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2020 TAX PLANNING & TIPS

The tax laws continue to provide opportunities for the wise and traps for the unwary. Often, tax savings can be achieved by taking action before the year-end. The information and strategies discussed herein may or may not be appropriate for your situation. Remember to consult with your tax professional before implementing them.

New Tax Laws

On March 27, the president signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Below are some of the benefits affecting individuals under the new law.

Economic Impact Payment. Beginning in April, the IRS began sending economic impact payments to eligible taxpayers. Single taxpayers were eligible to receive up to $1,200, married taxpayers were eligible for 2,400 plus an additional a payment of $500 was available to taxpayers with dependent children under the age of 17. The amount of the payment was reduced once income reached certain thresholds.

The amount of the payment you received was based on your 2019 income tax return. If you did not file a 2019 return by the time the IRS sent your payment, they used the information on your 2018 return. Because of this, you may have received more or less than you were entitled to receive.

The nature of the payment works as and advance credit on your 2020 tax return. If you did not receive all that you were due, for example because your marital status changed or you gained a dependent, 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.

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 and bring it to your tax appointment.

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. This means that if you file a joint return, you are limited to one $300 deduction for both spouses.

The CARES Act also changed the adjusted gross income limit for cash contributions. Such contributions are allowed up to 100% in 2020.

Changes to Retirement Accounts. The SECURE and the CARES Act made several changes to IRAs and other qualified retirement accounts starting in 2020.

- Taxpayers of any age can now make contributions to their IRA. The rule limiting contributions to those who have not reached age 70½ has been repealed.

- You are not required to begin distributions from your qualified retirement plan or IRA until April 1 of the year following the year in which you reach age 72. Previously you were required to begin distributions by April 1 of the year following age 70½.

- In 2020, you are not required to take your minimum required distribution (RMD) from your IRA or qualified retirement plan. 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 or laid off from work or were unable to work due to lack of childcare.

- If you elect to do so, COVID related distributions can be included in your income in the current tax year, otherwise the income is reported over a three-year period beginning with the year of the distribution. You also have three years to recontribute a COVID distribution back into a qualified plan or IRA and avoid paying tax on the amount.

- You can take a penalty-free distribution from your qualified retirement account for a qualified birth or adoption of your child. The penalty-free distribution is limited to $5,000 per individual. This means that each spouse can separately receive a $5,000 distribution. The distribution must be made within one year of either the birth or adoption of the child.

- The CARES Act provides for some flexibility for loans from certain qualified plans. If you are qualified, you can take a loan from your retirement plan of up to $100,000. In addition, if you have an outstanding loan with a payment due between March 27 and December 31, 2020 you are granted an automatic one-year delay for making a repayment.

- For deaths of plan participants or IRA owners occurring before 2020, beneficiaries (both spousal and non-spouse) were generally allowed to stretch out the tax-deferral advantages of the plan or IRA by taking distributions over the beneficiary's life expectancy.

  New rules modify the post-death distribution requirements. Beginning with distributions with respect to employees or IRA owners who die after December 31, 2019, the entire account balance must be distributed by the end of the tenth calendar year following the year of the account owner's death.

  The new rules don't apply if the beneficiary is the owner's spouse, minor child, a chronically ill individual, or any other individual who is not more than ten years younger than the employee or IRA owner.

Section 529 Plans. Any person can contribute to a 529 plan for the benefit of designated beneficiary. Generally, distributions are used to help pay for higher education expenses. 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.

The overall $10,000 limit for student loan repayments includes principal and interest. The money can be used to repay the designated beneficiary's student loan or the loan of the beneficiary's sibling. Siblings include brothers, sisters, stepbrothers, or stepsisters. A student loan distribution to a sibling of a designated beneficiary is applied to the sibling's $10,000 lifetime limit, not to the lifetime limit of the designated beneficiary.

HSAs and FSAs. Amounts paid from Health Savings Accounts (HSAs), Archer Medical Savings Accounts and Flexible Spending Arrangements (FSAs) are be treated as paid for medical care even if they are not paid under a doctor's prescription. This includes amounts paid for menstrual care products. This new rule applies to amount paid after December 31, 2019.

New Rules for Kiddie Tax. The "kiddie tax" rules were initially implemented under the Tax Reform Act of 1986 to prevent parents from transferring investment to their children, so they were taxed at a lower rate. Congress has been amending the rules ever since.

