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Summer Update Newsletter

We hope all of you and your families are well during these difficult times. In response to the COVID-19 crisis, multiple relief bills were enacted during the last few months, including the CARES Act and the Families First Coronavirus Response Act. We wanted to update you on some of the pertinent tax changes and planning opportunities so you may plan accordingly.

Extension of Tax Filing Deadlines

As you are likely aware, the deadline for filing 2019 individual Federal income tax returns and paying any balance due was extended from April 15, 2020 to July 15, 2020. If additional time is needed beyond July 15, an extension can be filed to October 15, 2020. First and second quarter estimated tax payments for 2020 normally due in April and June were also extended to July 15, 2020. Most states have followed the Federal extensions although some still maintain the second quarter estimate is due in June.

In addition to extended filing and payment of income taxes, IRA, SEP, and HSA contributions for 2019, normally due in April, can this year be made until as late as July 15, 2020.

Stimulus Checks

Many of you have already received stimulus checks from the US Treasury upon passage of the CARES Act. The check was calculated using the Adjusted Gross Income (AGI) from your 2018 or 2019 tax returns, if filed, in order to get the funds out to the taxpayers as quickly as possible. However, the amount of stimulus payment actually due to you will ultimately be calculated on your 2020 tax return using your 2020 AGI number.

Filing Status	AGI less than...	Stimulus payment due*
Single or MFS	$75,000	$1,200
Head of Household	$112,500	$1,200
Married Filing Joint	$150,000	$2,400

**taxpayers also receive an additional $500 per dependent child under 17*
**fully phased out for income over $100,000 Single, $150,000 HOH and $200,000 joint*

If the stimulus check you received was less than the actual amount due based on your 2020 AGI, you will receive the additional funds in the form of a tax credit when you file your 2020 tax return. This will also happen if for some reason you never received the stimulus and were due one.

As of today, there is no “clawback” provision in the CARES Act. Therefore, if the check received was too high based on your 2020 AGI, you will NOT be required to remit the net amount. However, if the taxpayer was deceased before the date of the stimulus check issued, it must be returned to the US Treasury. Estates cannot receive stimulus checks.

Retirement Distributions for COVID-19 Related Expenses
Taxpayers may take up to $100,000 of distributions out of their retirement accounts without penalty if funds are needed to cover COVID-19 related expenses. There will be income tax, and some tax may be required to be withheld depending on your bank or specific rules of the retirement plan. The tax impact can be spread over 3 years if elected, and repaid over that same amount of time to reduce the tax impact further. It is unclear exactly what these "COVID-19 related" expenses will be, but at this time we just recommend a good faith decision in this matter and make sure you have a reasonable argument to back up your distribution if ever audited in the future.

Unemployment Income
If you qualify for and receive Unemployment income from your state, remember that it is still taxable and we recommend withholding at your current marginal tax rate if possible.

Required Minimum Distributions (RMDs)
For those over age 70½, required minimum distributions (RMDs) are suspended for 2020, including those who turned 70½ in 2020. There are several reasons you may want to reduce or eliminate your 2020 RMD if not needed for cash flow. If you have already taken retirement distributions in 2020, you have until the later of July 15, 2020 or 60 days after the distribution date to return funds taken after January, 2020 to your retirement account without taxation or penalty.

Reasons to reduce or eliminate your 2020 RMD include reducing your tax bracket, extending tax deferred growth inside the retirement account and reducing your AGI which could qualify you for a stimulus check, reduce your Medicare income adjustment, potentially allow you to take additional rental losses or qualify for education credits.

Charitable Contributions
An above-the-line deduction for cash charitable contributions of up to $300 is allowed for taxpayers who take the standard deduction in 2020. Those who itemize already receive a full deduction for their cash charities. Therefore, we are recommending all taxpayers donate at least $300 in cash to their charity of choice for 2020.

The 60% AGI limit on cash donations has been removed for 2020, meaning you can donate up to 100% of your income or more to fully reduce your tax burden in 2020, and the remainder will carry forward. Please note that donations to Donor Advised Funds, Private Foundations and donations of stock or clothes do not qualify for this new provision.

Another option for those over age 70 is to make a qualified charitable contribution (QCD) directly from retirement accounts. This works best for large gifts by non-itemizers.

Health Savings Accounts
The CARES Act has broadened products that can be reimbursed or paid directly by your HSA. Over-the-counter medicine such as pain relievers, cold, cough, flu and allergy medicine, ointments and creams, as well as feminine hygiene products now qualify.

Capital Loss Harvesting

We continue to recommend recognizing capital losses for tax purposes. With the sharp drop in the market this Spring and the continued volatility, opportunities may arise to sell investments below their cost and recognize a loss. This loss can be used to offset capital gains, offset ordinary income up to $3,000, and any remainder can be carried forward indefinitely. Wash sale rules prevent a buy back of the same investment within 30 days but a similar investment can be purchased immediately to avoid missing a market recovery.

Potential Impact on 2020 Tax Filing Season

It is hard to say what the rest of 2020 will bring us and how this situation will continue to evolve from both an economic and personal standpoint. We currently anticipate 2020 tax filings will go back to previous deadlines, but social distancing guidelines may still be in place. We encourage you to electronically send us any documents possible and we will be available for virtual and phone appointments as needed throughout the year. We plan to continue to restrict physical access of our lobby to clients and deliveries only, for the foreseeable future.

Many of you have been working from home instead of at the office this year, so it is important to keep accurate records so that we may accurately determine your tax liability next year. Remember that your earned income is taxed “where you work” rather than where your office is located. Our best advice is to keep a physical calendar and write what city/location you are working in each day.

Home office expenses are no longer deductible for most W-2 employees but may be deductible for 1099 workers. If you qualify, make sure to keep detailed records of home office expenses so we may review them next year for your specific situation.

Finally, while it’s most important to focus on the tax changes that have already been enacted, it’s also wise to think about what might happen in the future. As federal and state budget deficits balloon and in an election year, tax rates seems likely to increase. If nothing else, recognition of income and capital gains should seriously be considered before year-end to take advantage of current tax rates if Democrats win the White House or the Senate.

As always, we are here to assist with your tax planning needs. Please keep us informed of major changes in your financial situation, especially in light of the current climate. We wish you and your family continued good health and happiness through the remainder of 2020.

Stay Well!