Tax Update Webinar: Impact of Select 2020 Changes on Individual Income Taxes

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RUSSELL TIETZ, CPA, MBA
ASSOCIATE PROFESSOR, ACCOUNTING
UNIVERSITY OF MOUNT UNION

Agenda

- Key 2020 Tax Law Changes
- Potential Future Tax Law Changes
- Tax Planning Topics
  - Bob Dylan
  - Misc. topics
- Tax Season Tips

Key 2020 Tax Law Changes

- Key Legislation
  - Coronavirus Aid, Relief and Economic Security (CARES)Act
  - Families First Coronavirus Response Act
  - Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019
  - Taxpayer Certainty and Disaster Tax Relief Act of 2019
  - Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (New Stimulus Law)

Key 2020 Tax Law Changes

- Economic Impact Payments (CARES Act)
  - Single/MFS = $1,200 Phaseout (AGI) = $75,000 - $99,000
  - HOH = $1,200 Phaseout (AGI) = $112,500 - $136,500
  - MFJ = $2,400 Phaseout (AGI) = $150,000 - $198,000
  - $500 EIP for each qualifying child
  - Payment based on 2018 or 2019 return
  - Recovery Rebate credit available on 2020 tax return

Key 2020 Tax Law Changes

- Economic Impact Payments (New Stimulus Law)
  - Single/MFS = $ 600 Phaseout (AGI) = $75,000 - $99,000
  - HOH = $ 600 Phaseout (AGI) = $112,500 - $136,500
  - MFJ = $1,200 Phaseout (AGI) = $150,000 - $198,000
  - $600 EIP for each qualifying child
  - Payment based on 2019 return
  - Refundable tax credit available on 2020 tax return

Key 2020 Tax Law Changes

- Forms 1099-MISC and 1099-NEC
  - 1099-MISC redesigned
    - Non-employee compensation no longer reported on this form
    - Supply to recipient by Feb. 1
    - Supply to IRS by 3/1 (paper) or 3/31 (electronically)
  - 1099-NEC reintroduced
    - Box 1 used to report $600 or more of nonemployee compensation
      - Independent contractor, attorneys, etc.
    - Supply to recipient by Feb. 1
    - Supply to IRS by Feb. 1

Key 2020 Tax Law Changes

- Charitable Contributions
  - CARES Act
    - $300 deduction for 2020 cash contributions made by taxpayers that don't itemized deductions
    - 60% AGI limit for cash contributions is disregarded
    - Taxable income limit for contributions of food inventory increased from 15% to 25%
  - New Stimulus Law
    - Couples filing a joint return can deduct up to $600; CARES Act only allowed $300

Key 2020 Tax Law Changes

- Kiddie Tax
  - TCJA in 2017 changed rules for unearned income of child under 19 or FT student under 24
    - Taxed at estate tax rates instead of parent's tax rates
  - SECURE Act repealed TCJA rules
    - Previous rules reinstated and can be used for 2018 and 2019
  - No changes to earned income – still taxed at single rates

Key 2020 Tax Law Changes

- Required Minimum Distribution Age Raised
  - Prior to 2020, participants in employer-sponsored retirement plans and traditional IRAs required to start taking RMDs by 4/1 of year following turning 70 ½
  - SECURE Act increased RMD age to 72 for distributions required to be made after 12/31/19
  - CARES Act
    - RMDs not required in 2020
    - RMDs taken could be returned by 8/31/20

Key 2020 Tax Law Changes

- Retirement Plan Distributions
  - CARES Act – distributions from IRAs and workplace retirement plans
    - Taxpayer impacted by COVID-19
    - Distributions up to $100,000 not subject to 10% early withdrawal penalty
    - Can be included in income ratably over 3 years – optional
    - Distribution can be recontributed within 3 years and treated as direct rollover
  - SECURE Act – beginning in 2020
    - Up to $5,000 (per spouse) of penalty-free distributions for expenses related to birth or adoption of a child

Key 2020 Tax Law Changes

- Retirement Plan Distributions (cont.)
  - SECURE Act – elimination of "Stretch IRAs"
    - General Rule -- amounts in IRA or defined contribution plan must be distributed within 10 years of the death of the IRA holder or plan participant; exceptions include:
      - Beneficiary is within 10 years of account holder's age
      - Beneficiary is individual with special needs
      - Beneficiary is a minor
      - Beneficiary is account holder's spouse

Key 2020 Tax Law Changes

- Retirement Plan Loans
  - CARES Act – loans from a qualified employer plan
    - Taxpayer impacted by COVID-19
    - After 3/27/20 and before 9/23/20
    - Up to the lesser of $100,000 minus outstanding loans, or 100% of nonforfeitable account balance or accrued benefit
    - Up to six years to repay loan

