2020 US Tax Preparation
w/ Emphasis on Newly Single

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Topics

- Inflation Adjustments *
- Other Tax Law Changes *
- SECURE Act
- CARES Act *
- Consolidated Appropriations Act, 2021 (CAA 2021)
- Families First Act

Inflation Adjustments

Standard Deduction Inflation Adjustments

- Standard deduction increased to:
  - $24,800 MFJ (Married Filing Jointly) and QW (Qualifying Widow(er))
  - $18,650 HoH (Head of Household)
  - $12,400 Single and MFS (Married Filing Separately)
- Additional standard deduction amount for age 65 and older and/or blind increased
  - $1,650 Single, HoH
  - $1,300 MFJ, MFS, QW (no change)

Standard Deduction Single Dependent Under 65

- Dependent standard deduction is the greater of
  - $1,100 or
  - Earned income plus $350 not to exceed standard deduction for filing status

Filing Threshold

- Filing thresholds for most taxpayers is their standard deduction
- There are exceptions to this rule. Read Pub. 17 on IRS.gov or talk w/ tax preparer
- If you have self-employment income or household employees, you will need to file
- Filing threshold increased by additional standard deduction amount due to age 65 or older
- Filing threshold not increased by additional amount for blindness

Standard Mileage Rates

- Standard mileage rates per mile 2020 (indexed for inflation)
  - Business mileage 57.5¢
  - Medical mileage 17¢
  - Moving mileage for active-duty military 17¢
  - Charitable mileage 14¢ (no inflationary language included in tax law)
8  **Other Inflation Adjustments**
   - Qualified business income (QBI) deduction thresholds
     - $326,600 for MFJ
     - $163,300 for Single, HoH, MFS
   - Income limits for IRA deductions and Roth IRA contributions
     - On following slide

9  **Roth IRA Income Limits**

10 **No Inflation Adjustment**
   - IRA maximum contribution
     - Stays at $6,000; catch-up $1,000
   - Refundable portion of child tax credit
     - Stays at $1,400
   - Educator deduction *
     - Eligible educator unreimbursed classroom expense adjustment stays at $250 per individual

11  **Other Tax Law Changes**

12 **Deductible Meal Expenses**
   - Deduction allowed if:
     - Directly related to the active conduct of business
     - Before or after a substantial and bona fide business discussion
     - Not for entertainment, amusement, or recreation
     - For self-employed and performing artists

13 **2020 Estimated Tax Payments**
   - 2020 payments for 2020 normally due 4/15/20 or 6/15/20
   - Treated as timely when made by July 15, 2020
   - Significant processing delays at IRS

14 **Extenders Extended Through 2020**
   - Exclusion from gross income of qualified principal residence indebtedness
   - Mortgage insurance premiums deductible as qualified residence interest
   - Deduction for qualified tuition & fees
   - Credit for nonbusiness energy property (residential energy credit)

15 **Amending 2019**
   - IRS will accept e-filed Form 1040-X for 2019 if original 2019 return was e-filed
   - Non-Filer “return” to claim EIP is not considered an e-filed 2019 return – paper Form 1040/1040SR must be mailed (do not use Form 1040-X)

16 **Kiddie Tax**
   - Kiddie tax kicks in at $2,200 of unearned income (after the filing threshold is met)
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Kiddie tax reverts to pre-2018 law – child’s unearned income again taxed at parents’ top marginal rates rather than trust rates

17  New Schedule LEP

18  Virtual Currency Question on F1040

19  Inflation & Other Tax Law Changes

Questions

Comments

20  Setting Every Community Up For Retirement Enhancement (SECURE Act)

21  SECURE Act

➤ IRA Contributions
➤ Difficulty of care payments
➤ Qualified Charitable Distributions
➤ Required Minimum Distribution Age
➤ Inherited IRAs
➤ Taxable Non-tuition Fellowship and Stipends
➤ Penalty-free Distribution for Birth or Adoption
➤ Expansion of Section 529 Plans
➤ Kiddie Tax Reverted

22  IRA Contributions

➤ Repeals maximum age (previously 70½) for making contributions to traditional IRA
➤ Must have taxable compensation during the year
➤ Taxable alimony counts as compensation
➤ Cannot offset RMD with IRA contribution
➤ Two separate events
➤ Tax years beginning after December 31, 2019

23  IRA Contributions

➤ Can use excluded difficulty of care payments to increase nondeductible contribution limitation for IRA and employer plans
➤ Use if there is not enough taxable compensation
➤ Difficulty of care payment must be from same employer
➤ Effective contributions after 12/20/19
➤ IRA guidance to come

