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## Tax Topics:

### 2020 Stimulus Payments

The stimulus payment (or economic impact payment, as the IRS calls it) is technically a tax credit for 2020.

- ❖ If you received this payment, you received what amounts to a refundable tax credit that was paid in advance, rather than having to wait until 2021 to get a refund from this credit when you actually file your 2020 tax return.
- ❖ If you received this payment, it is not taxable income to you, but we MUST know the amount of the payment you received since it will need to be reported on the 2020 tax return.
- ❖ If, for some reason, you did not receive a stimulus payment earlier this year, and you were owed one, you can still receive it when you file your 2020 tax return.
- ❖ If you did not receive the full amount you were entitled to (if for example your 2020 adjusted gross income now makes you eligible when your 2019 AGI did not, or if you are eligible for the additional \$500 for an eligible child under 17 who was not a dependent on your 2019 return), you can receive this back as part of your 2020 tax return when we file that in 2021.
- ❖ However, if it turns out that your stimulus payment was more than you were actually allowed based on the 2020 income/dependents, you will not have to pay the credit back. Any adjustments to a taxpayer's stimulus payment on the 2020 tax return will only be in the taxpayer's favor. **This may be the only time in your lifetime you will ever see that!**

### The Rollercoaster Ride of 2020:

**What a crazy year** humanity has been experiencing in 2020! Sending good thoughts to all that have suffered and looking forward to a brighter future. Our bright future includes adding **Rose Yaguchi, CPA, MBA** to our accounting and tax firm. We are thrilled to add her excellent talents and skills to our Team and look forward to the upcoming tax season.

### Required Minimum Distributions (RMDs) Two major changes to RMDs:

1. The age limit for required withdrawals from pensions and IRAs has been increased to age 72. Please be sure to let us know if you need assistance in calculating your required minimum distributions along with the necessary federal and state withholdings.
2. The CARES Act allows taxpayers to skip taking their RMDs for the 2020 year. This includes withdrawals from a 401(k) or 403(b) or an IRA – it does not apply to defined-benefit plans. The deadline to return RMDs made prior to this act was August 31, 2020.

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## Tax Topics Continued:

### Waiver of 10% Penalty

If a taxpayer takes an early withdrawal from their retirement plan up to \$100,000 due to a coronavirus-related distribution, the taxpayer is exempt from the 10% penalty on early withdrawals. The distribution can also be included in income in 3 equal installments over a 3-year period starting in the year of distribution. Alternatively, a taxpayer has 3 years to put the money back into your retirement account and undo the tax consequences of the distribution. The taxpayer would be responsible for providing evidence that they had to take the distribution due to a COVID19 circumstance. The IRS lists qualifications on this site: <https://www.irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers>

### Inherited Pension & IRAs

The entire balance of the inherited account must now be distributed within 10 years after the year of the owner's death except for some "eligible designated beneficiaries" which includes owner's spouse, a child that has not reached the age of majority, a disabled person, or a chronically ill individual.

### Standard Deduction

For individuals the standard deduction increases to \$12,400 and for married filing jointly filers it increases to \$24,800. Even with the standard deduction, the CARES Act will allow taxpayers to deduct \$300 for charity as an above the line deduction (see further information regarding documentation below).

## The following items have been extended for the 2020 Tax Season:

- 📌 **Educational Deductions –**  
tuition and related expenses (Form 1098-T is required)
- 📌 **Residential Energy Credit –**  
insulation, storm doors, & windows
- 📌 **Mortgage Insurance Premiums –**  
as qualified residence interest subject to income limitations
- 📌 **Debt Cancellation –**  
excluded from income if acquisition debt on the primary home
- 📌 **Medical Expense Limit –**  
medical expenses are limited to anything over 7.5% of the taxpayer's adjusted gross income



## Tax Topics Continued:

### Charitable Contributions

Under the CARES Act, a taxpayer can deduct up to 100% of their adjusted gross income for qualified charitable contributions. As mentioned previously, \$300 of charitable contributions can be deducted even if the taxpayer is not itemizing so PLEASE be sure to send us receipts for your charitable contributions even if you take the standard deduction. This \$300 allowed contribution deduction is only available for monetary contributions - non-cash contributions do not qualify.

