-day period beginning 30 days prior to the sale or disposition date and ending 30 days after the sale or disposition date—the individual, the individual's spouse, or a corporation that the individual controls acquires substantially similar securities (including a contract or option to buy substantially similar securities).

There are no limits on contributions to UGMA or UTMA accounts. However, contributions in excess of the gift tax annual exclusion amount may be subject to gift tax if the donor has used all of his/her lifetime gift tax exemption.

Losses from the sale or disposition of securities that constitute a wash sale are not deductible. The disallowed losses are added to the cost basis of the newly purchased securities, resulting in a postponement of the loss recognition until the sale of the new securities.

The holding period for the newly purchased securities begins on the same day the original stock or securities were purchased.

A traditional IRA or Roth IRA cannot be used to avoid the effect of the wash sale rule. When an individual sells securities for a loss and purchases substantially similar securities through the individual's traditional IRA or Roth IRA within the 61-day period beginning 30 days prior to the sale and ending 30 days after the sale, then the individual's loss on the sale is disallowed.

Custodial accounts

UGMA/UTMA

Each state has adopted the Uniform Gifts to Minors Act (UGMA) or a Uniform Transfers to Minors Act (UTMA), which help to facilitate ownership of assets by minors.

Contribution limits

There are no limits on contributions to UGMA or UTMA accounts. However, contributions in excess of the gift tax annual exclusion amount may be subject to gift tax if the donor has used all of the donor's lifetime gift tax exemption—*see below for further information*.

Ownerships

Transfers to custodial accounts are complete and irrevocable. The minor can take full control of the account when the minor reaches the age of majority, which is generally age 18 or 21 (depending on state law).

Taxes

Custodial accounts do not provide tax deferral. Taxes are due in the year income is recognized or earned by the account. All income (including capital gains) is taxed to the minor and is subject to "kiddie tax" rules (see below).

Kiddie tax

The kiddie tax rules apply to a child's unearned income (e.g., interest, dividends and capital gain distributions). The kiddie tax rules generally apply if:

- The child was under age 18 at the end of the tax year, or
- The child was age 18 at the end of the tax year and the child's earned income does not exceed one-half of the child's own support for the year; or
- The child was a full-time student of at least 19 but under age 24 and the child's earned income does not exceed one-half of the child's own support for the year

Kiddie tax rate

Following the passage of the SECURE Act, a child's unearned income in excess of $2,200 is subject to taxation at the parent's rate.

Parental election to report child's income
Parents may elect to report their child's income on their own tax returns. If the election is made, the child is not required to file a tax return. Parents can make this election only if all of the following conditions are met:
- The individual making the election is the parent whose return must be used when applying the special tax rules for children
- The child was under age 19 (or under age 24 if a full-time student) at the end of the year
- The child's only income was comprised entirely of interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends)
- The child's gross income was more than $1,100 and less than $11,000
- But for this election, the child would be required to file a return
- The child does not file a joint return for the year
- No estimated tax payment was made for the year and no overpayment from the previous year (or from any amended return) was applied to this year under the child's name and Social Security number
- No federal income tax was withheld from the child's income under the backup withholding rules

If a child has a capital gain or loss on the sale of securities (not capital gain distributions) the child must file his or her own return.

Estimated tax payments are used to pay tax on income that is not subject to withholding, such as income derived from self-employment.

Estimated tax payments
Estimated tax payments are used to pay tax on income that is not subject to withholding, such as income derived from self-employment. A penalty may be assessed if sufficient payment is not made through withholding estimated tax payments. In general, estimated tax must be paid if the taxpayer expects to owe at least $1,000 in tax for 2021 (after subtracting the credit for taxes withheld) and the taxpayer expects withholding and credits to be less than the lesser of:
- 90% of the tax to be shown on the taxpayer's 2021 tax return, or
- 100% of the tax shown on the taxpayer's 2020 tax return (110% if the taxpayer's 2020 AGI exceeded $150,000 or $75,000 for taxpayers who are married filing separately). The 2020 tax return must cover all 12 months

Due dates (for calendar year-end individuals)

Installment	Due date
First	April 15, 2021
Second	June 15, 2021
Third	September 15, 2021
Fourth*	January 15, 2022

* A fourth installment is not required if the taxpayer files his/her 2021 tax return and pays any tax owed before January 31, 2022.

Social Security, Medicare and self-employment taxes
Social Security and Medicare tax detail

Status	Social Security/ OASDI* tax	Medicare tax rate	Total tax rate
Employee	6.20%	1.45%	7.65%
Self-Employed**	12.40%	2.90%	15.30%

An additional 0.9% Medicare tax will be assessed on earned income over $200,000 for single taxpayers ($250,000 for married taxpayers filing jointly, $125,000 for married taxpayers filing separately).

An additional 0.9% Medicare tax will be assessed on earned income over $200,000 for single taxpayers ($250,000 for married taxpayers filing jointly or $125,000 for married taxpayers filing separately). This 0.9% surtax, combined with the ordinary 2.9% Medicare tax, equals a total 3.8% Medicare tax on earned income over the threshold amount. Self-employed individuals are responsible for paying the full 3.8% tax. Non-self-employed taxpayers must add the 0.9% to their portion of the Medicare tax (1.45%); they are therefore responsible for paying a 2.35% tax on income over the threshold.

