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# Tax Planning Guide 2020


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# Tax Planning Guide 2020

Just before going home on their holiday recess, Congress passed the Consolidated Appropriations Act of 2020. President Trump signed off on the package on December 20th, narrowly avoiding a government shutdown. This year-end spending package included two significant pieces of tax legislation that significantly affects tax planning for both individuals and businesses. First, the Setting Every Community Up for Retirement Enhancement Act (SECURE) represents the most significant legislative change we've seen in years to retirement planning, estate planning and the administration of workplace retirement plans.

Also included in the massive spending package was the Tax Extender and Disaster Relief Act. This law extended or resurrected dozens of tax credits and other benefits of interest to both individuals and businesses. At the same time, it repealed a number of other taxes. The law also provided some relief to individuals and businesses affected by federally-declared disasters.

These two 2020 laws came just two years after the Tax Cuts and Jobs Act (TCJA), which passed in the last days of 2017. The TCJA included a number of important changes for both individuals and business owners. It nearly doubled the standard deduction while eliminating personal exemptions. It also significantly decreased tax rates for individuals and businesses, though it did set limits on some peoples' ability to deduct state and local tax (SALT) from federal income tax.

Whether planning for your family's or company's financial future, analyzing your position now to prepare for 2020 is key to developing and implementing tax-saving strategies. You may wish to pay particular attention to some tax benefits that are retroactive to 2018. To take advantage of these tax benefits, you may have to file an amendment to your 2018 return.

## ON THESE PAGES

On the following pages you will learn how individuals and businesses figure their tax liabilities, and how the recent changes in the tax code may affect your investment, estate, retirement and business strategies. Because tax planning has become increasingly complex and each tax situation is unique, we urge you to consult a professional — who may advise you to follow this booklet's tips or another course of action.

# BRACKETS AND RATES

Many individuals saw an increase in their take-home pay over the last two years. Tax rates remained the same, but tax brackets increased slightly for inflation for 2020. All federal income tax brackets are based on taxable income.

You can use the IRS' tax withholding calculator to see if you're withholding an adequate amount. *https://www.irs.gov/individuals/tax-withholding-estimator*

| MARRIED FILING JOINTLY & SURVIVING SPOUSES | | |
|---|---|---|
| TAX RATE | 2020 INCOME | 2019 INCOME |
| 10% | $0–$19,750 | $0-$19,400 |
| 12% | $19,751 - $80,250 | $19,401-$78,950 |
| 22% | $80,251 - $171,050 | $78,951-$168,400 |
| 24% | $171,051 - $326,600 | $168,401-$321,450 |
| 32% | $326,601 - $414,700 | $321,451-$408,200 |
| 35% | $414,701 - $622,050 | $408,201-$612,350 |
| 37% | $622,051 or more | $612,351 or more |

| MARRIED FILING SEPARATELY & SINGLES | | | | | | |
|---|---|---|---|---|---|---|
| TAX RATE | MARRIED FILING SEPARATELY INCOME | | SINGLE INCOME | | HEAD OF HOUSEHOLD INCOME | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| 10% | $0–$$9,875 | $0–$9,700 | $0–$9,875 | $0–$9,700 | $0–$14,100 | $0–$13,850 |
| 12% | $9,876–$40,125 | $9,701–$39,475 | $9,876–$40,125 | $9,701–$39,475 | $14,101 - $53,700 | $13,851–$52,850 |
| 22% | $40,126 - $85,525 | $39,476–$84,200 | $40,126 - $85,525 | $39,476–$84,200 | $53,701 - $85,500 | $52,851–$84,200 |
| 24% | $85,526 - $163,300 | $84,201–$160,725 | $85,526 - $163,300 | $84,201–$160,725 | $85,501 - $163,300 | $84,201–$160,700 |
| 32% | $163,301 - $207,350 | $160,726–$204,100 | $163,301 - $207,350 | $160,726–$204,100 | $163,301 - $207,350 | $160,701–$204,100 |
| 35% | $207,351 - $311,025 | $204,101–$306,175 | $207,351 - $518,400 | $204,101–$510,300 | $207,351 - $518,400 | $204,101–$510,300 |
| 37% | $311,026 or more | $306,176 or more | $518,401 or more | $510,301 or more | $518,401 or more | $510,301 or more |

