



1040 News

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Quarterly news & tips for folks in every tax bracket

Introduction:

2020 is finally coming to an end. But that doesn't mean there won't be last minute changes from Congress.

Page 1 of 1040 News covers the tax provisions still being debated by lawmakers. Page 2 summarizes the changes that have already become law, and how the new rules affect your 2020 tax return.

Tax Laws Still Being Debated:

Congress is still trying to get a few more things done that will affect tax year 2020.

PPP Loan Tax Treatment

If Congress does not act, business owners that received a Paycheck Protection Program (PPP) loan may be surprised on their 2020 return. That's because they can't deduct expenses that result in forgiveness of the loan (under current rules). The IRS has stated that this is true even if the business owner has not applied for PPP loan forgiveness at the time they file their 2020 return. They also state that business expense deductions cannot be taken for any portion of a PPP loan that is reasonably expected to be forgiven in 2021.

Many business owners don't yet know how much of their PPP loans will be forgiven in 2021. Let's hope Congress acts to either clarify or change the law. Many experts believe that Congress will eliminate the tax burden arising from PPP loan forgiveness all together.

The IRS isn't to blame for the tax burden or taxpayer confusion. They are interpreting the PPP loans the same way they would any other business loan that was forgiven. The IRS doesn't make tax laws, they only interpret and enforce them.

More PPP Loans

Congress might act to refund the PPP and

open it up to new applicants (it has been closed since 8/8/20).

Preliminary proposals call for an additional \$300 billion in PPP funding, mostly designed to go to business with fewer than 300 employees and companies that were underserved by the original PPP. If your business did not get a PPP loan then pay attention to the financial news and act quickly (if you qualify, of course).

More Unemployment Money

Two generous provisions of the CARES Act are set to expire at the end of the year:

- 1) Unemployment benefits for qualified self-employed taxpayers.
- 2) Unemployment benefits that last for 39 weeks vs. just 26 weeks.

Preliminary proposals call for an extension of both provisions.

Preliminary proposals also call for renewed funding of the Federal Pandemic Unemployment Compensation (FPUC). Originally FPUC paid \$600/week. The new proposal is for 16 weeks at \$300/week.

More Stimulus... Maybe?

Preliminary proposals did not include more funding for additional Economic Impact Payments (a.k.a. stimulus). However, some lawmakers insist on more stimulus, and new proposals now call for payments roughly half the size of the initial round. See page 2 for more information about the initial round of stimulus payments that ended on 11/21/20.

Federal Student Loan Forbearance

Federal student loan forbearance is currently scheduled to end on 12/31/20 (with loan payments resuming in 2021). Preliminary proposals call for an extension of forbearance through 4/1/21.

What About Tax Extenders?

If Congress succeeds in passing a bill there will likely be a few extensions of expired or expiring tax provisions that come along for the ride. These "extenders", as they are called, are very common in end-of-year tax legislation.

For example, there are **33 tax provisions set to expire at the end of 2020**. We don't know which ones might get extended, but here are the ones that will affect most folks in 2021 if allowed to expire:

Discharge of **qualified principle residence indebtedness** can be excluded from taxable income (up to \$2 million).

Private Mortgage Insurance (PMI) premiums count as an itemized deduction (subject to income limitations).

Out-of-pocket **medical expense deductibility** threshold increases from 7.5% of Adjusted Gross Income (AGI) up to 10%.

Qualified tuition payments as an adjustment to AGI is set to expire. *Note: The American Opportunity Credit and Lifetime Learning Credit for qualified tuition payments are not set to expire (subject to income limitations).*

Credit for qualified **residential energy efficient property** (e.g. windows, furnaces, etc.) is set to expire. Most home owners have already used-up their \$500 lifetime limit for this credit.

This is far from a comprehensive summary of the tax issues being debated. As always, write your elected officials if you don't like the way things are going in Washington DC.

Turn the page
for more.

Six bills affecting tax-year 2020 became law. Here's what you need to know as you gather the information needed to get your taxes done:

Did you get an Economic Impact Payment (EIP)?

The EIP (a.k.a. "stimulus") is not taxable income, but you still need to remember how much you got. That's because if your stimulus was too small you can claim the balance as a 2020 tax credit. However, don't worry about having to pay-back the stimulus. The IRS says you can keep it even if you don't qualify based on 2020 income.

Here is a refresher on the qualifiers: Taxpayers with Adjusted Gross Income (AGI) below \$75,000/\$112,500/\$150,000 (Single/HH/MFJ) were supposed to receive \$1,200 (single & HH) or \$2,400 (MFJ). There's an additional \$500 for each dependent child under the age of 17. The total payment is reduced by 5% of AGI in excess of the thresholds listed above.