The 2021 Cost of Living Adjustment to the Social Security base is 1.3%. The wage base for Social Security and self-employment tax is $142,800 (up from $137,700 in 2020). This means Social Security taxes are calculated on the first $142,800 of earned income only. There is no wage base for Medicare; the tax applies to all earned income.

Assume a worker earned $150,000 of income during 2021 (multiply wage base by the Social Security and Medicare rates listed above).

Status	Social Security/ OASDI* tax rate	Medicare tax	Total tax
Employee	$8,853.60	$2,175.00	$10,924.20
Employer	$8,853.60	$2,175.00	$10,924.20
Self-Employed**	$17,707.20	$4,350.00	$21,848.40

* Old age, survivor and disability insurance portion of Social Security tax.
** Self-employed individuals may deduct one-half of the self-employment tax on their income tax return.

Social Security income thresholds

Social Security benefits may be taxable (up to a maximum of 85% of the benefit amount) when provisional income exceeds a specified threshold amount (noted below). Provisional income is AGI, plus tax-exempt interest, plus one-half of Social Security benefits.

Filing status	50% tax threshold	85% tax threshold
Married filing jointly	$32,000 – $44,000	Over $44,000
Single	$25,000 – $34,000	Over $34,000

2021 maximum monthly Social Security benefit

An individual who reached full retirement age in 2021 and who earned at least the annual maximum wage base amount during his/her working years would be eligible for a maximum monthly Social Security benefit of $3,148.

Social Security Administration contact information

Entity	Phone number	Website
Social Security Administration	800-772-1213	*ssa.gov*
Medicare	800-633-4227	*medicare.gov*

Social Security earnings test

The Social Security earnings test indicates the level of earnings permissible for recipients of Social Security benefits, without incurring a reduction in benefits.

Retiree age	Earnings limitation for 2021	Reduction in benefits
Years prior to full retirement age	$18,960 per year	$1 for every $2 in earnings above the limit
Year of retirement age up to retirement month	$50,520 per year	$1 for every $3 in earnings above the limit
Month reaching retirement age and beyond	No limit	No reduction

Retirement plans

Employer-sponsored retirement plan contribution limits

The following are the 2021 limits on contributions to various retirement plans. Individuals age 50 or older are eligible for catch-up contributions in addition to the base limit.

The total maximum allowable addition to a 401(k), 403(b) or 457 plan account including employee salary deferral and employer contribution is $58,000 in 2021.

Account type	Salary deferral limit	Catch-up contribution (age 50+)	Total maximum salary deferral (age 50+)
2021			
401(k), 403(b) and most 457 plans	$19,500	$6,500	$26,000
SIMPLE IRA	$13,500	$3,000	$16,500

For 2021, the total maximum allowable addition to a 401(k), 403(b) or 457 plan account—including employee salary deferral and employer contribution—is $58,000 for those under age 50; for those age 50 or older, the additional catch-up contribution increases the maximum allowable amount to $64,500.

Businesses that maintain a SEP-IRA plan can make contributions of up to $58,000 or 25% of compensation, whichever is less, to each eligible employee's SEP IRA. For self-employed taxpayers, the percentage contribution limit is 25% of net self-employment income (after deduction for self-employment taxes).

Traditional IRA vs. Roth IRA (Changed with SECURE Act)

	Traditional IRA	Roth IRA
Qualifications	Individual or spouse must have taxable compensation.	Individual or spouse must have taxable compensation; the ability to contribute is subject to the eligible phase-out limits listed below.
Maximum	100%of taxable compensation, up to $6,000 ($7,000 if age 50 or older).	100% of taxable compensation, up to $6,000 ($7,000 if age 50 or older).

* Contributions to all of an individual's traditional and Roth IRAs cannot exceed 100% of taxable compensation, up to $6,000 ($7,000 if age 50 or older).

<table>
<tr><th></th><th>Traditional IRA</th><th>Roth IRA</th></tr>
<tr><td>Tax deduction allowed</td><td>If neither the taxpayer nor spouse is a participant in an employer's plan, then the contribution is 100% deductible, regardless of MAGI.

Active participation in an employer's plan will subject the deduction to the following limits:
<table>
<tr><th>If taxpayer is:</th><th>Phase-out of deduction begins if MAGI is:</th><th>Ability to deduct contribution is totally phased out if MAGI is greater than or equal to:</th></tr>
<tr><td>Single</td><td>$66,000</td><td>$76,000</td></tr>
<tr><td>Married filing jointly</td><td>$105,000</td><td>$125,000</td></tr>
<tr><td>The nonworking spouse of a covered participant</td><td>$198,000</td><td>$208,000</td></tr>
<tr><td>Married filing separately</td><td>$0</td><td>$10,000</td></tr>
</table></td><td>No deductions are allowed for contributions.</td></tr>
<tr><td>Contributions allowed</td><td>Contributions to traditional IRAs are allowed, up to the lesser of: (1) earned income and (2) the maximum contribution amount (deductibility of contributions is subject to income limitations—see above).

