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Tax News and Industry Updates

113 W. JEFERSON ST.
NEW CARLISLE, OHIO
937-543-5770

2020 Tax Highlights

The year 2020 has brought many challenges and tax changes. In late 2019, a law was passed which included many of the long-anticipated "tax extenders" and significant changes to retirement accounts. Due to the pandemic, many other tax provisions were implemented through the CARES Act and FFCRA in an effort to help lessen the financial impact felt by individuals and businesses. This letter provides an update on some changes that might affect you and other things to be aware of.

If you have questions or want to know how any of this impacts you, please do not hesitate to contact us.

Tax extenders. Several provisions that allowed for deductions and credits expired at the end of 2017. Many of the provisions have been extended for 2020 and also made retroactive for 2018 and 2019. Some of the more popular provisions include the above-the-line deduction for tuition and fees, the deduction for mortgage insurance premiums, and the Residential Energy Credit.

Kiddie Tax. The TCJA applied trust and estate tax rates to a child's unearned income above certain levels. This change was repealed for 2020 and beyond. The Kiddie Tax reverts to the old rules where a child's income is taxed at the parent's marginal rate. For 2018 and 2019, a choice exists for using the trust and estate tax rates or the parent's marginal rate.

SECURE Act. Two of the more notable changes in the SECURE Act include the repeal of the maximum age for making contributions to an IRA and increasing the beginning age for mandatory distributions from an IRA. Starting in 2020, you can make deductible contributions to an IRA at any age provided all requirements are met. For distributions required to be made after December 31, 2019, if you reach the age of 70½ after this date, the required beginning age is increased from 70½ to 72. ***Note:*** The CARES act waived all RMDs for 2020.

The SECURE act also reduced the floor for deducting medical expenses to 7.5% of AGI for 2020 and 2021.

CARES Act. The CARES Act provides for direct payments (economic impact payments) based on your filing status and AGI. Payments are $1,200 for individuals, $2,400 for married couples, and $500 for each qualifying child. The payments phase out for AGIs above certain limits. The payments are based on filing status and income from either 2019 or 2018 tax returns. The economic impact payment is considered an advance credit against 2020 tax. The payment will not reduce your refund or increase any amount owed on your 2020 return. If you received an economic impact payment, the payment will be reconciled on your 2020 tax return. You will receive an additional credit on your return if your filing status and income level in 2020 qualifies you for a larger payment. If your filing status and income level in 2020 would reduce your payment, you do not have to repay any amount received.

The CARES Act also allows you to deduct up to $300 in charitable contributions even if you take the standard deduction.

Things to do in 2021 that can affect 2020 taxes. There is very little that you can do to impact your 2020 taxes after December 31, 2020. However, two things that can be done, if you qualify, is making a contribution to your traditional IRA and/or your health savings account (HSA).

IRA deduction. For 2020, you may be able to contribute up to $6,000 ($7,000 if you are at least 50 years old) to an IRA. Contributions for 2020 can be made up until April 15, 2021. If the contribution is made to a traditional IRA, you may qualify for a deduction on your 2020 return. For 2020, there is no age limit on making a contribution to traditional IRA or Roth IRA. In addition, contributions to any type of IRA (traditional or ROTH), might qualify you for the Retirement Savings Contribution Credit.

HSA deduction. Similar to the IRA, you can make 2020 contributions to your HSA up until April 15, 2021. The total amount that can be contributed by you and your employer ranges from $3,550 to $9,200 based on whether you have self-only or family HSA qualifying coverage and your age.

IRS hot items. There always seems to be a number of items that the IRS is focusing on. Some of the current topics the IRS is focused on are foreign assets, cryptocurrency transactions, and unreported income.

Foreign assets. The IRS has been focused on the reporting of foreign assets for some time now and the penalties for not reporting can be severe. There are enhanced reporting requirements if you have any type of foreign asset, be it a foreign bank account, pension plan, rental property, ownership of a foreign company, etc. The income derived from these assets is includable on your U.S. tax return and the value of each of these assets might need to be reported, either with your tax return and/or separately to the IRS or Treasury Department.

Cryptocurrency transactions. Cryptocurrency (i.e. Bitcoin, Ethereum, etc.) is becoming more and more common. Transactions involving cryptocurrency have tax implications and the IRS has included the following question on Form 1040. "At any time during 2020, did you receive, sell, send, exchange, or other acquire any financial interest in any virtual currency?"

Unreported income. If you are making extra money by doing side jobs, be it driving for a ridesharing company such as Uber or Lyft, selling crafts on Etsy, delivering meals with Grubhub or DoorDash, renting out a room in your house via Airbnb, or any other way, it needs to be included on your tax return. Unless specifically excluded under the Internal Revenue Code, all income is taxable. This includes income that is not reported to you on one of the various Forms 1099, foreign income, and barter income.

Federal and state differences. When it comes to taxes, most of what you read and hear from the media has to do with federal tax law. Remember that each state has its own tax law and just because something is not allowed for federal taxes (or you do not qualify) does not mean that you are not able to include it on your state tax return.

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