

BUSINESS

No. 1 tax tip for 2020 returns: File early



This year the IRS delayed the start of tax season, which is the first day they will start to process returns, to Feb. 12 and has promised to speed refunds during the pandemic. (iStockphoto)

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With each new year comes a predictable series of traditions – the Oscars, Girl Scout cookies, NBA playoffs and the April 15 tax deadline.

As with everything else in our new normal, this year's events will be managed a little differently. The Academy Awards ceremony has been postponed to the end of April, and films will be streamed online instead of screened in theaters.

We do not expect the Girl Scouts to visit our office with their addictive little Thin Mints. They will practice their sales techniques on the Digital Cookie platform.

The NBA lengthened the season while reducing the number of total games, Kobe will be with us in spirit, and many arenas will still not have fans in the stands.

So how will the filing of our 2020 taxes change? This year the IRS delayed the start of tax season, which is the first day they will start to process returns, to Feb. 12 and has promised to speed refunds during the pandemic.



If one of your New Year's resolutions was to not procrastinate until the last minute to file your return (or extension), this might be the perfect year to file early, or at least to file on time.

File early

Your tax return might be simpler than in years past, so it might be easier than you think to file taxes now and mark this task off the to-do list.

Because of the Tax Cuts and Jobs Act in 2017, more than 90% of taxpayers no longer need to itemize their deductions. If in the past, you dutifully filled out the organizer from your tax firm and gathered and added up receipts to itemize your deductions, you might not need to do it this year. (Your accountant might not have had the heart to tell you that you did not need to do it last year, either.)

Easier than before

The standard deduction for 2020 is \$12,400 if you are single, and \$24,800 if you are married and filing jointly. The standard deduction is larger if you are over 65 or are blind. You can choose the standard deduction amount instead of adding up your medical, mortgage, DMV fees, property taxes, and charitable deductions.

Congress also eliminated employee and investment expenses with the tax law change.

If you look through the tax return you filed last year and do not find a Schedule A, you did not itemize and probably will not itemize this year.

Getting the refund

If you were disappointed not to receive a refund over the past couple of years, it might be due to a change in the withholding on your paycheck. The law change in 2017 reduced how much tax was withheld from workers' paychecks, and this caused a reduction in the amount of refunds taxpayers, overall, received when they filed their returns. However, if your income was less in 2020, you could be due a refund that you could collect now rather than later.

Carryback losses

If deductions for last year were more than income, you may have a net operating loss (NOL). There is a tax savings opportunity in the CARES Act that may allow you to obtain an additional refund that was not available previously.

The act permits NOLs from 2018, 2019, and 2020 tax years to be carried back to the previous five tax years. Losses in 2018 or 2019 that you could not previously carryback can now be carried back to 2013 and forward. This could result in a refund. If you had a loss in 2020, you could also carry that loss back to 2015 and forward to obtain a refund now.

New stimulus funds

New stimulus packages will utilize information from your 2020 bookkeeping, payroll, and income tax returns to compute the benefits you are entitled to receive. Therefore, it is in your best interest to compile this information now.

The new 2021 Paycheck Protection Plan calculated benefit is based on either 2020 or 2019 payroll amounts. Businesses that show a 25% or more reduction in any quarter comparison from 2019 to 2020 may qualify for a first or second "round" PPP.

Other state and county business grant programs are also based on comparisons of 2019 and 2020 revenue and net income amounts supported by tax returns or bookkeeping. As a bonus, remember that the PPP loan forgiveness income is tax-free, and you can deduct the expenses that were paid to meet the requirements for your PPP loan forgiveness.

If income was reduced in 2020, you might qualify for subsidized health insurance premiums under the Affordable Care Act or California Care. Use your tax return info for 2020 to compute your benefits. Additional individual stimulus checks and other governmental benefits to stimulate the economy might be available this year and will probably be based on 2020 tax filings.



Can't find something?

Do not let a missing 1099 or W-2 derail you from filing on time this year. Almost all of your tax information to prepare your returns is available online from your employers, brokers, bankers, and online at [IRS.gov](https://www.irs.gov).

Even if you owe

If you collected unemployment benefits in 2020 and did not withhold tax, you may want to figure those taxes now and file (and pay) later.

Knowing how much you owe so you can plan is better than being surprised with a tax bill later. If you utilize the services of a tax professional, do not wait to make an appointment because you think you might owe. It is better to book with them now before they are busy.

They can calculate your taxes and hold the returns to file later if you owe income taxes. They can also help you set up a payment plan if you cannot afford to pay the tax.

If you're past due

If your New Year's resolution to file on time includes past due returns, note that a first priority should be to file the older returns. You can always make payment arrangements with the IRS to stretch out what you owe, with a low-interest installment agreement, over five years. You will not set up an agreement to pay until all of your past due returns are processed, which could take time.

You can easily set up a payment arrangement yourself if the balance you owe is under \$25,000 and you have a stable source of income to pay the balance. Not being able to pay your taxes should never be a reason not to file your taxes.

Hopefully, within the next six months, most of us will have been fully vaccinated, and we will all be excited to get back to spending time with our family and friends, traveling, and enjoying ourselves. (Think roaring 20s after the 1918 flu epidemic.) Perhaps the best reason not to wait and to file now is that it will be one less chore to do later when you should be having fun.

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