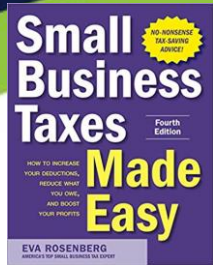


Tax Law & Important Industry Updates Individuals

Eva Rosenberg, M.B.A., EA

Who is Eva Rosenberg, M.B.A., EA, CTC, CTRS?



- Eva Rosenberg, EA, Your TaxMama® has been teaching Enrolled Agents exam review courses off and on since developing the program for UCLA Extension over 20 years ago. These days, she's teaching her own course online at www.irsexams.school.
- Eva has a B.A. in Accounting and an M.B.A. in International business. Your TaxMama® has been a TaxWatch columnist for Dow Jones' www.MarketWatch.com and author of the award-winning books, *Small Business Taxes Made Easy* and *Deduct Everything!* You can hear her on various radio stations around the country on a regular basis.
- As a speaker, TaxMama® is popular with both tax professionals and taxpayers.
- You can find her at www.TaxMama.com where you can subscribe to her free podcast.



Table of Contents – Individuals

Introduction

- Tax Law Summaries
- Key Extenders
- Routine Changes
- Pandemic Unemployment
- Stimulus Checks
- Form 1040 and Schedules
- Tax Credits
- Miscellaneous Income
- Adjustments to Income
- IRA & Retirement Updates
- Student Loans
- HSA, HRA, FSA
- Alimony
- Hidden Adjustments
- Itemized Deductions
- Mortgage Cancellation of Debt
- Employee Benefits
- Education Benefits
- Sec 529 & 529A Accounts
- Charitable Contributions
- Vehicle Updates
- Depreciation
- Gifts & Estates
- Kiddie Taxes
- Basic Foreign Tax Issues
- Sec 199 A – 20% Qualified Business Income Deductions
- Penalty Relief and COVID19
- Taxpayer Relief Initiative

Introduction

- In December 2015 Congress passed a comprehensive set of laws - the PATH Act of 2015 - **Protecting Americans From Tax Hikes Act Of 2015**
- In 2017, **Congress gave us The Tax Cuts and Jobs Act** which became law on 12/22/17. <https://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-%20466.pdf>
- On February 2, 2018, Congress passed the Bipartisan Budget Act of 2018. <https://www.congress.gov/115/bills/hr1892/BILLS-115hr1892enr.pdf>
- On July 1, 2019, Congress passed the Taxpayer First Act - <https://www.congress.gov/bill/116th-congress/house-bill/3151> – this law primarily affects representation, not preparation of returns

Most of these laws affect our 2019 tax returns.
Wherever possible, I have included 2020 info.

We'll be talking about some of these changes

2019 TCDTRA Extenders Summary

Key TCDTRA Extenders (SECURE Act) – affecting 2018 to 2020:

- Mortgage Insurance Premiums (PMI) are deductible.
- Medical expenses are reduced by 7.5% instead of 10%.
- Principal residence debt cancellation is not taxable.
- \$4,000 tuition and fees deduction is restored.
- \$500 lifetime non-business energy credit is back.
- Qualified Fuel Cell Motor Vehicles Credit is restored.
- 2-Wheeled plug-in electric vehicle credit is back.
- Employer tax credit for paid family leave gets an extra year.
- Certain race-horses 3-year depreciation is restored.

Remember, you can amend a 2018 return if these changes make a significant difference for you. But if the affect is minor, don't. Expect these amended returns to take many months to process, since the IRS will be flooded.

And the IRS special e-filing for the 2019 returns is no closed for the year.

And then came 2020

- March 6, 2020 – Phase 1 - H.R. 6074 – “Coronavirus Preparedness And Response Supplemental Appropriations Act”, 2020 - <https://www.congress.gov/116/plaws/publ123/PLAW-116publ123.pdf> - 13 pages
- March 18, 2020 – phase 2 - H.R. 6201, the “Families First Coronavirus Response Act” - <https://www.congress.gov/116/plaws/publ127/PLAW-116publ127.pdf> 44 pages
- March 27, 2020 – phase 3 - H.R. 748 - the “Coronavirus Aid, Relief, and Economic Security Act” (CARES Act) - <https://www.congress.gov/116/plaws/publ136/PLAW-116publ136.pdf> 335 pages
- April 24, 2020 - H.R. 266 - “Paycheck Protection Program and Health Care Enhancement Act” - <https://www.congress.gov/116/plaws/publ139/PLAW-116publ139.pdf> 12 pages
- June 5, 2020 - H.R. 7010 - the “Paycheck Protection Program Flexibility Act of 2020” - <https://www.congress.gov/116/plaws/publ142/PLAW-116publ142.pdf> 3 pages
- FAQs re: PPP <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>

2020 - 21 Standard Deductions

Filing Status	2021	2020
Married Filing Jointly	\$25,100	\$24,800
Qualifying Widow (er)	\$25,100	\$24,800
Head of Household	\$18,800	\$18,650
Single	\$12,550	\$12,400
Married Filing Separately	\$12,550	\$12,400
Dependents	\$1,100	\$1,100
	Plus - \$350 up to Single amount	
Dependent over 65 or blind	\$1,350	\$1,350
- single not surviving spouse	\$1,670	\$1,650
Dependents' Max Earnings	\$4,300	\$4,300

Naturally, the standard deductions are updated for inflation each year. Routinely, the best place to find all this? <http://www.smbiz.com/sbrl001.html>

2020 Capital Gains Rates vs Ordinary Rates

Capital Gains

- **0%** if you're in the 10% or 12% tax bracket
- 15% for everything in between (22% - 35%)
- 20% if you're in the 37% tax bracket
- Up to 28% for sale of collectibles
- Up to **28%** taxable portion of sale of Qualified Small Business Stock (plus AMT on excluded portion of gain)
- Up to 25% for depreciation recapture on gain from sale of Section 1250 real property

Ordinary rates

- **10%**
 - to \$9,875 – (S) & (MFS)
 - to \$19,750 (MFJ) & (QW)
 - to \$14,100 (HOH)
- **12%**
 - to \$40,125– (S) & (MFS)
 - to \$80,250 - (MFJ) & (QW)
 - to \$53,700 - (HOH)
- 22%
 - to \$85,525 – (S) & (MFS)
 - to \$171,050 - (MFJ) & (QW)
 - to \$85,500-(HOH)
- 24%
 - to \$163,300 – (S) & (MFS)
 - to \$326,600 - (MFJ) & (QW)
 - to \$163,300 - (HOH)

More Ordinary rates

- 32%
 - to \$207,350 – (S) & (MFS)
 - to \$417,700 - (MFJ) & (QW)
 - to \$207,350 - (HOH)
- 35% - 2021
 - to \$518,400 – (S)
 - to \$311,025 - (MFS)
 - to \$622,000 - (MFJ) & (QW)
 - to \$518,400 (HOH)
- **37%**
 - over \$518,400 – (S)
 - over \$311,025- (MFS)
 - over \$622,050 - MFJ) & (QW)
 - over \$518,400 - (HOH)

2021 Capital Gains Rates vs Ordinary Rates

Capital Gains

- **0%** if you're in the 10% or 12% tax bracket
- 15% for everything in between (22% - 35%)
- 20% if you're in the 37% tax bracket
- Up to 28% for sale of collectibles
- Up to **28%** taxable portion of sale of Qualified Small Business Stock (plus AMT on excluded portion of gain)
- Up to 25% for depreciation recapture on gain from sale of Section 1250 real property

Ordinary rates

- **10%**
 - to \$9,950 – (S) & (MFS)
 - to \$19,900 (MFJ) & (QW)
 - to \$14,200 (HOH)
- **12%**
 - to \$40,525– (S) & (MFS)
 - to \$81,050 - (MFJ) & (QW)
 - to \$54,200 - (HOH)
- 22%
 - to \$86,375 – (S) & (MFS)
 - to \$172,750 - (MFJ) & (QW)
 - to \$86,350-(HOH)
- 24%
 - to \$164,925 – (S) & (MFS)
 - to \$329,500 - (MFJ) & (QW)
 - to \$164,900 - (HOH)

More Ordinary rates

- 32%
 - to \$209,425 – (S) & (MFS)
 - to \$418,850 - (MFJ) & (QW)
 - to \$209,400 - (HOH)
- 35% - 2021
 - to \$523,600– (S)
 - to \$314,150- (MFS)
 - to \$628,300 - (MFJ) & (QW)
 - to \$523,600 (HOH)
- **37%**
 - over \$523,600 – (S)
 - over \$314,150- (MFS)
 - over \$628,300 - MFJ) & (QW)
 - over \$523,600 - (HOH)

Social Security Limits

Employee's Portion of FICA	2021	2020	2019
Maximum Earnings Subject to Social Security Tax (Medicare has no limit)	\$142,800	\$137,700	\$132,900
Social Security Tax Rate	6.20%	6.20%	6.20%
Social Security Tax Rate - Self-employed	12.40%	12.40%	12.40%
Medicare Tax Rate (no limit to earnings)*	1.45%	1.45%	1.45%
Medicare Tax Rate - Self-Employed (no limit to earnings)*	2.90%	2.90%	2.90%
Earning Limit - Collecting SS Tax before age 66	\$18,960.00	\$18,240.00	\$17,640.00
Earning Limit - Collecting SS Tax in the year you turn age 66	\$50,520.00	\$48,600.00	\$46,920.00

* plus 0.9% on wages above the threshold and 3.8% on unearned income

Federal Pandemic Unemployment Compensation (FPUC)

- Federal Pandemic Unemployment Compensation (FPUC)
 - Added \$600/week to state benefits (and later \$300)
 - Extends benefits up to 13 weeks (for more weeks)
- Pandemic Unemployment Assistance (PUA) – in conjunction with states – for independent contractors
 - You must be unable to work (or telework)
 - 39 weeks of benefits
 - Retroactive to when unemployment started, starting with weeks of unemployment beginning on or after January 27, 2020, and ending on or before December 31, 2020.