April 15, 2021 is the last day for making a 2020 tax year contribution to a traditional IRA.</td><td>Roth contributions are subject to the following limits:
<table>
<tr><th>If taxpayer is:</th><th>Phase- out of ability to contribute begins if MAGI is:</th><th>Ability to contribute is totally phased out if MAGI is greater than or equal to:</th></tr>
<tr><td>Single</td><td>$125,000</td><td>$140,000</td></tr>
<tr><td>Married filing jointly</td><td>$198,000</td><td>$208,000</td></tr>
<tr><td>Married filing separately</td><td>$0</td><td>$10,000</td></tr>
</table>
April 15, 2021 is the last day for making a 2020 tax year contribution to a Roth IRA.</td></tr>
</table>

	Traditional IRA	Roth IRA
Required Minimum Distributions (RMD)*	**If you turned 72 in 2020.[1]** RMDs must begin by April 1 following the year in which the IRA owner attains age 72. Distributions in subsequent years must occur by December 31. **If you turn 72 in 2021 or thereafter, you must begin receiving distributions by April 1 following the year in which the IRA owner attains age 72.** Distributions in subsequent years must occur by December 31. Post-death distributions are required depending on whether distributions had already begun for the IRA owner and the beneficiary's relationship to the IRA owner. Other than during tax year 2020 when RMDs were temporarily suspended under the CARES Act, the Internal Revenue Code imposes a 50% excess accumulation penalty on IRA owners and IRA beneficiaries who fail to take some or all of an RMD.	Distributions are only required after the death of the IRA owner. Post-death distributions are required depending on the beneficiary's relationship to the IRA owner.
Penalties	10% penalty may apply to early distributions.	A 10% penalty may apply to nonqualified Roth IRA distributions.
	A 6% penalty applies to excess contributions (assessed each year until excess is removed).	A 6% penalty applies to excess contributions (assessed each year until excess is removed).

[1] Prior to January 1, 2020, RMDs must begin no later than April 1 of the calendar year following attainment of age 70½.

Conversions and rollovers

Assets held in a traditional IRA can be converted to a Roth IRA. The taxable portion of the amount converted is subject to tax in the year the conversion takes place.

Amounts converted to a Roth IRA are not subject to the 10% early distribution penalty if the amount distributed from the Roth IRA has been held by the Roth IRA for at least five years.

Taxpayers may forego the 5-year waiting period and take tax-free distributions from Roth IRA accounts at any time, at any age, and from any source for the following reasons: making a down payment on a first home (capped at

$10,000), paying for higher education for the taxpayer, the taxpayer's spouse, children or grandchildren (capped at $10,000), paying for health insurance premiums, if the taxpayer becomes unemployed, or for paying for medical expenses that exceed 10% of the taxpayer's AGI. If you have pre-tax assets in *any* traditional IRA, SEP-IRA, SIMPLE IRA, or rollover IRA, a portion of these Roth IRA conversions will be taxable as ordinary income in the year converted but are not subject to the additional 3.8% NIIT.

The SECURE Act

The Setting Every Community Up for Retirement Enhancement (SECURE) Act was passed at the end of December 2019 and most provisions were effective as of January 1, 2020. This legislation impacts Defined Benefit (DB) plans, Defined Contribution (DC) plans, IRAs and 529 plans. Highlights of this legislation include:

Minimum distribution rules

The old law required that terminated participants must begin to take RMDs by the April 1 following the year the participant attains age 70½. The SECURE Act delays the trigger for RMDs to age 72. This rule is effective for individuals turning age 70½ after December 31, 2019.

Additionally, the SECURE Act changed the rules on post-death required distributions from IRAs and defined contribution plans. Under the old law, the timing of distributions depended on whether the participant had begun to receive RMDs and whether the beneficiary was a designated beneficiary. In certain cases, the benefits could be paid out over the beneficiary's lifetime—referred to as a "stretch IRA." The SECURE Act changed the post-death RMD rules, generally requiring that distributions be completed by the end of the tenth calendar year after death. These rules are effective for deaths after December 31, 2019.

Waiver of RMDs for 2020

Under the CARES Act, RMDs were waived for calendar year 2020 for IRAs and employer-sponsored retirement plans (e.g., 401(k)s and other qualified plans, 403(b)s, and governmental 457(b)s) for both account owners and inherited account beneficiaries. RMDs for tax year 2021 have not been waived.

Part-time employees

Under the old law, a plan could exclude certain employees who did not provide at least 1,000 hours of service in a year. The SECURE Act requires 401(k) plans to adopt new eligibility rules for long-term part-time workers. If a part-time worker does not satisfy the plan's regular eligibility rules, the worker must be permitted to participate if they have completed three consecutive 12-month periods of employment and have been credited with at least 500 hours of service in each of those periods. No employer contribution is required for such periods until such time as the employee satisfies the plan's regular eligibility requirements. This requirement is effective for plan years beginning after December 31, 2020. Service before 2021 need not be counted.

IRA contributions

The old law prohibited anyone over the age of 70½ from contributing to a traditional IRA account. The current law removes the age limit and allows for anyone who is working and has earned income to make contributions to a traditional IRA account.

