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**Tax Summit 2021**



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# Presenter: Rich Arzaga

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**CERTIFIED FINANCIAL PLANNER™  
PRACTITIONER**

**Accredited Investment Fiduciary®**

# How Your Tax Return Can Increase Your Personal Wealth

Rich Arzaga

Certified Financial Planner®

Adjunct-Professor, UC Berkeley Personal  
Financial Planning



# Education Disclosure

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The opinions voice in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which strategy may be appropriate for you, work with your professional advisors.

There is no tax advice in this presentation. I am not a tax advisor.



With taxes, every

# State Person Situation

is different



# It's takes a team to build wealth



# Agenda

- Misplaced wealth
- The power of compounding
- Finding opportunities in your return
- Improving personal wealth





# Facts about misplaced wealth

- Taxpayers lose out on millions by not filing returns
- Americans must work 114 days into the year to afford their tax bills (fool.com)
- In 2018, an estimated 44% of Americans pay no federal income tax (Tax Policy Center)



# “The power to lay and collect taxes on incomes”

February 21, 1787, the power to tax was approved by Congress

January 5, 1914, the Treasury Department unveiled the four-page form (including instructions)

TO BE FILLED IN BY COLLECTOR. Form 1040. TO BE FILLED IN BY INTERNAL REVENUE BUREAU.

**INCOME TAX.**

**THE PENALTY FOR FAILURE TO HAVE THIS RETURN IN THE HANDS OF THE COLLECTOR OF INTERNAL REVENUE ON OR BEFORE MARCH 1 IS \$20 TO \$1,000.**  
(SEE INSTRUCTIONS ON PAGE 4.)

UNITED STATES INTERNAL REVENUE.

**RETURN OF ANNUAL NET INCOME OF INDIVIDUALS.**  
(As provided by Act of Congress, approved October 3, 1913.)

RETURN OF NET INCOME RECEIVED OR ACCRUED DURING THE YEAR ENDED DECEMBER 31, 191....  
(FOR THE YEAR 1913, FROM MARCH 1, TO DECEMBER 31.)

Filed by (or for) ..... of .....  
(Full name of individual.) (Street and No.)

in the City, Town, or Post Office of ..... State of .....  
(Fill in page 2 and 3 before making entries below.)

1. GROSS INCOME (see page 2, line 12) .....	\$		
2. GENERAL DEDUCTIONS (see page 3, line 7) .....	\$		
3. NET INCOME .....	\$		
Deductions and exemptions allowed in computing income subject to the normal tax of 1 per cent.			
4. Dividends and net earnings received or accrued, of corporations, etc., subject to like tax. (See page 2, line 11) .....	\$		
5. Amount of income on which the normal tax has been deducted and withheld at the source. (See page 2, line 9, column A) .....	\$		
6. Specific exemption of \$3,000 or \$4,000, as the case may be. (See Instructions 3 and 19) .....	\$		
Total deductions and exemptions. (Items 4, 5, and 6) .....	\$		
7. TAXABLE INCOME on which the normal tax of 1 per cent is to be calculated. (See Instruction 3) .....	\$		
8. When the net income shown above on line 3 exceeds \$20,000, the additional tax thereon must be calculated as per schedule below:			
	INCOME.	TAX.	
1 per cent on amount over \$20,000 and not exceeding \$50,000 .....	\$		
2 " " 50,000 " " 75,000 .....			
3 " " 75,000 " " 100,000 .....			
4 " " 100,000 " " 250,000 .....			
5 " " 250,000 " " 500,000 .....			
6 " " 500,000 .....			
Total additional or super tax .....	\$		
Total normal tax (1 per cent of amount entered on line 7) .....	\$		
Total tax liability .....	\$		



Over 75,000  
Pages

# 2020 IRS Tax Forms and Schedules

1040

Schedules  
1, B, C, D, E

Form 8829

# The power of compounding: \$1,000

50-year-old	
Retirement Age	65
Years to retirement	15
Investment profile	7%
Value of \$1,000 saved per year	\$25,129