Note: These are taxable benefits.

- Expect clients to have a problem paying the taxes on these amounts
- Expect some sort of IRS amnesty on the underpayment penalties

Stimulus Payments - Actually Advances from the 2020 1040 (see line 30 on Form 1040)

Benefit is reduced by 5% for adjusted gross incomes (AGI) in excess of amounts in parentheses:

- \$1,200 – Individuals or Married Filing Separately (\$75,000)
- \$1,200 – Head of Household (\$112,500)
- \$2,400 – Married Filing Jointly (\$150,000)
- \$500 – Qualified Dependents (same definition as for Child Tax Credit)
- Taxpayers who have received these benefits but whose 2020 income exceeds the limits will not have to pay back the benefits.
- Taxpayers who received less of the benefit during 2020 than their tax return (2020) shows they are entitled to receive, will get the difference between their computed benefit less the advance payment.

Expect to see a look-up tool or letter during tax season!

The New Form 1040 – page 1

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2020** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶

Your first name and middle initial	Last name	Your social security number
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.		Apt. no.
City, town, or post office. If you have a foreign address, also complete spaces below.		State
		ZIP code
name	Foreign province/state/county	Foreign postal code

Presidential Election Campaign
 Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
 You Spouse

At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? Yes No

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1956 Are blind **Spouse:** Was born before January 2, 1956 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see instructions): Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

1 Wages, salaries, tips, etc. Attach Form(s) W-2		1
2a Tax-exempt interest	2a	b Taxable interest 2b
3a Qualified dividends	3a	b Ordinary dividends 3b
4a IRA distributions	4a	b Taxable amount 4b
5a Pensions and annuities	5a	b Taxable amount 5b
6a Social security benefits	6a	b Taxable amount 6b
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		7
8 Other income from Schedule 1, line 9		8
9 Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9
10 Adjustments to income:		
a From Schedule 1, line 22	10a	
b Charitable contributions if you take the standard deduction. See instructions	10b	
c Add lines 10a and 10b. These are your total adjustments to income		10c
11 Subtract line 10c from line 9. This is your adjusted gross income		11
12 Standard deduction or itemized deductions (from Schedule A)		12
13 Qualified business income deduction. Attach Form 8995 or Form 8995-A		13
14 Add lines 12 and 13		14
15 Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-		15

Moved from Schedule 1

The Newer Form 1040 – page 2

Form 1040 (2020) Page **2**

16 Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>		16
17 Amount from Schedule 2, line 3		17
18 Add lines 16 and 17		18
19 Child tax credit or credit for other dependents		19
20 Amount from Schedule 3, line 7		20
21 Add lines 19 and 20		21
22 Subtract line 21 from line 18. If zero or less, enter -0-		22
23 Other taxes, including self-employment tax, from Schedule 2, line 10		23
24 Add lines 22 and 23. This is your total tax	▶	24
25 Federal income tax withheld from:		
a Form(s) W-2	25a	
b Form(s) 1099	25b	
c Other forms (see instructions)	25c	
d Add lines 25a through 25c		25d
26 2020 estimated tax payments and amount applied from 2019 return		26
27 Earned income credit (EIC)	27	
28 Additional child tax credit. Attach Schedule 8812	28	
29 American opportunity credit from Form 8863, line 8	29	
30 Recovery rebate credit. See instructions	30	
31 Amount from Schedule 3, line 13	31	
32 Add lines 27 through 31. These are your total other payments and refundable credits	▶	32
33 Add lines 25d, 26, and 32. These are your total payments	▶	33
Refund		
34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid		34
35a Amount of line 34 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>		35a
Direct deposit? See instructions.		
b Routing number	▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
d Account number		
36 Amount of line 34 you want applied to your 2021 estimated tax	▶ 36	
Amount You Owe		
37 Subtract line 33 from line 24. This is the amount you owe now	▶	37
For details on how to pay, see instructions.		
38 Estimated tax penalty (see instructions)	▶ 38	
Third Party Designee	Do you want to allow another person to discuss this return with the IRS? See instructions <input type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No	
Designee's name ▶	Phone no. ▶	Personal identification number (PIN) ▶
Sign Here		
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
Your signature	Date	Your occupation
Spouse's signature. If a joint return, both must sign.		Date
Spouse's occupation		Date
Phone no.	Email address	
Paid Preparer Use Only		
Preparer's name	Preparer's signature	Date
Firm's name ▶	PTIN	Check if: <input type="checkbox"/> Self-employed
Firm's address ▶	Phone no.	
	Firm's EIN ▶	

- If you have a qualifying child, attach Sch. EIC.
- If you have nontaxable combat pay, see instructions.

DON'T AS OF
 JUST 18, 20
 NOT FILE

Go to www.irs.gov/Form1040 for instructions and the latest information. Form **1040** (2020)

The Newer Form 1040 – There's Less!

There are only 3 schedules that feed into this short form

Last year's 6 schedules have been consolidated:

- Schedule 1 Income and AGI
- Schedule 2 Additional Taxes
- Schedule 3 Credits and Payments

We still have the Form 1040-SR

- Nothing special about it, except that the cryptocurrency question is not on page 1

2020 Draft Schedule 1 – Income & AGI

The crypto currency question was moved to the Form 1040

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074 2020 Attachment Sequence No. 01
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.		
Name(s) shown on Form 1040, 1040-SR, or 1040-NR			Your social security number	
Part I Additional Income				
1	Taxable refunds, credits, or offsets of state and local income taxes	1		
2a	Alimony received	2a		
b	Date of original divorce or separation agreement (see instructions) ▶			
3	Business income or (loss). Attach Schedule C	3		
4	Other gains or (losses). Attach Form 4797	4		
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5		
6	Farm income or (loss). Attach Schedule F	6		
7	Unemployment compensation	7		
8	Other income. List type and amount ▶	8		
9	Combine lines 1 through 8. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	9		
Part II Adjustments to Income				
10	Educator expenses	10		
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11		
12	Health savings account deduction. Attach Form 8889	12		
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13		
14	Deductible part of self-employment tax. Attach Schedule SE	14		
15	Self-employed SEP, SIMPLE, and qualified plans	15		
16	Self-employed health insurance deduction	16		
17	Penalty on early withdrawal of savings	17		
18a	Alimony paid	18a		
b	Recipient's SSN			
c	Date of original divorce or separation agreement (see instructions) ▶			
19	IRA deduction	19		
20	Student loan interest deduction	20		
21	Tuition and fees deduction. Attach Form 8917	21		
22	Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a	22		

2020 Draft Schedule 2 – Add'l Taxes

Nothing especially new here

SCHEDULE 2 (Form 1040)		Additional Taxes		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2020 Attachment Sequence No. 02
Name(s) shown on Form 1040, 1040-SR, or 1040-NR			Your social security number	
Part I Tax				
1	Alternative minimum tax. Attach Form 6251		1	
2	Excess advance premium tax credit repayment. Attach Form 8962		2	
3	Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17		3	
Part II Other Taxes				
4	Self-employment tax. Attach Schedule SE		4	
5	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919		5	
6	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required		6	
7a	Household employment taxes. Attach Schedule H		7a	
b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required		7b	
8	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)		8	
9	Section 965 net tax liability installment from Form 965-A	9		
10	Add lines 4 through 8. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b		10	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71478U

Schedule 2 (Form 1040) 2020

2020 Draft Schedule 3 – Credits/Pmts

Look at the info on line 12

SCHEDULE 3 (Form 1040)		Additional Credits and Payments		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		▶ Attach to Form 1040, 1040-SR, or 1040-NR. ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.		2020 Attachment Sequence No. 03	
Name(s) shown on Form 1040, 1040-SR, or 1040-NR				Your social security number	
Part I Nonrefundable Credits					
1	Foreign tax credit. Attach Form 1116 if required			1	
2	Credit for child and dependent care expenses. Attach Form 2441			2	
3	Education credits from Form 8863, line 19			3	
4	Retirement savings contributions credit. Attach Form 8880			4	
5	Residential energy credits. Attach Form 5695			5	
6	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>			6	
7	Add lines 1 through 6. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 20			7	
Part II Other Payments and Refundable Credits					
8	Net premium tax credit. Attach Form 8962			8	
9	Amount paid with request for extension to file (see instructions)			9	
10	Excess social security and tier 1 RRTA tax withheld			10	
11	Credit for federal tax on fuels. Attach Form 4136			11	
12	Other payments or refundable credits:				
a	Form 2439	12a			
b	Qualified sick and family leave credits from Schedule(s) H and Form(s) 7202	12b			
c	Health coverage tax credit from Form 8885	12c			
d	Other:	12d			
e	Deferral for certain Schedule H or SE filers (see instructions)	12e			
f	Add lines 12a through 12e			12f	
13	Add lines 8 through 12f. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 31			13	

Premium Tax Credit Repayment 2020

The ACA penalty is gone – but not the PTC

Table 5. Repayment Limitation

IF the amount on Form 8962, line 5, is . . .	THEN enter on line 28 . . .	
	for a filing status of Single—	for any other filing status—
Less than 200	\$300	\$600
At least 200 but less than 300	\$800	\$1,600
At least 300 but less than 400	\$1,325	\$2,650
400 or 401	leave line 28 blank	

- You will find the amounts of the 3 different poverty levels for the continental U.S., Alaska and Hawaii in the instructions to Form 8962 <https://www.irs.gov/pub/irs-pdf/i8962.pdf#page=16>
- And...the next page

Premium Tax Credit Poverty Levels

Table 1-1. Federal Poverty Line for the 48 Contiguous States and the District of Columbia