## ALTERNATIVE MINIMUM TAX

The Alternative Minimum Tax (AMT) was designed to limit allowable deductions taken by the highest-income taxpayers to ensure they pay their fair share of taxes. There was a modest increase for inflation for 2020.

| AMT EXEMPTION AMOUNTS | | |
|---|---|---|
| **STATUS** | **2020** | **2019** |
| Exemption for Singles | $72,900 | $71,700 |
| Exemption for Married Filing Separately | $56,700 | $55,850 |
| Exemption for Married Filing Jointly | $113,400 | $111,700 |
| Phase-out for Singles & Married, Filing Separately | $518,400 | $510,300 |
| Phase-out for Married Filing Jointly | $1,036,800 | $1,020,600 |

> ***Determining your AMT can be tricky. Some deductions you might itemize in a typical tax return may not be allowed in AMT calculations. Work with your tax professional to get it right.***

# DEDUCTIONS AND CREDITS

### STANDARD DEDUCTION

The new standard deduction, which reduces the amount of your taxable income, for 2019 is $24,400 ($24,800 in 2020) for married taxpayers filing jointly, $18,350 ($18,650 in 2020) for those who file as heads of household and $12,200 ($12,400 in 2020) for those who file as single or married filing separately.

### CHILD TAX CREDIT

The child tax credit remains unchanged from 2019. Each dependent child aged 17 or younger, can qualify for a $2,000 tax credit, subject to income limitations. The credit phases out at $400,000 for joint filers and $200,000 for everyone else. Your dependent child must have a Social Security number to claim the credit.

### DEPENDENT TAX CREDIT

Take another $500 tax credit for other dependents in your care. This could be a dependent adult child or an elderly parent. The dependent doesn't need to be related to you if they lived with you for the entire tax year and are a U.S. citizen, national, or resident alien. This credit is subject to the child tax credit's income limits discussed above.

### ITEMIZED DEDUCTION LIMIT GONE

Itemized deductions, which were previously phased out for taxpayers with higher incomes, have no income-based limit any longer.

## DEDUCTIONS ELIMINATED

A few itemized deductions were eliminated, including:

- Personal casualty and theft losses, unless they occur in a federally-declared disaster area
- Unreimbursed employee business expenses
- Tax preparation fees
- Investment expenses, including investment management fees
- Legal fees
- Employment-related educational expenses
- Job search expenses
- Hobby losses
- Safe deposit box fees
- Moving expenses, unless an active duty military member.

## DEDUCTION LIMITS

### HOME LOANS

If you have a jumbo first mortgage, you may not be able to deduct all of its interest. Married taxpayers filing jointly may deduct the interest on a maximum of only $750,000 of mortgage principal, down from $1 million previously. The deduction is limited to half of that for single taxpayers.

Interest on home equity loans, home equity lines of credit (HELOCs) and second mortgages may be deducted only when used to buy, build or substantially improve the taxpayer's primary or secondary qualified residence that secures the loan, subject to limits.

### REAL ESTATE SECTION 1031 LIKE-KIND EXCHANGES

The treatment of investment property is now limited to real property – including land and permanent structures on that land. However, you can still sell one property and buy one to three other properties within a certain timeframe. If you sell investment property, you may defer taxable gains if within 45 days of the sale you identify other income-producing property that you buy within 180 days or by the due date of your tax return, including extensions. Your tax professionals will give you more information.

### SALT TAXES

Taxpayers are limited to $10,000 on state and local tax (SALT) deductions. This provision is especially harsh on homeowners in high-tax states, where state income and property taxes can easily exceed this figure. Making "charitable deductions" to a state-run charitable fund won't allow you to get around the SALT limitations. Buying SALT credits this way is not allowed, because as with all charitable contributions, you'll have to reduce the amount of your contribution by the value of anything you receive.

