Please note: This is a transcription so there may be slight grammatical errors.

Tracy:

Hello everyone and welcome to today's webinar presented by CAPTRUST Financial Advisors. And now I'd like to introduce Deborah Gates, manager advice and wellness with CAPTRUST participant advice team. Go ahead, Deborah.

Deborah Gates:

Well, thank you so much for that, Tracy. It's a pleasure to be here this morning, well, this afternoon for some, to present this information. But before we get started, I just want to give a disclaimer about investments and your individual needs, they are as unique as you are. We all have particular needs and planning for retirement, there's no single solution that fits any investor. And as always, CAPTRUST, we don't give any legal advice, we don't give tax advice. This presentation that we're doing today is for informational purposes. And what I want to tell you is that we've added a new webinar series, and this series is a little bit shorter, it's only 30 minutes. For those of you who have attended our webinars before, this is unlike our quarterly webinars that will continue and they normally last for an hour.

But today I want to talk a little bit about the season that we're in, which is tax season, and it can bring on a bit of anxiousness for some, while others, they look forward to this time of year with the great expectation of receiving a large refund. But today we're going to share some tax filing tips, provide some answers to some of the questions that you so graciously gave us during the registration process. And so I want to thank you so much for doing that, that really helped us out a lot. If you need clarification on anything that we're speaking about, you might want to put that inside the chat box.

But we will not take any other subsequent questions because you were really gracious in giving us a lot of questions and there are several people that registered for this webinar. Today, I have Ellen Crowley here with me today. Ellen joined CAPTRUST in 2008. As vice president and financial advisor, she's responsible for providing comprehensive wealth management, retirement advisory services to our high net worth investors. She started her career in the tax department of KPMG, preparing tax returns for individuals and corporations. She's also certified by the IRS as a VITA tax preparer. I want to welcome you here today, Ellen, thank you so much for joining.

Ellen Crowley:

Thank you, Deborah, I'm looking forward.

Deborah Gates:

Absolutely. We're just going to jump right into this and talk about some of the important things that people should consider as they file their taxes, being in the season that we're in right now. Our first thing that I want to look at is the first step that you want to think about is deciding who will prepare and file your taxes. Ellen, I know that you're quite proficient at tax preparation, but I want you to speak to the person who is a novice. Perhaps this is their first time having to file their taxes or someone who is unsure about doing it themselves. Should they hire a tax professional? Can you speak to that for me?

Ellen Crowley:

Sure. One of the first steps I like to take is to go onto the IRS website and print out the forms 1040 Schedule A and Schedule three. This will give you a chance to get familiar with each line item for income, deductions and tax credits. From here, you can build a checklist of all of the items you will need to track down. If your checklist is short with income items and some deductions, you should be able to prepare your income taxes online directly with the IRS, or use a software program like TurboTax or H&R Block.

If your checklist is longer with more complicated issues like a rental property or outside self-employed income, you may want to consider hiring a tax professional. You may also want to consider the relative cost of your personal time. If it's taking you two weekends to prepare and review your income taxes, that may not be the best use of your time and it would be worth hiring a professional.

Deborah Gates:

Can you tell me about e-filing, Ellen? What's the advantage of e-filing?

Ellen Crowley:

Filing electronically is safe, secure and efficient. The IRS has already come out and stated that their processing time this year is going to be delayed because they are understaffed and they have a remote workforce. So if you think about it, if you're mailing your return, you're depending on the US Postal Service and someone physically opening that tax return and hand processing.

Deborah Gates:

All right, next step. This next step, getting organized, begin gathering your documents early so you can make your life easier in April, it's really saying that you just shouldn't wait until the last minute to start gathering documentation. Now, we do know that some documents, they come at certain times of the years, the documents that you really need to file your taxes. When should people expect to get their W-2s, their 1099s or the likes thereof? Can you give us some dates on that?

Ellen Crowley:

Sure. Employers are required to provide each employee with their form W-2 by January 31st. Investment companies, banks, mortgage lenders and others are required to provide their documentation to you by February 28th. There are some receipts that you're going to want to gather, so charitable contributions, your real estate taxes if you're a homeowner, childcare expenses if you have children that are in a daycare setting and other items for your credits.

