



TAX NEWS & TIPS

FALL 2020

Covid19 & Additional Federal Stimulus... What's Ahead?

Back in April in response to the economic harm that the COVID19 virus caused, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act of 2020. The Act provided an estimated \$2 trillion in assistance, including almost \$500 billion in individual rebate checks, another \$650 billion (in two phases) to support businesses and industries that had their operations affected, \$400 billion in tax credits to businesses for wages and payroll tax relief, \$300 billion to support various state and local governments and \$150 billion to support the health care system. Now, due to the continued effects of the Coronavirus, additional stimulus plans are being considered.

There are five major Congressional stimulus proposals (remember, not signed into law yet) that would provide additional financial support. A sixth, *The HEROES Act*, would provide another one-time stimulus check.

1 The *Emergency Money For The People Act* would provide a \$2,000 monthly stimulus check for up to one year.

2 The *Automatic Boost to Communities (ABC) Act* would provide a monthly stimulus check for \$2,000 for at least 12 months during the payment period, with an additional \$1,000 monthly payment for the following 12 months.

3 The *Monthly Economic Crisis Support Act* would provide a \$2,000 monthly stimulus check for at least six months.

4 The *Rent and Mortgage Cancellation Act* would cancel rent and mortgage payments for up to one year.

5 The *Getting America Back to Work Act* would provide a payroll tax rebate that covers 80 percent of payroll expenses, enabling businesses to hire and retain employees.

Will any of these stimulus proposals be passed? There is a great financial

need and it is likely we will see additional stimulus bills passed before yearend. However, at the time of this Newsletter, the form of what the stimulus bill will ultimately look like is yet to be determined.

The Coronavirus Aid, Relief and Economic Security (CARES) Act of 2020

Important Tax Provisions For 2020

Passage of the CARES Act provides taxpayers with a variety of tax related provisions in addition to the Recovery Stimulus checks that were released beginning in April. Some of the major individual provision are:

Elimination of 10% Additional Tax for Coronavirus-Related Retirement Plan Distributions

An exception to the 10% distribution penalty is provided by the CARES Act for "coronavirus-related" distributions of up to \$100,000 made to a qualified individual for pre-59 1/2 distributions from retirement accounts but would still be 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, those are the only choices.

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.

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, governmental 457(b)s and inherited IRAs.

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.

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There are limits: Students are credited for only 20% of \$10,000 in expenses (\$2,000 is the maximum nonrefundable credit), it can be applied to tuition and fees. Individuals with an adjustable gross income (AGI) between \$58,000 and \$68,000 (or between \$116,000 but less than \$136,000 for married filing jointly), will get a reduced amount. If your AGI exceeds these thresholds, you cannot claim the credit.

Premium Tax Credit

If you or your family have health insurance from a government-run marketplace billed through the Affordable Care Act, you may be eligible for this credit. Income is limited to up to \$49,960 for individuals and up to \$103,000 for a family of four, but the credit is usually equal to the cost of the second-lowest silver insurance plan. Taxpayers can get this credit in advance to offset monthly premium bills but if you claim too much advance credit it must be paid back when filing your tax return. Those who claim less advance credit will be able to claim the remainder when submitting their tax return.

Mortgage Interest Credit

Taxpayers who get a Qualified Mortgage Credit Certificate worth up to \$7,500 from a local or state government on eligible first-time buyer properties may be able to claim the Mortgage Interest Credit. The home must be the taxpayer's primary residence. The credit is worth up to \$2,000, and unused portions may be carried forward to the following year.

Nonbusiness Energy Tax Credit

The Nonbusiness Energy Property Credit covers materials that meet the efficiency

standards of the Department of Energy. This includes home insulation, exterior doors, exterior windows and skylights, some roofing materials, electric heat pumps, various water heaters, central air conditioning, biomass stoves, furnaces, boilers, and advanced circulation fans. You can claim 10% of the minor improvements or 100% of the big ones, but you will get only a maximum \$500 credit for all years of improvements combined. It also sets credit limits for windows (\$200), furnaces or boilers (\$150), fans (\$50), and bigger jobs (\$300).

