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2020 TAX CHANGES & TIPS

Greetings! What a difference 12 months makes. Due to the arrival of Covid-19, our lives and lifestyles have changed. Wearing masks and social distancing have become the "new normal" along with many other things that none of us could have believed possible just a year ago.

This will change how our office operates this tax season as well. If you had your 2019 tax return completed after mid-March last year, you will remember that they were completed by either drop off or mailing your information to us. We prepared the returns and then mailed them out to you to minimize contact at the office.

***In order to keep you and our staff safe**, we are asking everyone to either drop off or mail their tax information to us this year in place of sit down appointments. We would request that you mail in or drop off (either at the counter or in the secure drop box outside our front door) your tax information and then someone from our office will call you after we are able to review your info.*

*The majority of our clients already get us their information that way so they won't notice much of a change. To be considerate of others, we are setting up a second counter by our back door to help 2 clients at a time. We will keep the doors locked so you will need to knock or call when you arrive so we can keep the number of clients in the office to a safe number. **Masks are required of anyone entering our office.***

I know that this may be disappointing to some, but like everywhere we go these days, changes have been made to keep everyone as safe from the Covid-19 virus as possible and we are doing our part to help that at our office as well.

2021 will be our 30th year in business and we continue to strive to provide great service to you, our valued clients. Thank you for your loyalty and friendship!

Our office staff is committed to helping you though the endless maze of tax laws to get you the biggest refund or to pay the least amount of tax.

*We are enclosing the Engagement Letter (**gold paper)** for you (and spouse if married) to sign and return to us with your filled out Personal Tax Worksheets and tax papers. We will also be posting them on our website at www.catcpa.net. Click on the link for 2020 Tax Year Worksheets.*

As always, we welcome new clients and deeply appreciate our current clients! It has been a privilege serving you and we look forward to talking with you soon.

We succeed when you succeed!

~Claudia & Staff (Kim, Margaret, Minda, Nickie, Mike and Kathy)

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. This payment worked as an 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. If you cannot locate this, the IRS has added a link for you to check it out: **www.irs.gov/coronavirus/get-my-payment**.

PPP Loans. Many businesses have received PPP loans from the SBA which may or may not need to be repaid. If your business received one of these, talk to us when we prepare your tax returns.

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.

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 were not required to take your minimum required distribution (RMD) from your IRA or qualified retirement plan.

- 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 so over the counter medicines can now be paid for with HSA accounts. This new rule applies to amounts 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
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. So if you made energy efficient improvements since 2005, you most likely have already maxed this out in previous years so the credit will not be available to you this year.

HSA. If you have a high deductible health plan and are eligible by December 2020 to contribute to a health savings account (HSA), you have until April 15, 2021 to 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.

Check your withholding. COVID-19 created cash-flow problems for many of you. Make sure your withholding supports what you expect to pay or ask your employer to take out additional tax by filling out a new W-4.

Gift Tax. You can give up to $15,000 to as many people as you wish in 2021 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.

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.