TaxUpdate

2020 YEAR END NEWSLETTER

Cordle Bookkeeping & Tax Service
3290 US Highway 42 SW
London, OH 43140

Be on the Lookout for New Form 1099-NEC

If you're self-employed, an independent contractor or a freelancer, there's a big change coming thanks to the IRS.

For almost 40 years, you've received a 1099-MISC from businesses to which you provided more than $600 in services. Starting with the 2020 tax filing season, you'll be receiving Form 1099-NEC instead.

Here's what you need to know about this change:

Form 1099-NEC is used exclusively to report nonemployee compensation. Nonemployee compensation is any payment you received from a business in exchange for your products and/or services. Nonemployee compensation also includes fees, commissions, prizes and awards.

Form 1099-MISC is not going away. You may still receive a Form 1099-MISC if your income is derived from rents, royalties, fishing boat proceeds, health care payments, payments in lieu of dividends or interest, crop insurance proceeds or gross proceeds paid to an attorney.

You should receive your 1099-NEC sometime in early February. The deadline for submitting Form 1099-NEC is February 1, 2021.

New Tax Laws in 2020

As you begin planning to file your 2020 tax return, here are some of the new tax laws passed over the last year that could affect you.

1. **Early distribution penalty waived.** The 10% early distribution penalty on up to $100,000 of retirement withdrawals for coronavirus-related reasons is waived during 2020. New rules allow tax liabilities on these distributions to be paid over a three-year period.
2. **Required minimum distributions waived for 2020.** Required minimum distributions in the year 2020 for various retirement plans is suspended. The corresponding 50% penalty associated with not taking a distribution is also suspended in 2020.
3. **Medical deduction threshold decreases.** Qualified medical expenses that exceed 7.5% of your adjusted gross income may be used as an itemized deduction. The lower threshold (formerly 10%) is a carryover from a late 2019 tax law change.
4. **Mortgage forgiveness is not income.** If a bank forgives mortgage indebtedness, it is typically income to you. Qualified principal residence indebtedness that is forgiven, however, may be excluded from income with the reactivation of this tax law.
5. **Mortgage insurance premium deductions.** If your mortgage bank requires insurance on your loan and the loan qualifies, you can deduct this premium as an itemized deduction.
6. **The tuition and fees deduction is available.** The above-the-line deduction for up to $4,000 in qualified tuition and fees expenses that expired is still available in 2020. You will need to evaluate this tax break versus others like the American Opportunity Credit and the Lifetime Learning Credit.

Other new tax laws for 2020:

- Part-time workers can participate in 401(k) plans.
- Leftover money in a 529 education plan can be used to pay off $10,000 of student loans.
- New parents can withdraw $5,000 out of retirement funds without penalty to pay for the cost of a birth or adoption.

Income Brackets for 2020 Tax Rates

Tax Rate	Single	Married Filing Joint/Widow	Head of Household	Married Filing Separate
10%	$1 – 9,875	$1 – 19,750	$1 - 14,100	$1 – 9,875
12%	**9,876 – 40,125**	**19,751 – 80,250**	**14,101 – 53,700**	**9,876 – 40,125**
22%	40,126 – 85,525	80,251 – 171,050	53,701 – 85,500	40,126 – 85,525
24%	**85,526 – 163,300**	**171,051 – 326,600**	**85,501 – 163,300**	**85,526 – 163,300**
32%	163,301 – 207,350	326,601 – 414,700	163,301 – 207,350	163,301 – 207,350
35%	**207,351 – 518,400**	**414,701 – 622,050**	**207,351 – 518,400**	**207,351 – 311,025**
37%	Over $518,400	Over $622,050	Over $518,400	Over $311,025

New Charitable Contribution Tax Breaks in 2020

There are several new tax breaks for charitable donations in 2020. Here are three changes to help your favorite charity while receiving a tax break:

- **$300 charity deduction without itemizing.** You can claim an above-the-line deduction of up to $300 for cash donations to qualified charities. In other words, you get a deduction whether you itemize or not.
- **Donate up to 100% of your income.** You can donate as much of your 2020 income as you feel like giving. The annual deduction for monetary donations is normally limited to 60% of your income, but this has increased to 100% in 2020.
- **Businesses can contribute more!** A business can give up to 25% of its taxable income, an increase from the normal threshold of 10%. Businesses also qualify for a special enhanced deduction for gifts of food from 15% of taxable income to 25%.