IF your Family Size* from Form 8962, line 1, was . . .	THEN enter the amount below on Form 8962, line 4 . . .
1	\$12,140
2	\$16,460
3	\$20,780
4	\$25,100
5	\$29,420
6	\$33,740
7	\$38,060
8	\$42,380

**If your family size was more than 8 people, add \$4,320 for each additional person. For example, if your family size is 11, you have 3 additional people. Multiply \$4,320 by 3 and add the result of \$12,960 to \$42,380. Enter the result of \$55,340 on Form 8962, line 4.*

Table 1-2. Federal Poverty Line for Alaska

IF your Family Size* from Form 8962, line 1, was . . .	THEN enter the amount below on Form 8962, line 4 . . .
1	\$15,180
2	\$20,580
3	\$25,980
4	\$31,380
5	\$36,780
6	\$42,180
7	\$47,580
8	\$52,980

**If your family size was more than 8 people, add \$5,400 for each additional person. For example, if your family size is 11, you have 3 additional people. Multiply \$5,400 by 3 and add the result of \$16,200 to \$52,980. Enter the result of \$69,180 on Form 8962, line 4.*

Table 1-3. Federal Poverty Line for Hawaii

IF your Family Size* from Form 8962, line 1, was . . .	THEN enter the amount below on Form 8962, line 4 . . .
1	\$13,960
2	\$18,930
3	\$23,900
4	\$28,870
5	\$33,840
6	\$38,810
7	\$43,780
8	\$48,750

**If your family size was more than 8, add \$4,970 for each additional person. For example, if your family size is 11, you have 3 additional people. Multiply \$4,970 by 3 and add the result of \$14,910 to \$48,570. Enter the result of \$63,660 on Form 8962, line 4.*

Other Key Credits for 2020 - 2021

R= Refundable NR= Non-Refundable

- Adoption Credit - \$14,300 (2020) \$14,440 (2021)
- Adoption Assistance from employer \$14,300 (2020) \$14,440 (2021)
 - SECURE Act – Allows for up to \$5,000 penalty-free withdrawals from IRAs or retirement plans per qualified birth or adoptions – after 12/31/2019 -
 - Withdrawals within 1 year of birth or adoptions – money does not have to be used for this purpose.
 - May be repaid and rolled over – treated as 60-day trustee-to-trustee rollover if the account is eligible.
- Child Tax Credit \$2,000 (\$1,400 Refundable) -Must have SSN, under Age 17 or younger. Phase out begins Single \$200,000 (MFJ \$400,000)
- Lifetime Learning Credit – phases out for incomes over \$118,000 (2020) \$119,000 (2021) for a joint return or \$59,000 (2020-2021) for all others.
- American Opportunity Credit (R & NR) – \$2,500 (\$1,000) – no change
- Employee Health Insurance Expense of Small Employers, the average annual wages are \$27,600 (2020) \$27,800 (2021).

Earned Income Tax Credit 2020

✓ Tax Year 2020

Qualifying Children Claimed

If filing	Zero	One	Two	Three
Single, Head of Household, or Widowed	\$15,820	\$41,756	\$47,440	\$50,594
Married Filing Jointly	\$21,710	\$47,646	\$53,330	\$56,844

Investment Income Limit

Investment income must be \$3,650 or less for the year.

Maximum Credit Amounts

The maximum amount of credit for Tax Year 2020 is:

- \$6,660 with three or more qualifying children
- \$5,920 with two qualifying children
- \$3,584 with one qualifying child
- \$538 with no qualifying children.

Earned Income Tax Credit 2021

<u>Item</u>	<u>Number of Qualifying Children</u>			
	<u>One</u>	<u>Two</u>	<u>Three or More</u>	<u>None</u>
Earned Income Amount	\$10,640	\$14,950	\$14,950	\$7,100
Maximum Amount of Credit	\$3,618	\$5,980	\$6,728	\$543
Threshold Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$19,520	\$19,520	\$19,520	\$8,880
Completed Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$42,158	\$47,915	\$51,464	\$15,980
Threshold Phaseout Amount (Married Filing Jointly)	\$25,470	\$25,470	\$25,470	\$14,820
Completed Phaseout Amount (Married Filing Jointly)	\$48,108	\$53,865	\$57,414	\$21,920

- Excessive Investment Income - \$3,650

Don't Forget – First-Time Homebuyers Credit

Hearing about e-file rejections!

The repayment of the 2008 is still with us. The \$7,500 Home Buyers Credit has to be repaid over 15 years - up to \$500 a year. (Purch from 04/08-12/31/08)

You do not need to attach a Form 5405 if still living in same home – just pay.

IRS look-up tool - <https://sa.www4.irs.gov/irfof-fthb/>

Use for 5405 to report accelerated repayments:

Acceleration of repayment – If a taxpayer disposes of the home for which a first-time homebuyer credit was allowed, or the taxpayer (and the taxpayer's spouse, if married) ceases to use the home as a principal residence before the end of the 15-year repayment period, the remaining credit repayment amount is added to the income tax liability of the taxpayer for the year of disposition or cessation of use.

Good News! In 2014 all clients who had *non-repayable credit* should have passed the deadline for the repayment of portion of the credit from selling the property (or converting it to rental use) within 36 months of purchase.

Line 8- Schedule 1 – Miscellaneous Income

- The ‘Catch-All’ line – typically, use this line to report:
 - Hobby income
 - Gambling income
 - Prize winnings and awards (including game shows)
 - 1099 income that you don’t know what to do with
 - Alaska Permanent Fund Dividends (family?)
 - Kiddie income from (Form 8814)
 - Scholarships, Grants, and other 1099Q Income
 - Foreign Earned Income and Housing Exclusion (Form 2555)
 - Distributions from HSAs & MSAs (Forms 8889 & 8853)
 - Cancellation of debt income/insolvency
 - Jury pay and other misc. reimbursements
 - NOL carryovers
 - And more..

Line 8 - Miscellaneous Income

IMPORTANT Deductions

Reminder:

When you are forced to report income on Line 8 because of 3rd party reports, This is *ALSO* where you deduct that income back out. Write “See Statement” on next to Line 8.

- Enter the reason for deducting it back out.
- Attach a schedule with details, if applicable, and/or
- Use the relevant form, like Form 982 - Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)
- If no relevant form avail – use Form 8275 – Disclosure Statement

The Usual Adjustments to Income

- Line 10 - Educator's Expense - \$ 250 - Made permanent (Sec 104)
- Line 19 – IRA **SECURE Act changes**
- Line 20 – Student Loan Interest \$2,500 – (no change)
- Line 21 – Tuition and Fees - \$4,000 – RESTORED – **SECURE Act: 2018-2020**

Part II Adjustments to Income			
10	Educator expenses	10	
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11	
12	Health savings account deduction. Attach Form 8889	12	
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13	
14	Deductible part of self-employment tax. Attach Schedule SE	14	
15	Self-employed SEP, SIMPLE, and qualified plans	15	
16	Self-employed health insurance deduction	16	
17	Penalty on early withdrawal of savings	17	
18a	Alimony paid	18a	
	b Recipient's SSN		
	c Date of original divorce or separation agreement (see instructions) ▶		
19	IRA deduction	19	
20	Student loan interest deduction	20	
21	Tuition and fees deduction. Attach Form 8917	21	
22	Add lines 10 through 21. These are your adjustments to income. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10a	22	

New Adjustment - Charity

- Nonitemizers can write off up to \$300 of charitable *cash* contributions.
- This is a new "above-the-line" deduction for people who don't file Schedule A.
- You take it on page 1 of the Form 1040 (not the Schedule 1)

here ▶ <input type="checkbox"/>									
Attach Sch. B if required.	1	Wages, salaries, tips, etc. Attach Form(s) W-2						1	
	2a	Tax-exempt interest	2a		b	Taxable interest		2b	
	3a	Qualified dividends	3a		b	Ordinary dividends		3b	
	4a	IRA distributions	4a		b	Taxable amount		4b	
	5a	Pensions and annuities	5a		b	Taxable amount		5b	
	6a	Social security benefits	6a		b	Taxable amount		6b	
Standard Deduction for—	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here						7	
	8	Other income from Schedule 1, line 9						8	
• Single or Married filing separately, \$12,400	9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income						9	
• Married filing jointly or Qualifying widower(s), \$24,800	10	Adjustments to income:							
• Head of household, \$18,650	a	From Schedule 1, line 22	10a					10c	
• If you checked any box under Standard Deduction, see instructions.	b	Charitable contributions if you take the standard deduction. See instructions	10b						
	c	Add lines 10a and 10b. These are your total adjustments to income							
	11	Subtract line 10c from line 9. This is your adjusted gross income						11	
	12	Standard deduction or itemized deductions (from Schedule A)						12	
	13	Qualified business income deduction. Attach Form 8995 or Form 8995-A						13	
	14	Add lines 12 and 13						14	
	15	Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-						15	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B **Form 1040** (2020)

IRA and Retirement Contributions Limits

<u>IRA OPTIONS:</u>	<u>2021</u>	<u>2020</u>
IRA & Roth	6,000	\$6,000
IRA 50+ & Roth	\$7,000	\$7,000
SIMPLE-IRA -	\$13,500	\$13,500
SIMPLE IRA 50+ (+ \$3,000)	\$16,500	\$16,500
<u>QUALIFIED PLANS</u>		
401(k)	\$19,500	\$19,500
401(k) 50 +	\$26,000	\$26,000
SEP/Profit-Sharing	\$58,000	\$57,000
50+ max defined contribution	\$64,500	\$63,500
Defined Benefit Plans	\$230,000	\$230,000
- Compensation Limits	\$290,000	\$285,000
Highly Compensated Employees	\$130,000	\$130,000
Key Employee limit - testing	\$185,000	\$185,000

IRA Contributions - Income Phaseouts

<u>Filing Status:</u>	<u>2021</u>	<u>2020</u>
<u>IRA when covered by plan at work</u>		
Single & HOH	\$66,000-\$76,000	\$ 65,000-\$75,000
Married Filing Jointly	\$105,000-\$125,000	\$104,000-\$124,000
Married – Spouse Cover	\$198,000-\$208,000	\$196,000-\$206,000
Married Filing Separately	\$ 10,000	
 <u>Roth IRA - Based on AGI</u>		
Single & HOH	\$125,000-\$140,000	\$124,000-\$139,000
Married Filing Jointly	\$198,000-\$208,000	\$196,000-\$206,000
Married Filing Separately	\$ 10,000	

IRA Updates – SECURE Act

- Nontaxable income that now qualifies as “earned income” for IRA contribution purposes – beginning after 12/31/2019
 - In Home Supportive Services (IHSS)
 - Certain Tuition Fellowship and stipend payments paid to graduate and post-doctoral students.
- Allows contributions by persons age 70.5 (72) and over if they have qualified earned income.
 - If these taxpayers do make contributions, the \$100,000 limit on qualified charitable transfers is reduced by that amount.

