Marc A. Hebert's 'Money $ense': Key numbers for 2021

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It’s a new year, so that means we have new annual limits in our tax code. These limits are especially important to keep an eye on for retirement and tax planning, as quite a few of the annual limits adjust for inflation or have cost of living increases. To help you plan your year, let’s take a look at some of these for 2021.

The first limit we will look at doesn’t change! This is the amount allowed as a contribution to an employer-sponsored retirement plan. These include 401(k), 403(b), and most 457 plans. For 2021, you will be able to defer your salary up to $19,500. Employees age 50 and older are still allowed an additional contribution; for 2021, this amount is $6,500, which could bring your total allowable contribution to $26,000.

The contribution limits for SIMPLE IRA (Savings Incentive Match Plan for Employees Individual Retirement Accounts) are also unchanged from 2020. Participants can defer up to $13,500 in salary. For those age 50 or older, an additional $3,000 contribution is allowed. This will bring the total to $16,500.

Some of you will also be interested in the IRA contribution limits for 2021. This is another area where the amounts remain unchanged. The contribution limit is the lessor of compensation or $6,000 for combined contributions to traditional and Roth IRAs. In other words, provided you have the compensation, you could contribute $3,000 to a traditional IRA and $3,000 to a Roth IRA. The IRA catch-up contribution for those age 50 or older still remains $1,000.

Another factor to consider when making IRA contributions is the phase out in modified adjusted gross income (MAGI) to be eligible to make a contribution. These phase outs come into play if an individual is covered by an employer sponsored retirement plan or has a spouse who is covered by an employer plan. If a taxpayer is eligible for such a plan, there are limits to the contribution amount that can be tax-deductible.

These limits *did* change from 2020. If you are single and in a retirement plan at work, your ability to make deductible traditional IRA contributions starts to phase out at $66,000 of MAGI. You become completely phased out at $76,000. If you are a married taxpayer, the phase out starts at $105,000 and completely goes away at $125,000. If you don’t have a retirement plan at work but your spouse does, the phase out is different. The ability to make a deductible traditional IRA contribution phases out at MAGI of $198,000 and is gone above $208,000.

If you decide you would like to make a Roth contribution, the phase outs are $125,000 to $140,000 for single taxpayers and $198,000 to $208,000 for those married filing jointly.

A final point to keep in mind is that nondeductible contributions made to a traditional IRA are not subject to a phase-out. If you decide to do this, make sure you include the proper form with your tax return to let the IRS know your contribution was nondeductible.

The annual gift tax exclusion remains unchanged from 2020. You can give anyone up to $15,000 without concern about filing a gift tax return. The gift and estate tax exclusion amount is up slightly from 2020. It has been raised from $11,580,000 to $11,700,000.

One final area you might want to know is what the standard deduction is for 2021. This will help you plan for itemized deductions to potentially decrease your tax liability. For single filers, the standard deduction is now $12,550. This is an increase over 2020's amount of $12,400. For those married filing jointly, the deduction is $25,100, which is up from $24,800 in 2020. Make sure to review your filing status and whether or not you can be claimed as a dependent on another's tax return.

This is only a small sample of the limits that are out there in our tax code. Be sure to review those that may apply to you with your tax or financial adviser.

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