30-year-old	
Retirement Age	65
Years to retirement	35
Investment profile	7%
Value of \$1,000 saved per year	\$138,237

<https://www.calculator.net/future-value-calculator.html>

## Results

Future Value: **\$25,129.02**

PV (Present Value)	\$9,107.91
N (Number of Periods)	15.000
I/Y (Interest Rate)	7.000
PMT (Periodic Deposit)	\$1,000.00
Starting Amount	\$0.00
Total Periodic Deposits	\$15,000.00
Total Interest	\$10,129.02

**\$1,000 =  
\$25,000**

## Results

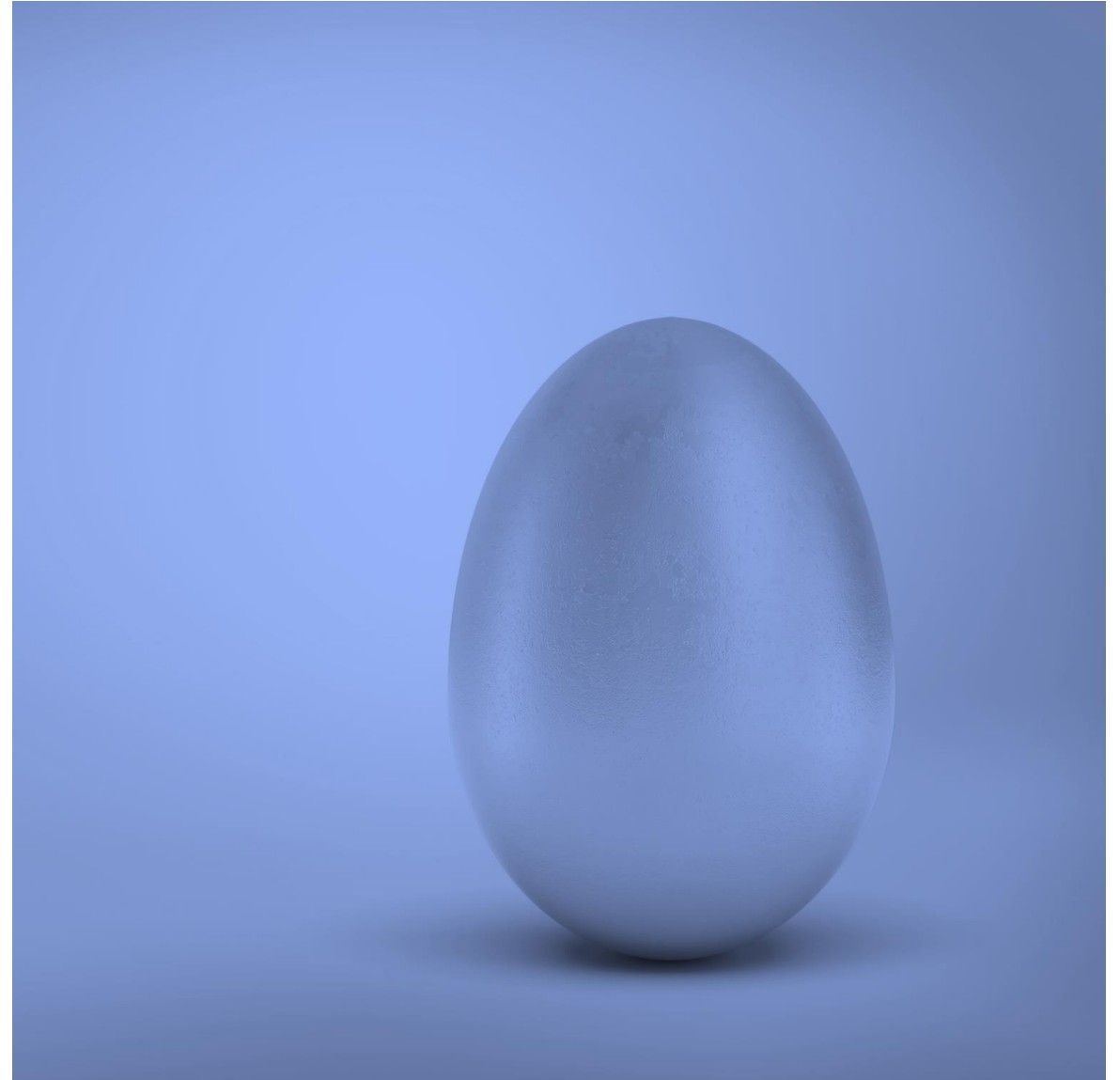
Future Value: **\$138,236.88**

PV (Present Value)	\$12,947.67
N (Number of Periods)	35.000
I/Y (Interest Rate)	7.000
PMT (Periodic Deposit)	\$1,000.00
Starting Amount	\$0.00
Total Periodic Deposits	\$35,000.00
Total Interest	\$103,236.88

**\$1,000 =  
\$138,000**



# Opportunities to build wealth



# Form 1040, page 1

- 2a Taxable interest
- 3a Qualified dividends
- 3b Ordinary dividends
- 7 Capital gains or losses
- 13 Qualified business income (QBI)

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2020** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

**Filing Status**  Single  Married filing jointly  Married filing separately (MFS)  Head of household (HOH)  Qualifying widow(er) (QW)  
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial Last name Your social security number  
 If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.  
 City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code  
 Foreign country name Foreign province/state/country Foreign postal code  
**Presidential Election Campaign**  
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.  
 You  Spouse

At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?  Yes  No