Standard Deductions

Item	2020	2019	Change
Single	$12,400	$12,200	+$200
Married Joint/Widow	24,800	24,400	+$400
Head of Household	18,650	18,350	+$300
Married Filing Separate	12,400	12,200	+$200
Elderly/Blind: Married	+$1,300	+$1,300	–
Elderly/Blind: Unmarried	+$1,650	+$1,650	–

Mileage Rates

Item	2020	2019	Change
Business	57.5¢/mi	58.0¢/mi	-0.5¢
Medical/Moving	17.0¢/mi	20.0¢/mi	-3.0¢
Charitable	14.0¢/mi	14.0¢/mi	–

Section 179 Maximums

Limits	2020	2019	Change
Section 179	$1.04 million	$1.02 million	+$20,000
Property Limit	$2.59 million	$2.55 million	+$40,000

Maximum Earned Income Tax Credit

	2020	2019	Change
No Child	$538	$529	+$9
1 Child	3,584	3,526	+$58
2 Children	5,920	5,828	+$92
3+ Children	6,660	6,557	+$103

Save More for Retirement

Retirement account rules are changing for 2020. Here are the major changes and some suggestions to help you take advantage of them.

Contribute to a traditional IRA at any age. While you have always been able to contribute to a Roth IRA at any age, 70½ was the cut-off for making contributions to a traditional IRA. This age limit for traditional IRAs is now gone.

If you have earned income, you and your spouse can now each contribute $6,000 to either a traditional or Roth IRA ($7,000 for those age 50 and over).

Taking advantage: *Consider getting a part-time job or do some consulting so you can earn up to $7,000 each year to contribute to your IRA. You can decide if you wish to contribute to either a Roth IRA or a traditional IRA depending on your situation.*

More time before you MUST take money out. You now have until age 72 before you are required to take minimum distributions from qualified retirement accounts. This is an increase from the old, complicated age 70½ rule. Retirement savings that need to be reported as taxable income when withdrawn can now be left to grow for an additional 18 months before distributions are mandatory and your taxable income increases.

Taking advantage: *By efficiently planning your withdrawal amounts before age 72 you can often reduce the tax on these funds when withdrawn. So review the minimum distribution requirements of your IRAs, 401(k)s and other retirement savings accounts to develop a plan to take advantage of this new rule.*

Inherited retirement accounts require more planning. Beginning in 2020, the MAXIMUM allowed distribution time frame from retirement accounts is limited to 10 years for newly-inherited IRAs. IRAs inherited before 2020 can still be withdrawn over a person's lifetime using old stretch IRA rules.

Taking advantage: *Estate planning just got a lot more important. First, know that the limited stretch rules DO NOT apply to surviving spouses, minor children up to age 18 (but not grandchildren), disabled individuals and individuals not more than 10 years younger than the IRA owner. Second, if you receive inherited funds, know that you often have a number of distribution options available to you. They include a lump sum distribution, a five-year distribution rule, rollover options and this new 10-year rule.*

Key Retirement Plan Limits

Retirement Plan	2020	2019	Change	Age 50 or older catch-up
401(k), 403(b), 457 plans	$19,500	$19,000	+$500	Add $6,500
IRA: Roth	$6,000	$6,000	–	Add $1,000
IRA: SIMPLE	$13,500	$13,000	+$500	Add $3,000
IRA: Traditional	$6,000	$6,000	–	Add $1,000

This publication provides summary information regarding the subject matter at time of printing. Please call with any questions on how this information may impact your situation.