> ***If you work and own personal real estate in a high-tax state, the SALT limit could mean you aren't withholding enough income for taxes. Recheck your withholding numbers.***

# NOTABLE CHANGES

There are some notable changes in tax law that may affect not only your budgeting and tax picture, but your future planning, too. They include:

### OWNERSHIP OF CERTAIN FOREIGN CORPORATIONS

If you're a shareholder in certain foreign corporations, the reporting requirement of your share of the corporate earnings may be lessened. You'll also have to do less legwork to determine if you must report and pay tax on your share of the foreign corporation's profits. Consult with your tax professional if you have ownership in foreign corporations.

### FARMERS IN DROUGHT AREA

For farmers living in affected drought areas who were forced to sell certain livestock between 2015 and 2019, you have an additional year to replace them and defer any gains on the forced sale. Usually you have four years to replace livestock from a forced sale. This change will affect those living in counties designated as having exceptional, extreme, or severe drought conditions. Currently, portions of 32 states and territories qualify and only livestock used for draft, dairy, or breeding purposes are eligible. Poultry and livestock raised for slaughter or sport don't qualify.

### VIRTUAL CURRENCY

Virtual currency is considered property and any gain or loss from its sale is taxed as capital gains or losses. However, if you own virtual currency that experiences a hard fork and you receive units of the new virtual currency, you have taxable income on the value of the new currency you received. The new virtual currency, called an *airdrop*, is taxed to you as ordinary income.

> ***The IRS recently sent notices regarding filing requirements to thousands of virtual currency owners. You can avoid receiving one of these by accurately including your virtual currency activity on your tax return.***

# HEALTH SAVINGS ACCOUNTS

Some limits increased for Health Savings Accounts (HSAs) and their companion High-Deductible Health Plans (HDHPs).

| HEALTH SAVINGS ACCOUNTS AND HIGH DEDUCTIBLE HEALTH PLANS | | |
|---|---|---|
| | **2020** | **2019** |
| HSA contribution limit* | Self-only: $3,550<br>Family: $7,100 | Self-only: $3,500<br>Family: $7,000 |
| HSA catch-up contribution | $1,000 | $1,000 |
| HDHP minimum deductible | $1,400<br>$2,800 | $1,350<br>$2,700 |
| HDHP maximum | Self-only: $6,900 | Self-only: $6,750 |
| Out-of-pocket costs | Family: $13,800 | Family: $13,500 |

**Combined employer and employee contributions*

> ***HSAs have a triple tax advantage. First, contributions are tax-deferred. Earnings grow tax-free, and withdrawals on qualified medical expenses are also tax-free. Non-qualified withdrawals, however, are subject to income tax, plus a 20% penalty.***

# CAPITAL GAINS TAX

Remember that you pay long-term capital gains taxes on investments held longer than one year, while you pay ordinary income taxes on short-term investment gains. The capital gains tax brackets are based on taxable income, just like the ordinary income tax brackets.

| CAPITAL GAINS TAX BRACKETS | | | | |
|---|---|---|---|---|
| TAX RATE | MARRIED JOINT FILERS | | SINGLE FILERS | |
| | 2020 | 2019 | 2020 | 2019 |
| 0% | $80,000 | $78,750 | $40,000 | $39,375 |
| 15% | $80,001 - $496,600 | $78,751- $488,850 | $40,001 - $441,450 | $39,376- $434,550 |
| 20% | $496,601 and up | $488,851 and up | $441,451 and up | $434,551 and up |

### TREATMENT OF LOSSES

A capital gain or loss is the difference between your basis, which is typically the cost of buying an asset or investment, adjusted by certain previous deductions for depreciation and/or depletion, and what you get for selling it. If your investments have a net capital loss, you can deduct up to $3,000 of the loss against your income annually. If your losses exceed these annual limits, you may carry losses forward to future years, deducting up to $3,000 per year against your income until your capital losses are exhausted.

> ***You may be able to "tax-loss harvest" by deducting up to $3,000 in capital losses, while carrying forward excess losses to the following year.***

### A WORD ABOUT DIVIDENDS

Talk to your financial professional to learn if dividends you received are qualified or unqualified. Qualified dividends are eligible for more favorable capital gains tax rates, while unqualified dividends are taxed as ordinary income. Dividends from real estate investment trusts (REITs) and master limited partnerships (MLPs) are unqualified, as are dividends from credit unions and mutual savings banks. These are taxed as ordinary income.