24  Qualified Charitable Distributions (QCD)

➤ Minimum age for Qualified Charitable Distributions from individual retirement plans remains at 70½
Excludible portion of QCD distribution is reduced by IRA deductions (Schedule 1 Line 19)

25 □ **Required Minimum Distribution Age**
- Age for beginning required minimum distributions (RMD) from defined contribution plan or IRA increased to 72 from 70½ for individuals who reach age 70½ after December 31, 2019 (Born after 6/30/1949)
- Some or all of first distribution may be delayed until April 1 of following calendar year (no change)
  - If delayed, will have two distributions in that year

26 □ **Inherited IRAs**
- Stretch IRAs curtailed – decedents dying 2020 or later
- General 10-year distribution requirement
- Except eligible designated beneficiaries
  - Spouse
  - Not more than 10 years younger than the decedent
  - Chronically ill minor children
- Also applies to 401(k) and Roth accounts

27 □ **Taxable Non-tuition Fellowship and Stipends**
- Paid to aid in the individual’s pursuit of graduate or postdoctoral study
- Treated as compensation for the purpose of IRA contributions
- Must be included in gross income

28 □ **Penalty-free Distribution for Birth or Adoption**
- Can withdraw up to $5,000 for the birth or adoption of a child
- Distribution within one year after birth or adoption finalized
- “Eligible adoptee:” any individual under age 18 or physically or mentally incapable of self-support*
  - Not a child of the taxpayer’s spouse
  - Must list child’s TIN on tax return for the year
- Each spouse can use this exception to the penalty
- Can claim more than once (e.g., twins born or adopted)

29 □ **Recontribute Distribution for Birth or Adoption**
- Can recontribute any portion of the distribution as a rollover contribution to an eligible retirement plan
- Recontributions can be to any plan to which a rollover can be made
- Treated as a rollover made timely
- IRAs, 401(k), 403(b), etc. (but not from a defined benefit plan)

30 □ **Expansion of Section 529 Plans**
- Distributions permitted for:
  - Principal or interest on a student loan
  - Designated beneficiary’s or their sibling’s
  - Up to $10,000 lifetime
Interest paid with these funds does not qualify for the student loan interest deduction
Participation in an apprenticeship program that is registered and certified by the U.S. Department of Labor.
Qualifying expenses are required fees, books, supplies and equipment
Retroactive to 2019

Kiddie Tax Reverted
Back to the old method using parents’ tax brackets
No election to use estate/trust rates
Effective 1/1/2020
Kiddie tax kicks in at $2,200 of unearned income (after the filing threshold is met)

SECURE Act

Questions

Comments

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

CARES Act
EIP and Recovery Rebate Credit
Paycheck Protection Program loan
Payroll tax deferral for self-employed individuals
Retirement funds – special use rules
Temporary waiver of required minimum distributions (RMD)
Above the line deduction for charitable contributions
Charitable Contribution Limit
Expanded employer-provided education benefits
Healthcare spending - HSAs
Tax-free higher education emergency grants

Economic Impact Payments (EIP)*
EIP sent to eligible taxpayers during 2020
$1,200 ($2,400 MFJ)
$500 per dependent under age 17 as of 12/31/2019 (or 12/31/2018 if that return was used)
Income phaseout
MFJ $150,000 – $198,000
HoH $112,500 – $136,500
S, MFS, QW $75,000 – $99,000
* See CAA 2021 section for additional payments

Recovery Rebate Credit (RRC)
Can claim a credit on 2020 tax return if entitled to more EIP
- Refundable credit
- Will need to know how much EIP was received

Examples generating RRC
- Qualified taxpayer received no EIP in 2020
- Additional qualifying dependent on 2020 return
- 2019 income above phaseout, 2020 income below phaseout

37 EIP and RRC
- EIP and RRC are not taxable income
- Taxpayers eligible to be claimed on another’s return are not eligible for EIP or RRC
- Taxpayer and dependent child must have valid Social Security number (or ATIN for the child)
- EIP and RRC may be offset for past-due child support
- Does not apply to other Federal offsets

38 2020 Recovery Rebate Credit
- Excessive EIP does not have to be paid back
- Possible exception for deceased recipients’ estates
- No form – worksheet in the 1040 instructions
- IRS may have a look-up tool (???)