Deborah Gates:

Okay, let's move on to look at step three. Now, when I come here to step three as the slide is advancing, choosing your filing status, whether or not you're single, married, filing jointly, married, filing separately, if you're head of household or qualified widower, when you look at that, it really appears that that's self-explanatory. But can you tell me the circumstances when someone would claim single as opposed to a head of household? What are some of those distinctions?

Ellen Crowley:

Your filing status is determined by your lifestyle at December 31st. If you're single, that's pretty straightforward. If you are married or you got married during the year, it's going to be advantageous to file jointly. Filing separately when you're married is usually when there is a legal or bankruptcy proceeding. It's a least desirable filing status. Head of household is for a single, divorced or legally separated person who has dependents in their household. And a qualified widower is someone whose spouse passed away during the year.

Deborah Gates:

Okay. Going back to that head of household, what clarifies as head of household?

Ellen Crowley:

For head of household, that means you have a qualified dependent. This could be a child who lives with you, it could be another family member or relative and you are providing over half of their financial support. This also includes college students, as long as you are also covering more than half of their living expenses.

Deborah Gates:

I think about getting married, you said it's your status as of December 31st. So if someone got married this year, they got married in January or February and they're going to file their taxes in April, they will still look back to where they were December 31st. If they were both single December 31st, they would file single. Are there any repercussions if they do something different?

Ellen Crowley:

No, you really just need to look at what your lifestyle was as of December 31st.

Deborah Gates:

All right, let's move on and look at this fourth one. Here, the fourth step is getting familiar with your tax deductions and your credits. We sent out the invite, the registration for people to register for this webinar and we received over 1,800 registrations. The questions that we received, we got a lot of questions about tax deductions and credits. And so it goes without saying that COVID has had an impact on the lives of hundreds of thousands, creating some economic challenges that began in 2020 and they poured over into 2021. First of all, can you just talk about the differences between tax deductions and tax credits?

Ellen Crowley:

A tax deduction is going to be an expense item that you get to subtract from your income to determine your taxable income. A tax credit is going to be an amount that you get to subtract from your calculated income tax. Examples of deductions are primarily for homeowners, so real estate taxes and mortgage interest, state income tax that's been withheld from your paycheck, charitable contributions and in some cases, medical expenses.

Deborah Gates:

Okay, let's look here, kind of explained that. Let's look here at these tax deductions, the standard deduction. Can you help us with that, what that actually means when we're looking at these numbers?

Ellen Crowley:

Sure. There's a term in tax preparation called the standard deduction. Let's say you do not own a home and you are single. You are allowed to deduct $12,550 from your income and that's kind of like a cost of living allowance. If you're a married couple, that amount is $25,100 and if you are ahead of household, it's $18,800. So if your total deductions are less than those standard deduction amounts, you will want to take the standard deduction. But if your deductions are higher, you will want to itemize your deductions to subtract from your income.

Deborah Gates:

Those deductions, what about charitable deductions?

Ellen Crowley:

Something that's new for 2021 for folks who take the standard deduction, they are able to take an additional deduction for up to $600 that's given to a qualified charity.

Deborah Gates:

Okay. And what constitutes a qualified charity? Because I know people will want to know that.

Ellen Crowley:

Sure. That means the organization has filed with the IRS and they have a designation called a 501-C3 organization.

Deborah Gates:

And how can you find that information out, how can the lay person find that out? Is that something they can Google? Do they get some type of documentation from that charity? How does that work?

Ellen Crowley:

Most 501-C3 organizations provide you with a year end report and it'll have their tax ID number and an indication that they are qualified 501-C3. You could also hang on to your canceled checks that have cleared the bank as a receipt. And then you just want to be mindful about cash or non-cash donations. For example, if you bring clothing to Goodwill, you should get a receipt and write a description of the items that were donated.

Deborah Gates:

All right, that's about deductions. Let's look at tax credits, because we had questions about that exactly. What is a tax credit and how does that differ from a deduction?

Ellen Crowley:

There are a variety of tax credits available to taxpayers. I'm going to hit the highlights of the most common. The first one is called the savers credit, and this is depending on your income, you get a credit for a percentage of the money that you put into your retirement plan. Contributions to a 401K, a percentage of that becomes a tax credit and this is an incentive that the government is giving us to encourage us to save for retirement. Another credit is the earned income credit and this is available to low to moderate income families who have children in the household. There's a table and your credit is determined by the number of children in your household and your total income. The next one is the child tax credit, and this is available to anyone who has a child up to the age of 17.