2020 Social Security Earnings Test Limits

The Social Security Administration allows seniors to work and receive Social Security benefits at the same time. But whether working will impact your benefits will depend on how old you are and how much you earn.

You are entitled to collect Social Security starting at age 62, but you will not get your full monthly benefit until you reach full retirement age, or FRA. Once you reach FRA (currently 66 if you were born between 1943-1954), you can earn as much money as you would like without having it impact your benefits. But if you work and collect benefits prior to FRA, you will be subject to Social Security's earnings test.

The amount of money you can earn before losing benefits will depend on how old you are. If you are collecting Social Security but have not yet reached FRA and will not be reaching FRA in 2020, then you can earn up to \$18,240 without having benefits withheld.

Once your earnings exceed \$18,240, you will have \$1 in benefits withheld for

every \$2 you make. That money is not lost – rather, whatever amount you have withheld will be added back into your benefits once you reach FRA. If you earn \$20,240 in 2020 and you are 62 years old, you will forgo \$1,000 in benefits for being \$2,000 above the earnings test limit – but you will get it back later.

The rules work differently if you will be reaching FRA in 2020. In that case, the earnings test limit is \$48,600. Once your earnings exceed \$48,600 in 2020, you will have \$1 in benefits withheld for every \$3 you make.

Tax Rates on Long-Term Capital Gains and Qualifying Dividends Unchanged

But Qualifying Income Levels Increased

The 0% capital gains rate applies to single taxpayers with taxable income up to \$40,000, \$80,000 for joint return filers and \$53,600 for those filing as head-of-household.

For taxpayers (particularly seniors having only social security and investment income) with lower income levels, it may be beneficial to realize long term capital gains by taking advantage of the 0% rate. Call me if you have questions.

Re-align Your Portfolio

Many taxpayers have taken gains (or losses) on investments up to this point in 2020. The markets have become increasingly volatile and by selling some losing investments to offset the taxable gains (or selling investments with gains to offset losses) you may also reduce your risk to further downturns in the markets. Remember, if you have more losses than gains the IRS will allow you to take up to \$3,000 of net losses to reduce your income.

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Before and after 2020 you are only allowed one rollover per 365-day period, but under the CARES Act, the 60-day rollover has been extended to August 31, 2020, regardless if you took more than one distribution in 2020.

If you are already outside of the extended 60-day window and you are able to meet the definition for a coronavirus-related distribution, as described earlier, you would have three years to return the amount you initially distributed as an RMD. While the definition of this distribution type is overly broad, it is not unlimited and not everyone will be able to qualify for it, such as non-spouse inherited IRAs.

Enhanced Tax Benefits for Charitable Contributions

The CARES Act allows a charitable cash contributions deduction from Adjusted Gross Income (AGI) of up to \$300 for taxpayers that do not itemize but gave to a qualified charity, with the proper documentation.

Student Loan Relief

Student loan payments are deferred until September 30, 2020 under the CARES Act and no interest will accrue during that time.

Unemployment Compensation Benefits Expanded

Under Pandemic Unemployment

Assistance, self-employed individuals including Gig workers and others who are typically ineligible for unemployment or have run out of such insurance will be eligible for up to 39 weeks of benefits due to this provision.

The Federal Government has offered to pay states to provide unemployment compensation immediately, foregoing the one-week waiting period.

Regular unemployment compensation is increased by \$600 per week. States can increase the unemployment benefits they pay by up to \$600 per week for up to four months using Federally provided dollars.

Unemployment compensation is extended by 13 weeks.

Myth vs. Truth

Associated Coronavirus Stimulus Payments (CARES Act)

The CARES Act provided \$300 billion set aside for direct stimulus payments to eligible taxpayers. These payouts, officially known as Economic Impact Payments, began hitting banks accounts via direct deposit during the week that ended April 17, and will continue to do so in paper check form or debit cards through September.