Taxpayers are required to have receipts, bank records, or written documentation for all charitable contributions. **No deductions for cash** contributions are allowed without receipts; therefore, you will need a receipt if you give cash, even cash offerings in church! Be sure to give us a copy of your receipts for any donations. The IRS is focusing on this deduction so be prepared to defend this deduction. Buying a raffle ticket or contributing to a personal GoFundMe is not a charitable donation.

All non-cash items (clothing, household items, appliances, etc.) must be in good condition or better for contributions made after 8/17/06. Written documentation is required to take this deduction and the IRS has been asking for this documentation in their examination process. Since we have no knowledge of the condition of the items you donate, it will be necessary for you to place a detailed description and value on the receipt for any donated items. **We cannot and will not place a value on any blank receipts we receive and you will receive no deduction.** Go to [www.satruck.org](http://www.satruck.org) for the Salvation Army Valuation Guide to value your donated goods. Valuations above \$5,000 require an appraisal.

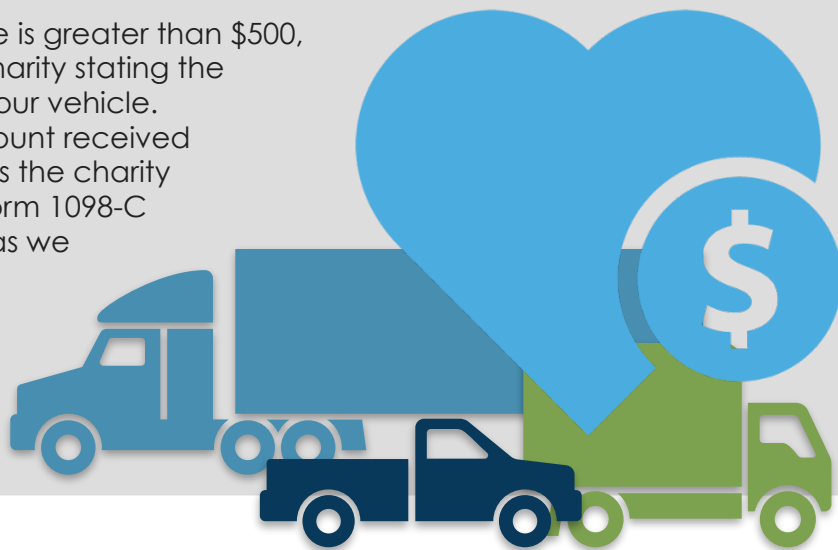
Go to [www.satruck.org](http://www.satruck.org) for the Salvation Army Valuation Guide to value your donated goods. Valuations above \$5,000 require an appraisal.

### Qualified Charitable Distributions (QDC)

Taxpayers who are age 70 ½ or older are allowed to direct up to \$100,000 from their IRA to charities directly. The distribution must go directly to the charity, not to the taxpayer first. This money is not deductible as a charitable contribution but instead will be non-taxable on the return.

### Donating Vehicles

If you donate a vehicle and the fair market value is greater than \$500, you will need written documentation from the charity stating the amount the charity received when they resold your vehicle. You will only be allowed a deduction for the amount received from the sale and not the blue book value, unless the charity is using the vehicle. The charity will send you a Form 1098-C which you must provide to us for this deduction as we have to attach a copy of it to the electronically filed tax return.



## Tax Topics Continued:

### Donating Appreciated Stock to Charity

As an example: if you purchased stock for \$1.00 per share and the fair market value is now \$10.00 per share and you held the stock for more than one year, you can avoid paying capital gains on the \$9.00 increase in price by gifting it to a qualified charity. Not only that, you receive a charitable contribution deduction for the fair market value of \$10.00 per share when you only had an out-of-pocket expense of \$1.00 per share. This transaction must be well documented with a letter from the charitable organization and proof of the fair market value on the date that it was gifted. Remember: if you have stock that has declined in value, you should sell it first to take the tax loss and then give the cash from the sale to charity.

