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“Important Tax Information Enclosed” Is Coming

Spend a Little Time Each Week to Prepare for the April 15, 2021 Filing Deadline

Most of the needed tax records to prepare your tax return will show up in the mail or online in January 2021. Collecting all your tax related documents is important so that we report a complete and accurate return.

The IRS also gets copies of many of these documents and will match your tax return to their records.

Let's review what you should be looking for...

► **W-2s.** Read them carefully. Contact your employer if there is a discrepancy or if you do not receive them by the end of January.

► **1099s.** You should receive 1099-INT or 1099-DIV forms for any accounts that pay interest or dividends. Even tax-exempt interest must be reported. **IMPORTANT:** “Corrected” forms are always a possibility. Be alert for such announcements.

► **1095-A.** You would receive a 1095-A if you purchased Health Care through the Health Insurance Marketplace and had part of your premiums offset by the Advance Payments of Premium Tax Credit. This form is needed to calculate the actual Premium Tax Credit for which you would be entitled.

► **Other 1099s.** Real estate sales are often reported on 1099-S. Stock sales on 1099-B or Consolidated 1099. Pension, 401K and IRA distributions are reported on 1099-R. Pay special attention to forms 1099-A and 1099-C. These report foreclosures and debt consolidations or debt

and any taxes paid. If you recall paying a deductible expense but do not have a receipt, jot it down and we will discuss before I prepare your return. Charitable contributions are different – you must have receipts, or your deduction could be challenged

and denied! If you are missing a receipt, contact the charity to see if you can get the document(s) needed.

Look For 1099s And Keep Them With All Your Other Tax Documents

cancellations which may or may not result in taxable income. We need to see them to correctly prepare your return.

► **Form 1098.** Reports mortgage interest paid to a bank, savings & loan, or credit union. These forms may also report real estate

taxes (if payments are escrowed by the lender).

► **Other Income.** Look for 1099s of state tax refunds, unemployment income, prizes or gambling winnings or rents that you collect. Read each one carefully and keep them with all your other tax documents. Gambling winnings can also be reported on Form W-2G. There will also be new 1099 for self-employed called 1099-NEC.

► **Your Records.** Review records for possible income or deductions. Add up medical expenses

Frequently Missed Info!

Take extra time to make sure that you have all the necessary facts if any of the following situations applies to you.

✓ **Child Care Expenses.** I need the full name, address, telephone number and tax ID number of your care providers, and the total paid per child to each caregiver.

✓ **Estimated Federal Tax Payments.** Find the date and amount for payments. April 15, 2020, September 15, 2020, and January 15, **2021**. A Federal January 2020 payment would have been claimed on your 2019 return.

✓ **Sales of Property.** The most important item is the Final Settlement Statement. Include a list of home improvements in all prior years since purchase.

✓ **College Tuition.** Form 1098-T lists tuition paid. These forms are generally available electronically to the student. Make sure that the “student” checks for these forms

and gives them to you. I need these forms as well as details on the courses, all education-related expenses for required equipment and related fees, when each item was paid and who the “student” was.

✓ **Sales of Stock.** Form 1099-B shows sale

prices. If this form does not show the original purchase

See “Missed Info” on Page 3 >

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or 401(k), you could “stretch” your distributions and tax payments out over your single life expectancy.

Now, for IRAs inherited from original owners who died beginning January 1, 2020, the new law requires many beneficiaries to withdraw assets from an inherited IRA or 401(k) plan within 10 years following the death of the account holder.

Exceptions to the 10-year rule include assets left to a surviving spouse, a minor child, a disabled or chronically ill beneficiary, and beneficiaries who are less than 10 years younger than the original IRA owner or 401(k) participant.

✔ You Can Withdraw Up To \$5,000 Per Parent Penalty-Free From Your Retirement Plan Upon The Birth Or Adoption Of A Child

The new law permits an individual to take a “qualified birth or adoption distribution” of up to \$5,000 from an applicable defined contribution plan, such as a 401(k) or an IRA.