Generally, the Recovery Rebates are payments made directly to individuals and families below certain income thresholds. The rebate is an advance refund of a newly created 2020 tax credit. The rebate amounts of \$1,200 for an individual; \$2,400 for a married couple and \$500 for qualifying children under the age of 17 were made available to single filers whose adjusted gross income (AGI) is less than \$75,000, to joint filers with AGI less than \$150,000 and for head of household

filers with AGI less than \$115,500.

Myth:

I must pay taxes on my stimulus check.

Truth:

Since Economic Impact Payments are a 2020 tax credit, they do not count as income. Therefore, you are not going to be taxed on your payment.

Myth:

Taxpayers will receive a \$500 stimulus check for each dependent.

Truth:

No, qualifying children aged 16 and under equate to the additional \$500 payout. However, this does not mean that all dependents net a taxpayer the extra \$500. Dependents aged 17 and up (e.g., high school seniors and college students), and senior citizens who are dependents, do not qualify.

Myth:

I will have to repay my stimulus if

my income rises in 2020 and exceeds the stimulus income limits.

Truth:

If you earn more in 2020 than you made in either the 2018 or 2019 tax year that was used to determine your eligibility, will **not** have to pay back some or all of your stimulus money. However, if your 2020 earnings are lower than 2019, to the point where your 2020 AGI would have entitled you to a larger stimulus check, you will get the difference next year when I file your tax return for the 2020 calendar year.

Myth:

My stimulus check money will offset my federal tax refund for 2020.

Truth:

Although the Economic Impact Payment is a tax credit for the 2020 tax year, it has absolutely no bearing on what you will potentially be refunded by the IRS when I prepare your taxes next year.

Important Update for Small Business Owners!

Paycheck Protection Program and Forgivable Loans

The Paycheck Protection Program (PPP) 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 self-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

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.

Ask Me About?

- Are you thinking of taking a distribution from an IRA or 401k? Are you older than 59 ½?
- Do you have stocks or mutual funds that you are planning to sell that have greatly increased in value? Have you owned those assets longer than 1 year?
- Are you planning on retiring and collecting social security before the current full retirement age of 66?
- Starting distributions from a retirement plan? Lump-sum distribution possibilities? What are the tax consequences?
- Questions about Required Minimum Distributions (RMDs)?

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Mileage Deductions for 2020

Extensions Expire October 15

A few of you may not have filed for 2019 even with the automatic extended filing date of July 15, 2020. Please make every effort to find remaining missing forms or information. We have little time remaining to file your return.

Contact me as soon as possible.

Standard mileage rate decreases to 57.5 cents per mile, down from 58 cents for 2019. The rate for medical and moving mileage decreases to 17 cents per mile, down from 20 cents. The charitable mileage rate remains at 14 cents per mile. It is important to note that under the Tax Cuts and Jobs Act, taxpayers generally cannot claim a miscellaneous itemized deduction for unreimbursed employee travel expenses on the federal return. Taxpayers also cannot claim a deduction for moving expenses, except members of the Armed Forces on active duty moving under orders to a permanent change of station.

CD Tax & Financial



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Your Tax Calendar

- Sept 15** - 3rd quarter estimated tax payments due.
- Oct 1** - Deadline to establish a Simple IRA for self-employed or small businesses.
- Oct 15** - Extended Individual Returns for 2019 due.
- Jan 15 - 2021** - 4th quarter estimated tax payment due.

Call anytime if you have questions.

Tax Tips For You.. Now!

American Opportunity Tax Credit

The American Opportunity Tax Credit is a significant credit for eligible students – not grad students; it is available only during the four years of undergraduate college – with at least half-time status at an accredited school. It covers 100% of the first \$2,000 in expenses and 25% of the next \$2,000 (for a total \$2,500). \$1,500 of this credit can be a refundable credit. Schools will send the student a 1098-T showing the

amount paid last year in tuition and fees, but even expenses including books, supplies, and equipment such as required computers can be claimed. If the 1098-T does not max out the allowed credit, hold onto the receipts for supplies.

Lifetime Learning Credit

Anyone taking classes at an eligible educational institution to acquire or improve job skills is eligible, even students taking just one class well after four years of undergraduate education.

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