COVID19 – Related Withdrawals

We have new rules on COVID19 withdrawals from retirement accounts.

- No penalties for early withdrawal up to \$100,000
- Potential for 3 years to pay the taxes, OR
- 3 years to repay/replace the withdrawals

Q3. Am I a qualified individual for purposes of section 2202 of the CARES Act?

A3. You are a qualified individual if –

- You are diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention;
- Your spouse or dependent is diagnosed with SARS-CoV-2 or with COVID-19 by a test approved by the Centers for Disease Control and Prevention;
- You experience adverse financial consequences as a result of being quarantined, being furloughed or laid off, or having work hours reduced due to SARS-CoV-2 or COVID-19;
- You experience adverse financial consequences as a result of being unable to work due to lack of child care due to SARS-CoV-2 or COVID-19; or
- You experience adverse financial consequences as a result of closing or reducing hours of a business that you own or operate due to SARS-CoV-2 or COVID-19.

Under section 2202 of the CARES Act, the Treasury Department and the IRS may issue guidance that expands the list of factors taken into account to determine whether an individual is a qualified individual as a result of experiencing adverse financial consequences. The Treasury Department and the IRS have received and are reviewing comments from the public requesting that the list of factors be expanded.

Student Loan Interest

- **Lesser of \$2,500** or amount paid that tax year.
- Phased out \$70,000 and \$85,000 (\$140,000 and \$170,000 if you file a joint return).
<https://www.irs.gov/pub/irs-dft/i1040gi--dft.pdf#page=92>
- Client or spouse must be liable for the loan.
- Can't be related to the lender!
- **Not deductible for MFS or filing as a dependent!**
- Look for a 1098-E if more than \$600.

The CARES Act allows employers to pay down up to \$5,250 in workers' college loans in 2020.

- The payments are excluded from the workers' wages for federal tax purposes.
- The \$5,250 cap applies to both student loan repayment benefits and other educational assistance (e.g., tuition, fees, books, etc.) offered by an employer under current law.

Educator's Expenses

Adjustment ($\$250 \times 2$) – ~~or Deduction – Form 2106~~
Sec 104 – permanent + indexed (retained by TCJA)

Teachers/Classroom Supplies - Allowable expenses include books, supplies, computers, software and anything else you use in the classroom. Health and physical education teachers are entitled to deductions for athletic equipment and supplies. Make sure you have receipts for all expenses.

Beginning in 2016, Sec 104 of the PATH Act also modified the deduction to index the \$250 cap to inflation and include professional development expenses.

(We still haven't seen this)

Teachers are not the only folks who are entitled to use this deduction.

It may be used by an instructor, counselor, principal, or aide in a school. Your educational institution may span kindergarten through grade 12. And you must work for at least 900 hours a year in the designated job type. (Note: 2,080 hours are considered full time in the business world.)

HSAs, HRAs, FSAs

Description	2021	2020
Health Saving Arrangements (HSA)		
High Deductible - Self-Only	\$1,400	\$1,400
High Deductible - Family	\$2,800	\$2,800
Deduction - Self-Only	\$3,600	\$3,550
Deduction - Family	\$7,200	\$7,100
Maximum Out of Pocket - Self Only	\$7,000	\$6,900
Maximum Out of Pocket - Family	\$14,000	\$13,800
Health Reimbursement Arrangements (HRA)	\$1,800	\$1,800
Flexible Spending Accounts (FSA)	\$2,750	\$2,750

Due to the CARES Act account holders can now use HSAs, health reimbursement arrangements (HRAs) or health flexible spending account (FSAs) to pay for **over-the-counter medications** without a prescription.

The coronavirus-related legislation also allows HSAs, HRAs and FSAs to pay for certain menstrual care products, **such as tampons and pads**, as eligible medical expenses.

These are permanent changes and apply retroactively to purchases beginning Jan. 1, 2020.

Alimony

The main things to understand are the changes for 2019 and beyond!

- For divorce agreements in effect as of 12/31/2018 – there is no change now or later
 - Remember to pick up alimony income in 2019
 - Remember to deduct alimony payments in 2019
 - Understand when something is not alimony at all
 - When splitting retirement assets, use a QDRO
 - Understand how to maximize QDRO funds and minimize taxes.

ALERT! if a current divorce agreement is changed (revised alimony, child support, etc.) through the court – it may fall under the new rules

*Alimony is no longer deductible or income per TCJA – for divorce agreements **signed after 12/31/2018**. (Since it still affects pre 2019 contracts, let's continue.)*

The Invisible Adjustments – Sched 1, Line 8

Former Line 22 – Total Adjustments – Although, the Form 1040 shows 13 items you may deduct “above the line,” Schedule 1, line 8, lets you use another 10 adjustments. Here’s the information about the hidden adjustments straight out of the IRS instructions to the Form 1040, for line 8 of Schedule 1

1. Archer MSA deduction (see Form 8853). Identify as “MSA.”
2. Jury duty pay if you gave the pay to your employer because your employer paid your salary while you served on the jury. Identify as “Jury Pay.”
3. Deductible expenses related to income reported on line 21 from the rental of *personal* property engaged in for profit. Identify as “PPR.”
4. Reforestation amortization and expenses (see Pub. 535). Identify as “RFST.”
5. Repayment of supplemental unemployment benefits under the Trade Act of 1974 (see Pub. 525). Identify as “Sub-Pay TRA.”
6. Contributions to section 501(c)(18)(D) pension plans (see Pub. 525). Identify as “501(c)(18)(D).”
7. Contributions by certain chaplains to section 403(b) plans (see Pub. 517). Identify as “403(b).”
8. Attorney fees and court costs for actions involving certain unlawful discrimination claims, but only to the extent of gross income from such actions (see Pub. 525). Identify as “UDC.”
9. Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations, up to the amount of the award includible in your gross income. Identify as “WBF.”
10. **Medicare - One extra adjustment not mentioned in the IRS publication** – Legal fees paid for a private cause of action under Medicare Secondary Payer statute. <https://www.teaguecampbell.com/private-cause-action-medicare-secondary-payer-act/>

Itemized Deductions

- On the next several slides we will be talking about deductions in effect for 2020 – and **changes made by the SECURE Act** - and some strategies to maximize them
- Note: We didn't get a lot of changes to itemized deductions in the other 2020 Tax Acts.
- Note: The suspension of the 60% contribution limit for 2018 and 2019 disaster-related charities has expired (allowing higher contributions)
https://www.irs.gov/publications/p526#en_US_2019_publink100034693
- Remember – your STATE may not have adopted these limitations – so enter ALL the expenses into the software.

Which Deductions Don't Phase Out?

Which Itemized Deductions Are Not Limited?

The Pease phaseout limits are gone – at least until 12/31/2025.
(note the new line numbers)

However, they are still subject to other applicable limits.

- Medical and dental expenses (7.5%)—line 4.
- Investment interest expense (investment income)—line 9.
- Casualty and theft losses of personal use property—line 20 (10% of AGI + \$100) – for Presidential disasters only, no thefts!
- Casualty and theft losses of income-producing property—line 15.
<https://www.irs.gov/pub/irs-pdf/f4684.pdf>
- Gambling losses—line 16 (limited to gambling income).
- Miscellaneous expenses – subject to 2% reduction – ALL GONE!

Medical Expenses - reduced by 7.5% of AGI

- You can only include in medical expenses those amounts paid during the taxable year for which taxpayer received **NO** insurance or other reimbursement during the year.
- Medical Mileage is 17 cents per mile for 2020 (2021 -?)
<https://www.irs.gov/tax-professionals/standard-mileage-rates>
 - Don't forget tolls and parking fees (but not speeding tickets!)
- Medical travel also includes the costs for the patient and a (one) companion/caregiver – up to \$50/night each, for patient and caregiver. (no meals)
- Medical travel for treatment outside of the country is deductible.
 - Treatment may require the patient to stay in that country for several weeks until the full set of procedures are complete. The lodging for all days is allowable.
 - In some cases, the treatment, travel and living expenses are still cheaper than it would cost here in the US.
- See pub 502 for more expenses <https://www.irs.gov/publications/p502>

Medical for Non-Dependent

You can include medical expenses you paid for your dependent. For you to include these expenses, the person must have been your dependent either at the time the medical services were provided or at the time you paid the expenses. A person generally qualifies as your dependent for purposes of the medical expense deduction if both of the following requirements are met.

- The person was a qualifying child or a qualifying relative and
- The person was a U.S. citizen or national or a resident of the United States, Canada, or Mexico.

You can include medical expenses you paid for an individual that *would have been* your dependent except that:

- He or she received gross income of \$4,300 or more in 2020,
- He or she filed a joint return for 2020, or
- You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2020 return.