The 10% early withdrawal penalty will not apply to these withdrawals, and you can repay them as a rollover contribution to an applicable eligible defined contribution plan or IRA.

✔ 529 Funds Can Now Be Used To Pay Down Student Loan Debt, Up To \$10,000

In some cases, families have money remaining in their college savings plans after their student graduates. Now, they can use a 529 savings account to pay up to \$10,000 in student debt over the course of the student’s lifetime.

Under the new law, a 529 plan may also be used to pay for certain apprenticeship programs.

✔ CARES Act
Passage of the Coronavirus Aid, Relief and Economic Security (CARES) Act earlier this year provides taxpayers with a variety of tax related provisions in response to the COVID-19 Pandemic.

✔ Elimination of 10% Additional Tax For Coronavirus-Related Retirement Plan Distributions
The CARES Act eliminated the 10%



penalty for qualified individuals under age 59 ½, who take “coronavirus-related” distributions of up to \$100,000 in 2020. The distributions are still subject to regular income taxes.

These distributions may be repaid over three years by redepositing any or all the distribution back into their retirement account. The funds can be returned as a single contribution or as a series of contributions made over the three-year time frame starting the day after the distribution is taken.

A taxpayer can elect to have all the income reported in 2020 or may split it evenly between the 2020, 2021 and 2022 tax years.

✔ Required Minimum Distributions (RMDs) Waived In 2020

RMDs on all retirement plans are suspended for 2020. This includes Traditional, SEP, and SIMPLE IRAs, and employer plans such as 401(k)s, 403(b)s and governmental 457(b)s. If you have already taken your RMD for 2020, see additional options in the Myth vs. Truth section of this Newsletter.

✔ Loans From Employer-Sponsored Retirement Plans

Employer-sponsored plans, such as 401(k)s and 403(b)s, may contain loan provisions. If you participate in a plan that includes a loan provision, the CARES Act expanded the availability of these types of loans to the lesser of 100% of the

account balance or \$100,000.

Loan repayment can be delayed for up to one year on loans made through December 31, 2020.

✔ Paycheck Protection Program and Forgivable Loans For Small Businesses

The Paycheck Protection Program is a loan program that allows lenders to issue Small Business Administration (SBA) 7(a) small business loans up to a maximum of \$10 million or 2.5 times the average monthly payroll costs over the previous year to businesses that have fewer than 500 employees.

These “businesses” include sole proprietorships and food service business that employ fewer than 500 people per physical location.

The loan proceeds may be used for payroll costs, group health insurance premiums or other healthcare costs, salaries and/or commissions, rent, mortgage interest and utilities.

Borrowers are required to make a good-faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19.

The initial round of funding of \$350 billion was exhausted in 2 weeks. Congress approved an additional \$310 billion in funding on April 23.

✔ Updated Loan Forgiveness Provisions For The Payroll Protection Plan

The amount of the loan eligible to be forgiven is the amount spent during the first 24 weeks

(previously 8 weeks) after the loan is made with at least 60% (previously 75%) of the total from payroll. The following are eligible items:

- ▶ payroll costs, excluding amounts for individuals with compensation greater than \$100,000;
- ▶ rent due to a lease in force prior to February 15, 2020;
- ▶ electricity, gas, water, transportation, phone and/or internet access for services which began before February 15, 2020 and group health insurance premiums and other healthcare costs.

To be eligible for forgiveness, the business must keep the same number of employees from February 15, 2020 through June 30, 2020 that it had from January 1, 2020 through February 14, 2020.

Any debt forgiven is not included in taxable income.

