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A Look at America's Most Popular Pension Plan: Social Security

Approximately 50% of elderly Americans receive at least half of their income from Social Security. Let's take a look at this important program and some of the changes we will see this year.

Eligibility

Eligibility for Social Security is based on the number of credits earned during your working years. In 2021, you will earn one credit for every \$1,470 you make, up to a maximum of four credits for the year. People born in 1929 or later need at least 40 credits to receive Social Security benefits when they retire.

How the System Works

Social Security is a pay-as-you-go system. Money paid into the program by current workers is used to pay for current retirees' benefits. Money that is left over goes into the Social Security Trust Fund, which is meant to be used when contributions no longer meet the program's obligations.

How to Receive "Full" Benefits

You can choose to begin taking Social Security benefits at age 62. However, this will lead to a lower monthly benefit than if you wait until full retirement age. Your full retirement age depends on when you were born. If you were born:

- In 1960 or later, full retirement age is 67
- Between 1955 and 1960, full retirement age ranges from 66 and two months to 66 and 10 months
- Between 1943 and 1954, full retirement age is 66
- Between 1938 and 1942, full retirement age ranges from 65 and two months to 65 and 10 months
- Before 1938, full retirement age is 65

How Much Will You Receive?

Your monthly benefit is based on how much you earned during your lifetime. The formula can get complicated, but basically the Social Security Administration averages the income from your 35 highest-earning years. You can go to the Social Security Retirement Estimator (<https://www.ssa.gov/benefits/retirement/estimator.html>) to see how much you will receive.

Can You Keep Working and Still Receive Benefits?

Yes. If you have already reached full retirement age, you can continue working and receive your full benefit. If you have not yet reached full retirement age and continue working, your benefits will be reduced temporarily. However, the Social Security Administration will credit your "account" when you reach full retirement age, leading to a higher benefit.

The Spousal Benefit

Eligible spouses can claim Social Security benefits even if they have never held a paying job. To qualify, the "nonworking" spouse must be 62 or older and the spouse with a "work record" must already be receiving retirement or disability benefits. It's worth noting that widowed spouses become eligible for 100% of their partner's full benefit unless they also had a job and the benefit

they earned from their own income is higher. In certain situations, divorced spouses can also be eligible for spousal benefits.

Taxes and Social Security

Depending on your income, you might have to pay taxes on Social Security benefits. For example, as of 2020, couples with a combined income of \$32,000 to \$44,000 who file a joint tax return may have to pay tax on up to half of their benefits.

Social Security Funding Challenges

Social Security has collected more than it paid out for decades. As noted earlier, excess income went into the Social Security Trust Fund. According to AARP, this fund held \$2.9 trillion by the end of 2019. However, due to the retiree population growing faster than the working population, as well as the fact that people are living longer, Social Security is starting to pay out more than it takes in. Without changes to the way Social Security is financed, the trust fund is projected to run out in 2035.

Of course, even then Social Security will still collect taxes and pay benefits. According to recent estimates, however, it will only be able to cover 79% of scheduled benefits. To avoid that scenario, Congress would have to take measures to strengthen Social Security's finances, as it did in 1983 when the program's reserves were nearly exhausted.

Changes for 2021

The Social Security Administration announces its annual changes to the program every October. Here are some key changes that took effect on January first of this year, according to the Social Security Administration's fact sheet:

- Social Security recipients received a 1.3% increase for 2021. (Beneficiaries received a 1.6% increase in 2020.)
- The maximum earnings subject to Social Security tax increased from \$137,700 a year to \$142,800 a year.
- The amount of money working Social Security recipients can earn before their benefits are reduced increased slightly.
- Social Security disability benefits also increased slightly.
- It now takes \$1,470 to earn a single Social Security credit, a \$60 increase from 2020.

You can learn much more about Social Security, and access a wide range of helpful tools, at <https://www.ssa.gov>.

Five Ways President Biden's Tax Plan Could Impact Your Finances

President Biden outlined his tax plan during the presidential campaign. Now that Democrats control both the House and the Senate (if you factor in the vote of Vice President Kamala Harris), it's worth revisiting some of Biden's proposals.

In general, Biden would like to increase taxes on people earning more than \$400,000 per year and repeal a number of provisions in the Tax Cuts and Job Act of 2017. Here are some of the details.

- 1. An increase in the top individual income tax rate from 37% to 39.6%.**
- 2. Elimination of "step-up in basis" at death.** Currently, the step-up in basis allows families to pass capital gains tax-free to their heirs. This is accomplished by "stepping up" the value of an asset from its original purchase price to its value when inherited, which results in less gain and therefore less tax paid. The step-up in basis significantly reduces capital gains taxes on assets with substantial appreciation.
- 3. A reduction in exemptions for estate and gift taxes.** These exemptions are currently set at \$11.7 million per person and \$23.4 million per married couple. Biden has

proposed restoring estate and gift tax exemptions to their 2009 level: \$3.5 million per person.

4. **Capital gains treated as normal income.** For individuals with income over \$1 million, long-term capital gains and “qualified dividends” would be treated as normal income and taxed up to 39.6%. This is significantly higher than the current rate of 15% to 20%.

Of course, President Biden’s tax proposals require congressional approval before they become law. Such approval is by no means a certainty. If these proposals do become law, wealthy Americans will have to reevaluate and likely adjust their financial and estate plans.

New Firm Website!

We are thrilled to announce that Crisafulli Gorman, P.C. launched a new website last month! Please visit our new website at <https://www.cg-lawyers.com>. There are several exciting features including blog posts, an events page with our workshop information, and a client portal through which clients can securely access copies of their executed estate planning documents. Please visit the website, give it a look, and let us know what you think!

VIRTUAL Workshop: Essentials of Estate Planning

Know someone who would benefit from learning about estate planning? Know someone concerned about financing the costs of long-term care? It is easier than ever to participate in one of our workshops from the convenience of your computer, tablet, or smart phone. Visit www.cg-lawyers.com/workshops/ or call (315) 309-8211 to register for a real-time, free, virtual workshop. We'll help you every step of the way.

Monday, May 24th, 2021 @ 9:30 am

Monday, June 21, 2021 @ 4:00 pm

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