Medical Gifts

Giving - You may pay anyone's medical expenses as a gift, without any gift tax limitations – if you make the payments directly to the medical provider. No deduction is allowed to the donor if the recipient doesn't meet the previous rules.

Receiving – GoFundMe and crowdfunding tips:

- When raising money for someone's medical expenses, set up the crowdfunding account and bank account in the name and SSN of the recipient.
- Do NOT offer anything in return, i.e. no ebooks, no t-shirts, no nothing! Doing that turns this into sales.
- Use all the money for the relevant medical expenses.
- The recipient may claim a deduction for medical expenses paid with gifted funds. TC Memo 2010-286 Lang vs Commissioner - <https://www.leagle.com/decision/intco20101230d61>

Home Care Compensation Tip

Always check with your clients to determine if they are paying for household help.

They may have to put workers on payroll and file a Schedule H if they pay \$2,200 (2020) or more per year. (or more than \$1,000 per quarter)
<https://www.irs.gov/pub/irs-pdf/f1040sh.pdf>

Three options:

1. Recommend that they pay an outside service for the workers.
2. Paying directly may be cheaper, then they must set up payroll for IRS and State (which probably doesn't have a Schedule H) and must file all their own quarterly/annual reports, W-2s, etc.
3. Have them hire you to handle all the payroll details.

Note: Remember to adjust federal withholding or ES payments for the additional Schedule H taxes.

Reminder - In Home Supportive Service Workers' Income


As you know, this income is no longer taxable – since 2016.

- **SECURE Act Sec 116** makes this income qualified as “earned income” to allow for defined benefit contribution plan limits after 12/31/2015
- And it allows for IRA contributions made after **12/20/2019**

Home Mortgage Interest

What's new for 2020?

- Nothing, really.
- The PMI deduction (mortgage insurance premiums) is restored by the **SECURE Act - 2018-2020 – with an income limitation.**

Mortgage Insurance Premiums Deduction Worksheet—Line 8d *Keep for Your Records* 

Before you begin: ✓ See the instructions for line 8d to see if you must use this worksheet to figure your deduction.

1.	Enter the total premiums you paid in 2020 for qualified mortgage insurance for a contract issued after December 31, 2006	1.	<input type="text"/>
2.	Enter the amount from Form 1040 or 1040-SR, line 11	2.	<input type="text"/>
3.	Enter \$100,000 (\$50,000 if married filing separately)	3.	<input type="text"/>
4.	Is the amount on line 2 more than the amount on line 3? <input type="checkbox"/> No. Your deduction isn't limited. Enter the amount from line 1 of this worksheet on Schedule A, line 8d. Don't complete the rest of this worksheet. <input type="checkbox"/> Yes. Subtract line 3 from line 2. If the result isn't a multiple of \$1,000 (\$500 if married filing separately), increase it to the next multiple of \$1,000 (\$500 if married filing separately). For example, increase \$425 to \$1,000, increase \$2,025 to \$3,000; or if married filing separately, increase \$425 to \$500, increase \$2,025 to \$2,500, etc.	4.	<input type="text"/>
5.	Divide line 4 by \$10,000 (\$5,000 if married filing separately). Enter the result as a decimal. If the result is 1.0 or more, enter 1.0	5.	<input type="text"/>
6.	Multiply line 1 by line 5	6.	<input type="text"/>
7.	Mortgage insurance premiums deduction. Subtract line 6 from line 1. Enter the result here and on Schedule A, line 8d	7.	<input type="text"/>

Mortgage Interest Limits - 2018 - 2025

- Limited to 2 properties
 - Clients choice, consistency not required!
 - After 2025, HELOCs are restored – up to the overall \$1 million limit
- Limit to loan balances of **ALL** personal residence mortgages they hold - \$750,000 (not per mortgage) ~~PLUS \$100,000 = \$1,100,000 total debt.~~
- Loans in place before December 15th are grandfathered under the old law – up to \$1 million (no HELOC) (\$500,000 MFS).
- <http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-%20466.pdf> page 603

Parents or Others Main Borrowers

Sometimes the taxpayer(s) do(es) not have the credit to qualify for a home mortgage/purchase.

Family members end up being the buyers and borrowers on paper.

But the taxpayer lives in home, makes all the mortgage payments, etc. And except for the original paperwork, is really the intended owner.

“Equitable Owner” or “Beneficial Owner” – it can get complicated – or you can make it simple.

Equitable or Beneficial Owner issues

Simple – Get attorney to draw up paperwork to spell out who really owns the home & loan

Simple - Need deed in the Beneficial Owner's name. Whether filed or not.

Simple – when CP-2000 comes, simply reply:

The taxpayer is a Beneficial owner under Treasury Regulation Treas. Reg. § 1.163-1(b)

<https://www.law.cornell.edu/cfr/text/26/1.163-1>

Complicated – Potential gift tax issues

Complicated – **No paperwork** to prove the real arrangement – taxpayer may have to fight it out in Tax Court and (probably) win –

<https://www.journalofaccountancy.com/issues/2008/oct/equitableownerequalsdeduction.html>

Mortgage Cancellation of Debt – Not Taxable!

- The **SECURE Act** restored the exclusion from income for qualified mortgage debt cancellation – for 2018 – 2020.
- If you had clients with this kind of debt and you used the insolvency exclusion, you're probably fine. But consider revisiting the return.
- Note: if you didn't catch this early during the 2020 filing season for your clients' 2019 returns, you can still file a Form 1040X electronically (ONLY for 2019).

Points

What are not Points? The IRS specifically states that if the fee is for items that would normally be itemized on a settlement statement, such as notary fees, preparation costs, and inspection fees, it is not deductible.

Must amortize, over the life of the loan

- if business, rental or investment property.
- when refinancing
- failure to meet requirements
 - careful- HUD 1 shows if there isn't enough cash to cover the points

TaxMama® Reminder - If they refinance again and replace the previous mortgage, remember to deduct the unused balance of the previous refinance. It's deductible in full. <https://www.irs.gov/pub/irs-dft/i1040sca--dft.pdf#page=10>

Moving Expenses

- The Senate amendment generally suspends the deduction for moving expenses for taxable years 2018 through 2025.
- However, during that suspension period, the provision retains the deduction for moving expenses and the rules providing for exclusions of amounts attributable to in-kind moving and storage expenses (and reimbursements or allowances for these expenses) for members of the **Armed Forces** (or their spouse or dependents) on active duty that move pursuant to a military order and incident to a permanent change of station.
- Moving mileage for 2020 - 17 cents – military only.

<https://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-%20466.pdf#page=626>

Employee Benefits

Description	2021	2020
Cafeteria Plans (FSA)- Max deduction	\$2,750	\$2,750
...Carryover benefits	\$550	\$500
Commuter Benefits - monthly	270	270
- Bicycle commuter benefits of \$20/ mo suspended 2018-2025		
- Deductible to employer. but ADD to employee wages		
Parking Benefits - monthly	270	270
Employee Awards - non-qualified	400	400
Employee Awards - maximum (multiple)	1600	1600

Read IRS Publication 15-b – Employer’s Guide to Fringe Benefits <https://www.irs.gov/publications/p15b/>

*This has been extended permanently by Section 105 of PATH Act

Employee Benefits - Awards

These are excludible from employee's compensation (IRC 74)

Achievement awards. An achievement award is an item of **tangible personal property** that meets all the following requirements. It is given to an employee for length of service or safety achievement.

- It is awarded as part of a meaningful presentation.
- It is awarded under conditions and circumstances that do not create a significant likelihood of disguised pay.

Length-of-service award. An award will qualify as a length-of-service award only if either of the following applies.

- The employee receives the award after his or her first 5 years of employment.
- The employee did not receive another length-of-service award (other than one of very small value) during the same year or in any of the prior 4 years.

Safety achievement award. An award for safety achievement will qualify as an achievement award *unless* one of the following applies.

- It is given to a manager, administrator, clerical employee, or other professional employee.
- During the tax year, more than 10% of your employees, excluding those listed in (1), have already received a safety achievement award (other than one of very small value).

Don't Overlook Education

Working benefit fringe - IRC § 132(d) - When the education payments qualify as a working benefit fringe, none of the payments are taxable to the employee even if the employer pays out \$30,000 or more.

<https://www.law.cornell.edu/uscode/text/26/132>

The benefit qualifies if

- The employee could deduct the expenses on their individual tax return as a business expense under IRC § 162 if they paid it themselves
- There must be a written plan.
- The benefit must be available to all employees, without favoring “highly compensated employees,” and it covers practically all costs except for tools and supplies that employees get to keep after the course ends.
- It cannot cover the owners of the business.
 - Small businesses can offer this benefit, say, to family members who don't meet the definition of “related parties” when it comes to ownership of the business.
(https://www.irs.gov/publications/p15b#en_US_2020_publink1000193670).
- Employees cannot convert part of wages to the education reimbursement. That would violate the provision that “the program does not allow employees to choose to receive cash or other benefits.”

Education – Discharge Student Loan Debt

The TCJA allows for the discharge of student loan debt due to death or permanent disability.

The loans eligible for discharge are:

- (1) the United States (or an instrumentality or agency thereof),
- (2) a State (or any political subdivision thereof),
- (3) certain tax-exempt public benefit corporations that control a State, county, or municipal hospital and whose employees have been deemed to be public employees under State law,
- (4) an educational organization that originally received the funds from which the loan was made from the United States, a State, or a tax-exempt public benefit corporation, or (5)
- private education loans (for this purpose, private education loan is defined in section 140(7) of the Consumer Protection Act).

Also - National Health Service Corps loan repayment programs

Not included - amounts received under the Indian Health Service loan repayment program from income.

TaxMama® Tip – Consider not refinancing these kinds of student loans without a great interest rate.

Education – EE Bonds Used for Education

You can see the income phaseouts directly on the Form 8815 – did you know there was such a form just for this?

