

# TaxUpdate

2020 TAX PREVIEW NEWSLETTER

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## New Year? More New Rules!

Just when you think no more tax law changes, another 1,700-page bill is signed into law in late December with many changes buried inside it. Here is an initial look at the major changes for 2020.

### Tax Extenders

The following tax rules are now extended through 2020:

- ✓ **Tuition and Fees above the line deduction.** Active once again is this potential \$4,000 educational tax deduction. Time to sharpen your pencils with the volume of educational benefits available to you this year!
- ✓ **Mortgage insurance premiums** as an itemized deduction.
- ✓ **Medical expense deduction threshold** stays at 7.5% of adjusted gross income.
- ✓ **Income-free debt forgiveness.** Qualified principal residence debt forgiveness may not be income to you.

### New Retirement Account Rules

Rule changes to retirement accounts could have a major impact on your situation in 2020 and beyond. Here are the key changes to be aware of:

- ✓ **Moving Required Minimum Distributions (RMD) to age 72** for qualified individual retirement accounts. This is an increase from age 70 1/2.
- ✓ **Allowing part-time workers access to employer 401(k) plans.**
- ✓ **Eliminating the contribution age limit for traditional IRAs.** You can keep putting money aside after age 70 1/2.
- ✓ **Eliminating stretch IRA rules.** Beneficiaries of IRAs and qualified plans must now take distributions within 10 years. Former rules allowed distribution over your lifetime.
- ✓ **New penalty-free distributions from qualified retirement plans.** Up to \$5,000 may be withdrawn from qualified retirement plans to help cover the costs of a new birth or adoption. These disbursements must be made within a year after the birth or adoption.

You can expect more information and clarification to come from the IRS as it is tasked to provide guidance and implementation of these AND many more 2020 rule changes.



## Refund Ideas

To many, getting a tax refund is like a springtime holiday gift. Here are some creative ideas on how to use yours (if you get one!).

- Pay down a credit card bill
- Save for vacation
- Build your emergency fund
- Get rid of some student loan debt
- Save for a home down payment
- Start or fund an IRA
- Consider a Roth IRA
- Put money into a college fund
- Save money for a car
- Start an entertainment fund
- Help someone who needs it

## Key 2020 Tax Information

### Income Brackets and Tax Rates

Tax Rate	Single	Married Filing Joint/Widow	Head of Household	Married Filing Separate	Estates & Nongrantor Trusts
10%	\$1 – 9,875	\$1 – 19,750	\$1 – 14,100	\$1 – 9,875	\$0 – 2,600
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	2,601 – 9,450
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	9,451 – 12,950
37%	Over 518,400	Over 622,050	Over 518,400	Over 311,025	over \$12,950

### Standard Deductions

Item	2020	2019	Change
Single	\$12,400	\$12,200	+\$200
Joint or Qualifying 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	Add \$1,300	Add \$1,300	no change
Elderly/Blind: Unmarried	Add \$1,650	Add \$1,650	no change

### 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	—

# EVERYONE Needs Social Security Planning

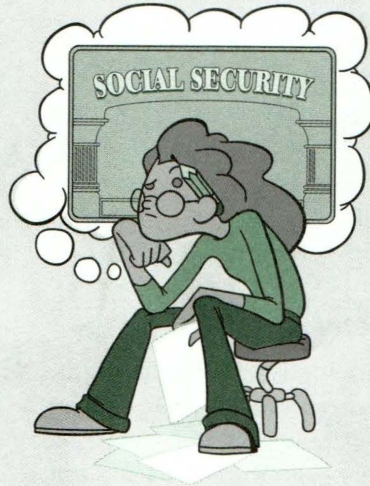
Although you won't become eligible for Social Security until your 60s, there's a lot you can do to prepare before then. Here's a rundown of steps you can take during each decade of your life:

## **In Your 20s** Build retirement savings.

At this point, there's no guarantee that Social Security will be around in its current form when you're ready to retire. The smart move is to build up retirement savings on your own. For instance, you should be participating in a 401(k) or other qualified retirement plan. If you do this, any Social Security benefits will be a pleasant surprise when you retire.

## **In Your 30s** Check your earnings reports!

As you continue to make retirement contributions, check your Social Security wage history. Go to the Social Security Administration (SSA) website ([www.ssa.gov](http://www.ssa.gov)) to set up and review your account. Future benefits are based on your work history. Make sure your wages are being reported correctly and fix any errors that occur.



## **In Your 40s** Actively increase your earning averages.

Typically, this is a time when your earnings increase significantly. Be aware of the key rules relating to Social Security benefits. For example, the SSA uses your average earnings for the 35 highest-earning years to calculate your payments in retirement. So keep track of this and actively work to have lower income years replaced with higher income years. This will result in higher benefit checks when you retire.

**In Your 50s** Social Security retirement planning. Social Security benefit planning is especially important if you are considering early retirement. Continue to check income being reported to the SSA and create a forecast for the future. While not etched in stone, it allows you to analyze whether you'll be able to sustain your current lifestyle based on your expected income and expenses. If you wait until your 60s to begin this planning process, it may be too late to save enough to meet your retirement goals.

## **In Your 60s** When and how much.

Decide whether you want to begin taking benefits at age 62 (the earliest age), full retirement age, age 70, or somewhere in between. The longer you wait, the greater your monthly benefits, but you're giving up use of the money. Factor in aspects like your health, pensions, required minimum distributions and other earnings. Finally, remember that up to 85% of Social Security benefits are taxable, so it's worth planning now!

## More Room to Save

### New retirement contribution limits

In 2020 401(k) and 403(b) maximum contributions get TWO boosts. The annual limit goes up \$500 to \$19,500 while those 50 or over can add an additional amount of \$6,500 (up from \$6,000). If you have not already done so, now is the time to plan for contributions into your retirement accounts in 2020. Check out the tables below for the new contribution limits:

### 2020 Key Retirement Plan Limits

Traditional IRA, Roth IRA	\$6,000 (+\$1,000 50 or over)
401(k), 403(b)	19,500 (+\$6,500 50 or over)
Simple IRA	13,500 (+\$3,000 50 or over)

**Change vs 2019** **+\$500**

Don't forget to account for any matching programs offered by your employer as you determine your various funding levels for next year.

## Tax Fraud Season...IS NOW!

There is a window of time each year when thieves focus on tax fraud. It is the time between when W-2s and form 1099s are issued in January and before you have a chance to file your tax return.

### What the IRS is doing

To combat this, the IRS is taking steps to reduce the risk of this happening to you. They are:

- Increasing security on their web sites.
- Relying on the professional tax preparation community to help them in their efforts.
- Expanding use of the one-time IRS PIN program to ensure tax-filing authenticity.
- Holding early issue of tax refunds until after February 15 for those using the earned income tax credit or additional child credit.

### What you can do

**Be vigilant.** Understand now is the time when you may be scammed for personal information. Remember the IRS DOES NOT contact you via phone or email!

**Make an early tax appointment.** The more at risk you may be, the earlier you should file your tax return. Once your tax return is filed, the risk of tax fraud decreases dramatically.

**Keep your social private.** Never provide your Social Security number to anyone who does not need it. For example, many retailers are using this number for their shopper programs AND are asking customers to provide it to them in their stores while shopping!

**Pre-check your credit accounts.** If you have not already done so, take advantage of your annual free credit check-up with the three major credit agencies. This can often be an early warning sign that your information has been compromised.