Last year as part of the stimulus that our government did, they made advanced child tax credit payments $300 a week for each child that was reported on your previous tax return. It was just an advance payment of that credit, so you'll still file your taxes, you'll show that credit, but the IRS knows that you've already been paid. Another tax credit that is very common is the child and dependent care tax credit. If you have a child in daycare or aftercare and even summer camps, as long as they have a federal ID number and they provide you with the amount that you paid, depending on your income, you can get a credit for up to half of the amount that you paid for dependent care up to $4,000.

Deborah Gates:

All right, this next one that we're going to speak about, sometimes it's pretty confusing. And this next one, this next step is that, what you want to do is check your tax bracket. There are many people that don't understand tax brackets. Is there a correlation between tax brackets and the standard deduction? But before you do that, can you first just kind of give us a brief overview of tax brackets as a whole?

Ellen Crowley:

Sure. There are actually seven different federal tax brackets and it's a tiered system, but essentially, there's 14 tax brackets because there's one percentage for single people and the same percentage is applied to married filing jointly. And your tax bracket is a percentage that will be applied to your taxable income to determine your income tax. On the other hand, if you want to advance to the next slide, please, your effective tax rate is the percentage of your actual income tax after credits, divided by your total income. For example, you may be in the 24% tax bracket, but after taking deductions in credits, your effective tax rate may be 16%. And we have some examples here.

Deborah Gates:

Yeah. And it's coming up a little slow as we're talking. Let's give some more examples, and I think this chart here is really going to help people understand and see, when we have a visual that we can actually see.

Ellen Crowley:

Right. Let's just pick one category, let's look at the 22% tax bracket. If you're single and your income is over $40,525, but less than $86,375, you are in the 22% tax bracket. And there's an additional calculation that goes on behind the scenes, but essentially, you're going to be applying 22% your taxable income to determine your dues. On the other hand, in the 22% tax bracket, if you're married filing jointly, your income would be in excess of $81,050, but less than $172,750.

Deborah Gates:

I see, all right. Now we've looked here at these tax brackets. And where can people get this information so that they can be clear as to... Where can they see a chart like this so that they can be clear about their tax bracket? Is there something, can they go back to their payroll department? I mean, how would they do that to find out exactly what tax bracket they're in?

Ellen Crowley:

I like using the IRS website. There are a lot of tools out there that you can use to get familiar.

Deborah Gates:

Okay. I know that a lot of people like to get a big refund at the end in April or May, or whenever that refund comes, they like to get that once a year, but what does that really mean for them? And then for the person that owes at the end of the year, they're not so eager to write that check out, so why would there be a need for anyone to adjust their withholdings?

Ellen Crowley:

That's a great question. If you were getting a big refund every April, just keep in mind you have essentially lent your money to the federal government for an entire year. And on the flip side, each of your paychecks could have been larger. If you end up owing every April, this is going to be a time where you're going to want to go to your HR department, get a form W4 and increase your withholding allowances so you have more taken out of your paycheck on a weekly or monthly basis so that you don't have that surprise come April.

Deborah Gates:

Does that work in the reverse as well? What if you owe every year, would that be a consideration to maybe, would that person need to speak to their tax advisor, their accountant to see if maybe they needed to increase the amount that they have coming out of their checks so that they could maybe break even or not owe as much? Is that a consideration as well, to look at that?

Ellen Crowley:

Sure. The form W4 is what your employer uses to determine how much to take out of your paycheck. They don't know your personal income tax situation, so you will want to complete that form possibly with the assistance of a tax professional. In the case where you owe money in April, you're going to want to increase your allowances so more is taken out of each paycheck. But on the other hand, if you're getting a large refund, you may want to reduce your allowances so that you actually get a larger paycheck.

Deborah Gates:

Okay. Ellen, this has really been great. Tell me about some of the resources that people can go to. We don't give tax advice, but what are those resources out there for people that they can use, and how do these things work? How can they contact these different places and are there any qualifiers? Do you have to be in a certain income bracket? How can you utilize some of these services? Can you speak a little bit to it?

Ellen Crowley:

Sure. I've mentioned the IRS website several times and it's irs.gov. If you want to use a software program, some examples would be H&R Block or TurboTax. Those programs will prompt you with questions and guide you through the income tax forms. Another resource to consider is the program that I volunteer for, it's called VITA, which are Volunteers and Income tax Administration. Currently, there are some sites that are open, a lot of it is virtual, but that resource is also on the IRS webpage.