Form 8815		Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989 (For Filers With Qualified Higher Education Expenses) ▶ Go to www.irs.gov/Form8815 for the latest information. ▶ Attach to Form 1040 or 1040-SR.		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)				2020 Attachment Sequence No. 167	
Name(s) shown on return				Your social security number	
1					
(a) Name of person (you, your spouse, or your dependent) who was enrolled at or attended an eligible educational institution		(b) Name and address of eligible educational institution			
If you need more space, attach a statement.					
2	Enter the total qualified higher education expenses you paid in 2020 for the person(s) listed in column (a) of line 1. See the instructions to find out which expenses qualify	2			
3	Enter the total of any nontaxable educational benefits (such as nontaxable scholarship or fellowship grants) received for 2020 for the person(s) listed in column (a) of line 1. See instructions	3			
4	Subtract line 3 from line 2. If zero or less, stop . You cannot take the exclusion	4			
5	Enter the total proceeds (principal and interest) from all series EE and I U.S. savings bonds issued after 1989 that you cash ed during 2020	5			
6	Enter the interest included on line 5. See instructions	6			
7	If line 4 is equal to or more than line 5, enter "1.000." If line 4 is less than line 5, divide line 4 by line 5. Enter the result as a decimal (rounded to at least three places)	7	x		
8	Multiply line 6 by line 7	8			
9	Enter your modified adjusted gross income. See instructions	9			
	Note: If line 9 is \$97,350 or more if single, head of household, or qualifying widow(er); or \$153,550 or more if married filing jointly, stop . You cannot take the exclusion.				
10	Enter: \$82,350 if single, head of household, or qualifying widow(er); \$123,550 if married filing jointly	10			
11	Subtract line 10 from line 9. If zero or less, skip line 12, enter -0- on line 13, and go to line 14	11			
12	Divide line 11 by: \$15,000 if single, head of household, or qualifying widow(er); \$30,000 if married filing jointly. Enter the result as a decimal (rounded to at least three places)	12	x		
13	Multiply line 8 by line 12	13			
14	Excludable savings bond interest. Subtract line 13 from line 8. Enter the result here and on Schedule B (Form 1040), line 3 ▶	14			
For Paperwork Reduction Act Notice, see your tax return instructions.				Cat. No. 10822S	
				Form 8815 (2020)	

Sec 529 Accounts Use of Funds

We already knew that up to \$10,000 in funds from Sec 529 accounts can be used towards qualified home-schooling costs, elementary schools and high schools.

Effective for distributions made after 12/31/2018, the SECURE Act adds

- Cost associated with registered apprenticeships and
- Up to \$10,000 of qualified student loan repayments (principal and interest) for the taxpayer and siblings

The provision also modifies the definition of higher education expenses to include certain expenses incurred in connection with a homeschool.

Those expenses are:

- 1) Curriculum and curricular materials;
- 2) Books or other instructional materials;
- 3) Online educational materials;
- 4) Tuition for tutoring or educational classes outside of the home (but only if the tutor or instructor is not related to the student);
- 5) Dual enrollment in an institution of higher education;
- 6) Educational therapies for students with disabilities.

Sec 529 & Sec 529A– Under COVID19

- Many students are being forced out of in-person (on campus) schooling and are getting refunds. <https://www.irs.gov/newsroom/irs-offers-guidance-on-recent-529-education-savings-plan-changes>

Tuition refunds

The PATH Act change added a special rule for a beneficiary of a 529 plan, usually a student, who receives a refund of tuition or other qualified education expenses. This can occur when a student drops a class mid-semester. If the beneficiary **recontributes** the refund to any of his or her 529 plans **within 60 days, the refund is tax-free.**

The Treasury Department and the IRS intend to issue future regulations simplifying the tax treatment of these transactions. Re-contributions would not count against the plan's contribution limit.

K-12 education

One of the TCJA changes allows distributions from **529 plans to be used to pay up to a total of \$10,000 of tuition per beneficiary** (regardless of the number of contributing plans) each year at an elementary or secondary (k-12) public, private or religious school of the beneficiary's choosing.

Rollovers to an ABLE account

The second TCJA change allows funds to be rolled over from a **designated beneficiary's 529 plan to an ABLE account for the** same beneficiary or a family member. ABLE accounts are tax-favored accounts for certain people who become disabled before age 26, designed to enable these people and their families to save and pay for disability-related expenses.

The regulations would provide that rollovers from 529 plans, together with any contributions made to the designated beneficiary's ABLE account (other than certain permitted contributions of the designated beneficiary's compensation) cannot exceed the annual ABLE contribution limit -- \$15,000 for 2018. For more information about other TCJA provisions, visit [IRS.gov/taxreform](https://www.irs.gov/taxreform).

Required Minimum Distributions – RMDs - under COVID19

- The **SECURE Act** raises the age to take the first distribution from 70.5 to age 72 – for taxpayers turning 70.5 after 12/31/2019
- Inherited IRAs – new 10-year RMD limit for deaths after 12/31/2019, except
 - Surviving spouse
 - Disabled or chronically ill beneficiary
 - Person not more than 10 years younger than the IRA owner
 - Minor child of the IRA owner
 - (Delayed effective dates for government plans and collective bargaining agreements)

All requirements are suspended for seniors and heirs due to COVID19

Charitable Contributions

- The limit on deductions of charitable contributions of cash was increased from 50 percent to 60 percent of adjusted gross income. (no new changes in 2021)
- **RMD to Charity** - Sec. 408(d)(8), which allows taxpayers to distribute up to \$100,000 in qualified charitable distributions from individual retirement plans without including the distributions in income. **Sec. 112 of PATH Act – makes this permanent.**
 - Note: This doesn't mean someone must be rich or make a \$100,000 contribution.
 - The distribution is excluded from income.
 - There is no charitable deduction.
 - If taxpayer made contributions to an IRA after age **70.5 or 72 (SECURE Act and CARES Act,** reduce the \$100,000 limit by those contributions (more RMD details coming up).
- No charitable deduction for college athletic event seating rights.
- Repeals the section 170(f)(8)(D) substantiation exception to the contemporaneous written acknowledgment requirement by having the organization file a report.
<https://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-%20466.pdf#page=619>

Contemporaneous \$250 or More - IRC 170 – Charitable Contributions – Contemporaneous - MANDATORY

<https://www.law.cornell.edu/uscode/text/26/170>

(8) Substantiation requirement for certain contributions (A) General rule No deduction shall be allowed under subsection (a) for any contribution of \$250 or more unless the taxpayer substantiates the contribution by a contemporaneous written acknowledgment of the contribution by the donee organization that meets the requirements of subparagraph (B).

(C) Contemporaneous For purposes of subparagraph (A), an acknowledgment shall be considered to be contemporaneous if the taxpayer obtains the acknowledgment on or before the earlier of—

- (i) the date on which the taxpayer files a return for the taxable year in which the contribution was made, or
- (ii) the due date (including extensions) for filing such return.

Charitable Contributions – TaxMama® Tip

For clients who cannot itemize – and won't be able to use/carry over the deduction within the 5-year limit:

- Have them gift their donations to family members who can itemize
- Family member can make the donation and get the deduction
- The donation can be made in honor of the parent (or family member) so they still get the standing in the community

Required Minimum Distributions – RMDs – CARES Act

<https://www.irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers>

What is a coronavirus-related distribution?

- A4. A coronavirus-related distribution is a distribution that is made from an eligible retirement plan to a qualified individual from January 1, 2020, to December 30, 2020, up to an aggregate limit of **\$100,000** from all plans and IRAs – no 10% penalty.

When do I have to pay taxes on coronavirus-related distributions?

- A6. The distributions generally are included in income **ratably over a three-year period**, starting with the year in which you receive your distribution. For example, if you receive a \$9,000 coronavirus-related distribution in 2020, you would report \$3,000 in income on your federal income tax return for each of 2020, 2021, and 2022. However, you have the option of including the entire distribution in your income for the year of the distribution.

May I repay a coronavirus-related distribution?

- A7. In general, yes, you may repay all or part of the amount of a coronavirus-related distribution to an eligible retirement plan, provided that you complete the repayment within three years after the date that the distribution was received. If you repay a coronavirus-related distribution, the distribution will be treated as though it were repaid in a direct trustee-to-trustee transfer so that you do not owe federal income tax on the distribution.

Required Minimum Distributions – RMDs – CARES Act

<https://www.irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers>

What plan loan relief is provided under section 2202 of the CARES Act?

- A8. Section 2202 of the CARES Act permits an additional year for repayment of loans from eligible retirement plans (not including IRAs) and relaxes limits on loans.
- **Certain loan repayments may be delayed for one year:** If a loan is outstanding on or after March 27, 2020, and any repayment on the loan is due from March 27, 2020, to December 31, 2020, that due date may be delayed under the plan for up to one year. Any payments after the suspension period will be adjusted to reflect the delay and any interest accruing during the delay. See section 5.B of Notice 2005-92.
- **Loan limit may be increased:** The CARES Act also permits employers to increase the maximum loan amount available to qualified individuals. For plan loans made to a qualified individual from March 27, 2020, to September 22, 2020, the limit may be increased up to the lesser of: (1) \$100,000 (minus outstanding plan loans of the individual), or (2) the individual's vested benefit under the plan. See section 5.A of Notice 2005-92.

Vehicle Expenses

https://www.irs.gov/publications/p463#en_US_2019_publink100033912

TaxMama® Tip - Don't forget other transportation costs that may be deductible regardless which method you use – if you're in business or get reimbursed

- Tolls, trains, shuttles, buses, etc. AND tips.

Autos – Much simpler to have a separate car or cars just for business. Even then, you will have some personal miles on it.

Deduction options:

1) Mileage or 2) Actual Expenses.