# TAX PLANNING AND COLLEGE

### SECTION 529 PLANS

You can now use 529 plans to pay down qualified student loans. Under the newly-passed SECURE Act, 529 plan account owners may now make tax-free withdrawals of up to $10,000 from these plans for the purposes of paying down qualified student loans. This $10,000 is a lifetime limit that applies to the 529 plan and each of his or her siblings. So a parent with three children can make a tax-free withdrawal of up to $30,000, total – one for each child. This provision is effective for the 2019 tax year.

Any interest paid down with a 529 plan is ineligible for the student loan interest deduction.

You can also now use 529 plans to pay qualified apprenticeship program costs. The apprenticeship program must be registered with and certified by the U.S. Department of Labor.

Additionally, the Tax Cuts and Jobs Act extended the definition of qualified 529 plan distributions to include some K-12 educational costs – up to $10,000 per year, beginning in 2017. These include tuition, books, fees and computers.

529 plan contribution and withdrawal limits are otherwise the same as in 2019: You can withdraw up to $10,000 annually to pay for elementary or secondary education costs. Plus, the higher withdrawal allowances for higher education expenses still apply.

### COVERDELL ESA

The Coverdell Education Savings Account (ESA) remains unchanged, with a $2,000 annual contribution limit per student. You qualify to make a full nondeductible contribution if you file jointly, but the limit is phased out at a modified AGI of $190,000–$220,000. Limits for singles are half of those for joint filers. Earnings are tax-deferred and qualified withdrawals are tax-free.

You have until the April 2020 tax filing deadline to make a Coverdell ESA contribution for 2019.

### EDUCATION TAX CREDITS

You may have a choice of taking a Lifetime Learning Tax Credit (up to $2,000) or an American Opportunity Tax Credit (up to $2,500 per student) for qualified education expenses, but you can't take both in the same year. The credit is deducted from your taxes owed, not from your income.

### GRADUATE AND DOCTORAL STUDENTS AND IRA CONTRIBUTIONS

The SECURE Act defines stipend payments for graduate and doctoral students as 'earned income' for the purposes of determining allowable IRA contributions. If you or your spouse receives such a stipend, you may be able to contribute more towards a traditional or Roth IRA.

### CUSTODIAL ACCOUNTS

The Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) facilitate custodial accounts set up for the benefit of minors. While they don't have restrictions like qualified education accounts, they feature two distinct disadvantages: Beneficiaries can do what they want with the account once reaching the age of majority because they'll own the assets. Also, students are expected to contribute a greater percentage of assets than parents when paying for education expenses.

### STUDENT LOANS

Borrowers have a few ways to see their student loans forgiven, cancelled or discharged for working in public service and other sectors. Talk to your tax professional to learn if any apply to your situation.

For those taxpayers paying off their student loans and who qualify by income, they may deduct from their AGI up to $2,500 in qualified education loan interest. This deduction phases out for individuals with a modified AGI greater than $70,000.

# TAX PLANNING AND YOUR ESTATE

### PASSING ON IRAS

The SECURE Act made major, sweeping changes to how assets in retirement accounts, including IRAs, are taxed when passed on to most non-spousal beneficiaries.

First, the so-called "stretch IRA" option is repealed for most IRAs inherited after December 31st, 2019. This provision allowed non-spousal heirs to spread inherited IRA distributions over their entire remaining life expectancy. This favorable provision allowed for decades of potential tax-deferred or (for Roths) tax-free compounding. And because income from tax-deferred accounts could be spread out over so many years, beneficiaries could prevent taxable IRA distributions from falling into higher marginal tax brackets. This was a valuable tax benefit, and an important consideration in many peoples' tax planning and income spending decisions.

The SECURE Act scraps the "stretch IRA" for non-spousal beneficiaries except for a few narrow exceptions. Instead, beneficiaries must now completely empty inherited IRA accounts within ten years of inheriting them. There are no annual required minimum distributions – except the last one.

The Ten-Year Rule also applies to trusts set up to receive IRA assets on behalf of beneficiaries. If the trust is set up as a 'conduit' trust, the trust must then forward all the IRA income to beneficiaries. This would potentially expose the inherited IRA assets to heirs' creditors, bankruptcy or divorce proceedings – defeating the purpose of an asset protection trust.