The rules also allows for stipends and non-tuition fellowship payments to be treated as compensation for IRA purposes, allowing graduate and post-doctoral students to save for retirement.

Similar rules and results apply to difficulty of care payments that foster-care providers receive through state programs to care for disabled people in the caregiver's home.

Penalty-free withdrawals for birth or adoption of a child

New parents will be allowed to take a penalty-free withdrawal of up to $5,000 from a 401(k), IRA or other retirement account following the birth or adoption of a child. Married spouses can each take $5,000 from their individual accounts. Withdrawals are still taxable.

You have up to one year following the birth or adoption to take the withdrawal without penalty. You can choose to put the money back into your retirement account at a later date. This will be treated as a rollover, not a new contribution and is not included in taxable income.

In the case of adoption, the penalty-free withdrawal is generally allowed for an adoptee under 18 years of age or who is mentally or physically unable to support themselves.

Adoption of a spouse's child does not qualify for the penalty-free withdrawal.

Rollovers between IRAs

When rolling a traditional IRA to a different traditional IRA, funds must be transferred to the new account within 60 days of receipt of the funds; otherwise, the distribution will be taxable. A taxpayer may only make one nontaxable 60-day IRA rollover within any 12-month period. All of an individual's IRAs, including SEP, SIMPLE, Roth and traditional IRAs, are aggregated for these purposes. These rules do not apply to direct trustee-to-trustee transfers or Roth conversions.

Provision for IRA distributions donated to charity

A "qualified charitable distribution" from a traditional IRA is any otherwise taxable distribution that is made directly from the IRA trustee to a qualified charity after the IRA owner has attained the age of 70½. A qualified charity a public charity other than a donor advised fund or supporting organization. A private foundation isn't a public charity and thus isn't a qualified charity.

A "qualified charitable distribution" from a traditional IRA is any otherwise taxable distribution that is made directly from the IRA trustee to a qualified charity after the IRA owner has attained the age of 70½.

Qualified charitable distributions are limited to $100,000 each year, count towards satisfying a traditional IRA owner's required minimum distribution and are excluded from gross income. These distributions are not tax-deductible as it is viewed as a nontaxable distribution as opposed to a charitable distribution. A same-year deductible contribution to a traditional IRA after age 70½ will decrease the amount of qualified charitable distributions allowed.

Employee stock options (tax characteristics)

Non-qualified stock options (NQSOs)

The difference between the exercise price and the market price ("spread" or "bargain element") of a NQSO is taxed as compensation income in the year of exercise. The employer must withhold all applicable income taxes (i.e., federal, Social Security, Medicare, state and local) when the options are exercised.

The taxpayer's basis at the time of exercise is equal to the exercise price plus the amount of ordinary income reported—the spread based on fair market value on the date of exercise. The holding period of the stock begins on the date the right to acquire the stock is exercised. Capital gain (or loss) applies to any post-exercise appreciation (or depreciation).

The spread on a NQSO is not treated as an adjustment item for Alternative Minimum Tax (AMT) purposes.

For an employee, there is a cap on the amount of stock options that qualify as ISOs.

Incentive Stock Options (ISOs)
There are no regular income tax consequences at the time of exercise. However, the difference between the exercise price and the fair market value ("spread" or "bargain element") is an adjustment item for AMT purposes in the year of the exercise.

The basis of the stock received is equal to the exercise price paid for regular tax purposes. For AMT purposes, the basis is the amount paid plus the amount of the AMT adjustment.

If the stock is held for more than two years from the grant date and more than one year from the exercise date, all appreciation after the exercise date is taxed as long-term capital gain. The holding period requirement is waived in the event of the employee's death.

For an employee, there is a cap on the amount of stock options that qualify as ISOs. To the extent that, when the stock options become exercisable, the fair market value of the stock that can be acquired by exercising those options do not exceed $100,000, the stock options can qualify as ISOs. To the extent that the value exceeds $100,000, the stock options are NQSOs.

Disqualifying disposition (ISOs)
A disqualifying disposition occurs when stock received from an ISO exercise is sold or otherwise disposed of before meeting the holding period requirements (two years from the grant date and one year from the exercise date). When a disqualifying disposition of incentive stock options occurs, the tax impact is similar to that of nonqualified stock options. In the year of disposition, the difference between the exercise price and the market price on the day of the exercise is treated as compensation income and any appreciation above or depreciation below the market price between the date of disposition and the date of exercise is treated as a capital gain or loss for tax purposes. The spread is not treated as an adjustment item for AMT purposes if the disposition occurs in the year of exercise.

Employee Stock Purchase Plans (ESPPs)
In a qualified ESPP, the company may provide a discount of up to 15% on the price of the company's stock that an employee buys. The employee may not purchase more than $25,000 worth of stock in any one calendar year. This limit is determined based on the fair market value of the stock at the time the option to purchase the stock is granted to the employee.