39 RRC New Line on 1040
- Payments section (includes refundable credits)

40 EIP and RRC
- Individuals that used the Non-Filer tool and need to file a real 2019 tax return
  - If try to e-file, will reject
  - Must file a paper Form 1040/1040SR return
  - Page one should have “Amended EIP return” at the top

41 Paycheck Protection Plan (PPP) Loan
- A self-employed person was eligible for a PPP loan
- Max 2.5 month’s worth of their 2019 Schedule C profit (2.5/12)
- It is forgiven but not taxable income
- Funds are “used” to pay self-employed person for lost profit – no reduction of expenses needed *

42 Partial Self-Employed Tax Deferral
- Can defer the employer portion of Social Security tax, maybe
- Income attributed to 3/27/20 – 12/31/20
  - Computed by the taxpayer
  - Use example IRS rate of 77.5% or any reasonable estimate
- 50% will be due December 31, 2021
- Balance will be due December 31, 2022
- Taxpayer can choose to defer less than the maximum
43 Retirement Funds – Special Use Rules
► “Qualified individuals” with coronavirus-related distributions in tax year 2020
► 10% early distribution penalty waived
► Can spread income over a 3-year period
► Can repay funds within 3 years – treated as a rollover
► Up to $100,000 distribution

44 Retirement Funds – Special Use Rules
► Notice 2020-50: a qualified individual is anyone who:
  ► is diagnosed, or whose spouse or dependent is diagnosed, with the virus SARS-CoV-2 or
  the coronavirus disease 2019 (collectively, “COVID-19”) by a test approved by the Centers
  for Disease Control and Prevention (including a test authorized under the Federal Food,
  Drug, and Cosmetic Act); or
  ► experiences adverse financial consequences as a result of the individual, the individual’s
    spouse, or a member of the individual’s household (that is, someone who shares the
    individual’s principal residence):
    ► being quarantined, being furloughed or laid off, or
    ► having work hours reduced due to COVID-19;
    ► being unable to work due to lack of childcare due to COVID-19;
    ► closing or reducing hours of a business that they own or operate due to COVID-19;
    ► having pay or self-employment income reduced due to COVID-19; or
    ► having a job offer rescinded or start date for a job delayed due to COVID-19.

45 Retirement Funds – Special Use Rules
► The individual/spouse/household member must qualify, not the distribution
► From any qualified retirement account
► Includes pensions and minimum distributions
► Repayment option has limits

46 Deferral of Coronavirus-Related Distributions
► Designated eligible taxable distributions up to $100,000
► All taxed in 2020 or 1/3rd taxed in each of 2020, 2021, and 2022
► Reduce taxable amount by any repayments
► Taxpayer can choose whether to designate, or not designate, any eligible distribution
  ► Must treat all designated distributions the same

47 Repayment of Coronavirus-Related Distributions
► Can repay up to $100,000 at ANY time within 3 years from day after date of distribution
► Cannot repay inherited IRA distribution, pension, RMD (only by 8/31/20), annuity
► Repay to ANY qualified account that can accept it
  ► Includes, for example, 401(k) to IRA
  ► Multiple repayments up to $100,000 total allowed
► If repaid, treated as a rollover
  ► Does not count for 1-in-12 months rule
If repay amount previously taxed, file amended return

48 □ Temporary Waiver of RMDs
   ▶ RMD (Required Minimum Distribution) waived for 2020 only
   ▶ Could have recontributed RMD by 8/31/20
       ▶ Does not count as a rollover for 1-in-12-months rule

49 □ Above-the-Line Charitable Contribution Deduction
   ▶ Max $300 cash contribution per return for tax year 2020
   ▶ IRS specifies up to $150 if filing MFS (IR-2020-278)
   ▶ If taxpayer not itemizing
   ▶ See CAA 2021 section for tax year 2021

50 □ Charitable Contribution Limit
   ▶ Cash contributions allowed up to 100% of AGI
   ▶ Was 60%
   ▶ Tax years 2020 and 2021 (CAA 2021)

51 □ Expanded Employer-Provided Education Benefits
   ▶ Employers may pay up to $5,350 annually for education
   ▶ Payments excluded from employee’s income by employer (not wages on W-2; may be in box 14)
   ▶ Now includes student loan repayments
   ▶ Payments made 3/27/20 – 12/31/20*
   ▶ No deduction or credit for items paid by employer

52 □ Health Care Spending – HSAs
   ▶ Qualified medical expenses
       ▶ Menstrual care products are included
       ▶ Requirement that medicines or drugs be prescribed no longer applies (HSA only – no change for Schedule A medical expenses)
       ▶ Over-the-counter products and medications
       ▶ Applies to amounts paid after Dec. 31, 2019