Another resource is for the elderly and it's called ICE and it's tax counseling for elderly people. That is also a free service. And then a couple dates to keep in mind. While you may be collecting your tax information now, the first day that you can actually file is February 12th and the filing deadline would be April 18th. You can ask for an extension of time if you don't have all of your documentation pulled together, but an extension of time is not an extension of time to pay. So everyone needs to pay what they believe they owe by April 15th to avoid interest and penalties.

Deborah Gates:

That is a very good point, Ellen, because fortunately I have a really great tax guy that does my taxes, but I always thought that if I did an extension to file for time, I thought that that would be an extension to pay my taxes and I found out that that really wasn't the case. I just want to thank you so much for coming on and sitting with me and talking with me today about this and offering some tips to people that have actually come in on the call. And what I do want to say is that this session, I just want to reiterate that this session is for informational purposes, educational purposes. We do not give tax advice. We have so many questions, there were several questions about people's personal situation. So I strongly implore you to speak to a tax professional so that you can really look at your personal situation and they can take more things into account than we could possibly ever take on a phone call like this.

But we want to get you thinking about your taxes and get you started. However, there is something we can do. We can offer you assistance with your overall financial wellness, including but not limited to your retirement planning and investing. We are a resource to you. You want to think of us as a part of your benefit package. We can help you determine where you are on your financial journey. Visit our website at captrustadvice.com. The website is going to allow you to schedule an appointment for a time that works for you.

You can also reach our advice desk directly by calling 800-967-9948 during normal business hours, speak with a retirement counselor. Remember, CAPTRUST is here to give you investment advice. It's customized, conflict-free to make sure that we are here to help you. We do have a couple of more minutes before we sign off and I'm just wondering, I have Wes out there on the question box and I see the little light flashing and questions and chats are coming in. Wes, is there anything where anyone needs any clarification on anything that we've spoken about?

Wes:

Yeah, around charitable deductions, could it be to multiple charities and can you restate the amount allowed for charitable deductions?

Ellen Crowley:

Sure. If you itemize, it's unlimited, up to 50% of your income. But if you take the standard deduction, what's new in 2021 is you can have an additional charitable contribution with a maximum of $600 and it could be to a variety of charities. They just need to be qualified 501-C3s and you're going to want to have some documentation, not that you attach to your tax return, but that you keep in your files. Receipts, acknowledgements from the organization or canceled checks.

Wes:

Excellent, thanks.

Deborah Gates:

Do you have time for one more, Wes? Do you have another one?

Wes:

And if you owe the IRS, do they penalize you if you owe more than a certain amount of money. At one point that was the case. Is that still the case?

Ellen Crowley:

Right. The goal is to pay your balance due by April 15th. If you are unable, you can ask for an installment agreement and you will want to file that with your tax return. It's a request to basically have a loan from the IRS and you agree to make monthly payments. As long as you stay on track with the agreement, there is not interest and penalty added.

Wes:

Excellent. And I hope everybody again, has found this super informative. A lot of questions were coming in and again, please consult with your tax advisors, especially these more personal questions. Our goal today was to get you thinking about this stuff, getting you ready for that tax time, getting you looking at the resources available through the IRS or through tax preparation services, so that you are ultimately prepared. With that, I'll turn it back to Deborah to wrap us up and I hope everybody has a wonderful day.

Deborah Gates:

I do want to remind, as is our custom, first of all Ellen, I want to thank you again for coming and sharing your knowledge. I think this has been very informative and I think you probably helped a lot of people. I do want to let you know, everyone in the webinar, this presentation has been recorded. It will be sent out within the next 24 to 48 hours to anyone who registered for the session. We would also appreciate your completing the survey that will be included with the recording. We want your feedback, that helps us get better.

We want to make sure that we're offering topics that you appreciate, especially with this new series of Ask CAPTRUST. So if there are some other topics in that survey that you receive, if there's some other things that you want to hear about, then make sure that you put that on that survey. We will have another one of these Ask CAPTRUST. We're going to do that in July and we're going to kind of talk about it, take a mid-year review as to where you are. Thank you again for this opportunity. I hope you have found this information helpful. On behalf of CAPTRUST, have a wonderful day and stay safe out there. Thank you very much.