Key 2020 Tax Law Changes

- Repeal of Maximum Age for IRA Contributions
  - SECURE Act – contributions to traditional IRA
    - Tax years beginning after 2019
    - Maximum age restriction has been lifted, assuming sufficient compensation
    - Previous restriction was age 70 ½
    - Restriction did not apply to Roth IRA contributions

Key 2020 Tax Law Changes

- Earned Income Credit and Child Tax Credit
  - Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (New Stimulus Law)
    - Temporary rule allows qualifying taxpayers to use earned income from 2019 on their 2020 tax return to determine:
      - Earned Income Credit
      - Refundable Child Tax Credit
    - Allows taxpayers who had lower wages, due to the pandemic, to get a refund consistent with prior years' earnings levels

Key 2020 Tax Law Changes

- Miscellaneous Provisions (New Stimulus Law)
  - Extends non-itemizer charitable deduction to 2021 and increases the MFJ amount to $600
  - Suspension of 60% AGI limit for cash contributions extended to 2021
  - Further flexibility for taxpayers to rollover unused amounts in flexible spending accounts from 2020 to 2021 and 2021 to 2022
    - Employers permitted to allow employees to make 2021 mid-year prospective change in contribution amounts
  - Additional extension for suspension of federal student loan payments – not required until 4/1/21

Key 2020 Tax Law Changes

- Extender Provisions (New Stimulus Law)
  - 7.5% AGI limit/floor for medical expense deduction made permanent
  - Higher education tuition deduction is made permanent by increasing the phase-out limits in the Lifetime Learning Credit to match the AOTC.
  - Exclusion from income of discharge of qualified principal residence debt has been extended through 2025.
    - Maximum acquisition debt limit is $750,000
  - Deductibility of mortgage insurance premiums as interest extended through 2021
  - Nonbusiness energy property credit for qualified energy improvements to a principal residence extended through 2021

Potential Future Tax Law Changes

Following are some potential tax law changes that could impact individuals under the Biden administration. These are positions communicated by him and his team during the campaign process. Ultimately, enacted changes will depend upon the makeup of the House and the Senate. Some of those potential changes are:

- Reduction of the current estate exemption of $11.58 million (indexed for inflation); current law sunsets to approximately half in 2026
- Eliminate stepped up basis for estate assets
  - Pay capital gains at death, or keep decedent's basis
- Increase top individual tax rate to 39.6% from 37% - for taxable income > $400,000

Potential Future Tax Law Changes

- Increase top long-term capital gains rates and qualified dividend tax rates from 23.8% to 43.4% (ordinary income tax rate plus Obamacare surtax) for income >$1,000,000
- Limit tax benefit of itemized deductions to 28% for taxpayers with marginal rates higher than 28%.
  - Note – this level is much lower than $400,000
- Restore PEASE limitation on itemized deductions for taxpayers with income > $400,000
- Phase out the Qualified Business Income deduction for taxpayers with income > $400,000
- Expand the earned income tax credit

Potential Future Tax Law Changes

- First-time home buyer credit of up to $15,000
- Renter credit to assist low-income individuals who make too much to qualify for section 8 housing
- Eliminate benefit of section 1031 like-kind exchanges for taxpayers with income > $400,000
- Assess social security payroll tax of 12.4% on wage and self-employment income > $400,000
  - Creates donut-hole between current FICA limit (indexed for inflation) and $400,000
  - No changes to Medicare taxes

Bob Dylan Sells Songwriting Catalog

- Catalog sold to Universal Music Publishing Group – early December 2020
- Terms of deal not released – estimated to be for about $300 million
  - These types of transactions typically sell for 10-20 times annual royalties
- Assumption: cash deal that would be eligible for capital gains treatment
  - Section 1221(b)(3) – songwriters can elect to pay tax at capital gains rates rather than ordinary income rates on the sales of their copyrighted songs
    - Maximum tax rate would be 23.8% vs. 37% on annual royalties
- Speculated that tax planning may have played a role given the new administration's view of capital gains rates.