With a qualified ESPP, there is a special holding period requirement that is met on the later of two years after the grant date and one year after the employee receives the stock. If the stock is sold or otherwise disposed of prior to satisfying the special holding period, the taxpayer must report compensation income equal to the bargain element when the stock was purchased. This income must be reported even if the stock is sold at a loss. If the special holding period is met, no compensation income is reported if the stock is sold at a loss. If the stock is sold at a gain, compensation income is limited to the lesser of the amount of profit and the difference between the value of the stock when the option was granted and the option price. The basis for stock purchased through a qualified ESPP is equal to the purchase price plus any ordinary income recognized.

An ESPP is not a retirement plan and does not fall within the purview of ERISA. An ESPP should not be confused with an Employee Stock Ownership Plan (ESOP). An ESOP is a qualified tax-deferred plan designed to invest primarily in employer stock.

(2021 individual income tax rates on the next page)

Individual income tax rates remain largely unchanged from 2020 to 2021.

2021 individual income tax rates

Individual income tax rates remain largely unchanged from 2020 to 2021. The only significant change comes from the inflation adjustments to the tax brackets. Below are the 2021 individual income tax rates.

Over	But not over	Pay	Plus % on excess	Of the amount over
Married filing jointly/Qualifying widow(er)				
$0	$19,900	$0.00	10%	$0
$19,900	$81,050	$1,990.00	12%	$19,900
$81,050	$172,750	$9,328.00	22%	$81,050
$172,750	$329,850	$29,502.00	24%	$172,750
$329,850	$418,850	$67,206.00	32%	$329,850
$418,850	$628,300	$95,686.00	35%	$418,850
$628,300	–	$168,993.50	37%	$628,300
Single				
$0	$9,950	$0	10%	$0
$9,950	$40,525	$995.00	12%	$9,950
$40,525	$86,375	$4,664.00	22%	$40,525
$86,375	$164,925	$14,751.00	24%	$86,375
$164,925	$209,425	$33,603.00	32%	$164,925
$209,425	$523,600	$47,843.00	35%	$209,425
$523,600	–	$157,804.25	37%	$523,600
Head of household				
$0	$14,200	$0	10%	$0
$14,200	$54,200	$1,420	12%	$14,200
$54,200	$86,350	$6,220	22%	$54,200
$86,350	$164,900	$13,293	24%	$86,350
$164,900	$209,400	$32,145	32%	$164,900
$209,400	$518,400	$46,385	35%	$209,400
$518,400	–	$156,355	37%	$523,600
Married filing separately				
$0	$9,950	$0.00	10%	$0
$9,950	$40,525	$995.00	12%	$9,950
$40,525	$86,375	$4,664.00	22%	$40,525
$86,375	$164,925	$14,751.00	24%	$86,375
$164,925	$209,425	$33,603.00	32%	$164,925
$209,425	$314,150	$47,843.00	35%	$209,425
$314,150	–	$84,496.75	37%	$314,150

Taxable income is income after all deductions (including either itemized deductions or the standard deduction).

For any acquisition indebtedness incurred after December 14, 2017, interest would only be deductible for loan amounts not exceeding $750,000 (for married filing jointly).

Additional tax numbers, including income tax and AMT deductions and exemptions

Standard deduction

Married filing jointly/ Qualifying widower	Single	Head of household	Married filing separately
$25,100	$12,550	$18,800	$12,550

An additional standard deduction can be claimed by filers who are over age 65 or blind. The amount of each additional standard deduction is $1,350 for married individuals and $1,700 for single filers.

Personal and dependency exemptions
Personal exemptions continue to be temporarily suspended until taxable years beginning after December 31, 2025.

2021 itemized deductions

The Tax Cuts and Jobs Act of 2017 made numerous changes to itemized deductions that remain in place through the end of 2025.

Pease limitation
The limitation on itemized deductions continues to be temporarily repealed until taxable years beginning after December 31, 2025.

Medical expense deduction
For tax years beginning after December 31, 2017 and ending before January 1, 2026, the threshold to claim an itemized deduction for unreimbursed medical expenses for all individuals is 10% of Adjustable Gross Income (AGI).

Mortgage interest
Taxpayers may deduct their home mortgage interest, though how much may be deducted depends on the date of the mortgage, the amount of the mortgage, and how the taxpayer uses the mortgage proceeds. Mortgages taken out prior to December 16, 2017 to buy, build, or substantially improve the taxpayer's home (called acquisition debt) may be deducted up to the first $1 million of acquisition indebtedness.[2] Mortgages taken out on or after December 16, 2017 for acquisition debt may be deducted up to the first $750,000 of acquisition indebtedness. These figures are halved for married couples who file separately.

[2] A taxpayer who entered into a written binding contract before December 15, 2017 to close on the purchase of a principal residence before January 1, 2018 and who purchased such residence before April 1, 2018 is considered to have incurred the home acquisition debt prior to December 16, 2017.

Home equity loans
Interest is not deductible on a home equity loan unless the proceeds are used to substantially improve a home and therefore meet the definition of acquisition debt.

State and local income, sales, and property taxes
The law permits individual taxpayers to deduct up to $10,000 (for married filing jointly or $5,000 for married filing separately) for any combination of state and local income taxes, property taxes and sales taxes. Taxes in excess of this limit are not allowed as a deduction.