**Standard Deduction** **Someone can claim:**  You as a dependent  Your spouse as a dependent  
 Spouse itemizes on a separate return or you were a dual-status alien

**Age/Blindness** You:  Were born before January 2, 1956  Are blind Spouse:  Was born before January 2, 1956  Is blind

Dependents (see instructions): If more than four dependents, see instructions and check here ▶ <input type="checkbox"/>	(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> If qualifies for (see instructions): Child tax credit	Credit for other dependents
						<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1
2a	Tax-exempt interest	2a
3a	Qualified dividends	3a
4a	IRA distributions	4a
5a	Pensions and annuities	5a
6a	Social security benefits	6a
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	7
8	Other income from Schedule 1, line 9	8
9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>	9
10	Adjustments to income:	
a	From Schedule 1, line 22	10a
b	Charitable contributions if you take the standard deduction. See instructions	10b
c	Add lines 10a and 10b. These are your <b>total adjustments to income</b>	10c
11	Subtract line 10c from line 9. This is your <b>adjusted gross income</b>	11
12	<b>Standard deduction or itemized deductions</b> (from Schedule A)	12
13	Qualified business income deduction. Attach Form 8995 or Form 8995-A	13
14	Add lines 12 and 13	14
15	<b>Taxable income.</b> Subtract line 14 from line 11. If zero or less, enter -0-	15

**Standard Deduction for—**  
 • Single or Married filing separately, \$12,400  
 • Married filing jointly or Qualifying widow(er), \$24,800  
 • Head of household, \$18,650  
 • If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Form **1040** 2020