If you didn't get ANY stimulus you still have options:

- Call the IRS' EIP hotline (800-919-9835) if you already filed a 2019 return but never got the stimulus. Expect long wait times.
- Wait until you file your 2020 return to claim the stimulus (if you qualify based on 2020 income levels).

Do you own a business that received pandemic related assistance?

You will need to know the following for your 2020 tax return:

- Amount of the PPP loan that was forgiven in 2020 or likely to be forgiven in 2021.
- Amount of EIDL loan advance payments received.
- Amount of Employee Retention Credits claimed.

These amounts will result in increased taxable income (by different mechanisms). See page 1 about the possibility of lawmakers acting to remove the tax burden of PPP loan forgiveness.

Did you get unemployment?

If yes, you will need form 1099-G to file your taxes. Some states do not mail the form and require you to login and download it.

Unemployment (UE) compensation is taxable income. Be prepared to owe if the withholding on your UE was too low. This is common for those that received the \$600/wk bonus federal UE. Many taxpayers did not have withholding on those payments.

Are you planning to change your withholding because you anticipate owing this year?

You fill-out form W-4 every time you start a new job or make changes to your existing withholding. If it's been a while since your last W-4, you will notice plenty of changes. The IRS claims that the new form reduces complexity. In reality, taxes are complex and the new W-4 isn't simple. Here's what you need to know:

- Follow the five steps and answer the questions to the best of your knowledge.
- If you have multiple jobs (or your spouse works) pay careful attention to step 2.
- Avoid the pitfall of claiming the same dependent on more than one W-4 (step 3).
- Double-check your pay-stub to confirm that more (or less, if that was your goal) is actually being taken out.

Remember that it's difficult to predict if you will owe because all sources of taxable income, deductions, and credits must be considered. The IRS has an estimator app ([IRS.gov/W4app](https://www.irs.gov/W4app)), but it's complex. Practically speaking, accurate estimates are best left to professionals.

Did you skip your 2020 RMDs?

Taxpayers were allowed to skip their Required Minimum Distributions (RMDs) in 2020. As a refresher, RMDs are required distributions from retirement accounts (including 401ks, IRAs, pensions, annuities, etc.) for taxpayers that turned 70^{1/2} prior to 1/1/20 (or turned 72 after 12/31/19). Mandatory RMDs are scheduled to resume in 2021.

If you have already taken your RMDs and want to put the money back it must be done within 60 days. You are only allowed to do this once per year. Previously, the IRS was allowing taxpayers to put-back multiple RMDs, but the deadline for doing so expired 8/31/20.

Did you give to charity but don't itemize?

Good news! For tax year 2020 you can deduct up to \$300 in cash contributions even if you don't itemize. This applies to cash contributions only, not goods.

Are you likely to owe this year?

More good news! The IRS reduced the interest rate on tax debts from 5% to 3% (as of 7/1/20).

Did you cash-out retirement funds to make ends-meet?

You might be able to spread the tax burden over 3 years, PLUS avoid the 10% early withdrawal penalty on up to \$100,000 of distributions. There are qualifiers however. The taxpayer (or spouse / dependent) must have test-

ed positive for Covid-19 or experienced adverse financial effects due to quarantine, furlough, lay-off, reduced work hours, or being unable to work due to coronavirus related matters.

Are you working in your 70s?

Now you can contribute to a traditional IRA regardless of age (before 2020 that was limited to workers under age 70^{1/2}). You have until 4/15/21 to make contributions for tax year 2020 (contribution amounts and deductibility subject to income limitations).

Do you have student loans?

Beginning in 2020 you can use 529 plan funds to make loan payments for yourself or a sibling (\$10,000 lifetime cap).

Are you an apprentice?

Beginning in 2020 tuition payments for registered apprenticeship programs can be paid with 529 plan funds.

Do you work part-time?

Beginning in 2020 part-time workers are allowed to participate in employer sponsored 401(k) plans (if they have 500+ hours in three consecutive years). Talk to your employer to see if you qualify.

Did you inherit an IRA?

If the inheritance was in 2020 you now have to completely distribute the funds within 10 years. The old rules, which allowed distribution over the recipient's lifespan in some situations, apply for IRAs inherited before 2020.

Did you have an addition to the family?

Penalty-free distributions from retirement plans are now allowed (up to \$5000) for births or adoptions.

Do you have unfiled returns?

The failure-to-file penalty was increased to \$435. It's time to get them done if you know you owe a balance due. It is also wise to file if you are due a refund. That's because refunds expire 3 years from the original due date of the return.

Did you enjoy the extra time to file 2019 returns?

The IRS hasn't announced an extension of the 2021 tax season. Plan to get your taxes filed by 4/15/21 to be safe.

Thanks for reading. Stay healthy & safe.