SALT Deduction Update

- $10,000 state and local tax deduction cap enacted – TCJA 2017
  - Democratic caucus looking to remove SALT limitation
  - Republican caucus opposed to removing SALT limitation; may be open to increasing it
- IRS issued Notice 2020-75 on November 9, 2020.
  - State and local taxes imposed on and paid by S Corp. or partnership are deductible at entity level and not subject to SALT limit

Social Security Changes - 2021

- Maximum wages subject to OASDI tax increases to $142,800
  - 2020 wage limit is $137,700
  - Rate remains at 6.2% for employee and employer
- Recipients will receive a 1.3% cost-of-living adjustment
- Social Security Payback
  - Full retirement age or older – no limit on earnings
  - Under full retirement age – benefit reduced $1 for each $2 earned above $18,960
  - Year reach full retirement age – benefit reduced $1 for each $3 earned above $50,520

Standard Mileage Rates - 2021

- $.56 per mile for business use
- $.16 per mile for medical
- $.16 per mile for moving – qualified active-duty members of U.S. Armed Forces
- $.14 per mile in service of charitable organizations

IRA Income Ranges - 2021

- Single – covered by workplace retirement plan - $66,000 - $76,000; $1,000 increase
- MFJ – covered by workplace retirement plan - $105,000 - $125,000; $1,000 increase
- IRA Contributor – not covered by workplace plan, but spouse is - $198,000 - $208,000; $2,000 increase
- Contribution limits unchanged

IRS Inflation Adjustments - 2021

Following is a sample of items that have been adjusted for inflation for 2021 by the IRS. Taxpayers impacted by any of these items can find the specific numbers on the IRS website (www.irs.gov)

- Standard deductions – for example MFJ increasing from $24,800 to $25,100
- Tax rates – income levels for all tax brackets raised compared to 2020
- Personal exemption remains at zero – see TCJA of 2017
- Failure to file penalty – additional tax of $435, up from $330
- AMT exemption amount

IRS Inflation Adjustments - 2021

- Maximum EIC amount - $6,728, up from $6,660 in 2020
- AGI to determine reduction in Lifetime Learning Credit increases $1,000 to $119,000
- Foreign earned income exclusion = $108,700, up from $107,600
- Estate tax exclusion = $11,700,000, up from $11,580,000
  - Annual exclusion of $15,000 remains unchanged
- Maximum credit for adoption expenses increased to $14,440; up from $14,300

Tax Season Tips

- Know and understand your correct filing status
  - More than one status may apply in certain situations
  - Impacts include:
    - Filing required or not
    - Standard deduction amount
    - If certain credits and deductions can be claimed
    - Amount of total tax liability
- Know and understand tax laws changes applicable to you (see previous slides)

Tax Season Tips

- Report your income and always file, if required
  - Statute of limitations doesn't start running until return filed
- Be accurate, transparent, and complete
  - Knowingly filing a false return is a felony
- Don't obstruct the IRS
  - Handle disagreements in proper ways and communicate professionally
- Don't be willful
  - Voluntary, intentional violation of a known legal duty

Tax Season Tips

- Report foreign accounts and assets
  - File Foreign Bank Account Report (FBAR) if aggregate value of accounts exceeds $10,000 at any point in the year
  - Failure to file can result in penalties
- Don't spend lavishly - lifestyle audits can occur if it appears you are spending above your means
- Protect yourself - be wary of scams

Final Thoughts

- Thank you for attending today!
- Tax law is complicated and continually changing
  - Stay current on provisions that impact you now or in the future
- IRS website (www.irs.gov) is an excellent source for guidance and forms
- Seek help from tax professionals when needed
  - Mistakes (e.g., errors or omissions) can be costly

Questions?

- CPE certificate – post-event e-mail – Please allow at least four weeks for this to arrive

- Your CPE credit will be recorded in your transcript by IMA Global for the Akron chapter

Upcoming 2021 webinar

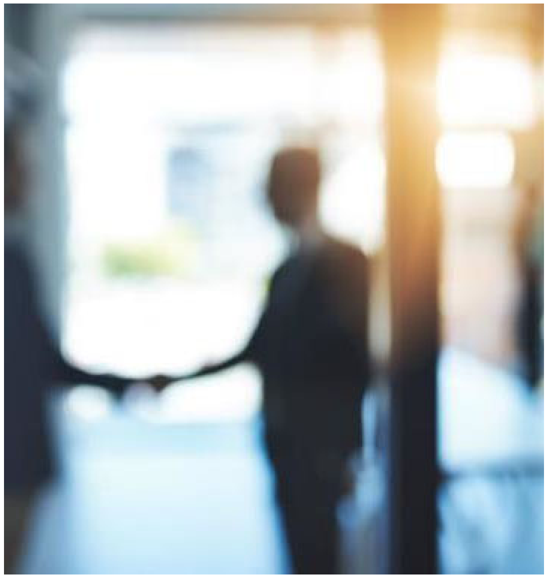
Next up:

2020 Business Tax Update

Wednesday, January 20, 6:30 – 8 pm Eastern

The Akron Chapter would like to thank you for joining us for this event!

We hope you learned something that will help you.



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