



## 2020 Year-End Tax Information for Individuals

Dear Clients and Friends:

Welcome to 2021! This past year has been unlike any other in recent memory. Front and center, the COVID-19 pandemic has touched virtually every aspect of daily living and business activity in 2020. In addition to other financial consequences, the resulting fallout is likely to have a significant impact on tax planning for both individuals and small businesses.

In response to the pandemic, Congress authorized economic stimulus payments and favorable business loans as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act also features key changes relating to income and payroll taxes. This new law follows close on the heels of the massive Tax Cuts and Jobs Act (TCJA) of 2017. The TCJA revised whole sections of the tax code and includes notable provisions for both individuals and businesses.

This has been a challenging year for many and we are here to make this tax season as smooth and efficient as possible. In this letter we've outlined some of the major points relating to the CARES Act and to general tax issues for this upcoming tax season. As always, feel free to email or call if you have questions regarding the items listed here or any other tax related questions. Please review our separate insert with this mailing regarding our preferred methods of receiving your tax documents for this upcoming tax season. Also, see [www.andersondaviscpa.com/resources](http://www.andersondaviscpa.com/resources) to view and print this year's Tax Organizer.

### Charitable Donations

Generally, itemizers can deduct amounts donated to qualified charitable organizations, as long as substantiation requirements are met. Be aware that the TCJA increased the annual deduction limit on monetary contributions from 50% of adjusted gross income (AGI) to 60% for 2018 through 2025. Even better, the CARES Act raises the threshold to 100% for 2020.

In addition, the CARES Act authorizes an above-the-line deduction of up to \$300 for monetary contributions made by a non-itemizer in 2020. Be aware that if the IRS determines you've overstated your charitable deduction, the penalty is 50% of the overstated deduction instead of the regular 20% penalty.

### Taxpayer PIN

Previously you could only get a tax payer PIN if your identity had been stolen. Beginning in January 2021, the IRS will have a Get an IP PIN tool on the [www.irs.gov](http://www.irs.gov) website for those who want extra protection. If you request a PIN, your tax return can only be filed using that six-digit PIN. The PIN changes every year. As a reminder, always, stay vigilant about protecting your identity! Sign up for credit monitoring, review your social security statement annually at [www.ssa.gov](http://www.ssa.gov), and if you suspect a scam phone call or email, don't engage, contact the agency directly through their main number and verify your account with them. If identity theft is discovered, file a report with the police, inform the credit bureaus and contact the IRS to request a taxpayer PIN.

### **Economic Impact Payment (EIP)**

During the first round of stimulus payments, eligible individuals received a payment of \$1,200 (\$2,400 for joint filers) plus \$500 for each qualifying child, with payments phased out based on adjusted gross income. The payments are treated as advance refunds of a 2020 tax credit. If you received an EIP, you also should have received IRS Notice 1444, *Your Economic Impact Payment*. Keep this for record-keeping purposes and inform us the amount received so we can accurately prepare your returns.

On December 27, 2020, the President signed the COVID-related Tax Relief Act of 2020. The new law includes the second round of recovery rebate payments. Individuals and children (under age 17) are entitled to a \$600 rebate if income is below the threshold amount. For example, a family of four can qualify for up to a \$2,400 rebate payment. Adult (Age 17+) dependents do not qualify for the \$600 rebate.

The payment you receive for second round of stimulus payments is based on the income shown on your 2019 tax return. If your 2019 income was too high, you will not qualify for a recovery rebate payment. If adjusted gross income (AGI) exceeded \$75,000 single, \$112,500 head of household, and \$150,000 married filing joint, the payment will be reduced by \$5 for every \$100 your AGI exceeds the applicable threshold amount. For example, a single taxpayer with AGI over \$87,000 does not qualify for the rebate. If you received a rebate payment during 2020, you will receive this second round, with this one caution. If the earlier rebate was based on your 2018 AGI (due to your 2019 return not being filed by the assessment date) and the 2019 AGI is higher, the phaseout rules may mean you will receive a reduced payment or no payment on the second round of rebates.

If you had direct deposit information on your 2019 return, the rebate payments should start to arrive in mid-January with paper checks arriving at least a month later. Do not expect a paper check (or a debit card) until near the end of February 2021. The IRS has an "Economic Impact Payment Information Center" page on their website at [www.irs.gov](http://www.irs.gov). By mid-January, the center should be open to help you track this additional rebate payment.

### **Retirement Plan Distributions**

The CARES Act allows eligible individuals to withdraw up to \$100,000 from qualified retirement plans during 2020 without incurring the 10% early distribution penalty. Individuals or their spouses, dependents or other household members affected by COVID-19 may qualify for this relief. Such taxable distributions can be included in gross income ratably over three years. Taxpayers may recontribute the withdrawn amounts to a tax-qualified plan or IRA at any time within three years after the distribution. These repayments will be treated as a tax-free rollover and are not subject to that year's cap on contributions.

Additionally, required minimum distributions (RMDs) are temporarily suspended for 2020. If your retirement assets have taken a hit, not having to take an RMD may allow those assets to recover some value before you liquidate them.

For those taking RMDs now and going forward, the RMD Age has been increased to 72 for those people who turn 70 1/2 after December 31, 2019.

### **Retirement Contributions**

The IRA maximum contribution increased to \$6,000, with a \$1,000 catch-up contribution for those 50 years and older. The maximum 401(k) employee contribution increased to \$19,500 for those under the age of 50, and \$25,200 for those above age 50.

