BOAL & Associates PC
CERTIFIED PUBLIC ACCOUNTANTS

Greetings....we are about to conclude another year and this has certainly been a year like no other. We hope that you and your families have remained safe and healthy in these trying times. Nonetheless, it is time to be thinking about year-end tax planning as well as preparing for 2021 and beyond. There have been certain tax changes which could impact your 2020 planning and likely many changes to come for future years. Please take a few moments to review this summary and please consult with us on any impact on your particular situation.

- **Tax Rates** – As in years past, planning for your marginal tax rate continues to be the most solid tax planning strategy. For singles, the cut-off from the lowest 12% bracket to the 22% bracket is $40,125 of taxable income (income after deductions). For married filers, the cut-off is $80,250 (income after deductions). For income over $518,400 for singles and $622,050 for marrieds, the highest rate bracket remains 37%. Taxpayers whose income exceeds $200K single and $250K married are still liable for an additional 0.9% Medicare tax on wages as well as a 3.8% Net Investment Tax on investment earnings.
- **Itemized Deductions** – Many taxpayers are now utilizing the $24,800 (married) or $12,400 (single) standard deduction, however, it is still prudent to accumulate your itemized deductions just in case you can itemize (medical expenses, state, local and property taxes, charitable donations and mortgage interest expense).
- **Medical Expenses** – Medical expenses (to include: long-term care costs) remain deductible subject to the 7.5% of AGI limitation. Health insurance, Medicare and supplemental insurance are included as part of this deduction.
- **Taxes** – State and local income taxes, sales taxes and real estate taxes are now capped at an annual $10,000 maximum deduction.
- **Mortgage Interest** – Mortgage interest on a mortgage secured by the principal and/or second residence remains deductible on indebtedness of up to $750,000. ($1,000,000 for homes that were mortgaged prior to 12/16/17 or under binding contract before such date and closed by April 1, 2018). Please consider a refinance of your mortgage with record-low interest rates these days.
- **Investment Interest** – Investment interest expense (i.e., margin interest) remains deductible as an itemized deduction.
- **Home Equity Interest** – Home equity interest is not deductible unless it can be proven that the debt incurred was used to buy, build, or substantially improve your home. If you used the home equity line to pay off credit card bills or buy a vehicle, etc., the interest is not deductible.

- **Charitable Donations** – There is a new above the line deduction for 2020 of up to $300 of charitable donations regardless of whether you can itemize. In order to benefit from additional charitable donations as an itemized deduction, you may want to consider strategies such as moving two years of charitable giving in to one year, donating appreciated stocks, maximizing non-cash contributions, utilization of qualified RMD donations from your IRA, etc. Make certain that you are giving to a recognized IRS Section 501-c(3) charity in order to secure your tax deduction.
- **Economic Stimulus Check** – If you did not receive your $1,200 economic stimulus check, we will be able to retrieve the payment through the 2020 tax filing. Note, the stimulus payment is not considered taxable income.
- **Unemployment Benefits** – If you received unemployment benefits at the state or federal level keep in mind that these benefits are taxable and in some cases could result in lost credits and deductions (e.g., earned income credit, etc)
- **IRS Identity Theft** – Identity theft, fraud and scams continue to be at an all-time high. Should you receive a notice from the IRS or a call or email from someone representing they are from the IRS please DO NOT provide any information to them. The IRS does NOT initiate contact via email or telephone. Additionally, more and more taxpayers are being issued a 6-digit IP PIN number to help mitigate identify theft. If you receive an IP PIN, please ensure that you provide it to us for filing purposes or the return will reject.
- **Alimony** – For divorces that finalized after December 31, 2018, alimony is no longer a tax deduction to the payor and is no longer taxable to the payee.
- **Estate Tax and Gift Tax** – The federal gift and estate tax exemption is currently set at $11.58 million per person in 2020. The annual gift tax exclusion is $15,000 per year per donee. Gifts in excess of this amount require an annual gift tax filing with the IRS due April 15. Portability is still a major issue to consider.
- **Required Minimum Distributions on IRAs** – Good news for owners of Traditional IRA's – you are not required to take a mandatory distribution until Age 72 (formerly age 70.5). And in 2020, all RMD requirements were waived. The CARES Act waives RMD's for 2020 from traditional IRA's, 401(k)s and many other retirement plans. If you turned 72 in 2020, you are not required to take a distribution until December 31, 2021. Also, if you returned your funds on an RMD that you took in 2020, the taxes withheld can be recovered on your 2020 return.
- **Qualified Charitable Gifting from IRA** - IRA owners that are eligible to take an RMD may also make tax-free qualified distributions to a charity directly from their IRA. This is a key planning point under the current tax law as itemized deductions are harder to achieve and can be a great planning opportunity.
- **Capital Gains and Qualified Dividends** – There remains a huge opportunity for the federal 0% capital gain. This is open to you if you are in the 10% or 12% tax bracket. The 15% rate on both long-term capital gains and qualified dividends remains in effect, if you are in the 22% bracket or above. There is still a higher 20% capital gain rate for taxpayers in the highest tax brackets.
- **Health Savings Accounts (H.S.A.)** – Consider having a H.S.A. if you have a high deductible health insurance policy ($1,400 or more for singles and $2,800 for