**2020 Is Almost Over...
But Healthcare Related Items Are Up In The Air!**

With **COVID-19** on everyone’s mind other important items may not get the attention they should. One such item is Obamacare. In 2019 an appeals court ruled that the individual mandate requiring the uninsured to buy health care coverage or pay a tax is invalid since the fine for noncompliance was \$0 beginning in 2019. The Supreme Court agreed to hear the case in 2020 and must decide whether the individual mandate can be severed from the rest of the law or if the entire Affordable Care Act must fall. The ruling could affect many current provisions within the Tax Code. These provisions include the Health Premium Tax Credit, the 3.8% tax surcharge on net investment income of high-income taxpayers (also known as the NIIT) and the employer mandate.





Social Security Review

Social Security Benefits are increasing for 2021. Americans who collect Social Security will receive a 1.3% increase in their monthly payouts in 2021. The extra benefits kick in on Jan.

1. Annual increases in Social Security are determined every year based on changes in a component of the consumer price index. Social Security recipients got a 1.6% cost-of-living adjustment in 2020, 2.8% in 2019, 2.0% in 2018 and 0.3% in 2017. These annual increases are meant to keep up with inflation. The average retiree received a benefit of \$1,514 in June 2020, meaning that the average retiree can expect to see an increase of about \$20 per month.

Social Security Recipients Medicare Premiums for 2021 Congress has made a move to head off a potential premium spike for some Medicare beneficiaries.

As part of a short-term government

funding bill passed by the Senate any increase in Medicare Part B premiums for 2021 would be capped at 25% of what it otherwise would be for 2021.

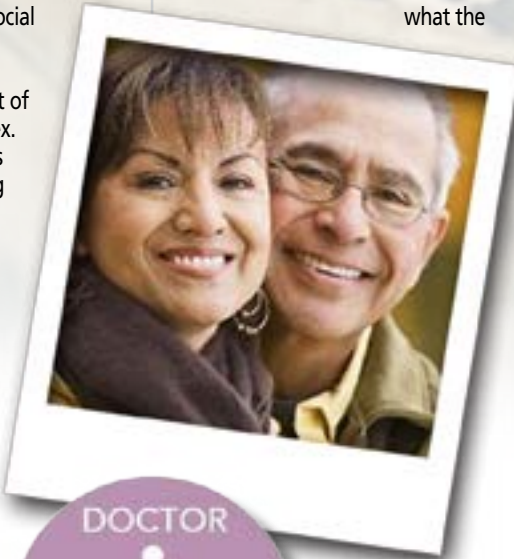
While it's still uncertain what the

from the coronavirus pandemic. Early estimates would have most people pay \$153.30 per month for Medicare Part B in 2021. This increase is 6% higher than the \$144.60 per month for 2020. However, the impacts of Covid-19 were unknown and therefore could not be factored into the estimates.

Social Security benefits are increasing by 1.3% in 2021, which will cover the increase in premiums for

most people.

Premiums are increased for higher-income beneficiaries—those with adjusted gross income plus tax-exempt interest income of more than \$88,000 if single or \$176,000 if married filing jointly. These beneficiaries will continue to see the income limits adjust to general price inflation annually.



standard premium would be for 2021 — it is based on an actuarial formula and typically revealed in early November for the next year. Estimates are unusual this year due to the economic upheaval

also show a medical deduction.

✓ **Employees – Last Pay Stub.** Your W-2 is critical, but your last pay stub may reveal tax deductions that do not usually show up anywhere else, such as union dues.

Your Last Pay Stub May Reveal Tax Deductions Not showing Up Elsewhere

✓ **Special Accounts.** Do you contribute to an IRA, Roth IRA or Health Savings Account? These and others can affect your taxes. Make sure I have all 1099s and information on

contribution amounts and dates.

✓ **Complex Transactions.** Please call if you have a foreclosure, sale or exchange of real estate, casualties such as a natural disaster.



Myth: My charitable donations are not deductible unless I itemize my deductions instead of claiming the standard deduction.

Truth: The CARES Act, passed earlier this year in response to COVID-19, allows a charitable deduction from Adjusted Gross Income (AGI) of up to \$300 for taxpayers (MFJ, Head of Household or Single) that do not itemize but gave a cash (or check) contribution to a qualified charity, with proper documentation.