### Child Tax Credit

The child credit remains the same for 2020: A \$2,000 credit for qualifying children under the age of 17 if the taxpayer's adjusted gross income meets these threshold:

Tax Filing Status	New Phase-out Threshold
Married filing jointly	\$400,000
Individuals	\$200,000

If your children are 17 or older and meet certain qualifications or you provide support for qualifying relatives, the taxpayer can receive a nonrefundable \$500 credit that is subject to the same income thresholds above.

Even though the dependency exemption is gone, Form 8332 for divorced taxpayers is still required if you are claiming a child tax credit for a child who does not live with you more than 50% of the year.

### Capital Gains Taxes

The general structure of the capital gains tax system is not changing with rates of 0%, 15% and 20% depending on the taxpayer's income level. Here are important points to be aware of:

1. Short term capital gains are still taxed as ordinary income. Since the income brackets have changed significantly, short-term gains could be taxed at a higher rate.
2. The long-term capital gains tax rate income thresholds remain similar.

### PLEASE NOTE:

#### The child credit remains the same for 2020:

A \$2,000 credit for qualifying children under the age of 17 if the taxpayer's adjusted gross income meets these threshold:

**Married Filing Jointly:**  
new phase out **\$400,000**

**Individuals:**  
new phase out **\$200,000**



## Tax Topics Continued:

### Capital Losses

The maximum net allowable capital loss (after offsetting with gains) in one year is \$3,000. If your net loss is greater than \$3,000, the excess is carried forward to future tax years

### The 3.8% Net Investment Income Tax

A 3.8% tax is imposed on net investment income for taxpayers when their adjusted gross income hits \$200,000 (single), \$250,000 (married filing jointly), and \$125,000 (married filing separately).

## Income Topics:

### Alimony

If your divorce or separation agreement was signed or modified on or after January 1, 2019 then the person making the alimony payment is not allowed to deduct the payments as an adjustment on their Form 1040 and the recipient will not have to claim the payments as income. Alimony in place prior to that date is still subject to the old tax rules. We must have your divorce date input in our tax program.

### Foreign Income Reporting

Taxpayers are required to report any foreign cash accounts if the value exceeds \$10,000 at any time during the year. A \$10,000 civil penalty may be imposed on any person who fails to report foreign income/assets on FinCEN Form 114 and submit the form separately from the taxpayer's Form 1040 with a due date of April 15th. If you have foreign assets greater than \$50,000 they must be reported on Form 8939 and submitted with Form 1040. This penalty could increase to \$100,000 and jail time if it is a willful violation. It is your responsibility to let us know if you have any foreign income, off shore accounts, or foreign assets so they are reported properly.

### Worldwide Income, Prizes, Awards

The IRS requires reporting of **ALL** worldwide income to include all cash and noncash prizes and awards from employers, competitions, contestant winnings, bingo, and gambling. This would include trips and property such as winning a vehicle.

This is a reminder that all income has to be reported to the IRS **regardless** if it is earned internationally or domestically, no matter how small the amount of income

## Credits:

### The Child and Dependent Care Credit

The credit can be up to \$1,050 for one child under 13 years of age or \$2,100 for two children. Up to \$5,000 of income can be placed in a dependent care flexible spending account (FSA) on a pre-tax basis to help with child care expenses. Both cannot be used to cover the same child care costs, although it is possible for parents to take advantage of both the FSA and the credit. For example, if you have two or more children and child-care expenses exceed \$5,000, you can set aside up to \$5,000 in a pretax FSA and claim the dependent care credit for amounts that exceed the \$5,000 up to \$6000 in total. **Note: If the full \$5,000 pre-tax child care deductions are not used to pay for child care, the unused money becomes taxable.**





## Credits Continued:

### Sec 529

Money in a 529 college savings plan may be used for tutoring or private school tuition in grades K-12 tax free. There are credits available for Virginia residents who make 529 plan contributions, but it must be a Virginia specific plan to qualify for the credit. Rollovers may cause you to have a taxable event.