families). This can provide beneficial deductions for your out-of-pocket medical expenses. The 2020 contribution limits are $3,550 for singles and $7,100 for a family. Contributions must be made by April 15, 2021. Catch-up contributions of up to $1,000 per year are allowed for folks age 55 or older.

- **Conversions to Roth IRAs** – Once again for 2020, traditional IRAs can be converted to Roth IRAs without earnings restrictions. This can be a very solid strategy if you have excess room in the 12% tax bracket to absorb the conversion. If you expect your tax rate to be higher in retirement than the rate you will pay on the conversion, this can be very advantageous to complete now.
- **Solo 401k Plan** – If you are self-employed with no employees a "Solo K" can give you the ability to defer up to $57,000 of income per year.
- **Virtual Currency** – If you deal in virtual currency, please be aware that virtual currency transactions are taxable and must be reported to the IRS.
- **Foreign Bank Accounts** – If you have any bank accounts located in foreign countries, make sure that you are reporting this to us annually as separate reporting of these accounts is required and penalties for non-compliance are very significant.

SELECTED BUSINESS ITEMS FOR 2020

- **Paycheck Protection Program Loans – As of press time, the IRS has stated that small businesses that received PPP loans CANNOT deduct the expenses that result in the forgiveness of the loan. The IRS further states that businesses can't deduct such expenses paid or incurred in 2020 if it is expected that forgiveness will be attained in 2021. Please figure this into your year-end tax estimates as the impact of this on your taxes will be substantial.**
- **1099-NEC** – There is a new 1099 information return that must be filed this year for payments of compensation to nonemployees/subcontractors – Form 1099-NEC replaces Form 1099-MISC for this reporting and is due by February 1, 2021.
- **Asset Purchases - Bonus Depreciation** – Businesses can deduct 100% of the cost of assets with useful lives of 20 years or less that are put into service during 2020. This includes: machinery, equipment, land improvements and some farm structures. Leasehold improvements to commercial building interiors can be eligible as well. Please note that for state tax this may not apply.
- **Section 179 Expensing Deduction** - For 2020, you may be able to expense up to $1,040,000 of qualifying property placed in service – new or used. The amount phases out as you exceed $2,590,000 in total assets placed in service during the year. Buyers of certain SUVs weighing between 6,000-14,000 lbs can deduct up to $25,000 through this election. **Important note: to qualify for a 2020 Section 179 election, the asset must be placed in service (meaning you must physically have it and utilize it for business) by December 31 – with no exception.**
- **Qualified Business Income (QBI) Deduction** – Businesses may be entitled to a deduction of up to 20% of their qualified business income from a qualified trade or business. The QBI is very complex and tax planning strategies can directly affect the amount of the deduction, so planning and analysis is of the utmost importance.
- **Consider Hiring Family** – If you decide to hire family members, pay a reasonable salary for the work actually performed. You may be able to provide tax-deductible

fringe benefits as well as save on payroll taxes. This strategy can be beneficial to shift income to lower tax brackets.

