2020 TAX INFO SHEET

Tax return due dates:

- Individuals must file returns by April 15, 2021, for the 2020 tax year;
- Partnerships must file returns by the 15th day of the third month following the close of the taxable year (March 15 for calendar-year taxpayers);
- C corporation returns are generally due by the 15th day of the fourth month following the close of the taxable year (April 15 for calendar-year taxpayers);
- S corporation returns will remain due by the 15th day of the third month of the taxable year (March 15 for calendar-year taxpayers)

Stimulus payments: The CARES Act, which was passed into law to help stimulate the economy during the COVID-19 pandemic, authorized stimulus payments (also referred to as economic impact payments) that were issued to many taxpayers. The recent $900 billion COVID-19 relief bill that provides $600 stimulus payments to individuals, adds $300 to extended weekly unemployment benefits, and provides more than $300 billion in aid for small businesses.

People who received economic impact payments should have received IRS Notice 1444, Your Economic Impact Payment, notifying them of the amount of the payment they should have received. The economic impact payments are treated as advance tax credits against your 2020 income taxes. As such, you will need to include a copy of Notice 1444 when you provide us with your other tax documents.

Unemployment compensation: Expanded unemployment insurance benefits were available to many taxpayers due to the COVID-19 pandemic. **California does not tax unemployment compensation, but the federal government does.** If you received unemployment compensation, even if you elected to have federal income taxes withheld, it's likely that the withholding was insufficient to cover your tax liability.

Retirement changes: In December, 2019, the SECURE Act was passed into law that made many changes to tax provisions for retirement accounts for tax years beginning in 2020. Among many other changes the SECURE Act:

- Increases the age at which required minimum distributions must begin from age 70½ to age 72;
- Removes the age restriction for contributions to traditional IRA accounts, so taxpayers can continue making retirement contributions even after age 70½, providing there is sufficient earned income;
- Makes significant changes to inherited retirement account rules where a taxpayer passes away after December 31, 2019.
- Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020, provides for special distribution options and rollover rules for retirement plans and IRAs and expands permissible loans from certain retirement plans.

Paycheck Protection Program: The CARES Act also tried to help struggling small business owners stay afloat by offering them Paycheck Protection Program (PPP) loans. As long as these loans were used on certain business expenses—payroll, rent or interest on mortgage payments, and utilities, to name a few—these loans were designed to be "forgiven."

- New allowance for deduction of expenses with forgiven PPP debt
- California says no deduction for expenses paid with forgiven PPP funds

California introduced penalties for failure to carry health insurance: The federal government repealed the penalty for failure to maintain health insurance (referred to as the "individual mandate") starting with the 2019 tax year. In response to the federal government's repeal, the state of California will charge an individual who fails to secure coverage an annual penalty of $695 or more when they file their 2020 California tax return. The minimum penalty for families of four or more individuals is $2,085. The penalty can rise as high as 2.5% of household income, which can be many thousands of dollars. Be sure to maintain your health insurance coverage to avoid this costly California tax penalty.

1099s and K-1s: If you received 1099s or K-1s from investments in 2020, we may extend your return in case these documents are corrected after the original filing deadline. We are seeing increasing numbers of corrected information returns, which require taxpayers to amend their original tax returns to reflect the corrected amounts. In some cases, the amounts are vastly different and can create additional costs in amending the tax returns and potential penalty problems.

2020 TAX INFO SHEET

Foreign accounts: We must report overseas assets owned by businesses as well as individuals. So, the reporting requirements are increasing and the penalties for failure to report continue to be harsh. Not all foreign holdings must be reported. If, for example, you hold stock in a foreign company through a U.S. broker, those holdings do not have to be separately reported. However, if you hold any other types of foreign assets, including bank accounts and securities accounts, please let us know.

Increase in Audits (potentially): The Internal Revenue Service is planning to ramp up audits of smaller businesses and their investors by about 50% next year, following years of persistently low examination rates. The result could be a surge in audits of companies ranging from mom-and-pop retail stores and technology startups to investment funds that have historically faced only infrequent checks thanks to the time and effort required at the IRS.

"The IRS is focusing our efforts to increase compliance activity in this area of not only partnerships, but also investor returns related to pass-throughs," De Lon Harris, the IRS deputy commissioner of examination for small businesses, said at an American Institute of Certified Public Accountants event. For 2021 "we are planning for 50% more than we had in the previous year."

Estate Planning: Considering last-minute lifetime gifting to family as well as other estate planning revisions to take advantage of the current lifetime exemption from estate tax ($11.58 million per taxpayer). For 2020 and 2021, the annual gift tax exclusion is $15,000.

Capital Gains: Individual capital gain rates are the following: 0% on taxable income up to 40k if Single (S), and 80k if Married Filing Joint (MFJ). 15% on taxable income up to 441k, and $496k MFJ. 20% beyond the previously stated taxable income breakpoints.

California does not have a reduced rate for capital gains or qualified dividends and are taxed at ordinary income rates.

Standard Deductions: Single - $12,400, MFJ - $24,800, If over 65 years additional - $1,650

Medical Expenses: The 7.5% medical expense threshold has been extended permanently.

Residential Energy Efficient (Solar) Property Credits: The credit for qualified solar electric property and qualified solar water heating property placed in service before January 1, 2022, is:

- For property placed in service between January 1, 2020, and December 31, 2022, 26%; and
- For property placed in service between January 1, 2023, and December 31, 2023, 22%; and
- For property placed in service between January 1, 2024 and beyond, 0%.

Medicare: For 2020, the basic Medicare premiums are $144.60, plus the cost of a prescription drug plan. For 2021, basic Medicare premiums are $148.50 plus the cost of a prescription drug plan. Individuals with incomes above certain thresholds (88k – Single/176k MFJ) pay a higher Medicare premium surcharge.

Real Estate: The CARES Act made the long-awaited correction to the TCJA's omission of qualified improvement property (QIP) as 15-year recovery property eligible for bonus depreciation. The correction applies retroactively to qualified property placed in service after December 31, 2017. Talk to me if you have questions about this.

Alimony: Alimony is not deductible by the payor spouse nor included in the recipient spouse's gross income if the divorce or written separation agreement is executed after December 31, 2018.

Additional Info: If there is a topic you don't see listed, don't hesitate to contact me directly. There has been a lot of changes over the last few years, it's tough to keep it on two pages!