In some circumstances, you may wish to have an attorney redraft any existing conduit trusts to allow the trust to retain the assets, rather than distributing income to beneficiaries. The downside is that these assets would then be subject to less favorable trust tax rates.

The SECURE Act has major ramifications for estate planning. If you have significant assets in IRAs or other retirement accounts you are planning to pass on to non-spousal beneficiaries (e.g., your children), it is an excellent idea to review your estate planning as soon as possible, to account for the changes brought about by the new law.

### MEDICAL EXPENSE DEDUCTIONS

Medical expenses will now be deductible to the extent they exceed 7.5% of your adjusted gross income for 2019 and 2020. This is an improvement compared to the prior law, which set the income threshold at the much higher 10% of AGI. If you have significant medical expenses, you will be able to deduct more of them from your taxable income.

### MORTGAGE INSURANCE PREMIUM DEDUCTIONS

Individuals may now deduct mortgage insurance premiums on their personal residence and on one other home, such as a vacation home. This deduction begins to phase out when your adjusted gross income reaches $100,000 ($55,000 for married filing separate returns).

### FORECLOSURE RELIEF

For a decade prior 2017, debt forgiven due to a residential foreclosure was excluded from taxable income. The new Tax Extenders Act extends this relief to 2020, and applies it retroactively to 2018 and 2019. The exclusion is limited to $2 million for individual taxpayers. ($1 million if married-filing-separately). If you had mortgage debt forgiven due to foreclosure in 2018 or 2019, you may consider filing an amended return to claim the exemption.

### ESTATE TAXES

The estate, gift and generation-skipping tax exemption increased to $22.8 million in 2019 ($23.16 million for 2020) for couples filing jointly and $11.4 million ($11.58 million in 2020) for individuals. If you haven't discussed estate planning opportunities with your legal, tax and financial professionals yet, now is a good time to learn more.

Even with more generous federal estate tax exemptions, taxpayers need to be aware of local estate and inheritance taxes. Although some states have repealed their estate tax statutes and others increased their exemptions recently, a few still have the tax. A handful of states also have an inheritance tax.

> ***If you maxed out your estate tax exemption prior to its increase under the TCJA, now is a good time to revisit your estate tax planning strategy before the increased exemption expires in 2023.***

### GIFT TAXES

The annual gift tax exemption remains $15,000 per person per individual receiving the gift. If, for example, you and your spouse each max out your annual gift exemption to three grandchildren, you can take $90,000 out of your taxable estate gift-tax-free.

> ***Reduce your taxable estate by putting up to five years' worth of gifts into a 529 plan for a loved one's college education. Maximize your gift by giving up to the maximum annual tax-free gift limit of $15,000 times five years per donor per recipient; the plan's assets then grow tax-deferred and qualified withdrawals are tax-free.***

### KIDDIE TAX

Under the TCJA, Congress revoked the favorable tax rates that previously applied to minor children, and instead set income tax rates to mirror the much more unfavorable rates on trusts and estates. This change affected children under age 19 as well as full-time students under age 24. This was particularly painful for families with children who received taxable scholarships, fellowships college grants.

The SECURE Act effectively rescinds that provision of the TCJA, and resets tax rates on these children and full-time students to more favorable individual rates.

For children who can be claimed as dependents, the standard deduction is the greater of $1,100, or the sum of $350 plus the child's earned income.

The SECURE Act also grants taxpayers the option of using the more favorable kiddie tax rates for tax year 2019, and to file an amended return to claim them for tax year 2018.

> ***Parents affected by higher kiddie tax rates in 2018 and 2019 get a reprieve in 2019 and 2020. If you are among them, you should also consider filing an amendment to your 2018 return to get the benefit of the lower tax rate under the SECURE Act.***

### CHARITABLE CONTRIBUTIONS

If you itemize on your tax return, you may deduct qualified charitable contributions of up to 60% of your adjusted gross income, but not for donations made to educational institutions for which you receive event seating in return.