53 □ Higher Education Emergency Financial Aid Grants
   ▶ School grant under the CARES Act for unexpected expenses, unmet financial need, or expenses related to the disruption of campus operations on account of the COVID-19 pandemic
       ▶ Food, housing, course materials, technology, health care, or childcare
   ▶ Not includible in gross income
   ▶ No deduction or credit for expenses paid with the grant for Tuition and fees deduction or the Lifetime Learning Credit*
   ▶ Will not be included on Form 1098-T

54 □ CARES Act

Questions
Consolidated Appropriations Act, 2021

Provisions in 2020

- More Recovery Rebate Credit
- Emergency Financial Aid Grants
- Educator Adjustment to Gross Income
- Sick and Family Leave Credits for Self-Employed
- Lookback for EIC/ACTC

More Recovery Rebate Credit (RRC)

- Each individual must have a valid SSN or ATIN on the return
  - Decedents dying before January 1, 2020 treated as not having a SSN
- $600 for Single, $1,200 MFJ
  - $600 if only one spouse has SSN (this is different than EIP/RRC under CARES Act)
  - MFJ members of military get full $1,200 if at least one spouse has SSN
- $600 per dependent child (< age 17)
  - If can be claimed as a dependent, not eligible for RRC
  - Same income phase-out levels as under CARES Act
- RRC #2, if any, applies to 2020 return even if payment not received until 2021

More Recovery Rebate Credit

- Treasury had until January 15, 2021 to issue advance payments of the additional recovery rebate
- IRS can base payments on 2019 tax return data
- Taxpayer can claim more credit on 2020 return
- Still no provision to return an excess payment

Emergency Financial Aid Grants

- Some higher education institutions gave these grants to students under the CARES Act
- Excluded from gross income (no change)
- Effective as of CARES Act enactment
- School will not report on Form 1098-T

Educator Adjustment to Gross Income

- Qualified educators get a $250 adjustment to gross income for out-of-pocket supplies/professional development expenses
  - New: supplies include PPE (personal protective equipment) costs
  - Paid or incurred after March 12, 2020
- 900-hour rule still applies (but would include instructing virtually)

Sick and Family Leave Credits for Self-Employed

- New: can elect to use current or prior year’s S-E net earnings
New: can elect to use current or prior year's S- E net earnings
 Applies as if part of the FFCRA (Families First act)
 Applies to the individual
 Either or both taxpayer and spouse can make this election
 Note: credits are extended through 3/31/21 – assume any 2021 credits will be reported on 2021 tax return

62 Lookback for EIC/ACTC
 Taxpayer can elect to use 2019 earned income in lieu of 2020 earned income for
   Earned income credit
   Additional child tax credit
   Prior year earned income is the sum of the earned income of both spouses for MFJ returns

63 Other Changes in CAA
 PPP Loans
 Provisions Made Permanent Starting 2021
 Provisions for 5 Years – 2021 Through 2025
 Provisions for 2 Years – 2021 and 2022
 Provisions for 2021

64 PPP Loans
 All expenses fully deductible, even if used to get PPP loan forgiveness
 PPP2 “loans” will go through March 31, 2021

65 Provisions Made Permanent Starting 2021
 7.5% of AGI for itemized medical
 Tuition and fees deduction repealed after 2020
 Lifetime Learning Credit will have increased income limits
  (same as American Opportunity Credit)

66 Provisions for 5 Years – 2021 Through 2025
 Employer-provided educational assistance, including loan repayments
 Exclusion for discharge of main home debt
   Maximum reduced to $750,000 (down from $2,000,000)
   Applies to discharges after December 31, 2020

67 Provisions for 2 Years – 2021 and 2022
 Business meal deduction for self-employed is 100% deductible for 2021-2022
   Must be provided by a restaurant
   Reverts to 50% for 2023
   Residential energy credit

68 Provisions for 2021
 Cash contributions
   100%-of-AGI deduction limitation to apply through 2021
   Deduction from AGI for 2021
     For those not itemizing deductions
Up to $300 or $600 if MFJ
PMI (Private Mortgage Insurance) treated as interest

Consolidated Appropriations Act, 2021

Families First Coronavirus Response Act
(Families First Act)

Families First Act
(will not be discussed, just know it exists if you're impacted
- Sick leave credit for self-employed
- Family leave credit for self-employed