## Deductions:

### Mortgage Interest

This deduction is only allowed to be taken on mortgage debt up to \$750,000. However, this only applies to mortgages obtained after December 15, 2017 - pre-existing mortgages will be grandfathered in. The \$750,000 mortgage limit is the total combined for a primary and secondary/vacation home. Home equity loans may or may not be deductible depending on the circumstances as the loan must be used to "buy, build or substantially improve" the home that secures the loan and the total of all loans cannot exceed the \$750,000 limit. It is the taxpayer's responsibility to notify us if an equity loan is used for non-qualifying purposes.



### Obama Care Subsidies

If you received a subsidy in 2020 we **MUST** have Form 1095-A to reconcile the subsidy with your income for any overage or underage amounts. You will receive an IRS notice and a bill if you do not report this on your tax return.

### HSA Contribution Limits

Contribution limits for HSAs increased for 2020. The new limit will be \$3,550 (single) and \$7,100 (family) coverage.

### Moving Expense Reimbursement Benefits

Qualified moving expense reimbursements will now be taxable to the employee (except Military) and will be reported as wages on your W2.

### The SALT Deduction

The SALT ("state and local taxes") deduction remains intact but taxpayers are limited to total itemized deductible SALT amounts of \$10,000 - including income tax, sales tax, real estate tax, and property taxes.

### Miscellaneous Itemized Deductions

#### These deductions are no longer allowable:

- Casualty and theft losses (unless attributed to a federally declared disaster)
- Unreimbursed employee expenses (home offices, uniform cleaning, etc)
- Tax preparation expenses
- Other miscellaneous deductions previously subject to the 2% AGI cap
- Investment & Advisory expenses
- Moving expenses (except Military)
- Employer-subsidized parking and transportation reimbursement



## Retirement Topics:

### 401K Retirement Contributions

Employees participating in a 401(k), 403(b) and most 457 plans, as well as the Thrift Savings Plan can contribute up to \$19,500 for 2020. Catch-up contributions for savers 50 years and older are capped at \$6,500 per year for a total contribution of \$26,000 per year to their 401(k) accounts for 2020.

### IRA Contributions

The 2020 maximum contribution amounts for both Traditional IRAs and Roth IRAs are \$6,000 if you are under 50 years of age, plus an additional \$1,000 if you are age 50 or older (\$7,000).

### IRA Deduction Limits

Putting money into a Traditional IRA is a good idea, but can be very tricky. If you are eligible to participate in a retirement plan with your employer or your income exceeds \$104,000 (Married Filing Jointly) or \$65,000 (Single), you are limited on how much is deductible. You may want to make the contribution anyway, but it is necessary to track the non-deductible amounts on Form 8606. If the non-deductible amounts are not tracked, you could end up paying tax on the money twice. We are not able to help you track the non-deductible contributions unless you report the contribution amounts to us.

### Roth IRA

The Roth IRA remains very appealing because the distributions will not be taxed when withdrawn, as long as the money is in the account for at least 5 years and the taxpayer is age 59 ½ at the withdrawal date. You are not eligible to make a 2020 Roth contribution once your adjusted gross income exceeds \$206,000 (Married Filing Jointly) or \$139,000 (Single). In addition, your Roth IRA does not require minimum distributions when the taxpayer reaches age 72. If you have concerns about the taxation of a distribution or limits for contributions, please contact our office before the distribution is made.

### Converting a Traditional IRA to a Roth IRA

Anyone can convert money they have already invested in a traditional IRA into a Roth IRA. You will owe tax on whatever amount you have converted from the traditional IRA to the Roth IRA minus any amounts that were non-deductible contributions (these amounts must have been reported previously on Form 8606). After paying the tax on the conversion in the year of conversion, you will never pay any tax in retirement or when it is withdrawn from the Roth. Please contact us before a planned conversion to discuss the tax implications.

### Social Security Earnings

If a taxpayer started to draw social security benefits prior to full retirement age, the maximum amount of earnings they can make in 2020 is \$18,240 and the maximum for 2021 is \$18,960. The maximum amount that a taxpayer's wages can be taxed for social security purposes in 2020 is \$137,700 and \$142,800 for 2021. President Elect Biden's proposed tax plans are to increase this maximum amount to \$400,000.