Myth: I must start taking required minimum distributions (RMDs) from Traditional IRAs and employer-sponsored retirement plans (special rules apply if you're still working and participating in your employer's retirement plan), and even some inherited Roth accounts by the end of the year in which I turn age 70½.

Truth: The Secure Act increased the required minimum

distributions (RMDs) age from 70 1/2 to 72 beginning in 2020. The age increase will only apply to anyone born on or after July 1, 1949. In addition, The CARES Act suspended **ALL** retirement Required Minimum Distributions (RMDs) for 2020. If you already took your RMD for 2020 and wish to return those funds to the account to avoid paying tax, there are two options. If the initial distribution was taken within the last 60 days, you may return the funds to the account as a 60-day rollover. You are only allowed one rollover per 365-day period.

If you are already outside of the 60-day window and you are able to meet the definition for a coronavirus-related distribution, you would have three years to return the amount you originally received as an RMD. Not everyone will qualify...call me to discuss your unique situation.



The SECURE Act of 2019



Inflation Adjustments

Of Greatest Interest To Most Taxpayers For Tax Year 2020 Are The Following Dollar Amounts:

The standard deduction for married filing jointly rises to \$24,800 for tax year 2020, up \$400 from 2019. For single taxpayers and married individuals filing

separately, the standard deduction rises to \$12,400 for 2020, up \$200, and for heads of households, the standard deduction will be \$18,650 for tax year 2020, up \$300.

The personal exemption for tax year 2020 remains at \$0.

Annual Gift Limits

The annual exclusion for gifts is \$15,000 for calendar year 2020, the same as it was for both calendar years 2018 and 2019.

There's Still Time To Act


Retirement Plan Contributions. The limit on contributions to 401(k), 403(b) and most 457 Plans for 2020 increased over 2019 by \$500 to \$19,500. If you are age 50 or older, then additional catch-up contributions are also increased by \$500 to \$6,500.

Roth and Traditional IRA Contributions.

Limits for 2020 remain the same as 2019 limits of \$6,000 with an additional \$1,000 catch-up for those age 50 and older.



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Your Tax Calendar

- Dec 31** A check mailed today counts for 2020. Last chance for deductions.
- Jan 15** 4th Quarter estimated tax payments due.
- Jan 31** W-2s and 1099s due to recipients.
- Apr 15** 2020 Tax Returns due without extensions.

Anytime you have any questions, don't hesitate to call me. I am here for you!

Happy New Year!
May 2021 bring peace, health and prosperity to both you and your family.

Tax Tips For You... Now!

✓ **SECURE Act**
NEW for calendar year 2020, are provisions included by Congress in the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The act includes many long-overdue reforms that make saving for retirement easier and more accessible for many more taxpayers.

This legislation reflects changes to defined contribution plans (such as 401(k)s), defined benefit pension plans, individual retirement accounts (IRAs), and 529 college savings accounts. Most provisions went into effect on January 1, 2020.

✓ **Required Minimum Distributions (RMDs) Now Begin At Age 72**

Many taxpayers are working longer and will no longer be required to withdraw assets from IRAs and 401(k)s at age 70½.

RMDs now begin at age 72 for individuals who turn 70½ in the calendar year 2020.

If you turned age 70½ in 2019 and have already begun taking your RMDs, you should generally continue to take your RMDs.

Important Consideration!
The Coronavirus Aid, Relief and Economic Security (CARES) Act

suspended ALL retirement Required Minimum Distributions (RMDs) for 2020. You are **NOT** required to take an RMD!

✓ **You Can Make IRA Contributions Beyond Age 70½**

As Americans live longer, an increasing number are continuing to work past traditional retirement age.

Under the act, you can continue to contribute from your earned income to your traditional IRA past age 70½.

✓ **Inherited IRA Distributions Generally Must Now Be Taken Within 10 Years**

Previously, if you inherited an IRA

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