

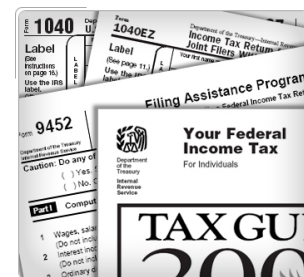


## Take Advantage of the Tax Benefits from the 2020 Annual Inflation Adjustments

As you are getting ready for the holidays, this is also a good time to review the changes in tax laws that may benefit you, both for 2019 end-of-year tax planning and looking forward towards the new year 2020. Every year around this time, the IRS releases their annual inflation adjustments for more than 60 provisions for the upcoming tax year. Revenue Procedure 2019-44 explains these adjustments in detail. We have listed below some of the changed areas which might be of greater interest to the majority of taxpayers. Early knowledge of these changes may provide you time to implement any actions that will allow you to take advantage of tax planning to maximize your tax savings opportunities.

### Changes in Personal Income Tax Brackets

In 2020, all tax bracket percentages remain the same, with the top tax rate at 37%. The attached chart shows the new 2020 incremental income levels, as matched to their tax bracket, compared to those of 2019. For more information, please click on the link below.



[Click for our document](#)

**Increase in Standard Deduction** - In 2020 the Standard Deduction has increased for each of the following filing categories:

- Single (S) and Married Filing Separately (MFS) will increase \$200 to \$12,400
- Married Filing Jointly (MFJ) will increase \$400 to \$24,800
- Head of Household (HOH) will increase \$300 to \$18,650.

**No limitation on Itemized Deductions** - As in the 2019 and 2018 tax years, there is no limitation on the total dollar amount for itemized deductions for 2020. The limitation was eliminated by the Tax Cuts and Jobs Act through 2025. However, sales and property taxes also remain limited to a maximum deductible amount of \$10,000 as in the prior two tax years.



### Alternative Minimum Tax (AMT)

The AMT exemption amount for tax year 2020, for Filing Single increases \$1,200 to \$72,900 and begins to phase out at an increased amount of \$518,400.

For Married Filing Jointly, the new AMT exemption amount increases \$1,700 to \$113,400 and begins to phase out at a higher amount of \$1,036,800.

**Health Flexible Spending Arrangements** – In 2020, employees can increase their annual salary reductions for their Flexible Spending accounts an additional \$50 to a total of \$2,750.

**Medical Savings Accounts** – For those who participate in a Medical Savings plan, the annual deductible range has also slightly increased in 2020, along with the maximum out-of-pocket expense amount allowed, as follows:

- Self-only Coverage individuals – In 2020, the deductible range under qualifying health insurance plans cannot be less than \$2,350 and not greater than \$3,550, an increase of \$50 over 2019. Also, the maximum out-of-pocket expense amount allowed is up \$100 from 2019 to \$4,750.
- Family Coverage – The qualifying health insurance plan's annual deductible range in 2020 cannot be less than \$4,750 and not greater than \$7,100, with a maximum out-of-pocket expense amount up to \$8,650.

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## Retirement

**401(K), 403(b) 457 and SARSEP Plans** - Employees in these plans will be able to contribute up to \$19,500 in 2020, a \$500 increase from 2019. Likewise, the additional contribution, allowed for individuals aged 50 and over, will increase \$500 to \$6,500 for a total annual contribution of \$26,000 for 2020.



**SIMPLE Retirement Accounts** - The limitation of elective deferral limits for SIMPLE retirement accounts has also increased \$500 for 2020, to a new limit of \$13,500. Persons aged 50 and over may defer an additional \$3,000 as in 2019 for a total deferral of \$16,500.

**Traditional IRA** – Contribution limits remain unchanged at \$6,000 per person, with an additional \$1,000 catch-up amount allowed for those aged 50 and over.

When a taxpayer meets certain conditions, their contributions to a Traditional IRA are deductible on their tax return. These conditions differ based on whether the taxpayer and/or spouse are covered by a workplace retirement plan. Based on their workplace retirement plan situation, the deductibility of the contribution is reduced until it is phased-out based on designated AGI range limit. In 2020 these phase-out AGI limits were increased as follows:

- Single or Head of Household - For 2020, AGI limits increased \$1,000 to a phase-out range of \$65,000 - \$75,000 AGI;
- Married Filing Jointly (Spouse making the contribution is covered by a workplace retirement plan) For 2020 the phase-out range limits increased \$1,000 to a phase-out range of \$104,000 - \$124,000 AGI;
- Married Filing Jointly (Contributor spouse is married to someone who is covered by a workplace retirement plan). For 2020 the phase-out range limits increased \$3,000 to a phase-out range of \$196,000 - \$206,000 AGI.