- To have a mileage choice must use mileage the first year. Then can change each year unless it is a leased car.
- Some clients can not take mileage - if they have 5 or more vehicles.

Don't forget that you will need the date the vehicle is placed into service – and the cost. Get a copy of the long purchase document.

Standard Mileage – and Related Depreciation

Depreciation Adjustment For Standard Mileage

Standard Mileage Rate Per Mile	2021	2020
Business	?? ¢	57.5¢
Medical and Moving (military)	?? ¢	17.0¢
Charitable	14.0¢	14.0¢
Depreciation	?? ¢	27.0¢

Year	Depreciation cents per mile
2020	27
2019	26
2018	25
2017	24
2016	24
2015	24
2014	22
2012-2013	23
2011	22
2010	23
2008-2009	21
2007	19
2005-2006	17
2003-2004	16
2001-2003	15

Best source – the IRS master page :

<https://www.irs.gov/tax-professionals/standard-mileage-rates>

Vehicle Depreciation Limits - 2020

Depreciation on autos is limited. For vehicles first placed in service in 2020 there are two tables and the limit depends on when the auto was purchased and whether bonus depreciation applies. See the examples below.

**Depreciation Limits for Passenger Automobiles Acquired After September 27, 2017
and Placed in Service During Calendar Year 2020 for which Additional
First Year Depreciation Applies**

Tax Year	Depreciation
First	\$18,100
Second	16,100
Third	9,700
Subsequent	5,760

**Depreciation Limits for Passenger Automobiles Placed in Service
During Calendar Year 2020 for which Additional First Year Depreciation Does
Not Apply**

Tax Year	Depreciation
First	\$10,100
Second	16,100
Third	9,700
Subsequent	5,760

SUVs and the 6,000 lb.. loophole

Loopholes big enough to drive an SUV through!

Congress intended to exempt work trucks and commercial vehicles to the 'luxury auto depreciation limitation'

However ANY 6000 lb.+ vehicles, which include SUV's, can use a percentage based depreciation - another lecture - and may even qualify for an extra \$25,900 bonus depreciation – *or more – under the TCJA.*

However specialized vehicles can be exempted from even the \$25,900 limit.

- *Qualifying Buses, Hearses, Fire Trucks, Cherry pickers*
- *Delivery Vans, Certain Sized Cargo vehicles.*

What about all those BMW's, Porsche's, and Mercedes?

What loophole do they use?

They are generally leased and use actual expenses.

Listed Property Updates

- Passenger automobiles
- Any other property used for transportation, unless it is an excepted vehicle.
- Property generally used for entertainment, recreation, or amusement (including photographic, phonographic, communication, and video recording equipment).

REMOVED from Listed Property:

Computers and related peripheral equipment. Computers and related peripheral equipment placed in service after 2017, in tax years ending after 2017, are no longer treated as listed property. (Cell phones were removed several years ago.)

Section 179 Depreciation

	2021	2020
Regular 179 limits	\$1,050,000	\$1,040,000
SUV limits	\$26,200	\$25,900
Investment phaseout begins	\$2,620,000	\$2,590,000

* *Sec 124 makes it permanent and adjusted for inflation*

Bonus Depreciation – New or Used Assets

Placed in Service Year ⁵⁰⁰	Bonus Depreciation Percentage	
	Qualified Property in General/Specified Plants	Longer Production Period Property and Certain Aircraft
Portion of Basis of Qualified Property Acquired before Sept. 28, 2017		
Sept. 28, 2017 – Dec. 31, 2017	50 percent	50 percent
2018	40 percent	50 percent
2019	30 percent	40 percent
2020	None	30 percent ⁵⁰¹
2021 and thereafter	None	None
Portion of Basis of Qualified Property Acquired after Sept. 27, 2017		
Sept. 28, 2017 – Dec. 31, 2022	100 percent	100 percent
2023	80 percent	100 percent
2024	60 percent	80 percent
2025	40 percent	60 percent
2026	20 percent	40 percent
2027	None	20 percent ⁵⁰²
2028 and thereafter	None	None

As a conforming amendment to the repeal of corporate AMT, the conference agreement repeals the election to accelerate AMT credits in lieu of bonus depreciation.

Bonus Depreciation Details

Under the new law, certain types of property are not eligible for bonus depreciation in any taxable year beginning after December 31, 2017. One such exclusion from qualified property is for property primarily used in the trade or business of the furnishing or sale of:

- Electrical energy, water or sewage disposal services,
- Gas or steam through a local distribution system or
- Transportation of gas or steam by pipeline.

This exclusion applies if the rates for the furnishing or sale have to be approved by a federal, state or local government agency, a public service or public utility commission, or an electric cooperative.

The new law also adds an exclusion for any property used in a trade or business that has had floor-plan financing indebtedness if the floor-plan financing interest was taken into account under section 163(j)(1)(C). Floor-plan financing indebtedness is secured by motor vehicle inventory that in a business that sells or leases motor vehicles to retail customers.

The new law eliminated qualified improvement property acquired and placed in service after December 31, 2017 as a specific category of qualified property.

This was corrected in the CARES Act, effective retroactively to 2018 and forward.

Depreciation Election

Folks who bought business or rental assets after Sept. 27, 2017 and didn't depreciate them fully on your tax returns. You must file an election to NOT use the 100% depreciation deduction. (What a bizarre requirement.)

Currently, you must file an election to NOT use the 100% depreciation deduction.
(What a bizarre requirement.)

So, for assets purchased in 2020 – remember to include the election to NOT use the 100% depreciation deduction.

*“Taxpayers who elect out of the 100-percent depreciation deduction, as well as the 50-percent deduction available under prior law, must do so by attaching a statement to a **timely-filed return.**”*

It is acceptable to add it to an amended return filed by the due date of the original return (including extensions, if extended – too late for 2019 returns, though – unless they are in a disaster area).
<https://www.irs.gov/newsroom/new-rules-and-limitations-for-depreciation-and-expensing-under-the-tax-cuts-and-jobs-act>

TaxMama® Tip - A good reason to always extend business (and Schedule C, E, F) returns

Comparison of Sec. 179 and Special Depreciation


Not mentioned in this comparison:

- **Sec. 179** deduction is limited to business income. This deduction cannot generate a business loss
- Excess **Sec. 179** must be carried forward
- **Special Depreciation** may be deducted in excess of business income and may generate – not only a deductible loss – but a net operating loss (NOL)

From The TaxBook
<https://thetaxbook.net/thetaxbook-federal-2019/page-9-11?type=pdf>

Provision	Special Depreciation Allowance	Section 179 Deduction
New or used property	Yes ¹	Yes
Specific date range for eligibility	Yes	No
Annual limits ²	No	Yes
Rental activity personal property	Yes	Yes
Property qualifies if used 50% or less for business purposes	Yes ³	No
Recapture if business use of property decreases to 50% or less	No ³	Yes
Property (new) may be acquired from related party	Yes	No
AMT adjustment	No	No

¹ Property acquired before September 28, 2017, must be new.
² Additional section 280F limits apply to passenger vehicles, and \$25,500 SUV limit.
³ Listed property does not qualify if used 50% or less for business and special depreciation must be recaptured if listed property use falls to 50% or less.

 **Author's Comment:** Check state law prior to claiming either the special depreciation allowance or Section 179 deduction. In many states it may be more advantageous to claim one over the other.

Gifts and Estates

Gift Tax Annual exclusion

- \$15,000 (2018-2021)
- \$14,000 (2014-2017)

Estate Tax

- \$11,700,000 - 2021
- \$11,580,000 - 2020
- \$11,400,000 – 2019
- \$11,180,000 – 2018

Tax rate for taxable estate - 40%

Gifts to Non-Citizen Spouse

- \$159,000 - 2021
- \$157,000 - 2020
- \$155,000 - 2019
- \$152,000 – 2018

Table for Computing Gift Tax

Column A	Column B	Column C	Column D
Taxable amount over	Taxable amount not over—	Tax on amount in Column A	Rate of tax on excess over amount in Column A
-----	\$10,000	-----	18%
\$10,000	20,000	\$1,800	20%
20,000	40,000	3,800	22%
40,000	60,000	8,200	24%
60,000	80,000	13,000	26%
80,000	100,000	18,200	28%
100,000	150,000	23,800	30%
150,000	250,000	38,800	32%
250,000	500,000	70,800	34%
500,000	750,000	155,800	37%
750,000	1,000,000	248,300	39%
1,000,000	-----	345,800	40%

Estates & Trusts – Form 1041 – Estate Tax Rate - 2020

2020 Tax Rate Schedule			
Estates and trusts, if line 6 of the 2020 Estimated Tax Worksheet above is:			
Over—	But not over—	The tax is:	Of the amount over—
\$0	\$ 2,600	10%	\$0
2,600	9,450	\$260.00 + 24%	2,600
9,450	12,950	1,904.00 + 35%	9,450
12,950	-----	3,129.00 + 37%	12,950

- Form 1041- ES <https://www.irs.gov/pub/irs-prior/f1041es--2020.pdf>
- Form 1041 2020 <https://www.irs.gov/pub/irs-pdf/f1041.pdf>

Note: These rates are a good reason to pass income through to the beneficiaries so they can pay at their lower tax rates - Due by 65th day after end of tax year. Calendar year 2020 – due by March 5, 2021.