# Form 1040, page 2

34 Overpaid  
37 Underpaid

20	Amount from Schedule 3, line 7	20	
21	Add lines 19 and 20	21	
22	Subtract line 21 from line 18. If zero or less, enter -0-	22	
23	Other taxes, including self-employment tax, from Schedule 2, line 10	23	
24	Add lines 22 and 23. This is your <b>total tax</b>	24	
25	Federal income tax withheld from:		
a	Form(s) W-2	25a	
b	Form(s) 1099	25b	
c	Other forms (see instructions)	25c	
d	Add lines 25a through 25c	25d	
26	2020 estimated tax payments and amount applied from 2019 return	26	
27	Earned income credit (EIC)	27	
28	Additional child tax credit. Attach Schedule 8812	28	
29	American opportunity credit from Form 8863, line 8	29	
30	Recovery rebate credit. See instructions	30	
31	Amount from Schedule 3, line 13	31	
32	Add lines 27 through 31. These are your <b>total other payments and refundable credits</b>	32	
33	Add lines 25d, 26, and 32. These are your <b>total payments</b>	33	
<b>Refund</b>	34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you <b>overpaid</b>	34	
35a	Amount of line 34 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>	35a	
▶ b	Routing number	▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
▶ d	Account number		
36	Amount of line 34 you want <b>applied to your 2021 estimated tax</b>	36	
<b>Amount You Owe</b>	37 Subtract line 33 from line 24. This is the <b>amount you owe now</b>	37	
For details on how to pay, see Instructions.	<b>Note:</b> Schedule H and Schedule SE filers, line 37 may not represent all of the taxes you owe for 2020. See Schedule 3, line 12e, and its instructions for details.		
38	Estimated tax penalty (see instructions)	38	
<b>Third Party Designee</b>	Do you want to allow another person to discuss this return with the IRS? See instructions <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No		
Designee's name ▶	Phone no. ▶	Personal identification number (PIN) ▶	
<b>Sign Here</b>	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see Inst.) ▶
Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see Inst.) ▶
Phone no.	Email address		
Preparer's name	Preparer's signature	Date	PTIN
Firm's name ▶	Phone no.		Check it: <input type="checkbox"/> Self-employed
Firm's address ▶	Firm's EIN ▶		

Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.

Form **1040** (2020)



# Schedule 1

- 15 Retirement contributions
- 19 IRA contribution deduction
- Non-deductable IRA contributions
- 12 Health Savings Accounts (HSA)

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to <a href="http://www.irs.gov/Form1040">www.irs.gov/Form1040</a> for instructions and the latest information.		<b>2020</b> Attachment Sequence No. 01
9 Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8				9
<b>Part II Adjustments to Income</b>				
10	Educator expenses			10
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106			11
12	Health savings account deduction. Attach Form 8889			12
13	Moving expenses for members of the Armed Forces. Attach Form 3903			13
14	Deductible part of self-employment tax. Attach Schedule SE			14
15	Self-employed SEP, SIMPLE, and qualified plans			15
16	Self-employed health insurance deduction			16
17	Penalty on early withdrawal of savings			17
18a	Alimony paid			18a
	b Recipient's SSN			
	c Date of original divorce or separation agreement (see instructions)			
19	IRA deduction			19
20	Student loan interest deduction			20
21	Tuition and fees deduction. Attach Form 8917			21
22	Add lines 10 through 21. These are your <b>adjustments to income</b> . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a			22

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2020

# Retirement Contribution Limits

## Resources:

- Retirement Plan Contribution Limits 2021
- Retirement Plan Comparison (Tax Year 2020)
- Retirement Plan Comparison (Tax Year 2021)

## Overview

This chart is designed to give you a basic overview of contribution limits. It is not intended as a substitute for specific individualized tax advice. It is recommended that clients consult with a qualified tax advisor before making a contribution.

