

I know, you want to leave 2020 in the past and never look back. But there is *one* lingering task from last year that requires your attention before you can truly move on for good—and that's your 2020 taxes.

Tax Day is **April 15, 2021**. You *must* file your 2020 individual tax returns by this date. An extension gives you additional time to file but note that it does not give you additional time to pay. If you have a balance due, you will continue to accrue a late payment penalty plus interest.

Tax Rates and Income Brackets

Here's a refresher on how tax rates and income brackets: Your **tax rate** (the percentages of your taxable income that you pay in taxes) is based on what **tax bracket** (income range) you're in.

2020 Marginal Tax Rates		
	Single	Married Filing Jointly
10%	\$0–9,875	\$0–19,750
12%	\$9,876–40,125	\$19,751–80,250
22%	\$40,126–85,525	\$80,251–171,050
24%	\$85,526–163,300	\$171,051–326,600
32%	\$163,301–207,350	\$326,601–414,700
35%	\$207,351–518,400	\$414,701–622,050
37%	Over \$518,400	Over \$622,050

2020 Long-term Capital Gains Tax Rates		
	Single	Married Filing Jointly
0%	\$0-40,000	\$0–80,000
15%	\$40,001 – 441,450	\$80,001-496,600
20%	Over \$441,450	Over \$496,600

For example, if you're single and your income is \$75,000, then you're in the 22% tax bracket. But that doesn't mean your tax rate is a flat 22%. Instead, part of your income is taxed at 10%, another part at 12%, and the last part at 22%.

Unemployment Benefits

- Many Americans found themselves out of work (at least temporarily) after the pandemic shut down a large part of the economy and turned to unemployment insurance for help. Those who received unemployment benefits **will need to pay income taxes** on that money.
- If you chose *not* to have taxes withheld from your benefits when you signed up, then you will probably owe a tax balance on your return. Additionally, if you file a state tax return, unemployment income may be subject to state taxes as well, although this varies by state.

Higher Standard Deductions in 2020

When you pay taxes, you have the option of taking the standard deduction or itemizing your deductions. If you itemize, you calculate your deductions one by one. Itemizing is more work, but it's worth it if your itemized deductions exceed the amount of the standard deduction.

Standard Deduction	
Filing Status	2020
Single	\$12,400
Married Filing Jointly	\$24,800
Married Filing Separately	\$12,400
Head of Household	\$18,650

Additional amounts for blind or over 65: \$1,650 (Single) or \$1,300 (Married).



Tax Deductions and Tax Credits

Tax deductions help lower the amount of income that is subject to federal income taxes. Some deductions are only available if you choose to itemize your deductions, while others (also known as “above-the-line-deductions”) are available even if you take the standard deduction.

Tax credits lower your actual tax bill dollar for dollar, and there are two types of credits: *refundable* and *nonrefundable*. If a credit is greater than the amount you owe and its a refundable credit, the difference is paid to you as a refund. Bravo!! But if it’s a nonrefundable credit, your tax bill will be reduced to zero, but you won’t get a refund. That’s still great!

“Above the line deductions”

- **Charitable Contributions for Standard Deduction filers** - The CARES Act added a new “above-the-line” deduction that will help you write off cash charitable contributions even if you take the standard deduction, up to \$300 for single filers and \$600 for married filing jointly. Contributions to donor advised funds do not qualify for this deduction.
- **Individual Retirement Arrangement (IRA) contribution** - \$6,000 (\$7,000 if over 50)
- **Health Savings Account (HSA) contributions** - \$3,550 for self-only (\$4,550 if over 55); \$7,100 for family (\$8,100 if over 55)

No home office deduction unless self-employed

If you’re one of the millions of workers who were sent home to work remotely, you cannot claim the home office deduction since it’s reserved for self-employed individuals only.

Itemized Deductions

- **Medical Deductions** - If you spent a lot of time in the hospital or found yourself with some hefty medical bills last year, you might be able to find some tax relief. You can deduct qualified medical expenses above **7.5%** of your adjusted gross income (AGI), which is your total income minus other deductions you have already taken. For example, if your AGI was \$100,000, you can deduct out-of-pocket medical expenses *above* \$7,500 in 2020. However, you must itemize your deductions in order to write off those expenses on your tax return.
- **State & Local Tax Deductions** - This includes state income or sales tax (including sales tax on vehicles, boats, and planes), property tax, and personal property tax. The cap on this deduction is still (stupidly) **only \$10,000**.
- **Mortgage Interest** – The ceiling for qualified mortgage debt is limited to \$750,000 for mortgages obtained after 12/15/2017. Note: interest on Home Equity Line of Credit (HELOC) may be deducted only if the funds are used to improve the property. Mortgage insurance premiums are deductible again.
- **Charitable Deductions** – The CARES Act allows you to deduct up to **100%** of your adjusted gross income (AGI) in qualified charitable donations if you itemize your deductions.



Retirement Accounts

- The CARES Act allowed seniors to skip RMDs in 2020 without penalty.
- Under the CARES Act, individuals under age 59 1/2 to take up to \$100,000 out of their 401(k)s and IRAs through 12/31/2020 without incurring an early withdrawal penalty.

The withdrawal will still be taxed as ordinary income. However, you have the option to spread the tax over three years starting in 2020. You can also opt to put those funds back and get a refund on any taxes you paid on that money.

- The SECURE Act increased the age for Required Minimum Distributions (RMD) from traditional IRAs from 70 ½ to 72 (if your 70th birthday was July 1, 2019 or later).

Tax Credits

- **Child Tax Credit** - Families can claim up to **\$2,000** per qualified child with this tax credit (the income limits for this credit are \$200,000 for single parents and \$400,000 for married couples). Since this is a refundable credit, your family can receive up to \$1,400 per child as a refund.
- **Economic Impact Payments (aka “Stimulus Checks”) – Rounds one and two**
The good news is your stimulus checks are not taxable income. They were an advance on a refundable tax credit to be claimed on the 2020 tax return. Both the first and the second payment will be claimed on 2020 taxes (so much for the hallowed principle of booking things in the year that they happen!). Keep track of the amounts you receive, since they will be needed for your return.

Glance Ahead to 2021

(subject to legislative changes)

2021 Marginal Tax Rates

	Single	Married Filing Jointly
10%	\$0–9,950	\$0–19,900
12%	\$9,951–40,525	\$19,901–81,050
22%	\$40,526–86,375	\$81,051–172,750
24%	\$86,376–164,925	\$172,751–329,850
32%	\$164,926–209,425	\$329,851–418,850
35%	\$209,426–523,600	\$418,851–628,300
37%	Over \$523,600	Over \$628,301

2021 Long-term Capital Gains Tax Rates

	Single	Married Filing Jointly
0%	\$0-40,400	\$0-80,800
15%	\$40,401-445,850	\$80,801-501,600
20%	Over \$445,850	Over \$501,600

Standard Deduction

Filing Status	2021
Single	\$12,550
Married Filing Jointly	\$25,100
Married Filing Separately	\$12,550
Head of Household	\$18,800

Additional amounts for blind or over 65:
\$1,700 (Single) or \$1,350 (Married).

- **401K** \$19,500/\$26,000 (over 50)
- **IRA contribution:** \$6,000 (\$7,000 if over 50)
- **HSA contributions:** \$3,600 for self-only (\$4,600 if over 55); \$7,200 for family (\$8,200 if over 55)

BUSINESS TAXES

- **Business meals:** 100% deductible
- **Business mileage rate:** \$0.56