- Trust can make estimated tax payments on their behalf and allocate it to them, using Form 1041T https://www.irs.gov/pub/irs-access/f1041t_accessible.pdf
This rate also applies to kiddie taxes
- Consistent basis reporting for inherited assets – use Form 8971 - <https://www.irs.gov/forms-pubs/about-form-8971>
 - Executors must provide Schedule A to each beneficiary to give them the value of their assets - <https://www.irs.gov/instructions/i8971>

Kiddie Taxes – SECURE Act changes

- Reporting investment income on parents' return – Form 8814 - <https://www.irs.gov/pub/irs-pdf/f8814.pdf> - still available for income up to \$11,000 (2020 and 2021)
- Reporting income on child's return – Form 8615 - <https://www.irs.gov/pub/irs-pdf/f8615.pdf>
- Effective for tax years **after 12/31/2019**, the trust tables are no longer to be used. The old rules (parents' rates) are back in effect.
- Note: The first \$1,100 is tax-free; the next \$1,100 is taxed at 10%

HOWEVER – For 2018 and 2019 tax years:

- Taxpayers may elect to use either the trust rates or the parent's tax rates.
- 2018 or 2019 tax returns may be amended to make the switch if it is beneficial for the taxpayer <https://www.congress.gov/116/bills/hr1865/BILLS-116hr1865enr.pdf#page=647>

Basic Foreign Tax Issues

- The Foreign Earned Income Exclusion (FEIE) (Form 2555) allows American taxpayers working outside the US to exclude up to \$ 107,600 – 2020 (\$108,700 – 2021) (plus housing allowance). <https://www.irs.gov/pub/irs-pdf/f2555.pdf>
- When you exclude this income, you may not count it as earned income for any credits – like child tax credits, dependent care credits, OR Foreign Tax Credits! Or towards IRA or other retirement account contributions – which may be helpful in the long run.
 - If the taxpayers are paying taxes in the country where they work, consider reporting the income in full and using the Foreign Tax Credit to offset the US taxes.
 - Option: You may report part of the income and exclude some of it. If you do, only use that percentage of the foreign taxes paid on Form 1116.
 - Taxpayers can avoid using Form 1116 to claim foreign tax credits if the total foreign taxes paid are \$300 or less (\$600 married filing jointly)
 - Note: Both of these tax breaks are only available in countries recognized by the US

Foreign Tax Issues – Form 2555

- When using the FEIE, if they are not on payroll, *they are subject to SE taxes*.
- Only earned income is excluded – retirement and other income is all taxable.
- Remember, the income tax, when using FEIE is based, essentially, on the tax rate on the total taxable income (without taking the FEIE into account) x % of taxable income.
 - i.e., \$25K taxable income/\$150K total income x tax on \$150K

FinCEN 114 – FBAR Filing

<https://www.fincen.gov/fincen-clarifies-fbar-extensions>

Filers who filed their 2019 calendar year FBAR by October 31, 2020 will be deemed to have timely filed.

As set out in the October 6 notice, FBAR filers impacted by recent natural disasters continue to have until December 31, 2020 to file their FBARs.

(FinCEN apologizes for the error and any confusion this has caused, and has coordinated with the IRS to address the concerns of filers who may have missed their filing deadline due to the October 14, 2020 message saying the deadline was December 31, 2020 for all filers.)

Sec 199A 20% QBI Deduction Updates

For 2020 (2021) , the threshold is taxable income of \$163,300 (\$164,925) or \$326,600 (\$329,800) if married filing jointly and \$163,300 (\$164,900) for all others.

- Phase-in range equals the threshold amount plus \$50,000 (S, HOH, MFS) or \$100,000 if married filing jointly:
 - More than \$163,300 to \$213,300 (S, HOH)
 - More than \$163,300 to \$ 213,300 (MFS)
 - More than \$326,600 to \$426,600 if married filing jointly.

These amounts are adjusted annually for inflation.

- Form 8995 <https://www.irs.gov/pub/irs-dft/f8995--dft.pdf>
- Form 8995A <https://www.irs.gov/pub/irs-dft/f8995a--dft.pdf>

Penalty Relief and COVID19

Penalties and interest were suspended for all payments that were due through July 15, 2020.

However, payments which were due by then needed to have been paid on or before July 15, 2020 – and installment agreements and offers in compromise payments must have re-started immediately afterwards.

If the client has complied, but the IRS does assess penalties for that period of time, either all the IRS or use Form 843 to request abatement. <https://www.irs.gov/forms-pubs/about-form-843>

The IRS Deputy Commissioner for Collections and Operations Support, Darren Guillot, has expressed that if our clients have a problem – don't be silent. Reach out to the IRS for assistance.

<https://www.irs.gov/newsroom/irs-makes-it-easier-to-set-up-payment-agreements-offers-other-relief-to-taxpayers-struggling-with-tax-debts>

First Time Penalty Abatement – the Old Stand-by

First Time Abatement Penalty Relief (FTA) - You will find the details in the Internal Revenue Manual - https://www.irs.gov/irm/part20/irm_20-001-001r Specifically - 20.1.1.3.6.1 (08-05-2014)

The Reasonable Cause Assistant (RCA) provides an option for penalty relief for the FTF (IRC 6651(a)(1), IRC 6698(a)(1), and IRC 6699(a)(1)); FTP (IRC 6651(a)(2) and IRC 6651(a)(3)); and/or FTD (IRC 6656) penalties if the following are true for the taxpayer:

- Has not previously been required to file a return or has no prior penalties (except the estimated tax penalty, TC 17X) for the preceding 3 years on the same MFT (except MFT 30/31, and see the exception for MFTs 01 and 14 in paragraph (5)(f)), and
- Has filed, or filed a valid extension for, all currently required returns and paid, or arranged to pay, any tax due. (translation = in compliance)

Example: Consider the taxpayer current if he or she has an open installment agreement and is current with his or her installment payments.

Note: Your state may comply with IRS (CA does) – or have similar provisions.

Taxpayer Relief Initiative

- <https://www.irs.gov/newsroom/irs-makes-it-easier-to-set-up-payment-agreements-offers-other-relief-to-taxpayers-struggling-with-tax-debts>

The revised COVID-related collection procedures will be helpful to taxpayers, especially those who have a record of filing their returns and paying their taxes on time. Among the highlights of the Taxpayer Relief Initiative:

- Taxpayers who qualify for a short-term payment plan option may now have up to 180 days to resolve their tax liabilities instead of 120 days.
- The IRS is offering flexibility for some taxpayers who are temporarily unable to meet the payment terms of an accepted Offer in Compromise.
- The IRS will automatically add certain new tax balances to existing Installment Agreements, for individual and out of business taxpayers. This taxpayer-friendly approach will occur instead of defaulting the agreement, which can complicate matters for those trying to pay their taxes.
- To reduce burden, certain qualified individual taxpayers who owe less than \$250,000 may set up Installment Agreements without providing a financial statement or substantiation if their monthly payment proposal is sufficient.
- Some individual taxpayers who only owe for the 2019 tax year and who owe less than \$250,000 may qualify to set up an Installment Agreement without a notice of federal tax lien filed by the IRS.
- Additionally, qualified taxpayers with existing Direct Debit Installment Agreements may now be able to use the Online Payment Agreement system to propose lower monthly payment amounts and change their payment due dates.

IRS Penalty Appeal Tool

<https://www.irs.gov/appeals/penalty-appeal>

If the IRS rejected your request to remove a penalty, you may be able to request an Appeals conference or hearing. *You have 30 days from the date of the rejection letter to file your request for an appeal.*

You can file an appeal if **all** the following have occurred:

- You received a letter that the IRS assessed a failure to file and/or failure to pay penalty to your individual or business tax account
- You sent a written request to the IRS asking them to remove the penalty
- The IRS denied your request to remove the penalty (penalty abatement)
- You received a Notice of Disallowance, which gives you your appeal rights

For an overview of the penalty appeals process, see [Publication 4576, Orientation to the Penalty Appeals Process](#) [PDF](#).

The two most common penalties that Appeals may remove (abate) are penalties that can have a reasonable cause:

- Failure to file
- Failure to pay

Reasonable cause is relief we may grant when a taxpayer exercises ordinary business care and prudence in determining their tax obligations but is unable to comply with those obligations due to circumstances beyond their control.

The IRS can also remove (abate) penalties because of *certain statutory exceptions and administrative waivers*. You can learn more about these by visiting the [Internal Revenue Manual Penalty Handbook \(IRM 20.1.1\)](#):

- [Section 20.1.1.3.3.1, Statutory and Regulatory Exceptions](#)
- [Section 20.1.1.3.3.2, Administrative Waivers](#)

More on Taxpayer Relief Initiative

- <https://www.irs.gov/newsroom/irs-makes-it-easier-to-set-up-payment-agreements-offers-other-relief-to-taxpayers-struggling-with-tax-debts>

In addition to payment plans and Installment Agreements, the IRS offers additional tools to assist taxpayers who owe taxes:

Temporarily Delaying Collection — Taxpayers can contact the IRS to request a temporary delay of the collection process. If the IRS determines a taxpayer is unable to pay, it may delay collection until the taxpayer's financial condition improves.

Offer in Compromise — Certain taxpayers qualify to settle their tax bill for less than the amount they owe by submitting an Offer in Compromise. To help determine eligibility, use the [Offer in Compromise Pre-Qualifier](#) tool. Now, the IRS is offering additional flexibility for some taxpayers who are temporarily unable to meet the payment terms of an accepted offer in compromise.

Relief from Penalties — The IRS is highlighting [reasonable cause assistance](#) available for taxpayers with failure to file, pay and deposit penalties. First-time [penalty abatement relief](#) is also available for the first time a taxpayer is subject to one or more of these tax penalties.

All taxpayers can access important information on IRS.gov. Many taxpayers requesting [payment plans, including Installment Agreements](#), can apply through IRS.gov without ever having to talk to a representative.

Other requests, including this new relief, can be made by contacting the number on the taxpayer's notice or responding in writing. However, to request relief, the IRS reminds taxpayers they must be responsive when they receive a balance due notice.

"If you're having a tax issue, don't go silent. Please don't ignore the notice arriving in your mailbox," Guillot said. "These problems don't get better with time. We understand tax issues and know that dealing with the IRS can be intimidating, but our employees really are here to help."

Lambers



And now – some exciting news for you!



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I answer questions on weekday mornings