First-time homebuyers can use IRA contributions up to \$10,000 without paying the 10% early withdrawal penalty, to help cover the costs of buying a home. Your spouse can withdraw up to \$10,000 as well.

## Fraudulent Activity Remains a Significant Threat

Our Firm takes security seriously and we think you should as well. Fraudsters continue to refine their techniques and tax identity theft remains a significant concern. Beware if you:

- Receive a notice or letter from the Internal Revenue Service (IRS) regarding a tax return, tax bill or income that doesn't apply to you;
- Get an unsolicited email or another form of communication asking for your bank account number or other financial details or personal information;
- Receive a robocall insisting you must call back and settle your tax bill or that your social security number has been suspended.

Make sure you're taking steps to keep your personal financial information safe and confidential. Let us know if you have questions or concerns about how to go about this.

## Cryptocurrencies

Crypto-currency (Bitcoin, Ethereum, etc.) transactions are taxable just like regular investments. The IRS has added a new question on the very first line of the 2020 Form 1040 asking whether you have bought, sold, traded, or spent any virtual currency and we must ask you to verify this for us to avoid IRS penalties. If you have any of these transactions or owned any virtual currency in any year, please let us know.

## Individual Income Tax Rates

See the chart below for the 2020 taxable income brackets and rates:

2020 RATE	SINGLE	MARRIED-JOINT	HEAD OF HOUSEHOLD
10%	Up to \$9,875	Up to \$19,750	Up to \$14,100
12%	\$9,876 to \$40,125	\$19,751 to \$80,250	\$14,101 to \$53,700
22%	\$40,126 to \$85,525	\$80,251 to \$171,050	\$53,701 to \$85,500
24%	\$85,526 to \$163,300	\$171,051 to \$326,600	\$85,501 to \$163,300
32%	\$163,301 to \$207,350	\$326,601 to \$414,700	\$163,301 to \$207,350
35%	\$207,351 to \$518,400	\$414,701 to \$622,050	\$207,351 to \$518,400
37%	\$518,401 or more	\$622,051 or more	\$518,401 or more

## Standard Deduction and Itemized Deductions

For 2020, the standard deduction is \$12,400 for single filers and married couples filing separately, \$24,800 for married couples filing jointly, and \$18,650 for head of household.

Even though some taxpayers do not have enough deductions to itemize, you should still provide information on your medical expenses, taxes paid, mortgage interest, charitable donations, and other deductions so we can determine whether it is more beneficial for you to take the standard deduction or to itemize. Many states only allow itemizing if the taxpayer itemized on the federal return. In some situations, it is better to itemize even if your total itemized deductions are less than the standard deduction because the state savings would be greater than the federal cost, particularly as the itemized amounts on the federal return approach the amount of the standard deduction. Having this information also ensures that, in the event you do not itemize, you can take advantage of the above-the-line charitable deduction. See the **Charitable Donations** section above.

## Social Security Wage Base Limit

The Social Security wage limit was \$137,700 for 2020 and will increase to \$142,800 in 2021. You can estimate your retirement benefits at [www.ssa.gov/estimator](http://www.ssa.gov/estimator).

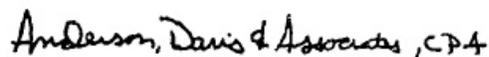
### **Immediate AND Long-lasting Planning Tips:**

- Up to \$10,000 of 529 funds can be used to re-pay student loans. 529 plans can also be used to cover up to \$10,000 of elementary and secondary schooling.
- Starting in 2020, you can continue to make contributions to an IRA regardless of your age (under the old law, you could not make contributions after 70 1/2). However, you will still need earned income.
- After December 31, 2019, IRAs inherited from a non-spouse will need to be distributed immediately or within 10 years. The beneficiary can no longer use his or her life expectancy to take RMDs.
- You are allowed to gift up to \$15,000 per person without needing to file a gift tax return. This is important for 529 contributions as well. The maximum you can fund without needing to file a gift tax return is \$15,000 per parent, so \$30,000 per child.
- Home equity loan interest deductions are still limited to deducting interest stemming from costs to buy or improve your home.
- For businesses with a net operating loss, the NOL rules were changed to again allow businesses to use 100% of their NOL to off-set profits and in addition to the standard carryforward, the NOL can also be carried back up to five years.
- Because there is no longer any deduction for work related expenses you must carefully read your employer's handbook to see if they offer a reimbursement program for job-related expenses like licenses, dues, uniforms, supplies, etc.
- If your employer offers a 401-k plan, America's #1 tax shelter continues to be deferring the maximum amount the IRS allows to your 401-k this and every year. Because employers are required by law to match a portion of your own deferral, this is a tax deduction with free money!
- We continue to worry about unreported foreign investments, and we suggest you very carefully consider whether you have control over a foreign checking account or hold stock outside the United States. These must be reported or they essentially face 50% penalties each year.

If you are considering retirement, starting a small business, selling an investment or business, or a creating a college savings program we strongly suggest you contact us for a planning meeting for these items, as well as for any of the ideas discussed in this year-end letter.

We will post tax updates and items that may be of interest throughout 2021 to our web site at [www.andersondaviscpa.com](http://www.andersondaviscpa.com). We do appreciate your business and look forward to working with you. If you have any questions as you gather your 2020 tax information, please contact us. If you have any family or friends looking for assistance, we always welcome the referral.

Sincerely,



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