If you don't itemize because your deductions are less than the standard deduction — you can't itemize and get the standard deduction, too — you might consider accelerating or bunching contributions for a number of years. For example, if you give $10,000 per year to a charity, bunch three years of contributions — $30,000 — into one year instead, then itemize the deduction on your tax return. Take the standard deduction in the other two years.

### STEP UP IN BASIS

You can leverage your gifts even more if you time them to receive optimal tax treatment. You do this by using a step up in basis of your gift. A new fair market value is established for gifts received after a donor's death — a step up in basis — but there is no step up in basis for gifts received during a donor's life. The step-up in basis sets a new starting value for the gift, which can make a big difference if the asset has appreciated significantly, while making it less likely to exceed gift exemptions and trigger larger capital gains.

# TAX PLANNING AND YOUR RETIREMENT

The SECURE Act made a number of important changes to retirement plans and the way these plans are passed on to heirs. Among the new provisions:

- Previously, you could only contribute to an IRA up to age 70½. With more people working well into their 70s and beyond, Congress revoked the age cap on IRA contributions. Starting in 2020, you can you continue contributing as long as you have earned income.

- The age at which taxpayers must begin taking required distributions is increased from 70½ to 72. This benefits taxpayers born after June 30th, 1949. Taxpayers born before this date must still use age 70½ as the RMD age – and begin taking RMDs not later than April 1st of the year after the year in which they turn 70½.

- New parents may qualify for a new exception to the 10% penalty that normally applies to early distributions (prior to age 59½) from IRA accounts. You can take the credit following a qualified birth or adoption of a new child, provided you do so within a year of birth or adoption. You also have the option to repay the IRA at a later date.

- Part-time workers may now contribute to their employer's 401(k) plan, provided they work 500 hours or more for three consecutive 12-month periods. Employers are not required to match contributions.

## PREPARE FOR TOMORROW

Ask anyone nearing or in retirement and they'll tell you the future is closer than you think. That's why the steps you take many years before retirement will shape your financial picture in retirement.

You may have a variety of retirement savings vehicles to which you can contribute. Traditional and Roth IRAs, Simplified Employee Pensions (SEPs), SIMPLE plans, and 401(k), 403(b) and 457 plans are examples of the many opportunities Americans have to put money away for a more financially secure retirement.

An added bonus is that you reduce your taxable income by contributing before-tax to most retirement vehicles. Roth IRAs require after-tax contributions, but qualified distributions are tax-free (provided the money stays in the Roth account for at least five years). Furthermore, unlike tax-deferred retirement accounts, Roth accounts are not subject to required minimum distributions (RMDs). You can let your savings in a Roth IRA compound tax-free for as long as you live.

Check out the chart on pages 20 and 21, which includes new contribution and other limits for retirement and health savings accounts.

> ***While Roth IRA contributions are subject to an annual income limit, there is no such limit when you roll over traditional IRA or 401(k) plan money into a Roth. Consider making the rollover in years when your income is down, or roll over amounts in annual increments, to keep the one-time tax bill on the rollover reasonable.***

# TAX-RELATED STRATEGIES FOR FAMILIES AND INDIVIDUALS

- Yes, the tax rules have changed, so what are you waiting for? Talk to your tax professional today to get the most from the federal tax code.
- Beware, though, of any difference between federal and local tax jurisdictions. The latter may not mirror federal tax rates, deductions and limits.
- For the best long-term outcome, try to pay any income taxes due on Roth conversions with money from **outside** your retirement accounts. This leaves more assets in place to compound tax-deferred or tax-free.
- If you reside in a high-tax state, you can only deduct up to $10,000 of combined state income and real estate taxes.
- If you experience tax savings this year, why not use this money to bolster your retirement and college savings accounts?
- Taxes are only one part of a greater strategy – or strategies – addressing your investment, retirement, estate and even insurance needs. A financial professional can help you address these areas of your life and potentially take advantage of any tax savings you might have.
- Consider disability income insurance for what could be your greatest asset – your ability to earn a living. Also make sure you have an appropriate amount of life insurance.
- Speaking of protection, a will, powers of attorney and a healthcare directive are legal documents that can ensure your wishes are carried out in the event you become incapacitated.
- Last point: Your tax preparer is only as good as the information you provide. Make sure to ask your tax pro for the documents needed to get the job done right.