Miscellaneous itemized deductions

Deductions for miscellaneous itemized deductions subject to the 2% floor (including tax preparation fees, investment expenses and unreimbursed business expenses) are repealed.

Charitable contributions

Generally, contributions to qualified organizations are tax deductible up to either 60% or 30% of the taxpayer's AGI (and are subject to the Pease limitation for tax years after 2025). However, for tax years 2020 and 2021 *only*, cash contributions to public charities may be fully deducted (up to 100% of AGI) without regard to the usual percentage limitation. This increased limitation applies only to cash gifts made to public charities other than donor advised funds and supporting organizations. In addition, taxpayers who do not itemize their deductions are allowed an above-the-line charitable deduction of up to $300 ($600 for married couples) for tax year 2021.[3] As with individuals who itemize, only cash gifts to public charities (other than donor advised funds and supporting organizations) qualify.

[3] For married taxpayers who file jointly, the $300 above-the-line charitable deduction is available for tax year 2020 but is not doubled to $600 as is allowed in tax year 2021.

Contributions to individuals are non-charitable gifts and are not deductible. In addition, the Tax Cuts and Jobs Act disallows a charitable deduction for payments made in exchange for college athletic event seating rights.

Donations of appreciated property are valued at the fair market value on the date of transfer. Gifts of appreciated property are subject to different limitations. Gifts of appreciated property to public charities are deductible up to 30% of AGI, whereas gifts of appreciated property to private foundations are deductible up to 20% of AGI. The deduction for gifts of closely held stock or other non-publicly traded assets to private foundations, however, is limited to the lesser of the asset's fair market value and the donor's cost basis, which may make contributions of appreciated closely held stock less attractive for many donors Making gifts of appreciated property can be an excellent strategy to maximize tax deductions, but it is important to speak with a tax advisor before making such donations in order to ensure that you have a valid deduction and to confirm whether your deduction will be based on the fair market value of the donated property or limited to your basis.

A donor must obtain written acknowledgement for any charitable contribution exceeding $250.

Charitable contributions in excess of AGI limitations can be carried forward up to five years.

Charitable contribution carryovers expire upon death. These deductions belong to the individual who incurred them and cannot be transferred to a spouse or the individual's estate or revocable trust upon death.

2021 alternative minimum tax exemption

Married filing jointly/ Qualifying widower	Single	Married filing separately	Estates and trusts
$114,600	$73,600	$57,300	$25,700

Charitable contributions in excess of AGI limitations can be carried forward up to five years.

2021 standard mileage rates

Mileage rate	2021
Business	$0.56 per mile
Medical and moving	$0.16 per mile
Charitable	$0.14 per mile

2021 trust and estate income tax rates

Taxable income is

Over	But not over	Pay	Plus % on excess	Of the amount over
$0	$2,650	$0	10%	$0
$2,650	$9,550	$265	24%	$2,650
$9,550	$13,050	$1,921	35%	$9,550
$13,050	–	$3,146	37%	$13,050

Estate and gift taxes

2021 gift tax annual exclusion

The 2021 gift tax annual exclusion is $15,000 ($30,000 for married couples who elect gift-splitting) to any person (other than gifts of future interests in property). This amount is excluded from the total amount of taxable gifts made during the year.

In 2021, the first $159,000 of gifts to a spouse who is not a US citizen is excluded from the total amount of taxable gifts made during the year.

Recipients of distributions from foreign trusts, gifts from foreign persons, or distributions from foreign corporations or partnerships that are treated as gifts may be required to report these gifts.

Summary of transfer tax rates and exemption amounts

	Highest gift tax rate	Highest estate tax rate	Skipping transfer (GST) tax rate	Lifetime gift tax exclusion amount	Estate tax exemption amount	Lifetime GST exemption amount
2011	35%	0%	0%	$5,000,000	$5,000,000	$5,000,000
2012	35%	35%	35%	$5,120,000	$5,120,000	$5,120,000
2013	35%	35%	35%	$5,250,000	$5,250,000	$5,250,000
2014	40%	40%	40%	$5,340,000	$5,340,000	$5,340,000
2015	40%	40%	40%	$5,430,000	$5,430,000	$5,430,000
2016	40%	40%	40%	$5,450,000	$5,450,000	$5,450,000
2017	40%	40%	40%	$5,490,000	$5,490,000	$5,490,000
2018	40%	40%	40%	$11,180,000	$11,180,000	$11,180,000
2019	40%	40%	40%	$11,400,000	$11,400,000	$11,400,000
2020	40%	40%	40%	$11,580,000	$11,580,000	$11,580,000
2021	40%	40%	40%	$11,700,000	$11,700,000	$11,700,000

Note: Portability allows a surviving spouse to elect to take advantage of the unused portion of the deceased spouse's estate tax exemption, but not the unused portion of the deceased spouse's GST exemption.

In 2021, the first $159,000 of gifts to a spouse who is not a US citizen is excluded from the total amount of taxable gifts made during the year.