### Social Security Retirement Planner

If you are looking toward retirement, go to <http://www.ssa.gov/retire> to access the Social Security Retirement Planner, which will walk you through the retirement application process and offer information on issues to consider when applying for benefits. You will find online calculators to help you through the process of estimating future earnings based on past and present earnings.

## Business Topics:

### Qualified Business Deduction

The 20% Qualified Business Income (QBI) deduction is available for income earned by: sole proprietorships, LLCs, partnerships, S corporations and in some cases, income from rental properties. Under the new law, 20% of pass-through income could be deductible. This means, if a small business makes \$100,000 in profit for 2020, \$20,000 may be deducted before regular income tax rates are applied, depending on the taxpayers taxable income. There are limits....professional business services such as lawyers, doctors, consultants, athletes may be limited based on their taxable income. Consulting companies will need to provide operational details to determine the proper classification for the QBI deduction. Phase in and limitation calculations begin at \$163,300 for single filers and \$326,600 for pass-through business owners who file a joint return. The full calculation involves a multistep process, but can be a lucrative deduction for many taxpayers.

### Mileage Rates

The standard business mileage rate for the 2020 year is 57.5 cents per mile. Mileage for charity and volunteer work remains at 14 cents per mile. Medical mileage has increased to 17 cents per mile and military moves can take a 17 cents per mile deduction.



### Rental Properties

Owning a rental property that generates a loss will not give you a current-year tax break if your income is greater than \$150,000 (less if married filing separately) unless you are in the business of real estate management. Once your adjusted gross income reaches \$100,000, your losses will begin to phase out as a current-year deduction and be fully suspended for AGI over \$150,000. The disallowed losses will carry forward until the year that your income drops below \$150,000, you sell the property or you have passive income. Please contact our office prior to signing any contracts if you intend on selling your rental so we can review the tax consequences.

## Estate Topics:

### The Estate Tax Exemption

The 2020 estate lifetime exemption is \$11,580,000 for individuals and \$23,160,000 for married couples which will eliminate most from paying the estate tax.

### Gifts

Giving a gift to an individual or family member is not a tax deduction, but instead can cause the individual giving the gift to owe tax. The IRS has limits as to the amounts an individual can give before the taxpayer is required to file a gift tax return and possibly owe gift tax on the money. This amount is \$15,000 for 2020. As a taxpayer, you can give up to \$15,000 to any other individual before you are required to file a gift tax return. Keep track of gifts over \$15,000, as they will reduce the taxpayer's unified estate credit.





## Our Office Requirements:

### Estimated Income Tax Payments

Taxpayers are required to provide us with proof of payments for the estimates (either cancelled checks or online payment confirmations). Inconsistency of what the taxpayer reports to us and the actual payments made is our largest disconnect with the IRS and the States. Getting this right up front will avoid you getting an IRS letter later.

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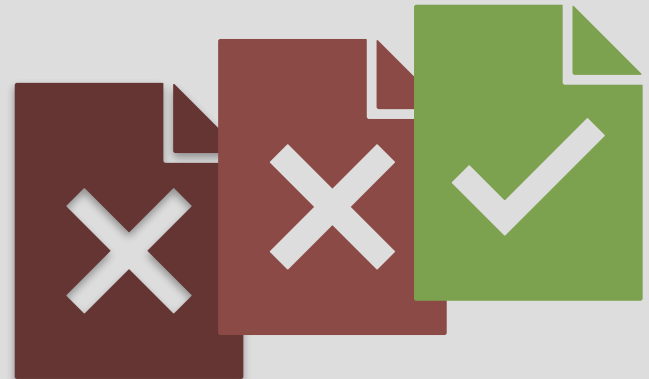
### Sending Us Documents

Due to security issues, we require that documents are sent via our secure link to Sharefile. Once **all** tax documents are ready to upload, please send us a request and we will send you a link to upload your documents. We will not accept tax documents via drop box or any other site, or via email.

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### Extensions

The IRS needs valid numbers that are realistic when an extension is prepared or they can deny it. The taxpayer could be subject to 'failure to file' and late penalties. Contact our offices **no later than 5 pm EST on April 1, 2021, and provide estimated income** if an extension is required.