- **Retirement Plans** – Consider setting up a retirement plan for your business – Simple IRA, SEPs, 401(k)s – There are many options and these plans can be key in saving significant tax liability. In certain cases, up to $57,000 of income can be sheltered from taxation through these plans.
- **Credit Cards** - Keep in mind that business expenditures incurred on a major credit card (not a store card) are deductible in the year in which they are incurred.

PLANNING IDEAS: You may be able to reduce your taxes by controlling the payment of deductible expenses and the timing of the collection of income. Several strategies to consider may include:

- **State and Local Taxes** - Pay all state and local income taxes (4th Qtr Estimated Payments) and full-year real estate taxes prior to the end of the year (by 12/31/20). Postmark validation required.
- **Maximize your contributions to employer-sponsored retirement plans and IRAs – so important and can be so beneficial from a deduction standpoint.**
- **Education** - It may be beneficial to pay 2021 tuition in 2020 to take advantage of the American Opportunity Tax Credit worth up to $2,500 per student to cover the cost of tuition, fees and course materials paid during the taxable year. **Form 1098-T is required from the college for the tax filing – typically the student has access to this through the college website – we must receive this form.**
- **Charitable Donations**. Make year-end donations to qualified charitable organizations. Use your credit card or mail your check as late as December 31.
- **Medical Expenses** – Try to bunch medical expenses. For example, trying to pay medical bills in one year bunched together instead of two years can give you a better chance of exceeding the thresholds.
- **Section 529** – College Savings Plan Contributions must be made by 12/31/20. **Consider a one-time $75,000 gift to a 529 plan for college planning.**
- **Please contact us to see if you have a capital-loss carry-forward from 2019 and make your investment advisor aware of it before year-end for utilization of losses against capital gain income. This can be a key planning strategy.**
- **Keep good mileage logs**. The 2020 standard mileage rate for business is 57.5 cents per mile. Please provide us with copies of your mileage logs for our records as the IRS is requesting these on a frequent basis and requires a sufficient log is kept.
- **Plan Beneficiaries** – review your retirement plan and life insurance beneficiaries to ensure that no changes are necessary – VERY IMPORTANT ANNUALLY.
- **W-4** Complete a new Form W-4 for your employer to adjust tax withholding.

IMPORTANT FIGURES FOR 2020/2021

SOCIAL SECURITY LIMIT FOR WAGE EARNERS FOR 2021: $142,800

RETIREMENT PLAN CONTRIBUTION LIMITS*:

	YEAR 2020	***YEAR 2021***
IRA(REG/ROTH)	***$6,000***	***$6,000***
SIMPLE IRA	***$13,500***	***$13,500***
401K/403B/SEP	***$19,500***	***$19,500***

**NOTE: IF YOU ARE OVER AGE 50, YOU ARE ELIGIBLE TO CONTRIBUTE ADDITIONAL CATCHUP AMOUNTS DEPENDENT ON THE TYPE OF PLAN– PLEASE CALL FOR DETAILS.*

In closing, we wish all of you a Happy New Year and hope for a better 2021 for all of us. It has been our pleasure to have been of assistance to you this trying year and always. Tax organizers will be mailed out after January 1. Our staff of Erin Dibacco, Mindy Gangler, Cinda Savage, Kasondra Margroff, Lori Frantz, Meghan Foley, Sharon Barnette, along with Brian and Shane, are looking forward to seeing you again this year. We anticipate that we will be doing many of our meetings/appointments by way of telephone/Zoom this year. We would also encourage you to utilize our drop box on the driveway side of our building for any after-hour drop-offs. If you have any questions, please contact our office.

Yours very truly,

All of us at Boal and Associates CPAs