Form of asset ownership and estate tax results

How property is titled	Subject to probate	% included in decedent's estate	Basis adjustment**	Who inherits property	How property is transferred
Individual ownership	Yes	100%	100%	Chosen beneficiaries; else state law governs	By will or intestacy
Tenancy by entirety	No	50%*	50%*	Surviving spouse	By operation of law
Joint tenancy	No	Up to 100%*	Up to 100%*	Other joint tenant	By operation of law
Tenants in common	Yes	% Owned	% Owned	Chosen beneficiaries; else state law governs	By will or intestacy
Community property***	Yes	50%	100%	Beneficiary of choice	By will or intestacy

* If the joint tenants are US citizen spouses, then 50% of the property is included in the deceased spouse's estate (with certain exemptions for real property owned jointly and purchased before January 1, 1977). Thus, 50% of the property receives a new basis. (See the table above for rules concerning community property.) If the joint tenants are not spouses or are not US citizens, then 100% is included in the estate of the first to die unless the survivor can show that the survivor contributed toward the acquisition of property. The basis adjustment will be proportional to the percentage included in the decedent's estate.

** Property that's income In Respect of Decedent (IRD) doesn't qualify for stepped-up basis. IRD generally includes any pre-tax arrangement, such as an IRA or compensation due under an employment agreement.

*** Community Property With Right Of Survivorship ("CPWROS") is a specific type of community property that acts as a hybrid of community property and joint tenancy. CPWROS avoids probate; 100% of the property receives a basis adjustment, and the asset passes to the surviving spouse by operation of law.

2021 estate and gift tax exemption and credit

The estate and gift tax credit offsets estate and gift tax liability incurred during one's lifetime and at death. The exemption amount represents the dollar amount of assets that would result in an estate and gift tax equal to the credit amount.

Since 2011, portability has allowed a surviving spouse to take advantage of the unused portion of the deceased spouse's estate tax exemption. The executor of the deceased spouse's estate must make a timely election on the deceased spouse's federal estate tax return to take advantage of this exemption.

Portability does not apply to the generation-skipping transfer tax exemption or to state estate tax exemptions (with the exception of Hawaii and Maryland).

The increased basic exemption amounts discussed above are based on a 2011 base amount of $10 million (adjusted for inflation) as a result of the 2017 Tax Cuts and Jobs Act. The exemption amount will "sunset" to the original $5 million base amount (adjusted for inflation) on January 1, 2026, unless Congress takes action sooner.

Basis and holding period of property received as a gift

The basis and holding period of property received as a gift depends on the fair market value of the gifted property in relation to the donor's adjusted basis.

– If the fair market value of the gifted property is equal to or greater than the donor's adjusted basis, the recipient's basis will be that of the donor, increased by a portion of any gift tax paid on the gift
– If the fair market value of the gifted property is less than the donor's adjusted basis, the recipient's basis depends on whether a gain or loss results when the property is ultimately sold
– If the property is sold at a gain, the gift recipient's basis will be the donor's adjusted basis
– If the property is sold at a loss, the gift recipient's basis will be the fair market value at the time of the gift. No gain or loss will be recognized if the property is sold for an amount less than the donor's basis but greater than the fair market value of the property on the date of the gift

For gifted property, the donor's holding period generally includes the donee's holding period. In tax parlance, the donor's holding period "tacks" to the donee's holding period.

Portability does not apply to the Generation-Skipping Transfer Tax exemption or to state estate tax exemptions (with the exception of Hawaii and Maryland).

Basis and holding period of property inherited upon death
Property acquired from a decedent generally has a long-term holding period in the hands of the recipient, regardless of how long the decedent or the recipient actually held the property.

For assets included in the gross estate, the income tax basis of property acquired from a decedent at death is generally stepped up (or stepped down) to its value as of the date of the decedent's death (or the estate tax alternate valuation date, if elected). If an estate tax return was filed on August 1, 2015 or after, the new "basis consistency" rules of Section 1014(f) may apply. It is important to speak with your tax advisor regarding how these rules may impact your sale or gifting of inherited property.

(2021 health and education items on the next page)

