# WILHELM & WILHELM 2020 YEAR-END TAX LETTER

Tax planning in 2018 and 2019 saw tax rates remaining low and stable with no pending tax legislation or policy changes. Of course, 2020 has changed all of that with the uncertain economic future because of the pandemic and a new president starting in January. The Coronavirus Aid, Relief, and Economic Security (CARES) Act includes many taxpayer-friendly provisions, many of which have a 2020 expiration date.

## Individual year-end tax-planning considerations

1. **Charitable deductions.** For one year only, everyone is entitled to a charitable deduction. The CARES Act created an above-the-line deduction of up to $300 for cash contributions for taxpayers who don't itemize. Typically, there is no tax benefit for giving to charity unless you itemize deductions. For those individuals that do itemize and contribute to charities, there is an election for 2020 to deduct donations up to 100% of adjusted gross income, up from 60% previously.
2. **Stimulus payments.** The CARES Act directed the IRS to issue stimulus checks of up to $1,200 per taxpayer ($2,400 for joint filers) and $500 per qualified child dependent earlier this year. The credits phase out for higher income taxpayers. The payments were paid based on 2018 or 2019 return information but are structured as advances of 2020 tax credits. If the 2020 credit calculation is less than you received, there is no payback. If you received less than the credit calculated for 2020, you can claim it as an additional refund. If you receive a payment, you should also have received an IRS Notice 1444, *Your Economic Impact Payment* that will be needed to prepare your 2020 taxes.
3. **Tax shortfall?** COVID-19 created cash-flow problems for many individuals. Make sure your withholding and estimated taxes align with what you expect to pay while you have time to fix a problem. If you find yourself in danger of being penalized for underpaying taxes, you can make up the shortfall through increased withholding on your salary or bonuses. A larger estimated tax payment at the end of the year can still expose you to penalties for underpayments in previous quarters, but withholding is considered to have been paid ratably throughout the year.
4. **Retirement accounts.** You can take up to $100,000 in coronavirus-related distributions from retirement plans through the end of the year without being subject to the 10% additional tax for early distributions. This year could be the perfect time to make that Roth conversion you've been thinking about. The current tax rates are still relatively low and your income may be lower in 2020 due to the financial fallout of COVID-19. On the bright side, that means you're likely in a lower tax bracket than normal. Since the CARES Act suspended Required Minimum Distributions (RMDs) for 2020, if you already budgeted to pay tax on your RMD, rolling that distribution to a Roth IRA could be a perfect move. No RMD for 2020 also means that 100% of the distribution can be classified as a rollover.
5. **State/city tax obligations.** As the COVID-19 outbreak continues, many employers are encouraging or requiring their employees to work from home. Such remote working arrangements could potentially have tax implications that should be considered especially if you live in a different state from where you normally work. Many state and city tax authorities are coming out with regulations about what taxes will be owed and whether they have reciprocal agreements with neighboring states.

6. **Fraudulent activity.** 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

**Business year-end tax-planning considerations**

1. **Small Business Administration (SBA) loans.** Small businesses could apply for an Economic Injury Disaster Loan grant of up to $10,000 and this grant does not have to be repaid. Small businesses could apply for a loan through the Paycheck Protection Program (PPP). This program is designed to help provide capital to cover the cost of retaining employees. If certain criteria are met, the loan can be forgiven. Recently the IRS has stated that any expenses used in the loan forgiveness will not be deductible for 2020.
2. **Payroll tax credits and tax deferrals.** Several payroll tax credits are available as part of new legislation to assist with the recovery of COVID-19. There is a refundable tax credit to assist employers in retaining employees. Also, subject to limits and exceptions, employers of less than 500 employees (including eligible self-employed individuals) are required to provide mandatory sick time and paid family leave but are eligible for payroll tax credits to offset the costs. Employers (including self-employed individuals) can postpone the employer's share of Social Security taxes through the end of this year. The delayed payments are due in two equal payments, one due Dec. 31, 2021 and the second due Dec. 31, 2022. However, delaying these payments also delays the deduction.
3. **Depreciation.** With the continuation of 100% bonus depreciation rules, many asset purchases can be completely written off in the year they are placed in service. The CARES Act fixed a prior year issue with qualified improvement property to be eligible for this bonus depreciation as well.
4. **Charitable contributions.** The CARES Act increased the limitation on corporations' deduction for charitable contributions from 10% of taxable income to 25% of taxable income for the 2020 tax year only.
5. **Business Interest Deduction Limitation.** The CARES Act also increased the business interest deduction limitation from 30% to 50% of adjusted taxable income for 2019 and 2020. Specific rules apply in the case of partnerships.
6. **Methods of accounting.** More businesses can use the cash method of accounting. This can be helpful for cashflow purposes and is simpler than the accrual method. There are qualifications that must be met, but we can help you understand if your business would benefit.