**ROTH IRA** – Contribution limits are the same as for an IRA - \$6,000 plus an additional \$1,000 for those aged 50 and over. The phase-out range for taxpayers making contributions is as follow:

- Singles and Head of Households – Phase-out range is \$2,000 higher at \$124,000 - \$139,000;
- Married Filing Jointly – Phase-out range is \$3,000 higher at \$196,000 - \$206,000;
- Married filing Separately – Phase out range remains unchanged at \$0 - \$10,000.

IRS Notice 2019-59 details out retirement-related cost-of-living adjustments for 2020.



## Other Inflation Adjustments

**Limits to Personal gifts** - The 2020 annual exclusion for gifts is unchanged at \$15,000 per person gifted. It remains the same amount as 2019.

**Foreign Earned Income Exclusion** -The amount of qualifying Foreign Earned Income excluded from income tax has increased \$1,700 from \$105,900 in 2019 to \$107,600 in 2020.

**Adoption Credit**- The maximum credit for qualifying expenses increased to \$14,300 in 2020, from \$14,080 in 2019.

**Tax Excludable portion of Estates activated in 2020** . - Estates of decedents who die during 2020 have an increased basis which is excludable from estate income tax. The 2020 excludable amount is \$11,580,000 which is \$180,000 higher than 2019.

**Earned Income Credit** - In 2020, the maximum Earned Income Credit amount increased \$103 to \$6,660 for taxpayers who have three or more qualifying children and income levels that do not exceed the maximum threshold.

**Section 179 deduction for business assets** – The maximum deduction has increased to \$1,040,000 from \$1 million in 2019, with the phase-out limit also increasing \$90,000 to \$2,590,000.

**Qualified Business Income Deduction** - The threshold will increase from \$315,000 in 2019 to \$326,600 in 2020 for married individuals filing jointly. Likewise, the threshold for single taxpayers will increase \$5,800 from \$157,500 in 2019 to \$163,300 in 2020.

**Taxpayer First Act of 2019** was passed earlier in 2019. The act included a change in the tax law to increase the penalty for failure to file to an amount of \$330 for returns due after 2019. Going forward, this penalty amount will be adjusted for inflation beginning with the 2021 tax year.

These are highlights of some of the many tax provisions adjusted for 2020 that we feel may be of interest to you. With so many changes affecting so many tax areas, determining which ones can benefit you could be overwhelming. If you would like a more in-depth discussion as to how these or any other provisions may affect you or your business, please let us know. We would be happy to discuss these tax provisions and assist you in tailoring a plan to further your business or personal returns and utilize any relative tax benefits.

Griffing & Company, P.C.  
One Sugar Creek Center Blvd., Suite 450  
Sugar Land, TX 77478  
(281) 491-8866 Fax (281) 491-8998  
[info@griffing.com](mailto:info@griffing.com)  
[www.griffing.com](http://www.griffing.com)

## Income Levels Per Tax Bracket

<b>Income Levels per Tax Bracket - Filing Single</b>		
<b>Tax Bracket</b>	<b>2020 Tax Year</b>	<b>2019 Tax Year</b>
10%	\$0 - \$9,875	\$0 - \$9,700
12%	\$9,875 - 40,125	\$9,700 - 39,475
22%	\$40,125 - 85,525	\$39,475 - 84,200
24%	\$85,525 - 163,300	\$84,200 - 160,725
32%	\$163,300 - 207,350	\$160,725 - 204,100
35%	\$207,350 - 518,400	\$204,100 - 510,300
37%	over \$518,400	over \$510,300

<b>Income Levels per Tax Bracket - Married Filing Jointly</b>		
<b>Tax Bracket</b>	<b>2020 Tax Year</b>	<b>2019 Tax Year</b>
10%	\$0 - \$19,750	\$0 - \$19,400
12%	\$19,750 - 80,250	\$19,400 - 78,950
22%	\$80,250 - 171,050	\$78,950 - 168,400
24%	\$171,050 - 326,600	\$168,400 - 321,450
32%	\$326,600 - 414,700	\$321,450 - 408,200
35%	\$414,700 - 622,050	\$408,200 - 612,350
37%	over \$622,050	over \$612,350

<b>Income Levels per Tax Bracket - Head of Household</b>		
<b>Tax Bracket</b>	<b>2020 Tax Year</b>	<b>2019 Tax Year</b>
10%	\$0 - 14,100	\$0 - 13,850
12%	\$14,100 - 53,700	\$13,850 - 52,850
22%	\$53,700 - 85,500	\$52,850 - 84,200
24%	\$85,500 - 163,300	\$84,200 - 160,700
32%	\$163,300 - 207,350	\$160,700 - 204,100
35%	\$207,350 - 518,400	\$204,100 - 510,300
37%	over \$518,400	over \$510,300