2021 health and education items

Item	Tax treatment
Direct payment of tuition and medical expenses	There is an unlimited gift tax exclusion for amounts paid for another individual's tuition expenses (not including room, board, and books) and/or unreimbursed medical expenses. Expenses must be paid directly to the educational institution or medical provider and cannot be reimbursed.
529 Plans	– An individual can make annual contributions to a 529 plan up to \$15,000 (\$30,000 for a married couple)—the gift tax annual exclusion for 2021and may front-load up to five years of gift tax annual exclusions. This means that an individual could potentially contribute up to \$75,000 (\$150,000 for a married couple) to a 529 plan this year and treat the gift as though it were made ratably over the current year and subsequent four years – 529 accounts may be able to distribute up to \$10,000 per student per year for tuition at a public, private or religious elementary or secondary school. Availability is dependent on when state law conforms their definition of eligible educational expenses to match this change to federal law. Please consult with your attorney as each individual state 529 plans may or may not exempt such distributions from state income tax – As of December 31, 2018 a qualified distribution includes a total lifetime (not annual) repayment of up to \$10,000 of qualified student loan debt and expenses for certain apprenticeships. The \$10,000 per person total lifetime limit applies to the 529 plan beneficiary and each of his or her siblings. For example, a parent with three children may take a \$10,000 distribution to pay student loans for each child, for a total of \$30,000. Note, however, that any student loan interest paid with 529 funds is not eligible for the student loan interest deduction
Coverdell Educational Savings Plans and Education Savings Accounts (ESAs)	The limit on annual aggregate contributions is \$2,000 per beneficiary. This is phased out for taxpayers with a MAGI between \$95,000 and \$110,000 (for single taxpayers), and between \$190,000 and \$220,000 (for married taxpayers filing jointly).
American Opportunity Tax Credit for Higher Education Expenses	The maximum credit amount is \$2,500 per eligible student per year. This is phased out for taxpayers with a MAGI between \$80,000 and \$90,000 (for single taxpayers), and between \$160,000 and \$180,000 (for married taxpayers filing jointly).
Interest paid on qualified higher education loans	The maximum deductible amount of student loan interest is \$2,500. This is phased out for taxpayers with a MAGI between \$70,000 and \$85,000 (for single taxpayers), and between \$140,000 and \$170,000 (for married taxpayers filing jointly).
Health Savings Accounts (HSAs)	The maximum allowed annual HSA contribution amounts are \$3,600 for individuals with single coverage and \$7,200 for individuals with family coverage. An additional \$1,000 catch up is allowed for taxpayers over age 55. If both spouses are over age 55, the allowed catch up is \$1,000 per spouse.

Item	Tax treatment	
Eligible long-term care premiums	For 2020 the deduction limitations regarding eligible long-term care premiums are:	
	Age attained before the close of the taxable year	Limitation on deduction of premiums
	40 or under	$450
	41 – 50	$850
	51 – 60	$1,690
	61 – 70	$4,520
	71 or older	$5,640

Affordable Care Act

The Tax Cuts and Jobs Act eliminated the individual mandate for individuals for years beginning after December 31, 2018. Nevertheless, large employers that fail to offer minimum essential coverage to their full-time employees will continue to owe shared responsibility payments. In addition, individuals will still need to have minimum essential coverage to qualify for the premium tax credit.

You may receive one or more Form 1095, relating to your health care coverage. There are three versions of this form:

– *Form 1095-A Health Insurance Marketplace Statement*: You will receive this form if you purchased health insurance through the marketplace in 2020
– The deadline for the marketplace to mail these forms is now January 31, 2021.If you expect a Form 1095-A, you should wait to file your tax return until after the form is received. It contains information you will need to complete your return
– *Form 1095-B Health Coverage:* This form is sent by health insurance providers to the individuals they cover
– *Form 1095-C Employer-Provided Health Insurance Offer and Coverage:* Certain large employers send this form to certain employees. It contains information about the coverage that was offered by the employer

You do not have to wait to file until after you receive these forms. Rather, once received, these should be retained with your 2020 tax records as confirmation that you had health insurance coverage for the 2020 tax year.

The aggregate annual contribution limit to an ABLE account cannot exceed the annual gift tax exclusion amount. For 2021, this amount is $15,000.

ABLE accounts

Federal legislation passed in 2014 established the framework for ABLE accounts (i.e., 529A plans). These accounts are intended for certain individuals who were diagnosed with significant disabilities prior to attaining age 26. These accounts provide a tax-deferred savings vehicle for individuals who wish to save for future expenses without having to forfeit public benefits. Some states provide for the deductibility of contributions (which are generally subject to the same rules as 529 plans). Individuals can choose from most states' plans, which provide more control over investment options and expenses. Note that the individual states' legislatures are in various stages of enacting laws to establish ABLE Act programs.

The Tax Cuts and Jobs Act allows individuals to roll over amounts from a qualified tuition plan to an ABLE account before January 1, 2026 if the ABLE account is owned by the same designated beneficiary of the 529 plan or a member of the designated beneficiary's family. The aggregate annual contribution limit to an ABLE account cannot exceed the annual gift tax exclusion amount. For 2021, this amount is $15,000. However, under certain circumstances this limit may be increased.

IRS contact information

Entity	Phone number	Website
IRS general information	800-829-1040	*irs.gov*
National Taxpayer Advocate	877-777-4778	*irs.gov/Advocate*

– *Brad Dillon*, Senior Wealth Strategist
– *Michael Barg*, Wealth Strategist
– *Ross Berman*, Wealth Strategist
– *Elizabeth Summers*, Wealth Strategist
– *Premini Scandurra*, Wealth Strategist

The **Advanced Planning Group** of UBS provides comprehensive planning, advice and education to ultra-high net worth individuals and families. The team consists of professionals with advanced degrees, extensive planning experience and various areas of expertise. Through our publications, the Advanced Planning Group features the intellectual capital of UBS in wealth planning, estate tax and philanthropy and evaluates how changes in the legislative and tax landscape might impact our clients' planning.

The Advanced Planning Group would like to thank Joanne Carter, George Walsh and Bill Reilly for their guidance and expertise in the area of IRAs, 529 plans and ABLE accounts.

See important notes and disclosures on the next page.

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Approval Code: IS2101601
Expiration Date: 3/31/2022