

The Accountant's Office

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2020 TAX PLANNING & TIPS

The year 2020 has been incredibly unpredictable and continues to offer surprises. There are so many different opinions on what this year has meant to us but the one constant is that the year 2020 has been like no other!

Because of this ongoing Pandemic, our interview and appointment practices needed to be altered. You should have received a letter describing our 2021 meeting options. Please read that and call if you have any questions. We hope that if you can provide your tax information, either by Verifyle, our secure online portal, the locked drop off box in front of our office, or by mail a couple of weeks ahead of your appointment, we can better utilize your time in a Virtual or telephone appointment. If you are electing to just drop off or mail in, please be sure to provide email addresses and phone numbers so we can contact you should we have questions, need additional information, or to schedule a pickup and signing appointment.

We will continue to have the lobby open by appointment for signing and handing out tax returns and bookkeeping pickups. If you do not elect to use our drop off box, please call and schedule a drop off appointment with our front desk people so they can get everything checked in and all the signatures we need. Plan to spend up to 15 minutes. We are trying very hard to protect everyone.

One of my Due Diligence requirements is that our Engagement Agreement MUST be signed BEFORE we commence any work for you. Seems as how the insurance company and IRS think it's backwards to have you sign that after the tax return has been completed! Can you believe that?!?

CHECK the expiration of your driver's license – we must have a current copy on file with the correct information entered on the date we file your return. If we have the information, we can get the copies when you sign your return. Or you can provide us with a color copy in your documentation.

My New Year's wish is that 2021 is as uneventful as 2020 was eventful! How's that for dreaming?!?

*****New Tax Laws*****

The Setting Every Community Up for Retirement Enhancement (SECURE Act) was enacted on January 1, 2020 and on March 27, the president signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). These are highlights of these new laws.

Changes to Retirement Accounts.

- Taxpayers of any age can now make IRA contributions as long as they have earned income. Previously contributions were barred after age 70 ½.
- RMD's (Required Minimum Distributions) from your qualified retirement plan or IRA are not required to begin until April 1 of the year following the year in which you reach age 72 (previously age 70 ½). Qualified Charitable Distributions are still allowed at age 70 ½ but is reduced by the aggregate amount of contributions made after age 70 ½.
- In 2020, you were not required to take your RMD. If you did take your RMD in early 2020, the IRS allowed you to roll it back into your plan provided you did so by August 31.
- You are permitted to withdraw up to \$100,000 from your IRA or retirement account and avoid the 10% early distribution penalty if the reason was due to COVID-19. To be eligible, you, your spouse or a family member must have tested positive for the virus or you experienced adverse financial hardships as a result of being furloughed, laid off from work, or unable to work due to lack of childcare. These distributions can be included in income in the current tax year or reported over a 3 year period beginning with the year of the distribution. You also have 3 years to recontribute a COVID distribution back into a qualified plan or IRA and avoid paying tax on the amount.
- Within one year of the birth or adoption of your child, each spouse can take a penalty-free \$5,000 taxable distribution from your qualified retirement account.
- Non Spousal beneficiaries of IRA's inherited after December 31, 2019, must distribute the entire account balance by the end of the tenth calendar year following the year of the account owner's death.

Section 529 Plans. New rules also allow for distributions to pay for the cost of a registered apprenticeship program or up to \$10,000 lifetime limit for student loan repayments.

Economic Impact Payment. aka Stimulus Payment. Beginning in April, the IRS began sending economic impact payments to eligible taxpayers. The payments were basically \$1,200 per qualifying taxpayer plus an additional \$500 for each dependent under age 17. The amount of the payment was reduced once income reached certain thresholds and was based on your 2018 or 2019 income tax return, whichever had been filed by the time the payments were issued. The payment was an “advance credit” on your 2020 tax return. If you did not receive all that you were due, the additional amount will be included on your 2020 return. If you received more than you were entitled to receive, this will not need to be repaid, nor will it change your tax liability.

NOTE: within 15 days of the payment, the IRS should have mailed you a letter (Notice 1444). This notice explained the payment and how much you received. **You will need to include that with your tax papers. If you don't have that letter, provide documentation of how much you received. We have not received any indication that we will have a lookup database and can not reconcile the credit without documentation of amounts received.** As it appears that you will shortly receive a second stimulus payment, please provide that notice as well since it is to be included in the reconciliation on your 2020 tax return.

Charitable Contributions. For 2020, you can claim an above-the-line deduction of up to \$300 for cash contributions to a qualified charity if you do not itemize your deductions. The deduction is limited to \$300 per tax return (NOT per person). The adjusted gross income limit for cash contributions is allowed up to 100% in 2020.

HSAs and FSAs. Over the counter medical supplies are treated as paid for medical care even if they are not paid under a doctor's prescription.

New Rules for Kiddie Tax. The “kiddie tax” rules return the tax rate of certain unearned income of children and young adults to the parent's rates for 2020, but you may elect to apply it to tax years beginning in 2018, 2019, or both.

Additional Information

Unemployment Benefits. Many of you had to apply for and collect unemployment benefits this year. Unemployment benefits, including any of the special unemployment compensation authorized under the Coronavirus Aid, Relief, and Economic Security Act,

are included in your income and subject to tax. If you did not have income taxes withheld from your benefits, your 2020 tax return might show a balance due.

Standard Mileage Rate. The following rates are applicable for the 2020 and 2021 tax years:

	<u>2020</u>	<u>2021</u>
Business	.575	.56
Medical	.17	.16
Moving *	.17	.16
Charitable	.14	.14

*Generally only for active military members

Nonbusiness Energy Property. For certain energy efficient property for your personal residence placed in service after 12/31/2017 through 2020, you may be entitled to a tax credit. The credit is 10% of the amounts you paid or incurred for qualified energy improvements to your home for windows, doors, skylights, and roofs. This credit has a lifetime limit of \$200. You may also be entitled to a fixed dollar amount credit (\$50 to \$300) for energy-efficient property including furnaces, boilers, biomass stoves, heat pumps, water heaters, central air conditioners, and circulating fans, with a lifetime cap of \$500.

Qualified Tuition and Related Expenses. After 12/31/17 through 2020, you may be entitled to an above-the-line deduction for qualified tuition and related expenses for higher education. The deduction is capped at \$4,000 if your AGI does not exceed \$65,000 (\$130,000 for joint filers) or \$2,000 if your AGI does not exceed \$80,000 (\$160,000 for joint filers).

Tax Return Due Dates. As of this moment, the 2020 income tax return is due Thursday, April 15, 2021. The practitioner community wonders how the IRS and software companies will be able to keep up with constantly changes tax laws and still provide enough time to complete the nations' 161 million individual tax returns. This season commences under the same pandemic that caused many government offices to be closed to the public and employees to work from home. Electronic filing doesn't open until late January. Investment income statements aren't required to be out before 2/15. Partnership and S-Corp K-1's aren't due until 3/15. Like last year, we anticipate more extensions than normal. Don't be surprised if yours is one of them!

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information, and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.