### Quick Questions

Quick questions frequently do not constitute quick answers for us. We charge consulting fees for services that take longer than 15 minutes to research or answer. If we have to prepare estimated tax payments, tax projections, W-4 planners or reconstruct stock basis there will be a minimum fee of \$75. The new W-4 has information that taxpayers may not want to share with employers or understand how to complete so additional guidance may be required. If we spend one hour or more providing services due to the complexity of the answers there will be an hourly charge for consulting fees.

### Copies of Tax Returns?

We would be happy to send electronic copies of tax returns when requested but there will be a \$10 fee.

## Our Office Requirements Continued:


### IRS & State Notices

If you receive IRS or state notices, please notify our offices immediately.

**We will not be able to evaluate or advise unless the notices are sent to us.**

### IRS Phone Scams

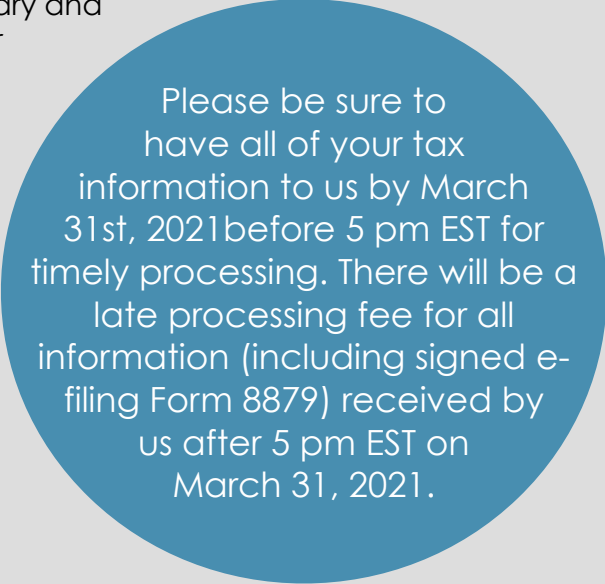
The IRS does not call taxpayers making threats to throw taxpayers in jail or demand payment or iTunes cards to be transferred immediately to keep a taxpayer from being handcuffed. If you receive such a call, rest assured the call is a scam and hang up! If you receive an email or are directed to a website that looks like the official IRS website, do not respond to emails or make payments per email instructions. The Internal Revenue Service has their own official IRS website and will not threaten or demand you to make payments online either via email or on the phone! The IRS will always mail you a notice if there is any issue with your account.



The IRS will **always** mail you a notice if there is any issue with your account.

### Taxpayer Questionnaire

The Taxpayer Questionnaire will be sent out the first week in January and must be returned to our office with all tax documents before your return will be processed. We need to know the amount of your stimulus check (if any), if you have any virtual currency and whether you have foreign income sources, as well as verification of **bank routing & account numbers** for direct deposit of refunds and verification of estimated tax payments made. It will be necessary for the taxpayer to review and approve his or her tax return before we transmit the data electronically to the IRS and the state. We **must** receive a signed Form 8879 (The IRS e-filing form) and payment for the tax preparation services from the taxpayer before we submit the electronic tax data. Please be sure to have all of your tax information to us by March 31st, 2021 before 5 pm EST for timely processing. There will be a late processing fee for all information (including signed e-filing Form 8879) received by us after 5 pm EST on March 31, 2021.



Please be sure to have all of your tax information to us by March 31st, 2021 before 5 pm EST for timely processing. There will be a late processing fee for all information (including signed e-filing Form 8879) received by us after 5 pm EST on March 31, 2021.

### PRIVACY STATEMENT

Federal law requires that once a year I inform you of our Privacy Policy. As you know, we collect certain personal information about you in order to prepare your tax returns. The information is either provided by you or obtained by our office with your permission. No personal information will ever be disclosed about you to anyone outside our firm except that which is already public by law or necessary to complete your work.

Should you become an inactive customer, we will continue to adhere to the policy regulations as written here. The information you give us about your personal or business records is reserved only for our employees who need to know in order to service your account. Procedural, physical, and electronic safeguards will be maintained in compliance with federal standards regarding your personal information. We are committed to retaining your confidence and want to assure you that any information you give us remains safe and confidential.