Tax Year	2021	2020	2019
IRA Contribution Limit - 219(b)(5)(A) - Under Age 50	6,000	6,000	6,000
IRA Catch-Up Contribution Limit - 219(b)(5)(B) - Age 50 or Over	7,000	7,000	7,000
SIMPLE IRA Maximum Contributions - 408(p)(2)(E) - Under Age 50	13,500	13,500	13,000
SIMPLE IRA Maximum Catch-Up Contribution - 414(v)(2)(B)(ii) Age 50 or Over	16,500	16,500	16,000
Coverdell ESA Contribution Limit *	2,000	2,000	2,000
Employer Defined Contribution Limit - 415(c)(1)(A)	58,000	57,000	56,000
Elective Deferral Limit - 402(g)(1)	19,500	19,500	19,000
Elective Deferral Catch-Up Limit - 414(v)(2)(B)(i)	26,000	26,000	25,000
Annual Compensation Cap - 401(a)(17)/404(l)	290,000	285,000	280,000
SEP Minimum Compensation - 408(k)(2)(C)	650	600	600
SEP Maximum Compensation - 408(k)(3)(C)6.	290,000	285,000	280,000
457 Elective Deferrals - 457(e)(15)	19,500	19,500	19,000
Defined Benefit Limit - 415(b)(1)(A)	230,000	230,000	225,000
Highly Compensated Employee (HCE) - 414(q)(1)(B)	130,000	130,000	125,000
Key Employee - 416(i)(1)(A)(i)	185,000	185,000	180,000
Taxable Wage Base	142,800	137,700	132,900

# Form 8829

Proportional write-off of utilities and related expenses

Depreciation of that portion of the home

2	Total area of home . . . . .	2	
3	Divide line 1 by line 2. Enter the result as a percentage . . . . .	3	%
<b>For daycare facilities not used exclusively for business, go to line 4. All others, go to line 7.</b>			
4	Multiply days used for daycare during year by hours used per day . . . . .	4	hr.
5	If you started or stopped using your home for daycare during the year, see instructions; otherwise, enter 8,784 . . . . .	5	hr.
6	Divide line 4 by line 5. Enter the result as a decimal amount . . . . .	6	.
7	Business percentage. For daycare facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3 . . . . .	7	%

<b>Part II Figure Your Allowable Deduction</b>			
8	Enter the amount from Schedule C, line 29, <b>plus</b> any gain derived from the business use of your home, <b>minus</b> any loss from the trade or business not derived from the business use of your home. See instructions.	8	
<b>See instructions for columns (a) and (b) before completing lines 9-22.</b>			
		(a) Direct expenses	(b) Indirect expenses
9	Casualty losses (see instructions) . . . . .	9	
10	Deductible mortgage interest (see instructions) . . . . .	10	
11	Real estate taxes (see instructions) . . . . .	11	
12	Add lines 9, 10, and 11 . . . . .	12	
13	Multiply line 12, column (b), by line 7 . . . . .	13	
14	Add line 12, column (a), and line 13 . . . . .	14	
15	Subtract line 14 from line 8. If zero or less, enter -0- . . . . .	15	
16	Excess mortgage interest (see instructions) . . . . .	16	
17	Excess real estate taxes (see instructions) . . . . .	17	
18	Insurance . . . . .	18	
19	Rent . . . . .	19	
20	Repairs and maintenance . . . . .	20	
21	Utilities . . . . .	21	
22	Other expenses (see instructions) . . . . .	22	
23	Add lines 16 through 22 . . . . .	23	
24	Multiply line 23, column (b), by line 7 . . . . .	24	
25	Carryover of prior year operating expenses (see instructions) . . . . .	25	
26	Add line 23, column (a), line 24, and line 25 . . . . .	26	
27	Allowable operating expenses. Enter the <b>smaller</b> of line 15 or line 26 . . . . .	27	
28	Limit on excess casualty losses and depreciation. Subtract line 27 from line 15 . . . . .	28	
29	Excess casualty losses (see instructions) . . . . .	29	
30	Depreciation of your home from line 42 below . . . . .	30	
31	Carryover of prior year excess casualty losses and depreciation (see instructions) . . . . .	31	
32	Add lines 29 through 31 . . . . .	32	
33	Allowable excess casualty losses and depreciation. Enter the <b>smaller</b> of line 28 or line 32 . . . . .	33	
34	Add lines 14, 27, and 33 . . . . .	34	
35	Casualty loss portion, if any, from lines 14 and 33. Carry amount to <b>Form 4684</b> . See instructions . . . . .	35	
36	<b>Allowable expenses for business use of your home.</b> Subtract line 35 from line 34. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions. ▶	36	

