# PIECES OF THE PUZZLE

**December 2020**

## YEAR-END TAX TIPS

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<u>COVID-19 Tax Changes</u>

In addition to changing this year's return filing and payment deadline to July 15, a number of tax provisions were enacted to help individuals deal with the COVID-19 pandemic and its economic disruption.

<u>Economic Impact Payments</u>

Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136, enacted on March 27, many individuals were eligible for a one-time payment, which the act called recovery rebates and the IRS calls economic impact payments.  .

Eligible individuals were to receive a payment of $1,200 ($2,400 for joint filers) plus $500 for each qualifying child.  The payment phases out for taxpayers with adjusted gross income (AGI) above $150,000 (for joint filers), $112,500 (for heads of household), and $75,000 (for other individuals).  It is reduced by 5% of the amount of the taxpayer's AGI that exceeds those limits and thus phases out for individuals once their AGI reaches $99,000 ($198,000 for joint filers).  The payments were not available to nonresident aliens, individuals who can be claimed as a dependent by another taxpayer, and estates and trusts.

**The payments are treated as advance refunds of a 2020 tax credit.  Taxpayers will reduce the amount of the credit available on their 2020 tax return by the amount of the advance refund payment they received.  This means individuals who did not receive the full amount they were entitled to can claim the difference as a credit on their 2020 return.**

Self-employed tax credits for sick leave and paid leave

The Families First Coronavirus Response Act (FFCRA), P.L. 116-127, provided certain employers with payroll tax credits that equal 100% of the qualified family leave wages and 100% of the qualified sick leave wages paid by the employer for certain COVID-19-related paid family leave and paid sick leave. The act also provides eligible self-employed individuals with a refundable credit against income tax for qualified family leave equivalent or qualified sick leave equivalent amounts. An eligible self-employed individual is an individual who regularly carries on any trade or business (as defined in Sec. 1402) and would be entitled to receive paid family leave or sick leave under the FFCRA if the individual were an employee.

Retirement plan distributions

Under the CARES Act, taxpayers can take up to $100,000 in coronavirus-related distributions from retirement plans without being subject to the Sec. 72(5) 10% additional tax for early distributions. Eligible distributions can be taken through December 31, 2020. Coronavirus-related distributions may be repaid within three years. For these purposes, an eligible taxpayer is one who has been diagnosed with the SARS-CoV-2 virus or COVID-19 disease or whose spouse or dependent has been diagnosed with the SARS-CoV-2 virus or COVID-19 disease or who experiences adverse financial consequences from being quarantined, furloughed, or laid off, or who has had his or her work hours reduced, or who is unable to work due to lack of child care. Any resulting income inclusion can be taken over three years. The act also allows loans of up to $100,000 from qualified plans, and repayment can be delayed.

The CARES Act temporarily suspended the required minimum distribution rules in Sec. 401 for 2020.

The act also delayed 2020 minimum required contributions for single-employer plans until 2021.

Charitable deductions

Taxpayers who do not itemize can take an above-the-line charitable deduction of up to $300 in 2020. The CARES Act also modified the AGI limitations on charitable contributions for 2020, to 100% of AGI for individuals and 25% of taxable income for corporations. The act also increases the food contribution limits to 25%.

Year-End Gifts

Now is a good time to evaluate whether clients should be making year-end gifts. A year-end gift of appreciated property can move taxable gain to family members in a lower tax bracket. Also, you can make gifts to any number of donees before year end, and, as long as each gift is no more than $15,000, the gifts will not be taxable or count against the donor’s unified estate and gift tax exemption. Married clients can make joint gifts of up to $30,000 to each done under these rules. Remind clients that they must make any gifts by December 31 for the gifts to count as being made in 2020 and that a gift made by check generally will not count as a 2020 gift for gift tax purposes if it is not cashed or deposited by the done in 2020.

Postponing Income and Accelerating Deductions

Usually, it makes sense to defer income into later years and to accelerate deductions into the current year.  This strategy can help the client lower taxes this year and can also help the client avoid crossing the threshold at which he or she is subject to the net investment income tax or subject to losing all or part of certain deductions, such as the dependency exemption.

For those clients who have money to donate but do not know which charity they want to contribute to can consider donating the money to a donor-advised fund.  You can then take the deduction in the current year while deciding which charities to parcel it out to over the next couple of years.

Here are various strategies that can help postpone income or accelerate deductions in 2020:

Make Sec. 179 and bonus depreciation expenditures

Taxpayers can elect to deduct currently the costs of certain tangible property used in the client's business rather than depreciate the costs over a period of years.  Under Sec. 179, for property placed in service in 2020, the maximum amount that can be expensed is $1,040,000, and the deduction is phased out when qualifying property placed in service during the year exceeds $2,590,000.  Under Sec. 168(k) (bonus depreciation), 100% of the cost of eligible property placed in service in 2020 can be deducted. (This percentage will decrease to 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026.)

Realize stock losses to offset gains

Taxpayers who own appreciated investments but have realized capital losses in 2020 should consider selling the appreciated investments.  Clients need to be aware that long-term capital gains and that short-term capital losses first offset short-term capital gains.

Accelerating Income and Postponing Deductions

Postponing income and accelerating deductions is not always the right strategy.  If you expect a substantial increase in income or anticipates using a less-favorable tax filing status in future years, accelerating income into the current year may be an appropriate strategy to lessen your tax bill next year.  This can be accomplished by moving up planned retirement distributions (assuming the 10% additional tax does not apply), selling gain-generating assets, billing in advance, or deferring deductions (e.g., delaying the purchase of business property that will generate Sec. 179 deductions and depreciation) to the following year.

**Retirement Planning**

Start a retirement plan

Taxpayers who are eligible to contribute to an IRA or 401(k) plan or to start a Keogh plan (if self-employed), but who do not currently have such a retirement saving vehicle, should consider setting one up to take advantage of deductible contributions for 2020.

Maximize contributions to retirement plans

Making contributions from pretax income is always a good strategy, but it can be especially beneficial if it brings the client's income down so that it is in a lower tax bracket.

If you have any questions, please feel free to contact us.


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