Most recently, the Tax Cuts and Jobs Act (TCJA) of 2017 put rules in place that taxed certain unearned income of children and young adults at the high estate and trust rates. Prior to that, the net unearned income of children subject to the kiddie tax rules was taxed at the parents' tax rates, if the parents' tax rates were higher that the tax rates of the child. The SECURE Act eliminated the TCJA rules and returned the kiddie tax rates to the parents' rates.

The new rules generally apply for tax years beginning after December 31, 2019, but you may elect to apply it to tax years which begin in 2018, 2019, or both.

Additional Information

Unemployment Benefits. Many of you had to apply for and collect unemployment benefits for the first time this year. Unemployment benefits are included in your income and subject to tax. Keep in mind, the taxable benefits include any of the special unemployment compensation authorized under the Coronavirus Aid, Relief, and Economic Security Act. If you did not elect to voluntarily have income tax withheld from your benefits, you could face an unanticipated tax bill in 2021.

Standard Mileage Rate. Taxpayers can use the standard mileage rate (in lieu of actual expenses) in computing the deductible costs of operating automobiles owned or leased by them (including vans, pickups, or panel trucks) for business purposes. This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for business travel. The following rates are applicable for the 2020 tax year:

Business	.575
Medical	.17
Moving	.17
Charitable	.14

Social Security Wage Base for 2021. The Social Security Administration (SSA) recently announced that the maximum earnings subject to the Social Security component of the FICA tax will increase from $137,700 to $142,800 for 2021.

This means that for 2021, the maximum Social Security tax that employers and employees will each pay is $8,853.60 ($142,800 x 6.2%). A self-employed person with at least $142,800 in net self-employment earnings will pay $17,707.20 ($142,800 x 12.40%) for the Social Security part of the self-employment tax. The Medicare component remains 1.45% of all earnings, and individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) will pay an additional 0.9% in Medicare taxes.

Nonbusiness Energy Property. If you purchased certain energy efficient property for your personal residence, you may be entitled to 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.

You may also be entitled to a credit of fixed dollar amounts ranging from $50 to $300 for energy-efficient property including furnaces, boilers, biomass stoves, heat pumps, water heaters, central air conditioners, and circulating fans, subject to a lifetime cap of $500.

These credits have been retroactively extended through 2020 and applies to property placed in service after December 31, 2017.

Qualified Tuition and Related Expenses. 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).

The deduction is retroactively extended through 2020. This applies to tax years beginning after December 31, 2017.

Year-End Planning

Year-end planning is always complicated by the uncertainty of what the following year may bring, but this year presents an even bigger challenge. Serious questions persist over whether tax legislation will pass this year and, if so, whether it will involve sweeping tax reform, simple rate cuts, or something in between. With that in mind, here are a few steps that you might consider saving you tax dollars if you act before the end of the year. Please note that all actions may not apply in your situation.

- If you have a high deductible health plan and are eligible by December 2020 to contribute to a health savings account (HSA), you can make a full year's worth of deductible HSA contributions for 2020. Contribution limits for 2020 are $3,550 for self-only coverage and $7,100 for family coverage.

- Postpone income until 2021 and accelerate deductions into 2020 to lower your 2020 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2020 that are phased-out over varying levels of AGI.

- Check your withholding now. COVID-19 created cash-flow problems for many of you. Make sure your withholding and estimated taxes support what you expect to pay while you still have time to fix any problem. If you find you may be in danger of being penalized for underpaying taxes, you can make up the shortfall through increased withholding on your remaining salary or year-end bonus.

- Looking for a potentially tax-free new investment opportunity? Opportunity zones are one of the most powerful incentives ever offered by Congress for investing in specific geographic areas. In certain situations, you can potentially defer paying tax on gains invested in an opportunity zone until as late as 2026, but also only recognize 90% of the gain if you hold the investment for at least five years. If you hold the investment for 10 years and satisfy certain rules, you pay no tax on the appreciation of the opportunity zone investment itself. There are more than 8,000 opportunity zones throughout the United States, and many types of investment, development and business activities can qualify.

- Realize losses on stock while substantially preserving your investment position. For example, you can sell the original securities and then buy back the same securities at least 31 days later.

- You can give up to $15,000 to as many people as you wish in 2020 free of gift tax. If you are married, you and your spouse can elect to “gift split” and use your exemptions together to give up to $30,000 per beneficiary.