<b>Part III Depreciation of Your Home</b>			
37	Enter the <b>smaller</b> of your home's adjusted basis or its fair market value. See instructions . . . . .	37	
38	Value of land included on line 37 . . . . .	38	
39	Basis of building. Subtract line 38 from line 37 . . . . .	39	
40	Business basis of building. Multiply line 39 by line 7 . . . . .	40	
41	Depreciation percentage (see instructions) . . . . .	41	%
42	Depreciation allowable (see instructions). Multiply line 40 by line 41. Enter here and on line 30 above . . . . .	42	

# Schedule E

18

Depreciation (Cost Recovery)

Name(s) shown on return		Your social security number			
<b>Part I Income or Loss From Rental Real Estate and Royalties</b> Note: If you are in the business of renting personal property, use Schedule C. See instructions. If you are an individual, report farm rental income or loss from Form 4835 on page 2, line 40.					
A Did you make any payments in 2020 that would require you to file Form(s) 1099? See instructions		<input type="checkbox"/> Yes <input type="checkbox"/> No			
B If "Yes," did you or will you file required Form(s) 1099?		<input type="checkbox"/> Yes <input type="checkbox"/> No			
1a Physical address of each property (street, city, state, ZIP code)					
A					
B					
C					
1b	Type of Property (from list below)	2	Fair Rental Days	Personal Use Days	QJV
A		For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	A		<input type="checkbox"/>
B			B		<input type="checkbox"/>
C			C		<input type="checkbox"/>
<b>Type of Property:</b>					
1 Single Family Residence		3 Vacation/Short-Term Rental		5 Land	
2 Multi-Family Residence		4 Commercial		7 Self-Rental	
				8 Royalties	
				8 Other (describe)	
<b>Income:</b>		<b>Properties:</b>		<b>A</b>	
3 Rents received		3		<b>B</b>	
4 Royalties received		4		<b>C</b>	
<b>Expenses:</b>					
5 Advertising		5			
6 Auto and travel (see instructions)		6			
7 Cleaning and maintenance		7			
8 Commissions		8			
9 Insurance		9			
10 Legal and other professional fees		10			
11 Management fees		11			
12 Mortgage interest paid to banks, etc. (see instructions)		12			
13 Other interest		13			
14 Repairs		14			
15 Supplies		15			
16 Taxes		16			
17 Utilities		17			
18 Depreciation expense or depletion		18			
19 Other (list) ▶		19			
20 Total expenses. Add lines 5 through 19		20			
21 Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198		21			
22 Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)		22			
23a Total of all amounts reported on line 3 for all rental properties		23a			
b Total of all amounts reported on line 4 for all royalty properties		23b			
c Total of all amounts reported on line 12 for all properties		23c			
d Total of all amounts reported on line 18 for all properties		23d			
e Total of all amounts reported on line 20 for all properties		23e			
24 <b>Income.</b> Add positive amounts shown on line 21. Do not include any losses		24			
25 <b>Losses.</b> Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here		25			

# Top 10 Triggers of an IRS Audit

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- Mistakes
- High Income
- Excessive Expenses
- Home Office
- Losses on Your Schedule C
- Missing Income
- Real Estate Loss
- High Deductions
- Certain Industries
- Underpayment



# Impact of improving personal wealth

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- Financial independence
- Personal options
- Travel, interests, family
- Happiness
- Legacy and charity



# Contact information

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cornerstonewmi.com





# Questions?

ASK IN THE Q&A Box

OR SEND QUESTIONS TO:

[FINANCIALWELLNESS@NAR.REALTOR](mailto:FINANCIALWELLNESS@NAR.REALTOR)





Thank You!  
**FINANCIALWELLNESS.REALTOR**