## RETIREMENT & HEALTH SAVINGS PLAN CONTRIBUTION INCREASES

| PLAN | | 2020 | 2019 |
|---|---|---|---|
| 401(k) 403(b) 457 | Employee Contribution Limit | $19,500 | $19,000 |
| | Catch-Up Contributions (Age 50+) | $6,500 | $6,000 |
| | Combined Employer / Employee Contribution | $57,000 | $56,000 |
| Traditional IRA / Roth IRA | Contribution Limit | $6,000 | $6,000 |
| Traditional IRA Income Limit for Deductible Contributions (Based on Adjusted Gross Income, not taxable income.) | Single or Head of Household | $65,000 - $75,000 | $64,000-$74,000 |
| | Married Filing Jointly | $104,000 - $124,000 | $103,000-$123,000 |
| | Catch-Up Contribution (Age 50+) | $1,000 | $1,000 |
| Roth IRA Income Limit (Based on Adjusted Gross Income, not taxable income.) | Single | $124,000 - $139,000 | $122,000-$137,000 |
| | Married Filing Jointly or Head of Household | $104,000 - $206,000 | $103,000-$193,000 |
| | Catch-Up Contribution (Age 50+) | $1,000 | $1,000 |
| SIMPLE IRA | Elective Contribution Limit | $13,500 | $13,000 |
| | Catch-Up Contribution (Age 50+) | $3,000 | $3,000 |
| | Employer Non-Elective Contribution Limit | 2% of Compensation up to $285,000 | 2% up to $280,000 |
| SEP-IRA / Profit Sharing / Money Purchase | Contribution Limit | $57,000 | $56,000 |
| Defined Benefit | Maximum Annual Benefit | $230,000 | $225,000 |
| Supplemental Security Income (SSI) Employee Deduction | Annual Income When Deduction Stops | $137,700 | $132,900 |
| Health Savings Account (HSA) Maximum Contribution | Single | $3,550 | $3,500 |
| | Family | $7,100 | $7,000 |
| | Catch Up (Age 55+) | $1,000 | $1,000 |
| High Deductible Health Plan (HDHP) | Single Coverage Deductible | $1,400 | $1,350 |
| | Family Coverage Deductible | $2,800 | $2,700 |
| HDHP Maximum Out-Of-Pocket Limit | Single Coverage | $6,900 | $6,750 |
| | Family Coverage | $13,800 | $13,500 |

The SECURE Act made a number of major changes for businesses and employers – particularly for sponsors of workplace retirement plans. We've included some of the biggest or most commonly-applicable changes below. The SECURE Act also expands incentives for employers to create new retirement plans to benefit employers, while requiring 401(k) plan sponsors to open enrollment to long-term part-time workers. Retirement plan sponsors should be sure to check in with their legal and compliance advisors as early in 2020 as possible to ensure compliance.

Additionally, the Tax Extenders Act makes several important tax changes, as well. Specifically, it extends several tax credits of interest to employers, while repealing a number of other taxes. Business owners and employers should review the applicable provisions, especially those retroactively implemented for 2018, to determine if any tax benefits may be available.

## TAX RATES AND BUSINESS STRUCTURES

The TCJA significantly reduced the U.S. corporate income tax rate. It is now a flat 21%. The TCJA also included favorable treatment for pass-through entities, including S corporations and limited liability companies (LLCs). Now may be a good time to discuss your corporate structure with your tax and legal professionals.

### FEDERAL INCOME TAX RATE SLASHED

With the reduced U.S. corporate tax rate, owners of this type of business entity are still double-taxed on the corporate side and as individual taxpayers. The lower corporate tax rate should help ease a bit of this tax burden.

Business owners can avoid this double taxation by organizing their businesses as pass-through-entities, such as S corporations or limited-liability companies (LLCs). There is no corporate income tax on business income in these entities. Instead, profits "flow through" to the individual tax returns of their owners, paying income tax once at their individual tax rate.

Sole proprietorships and partnerships also avoid double-taxation and receive 'flow through' treatment. But these latter two forms do not provide limited liability. Sole proprietors and partners may be personally liable for claims against the business. These forms are therefore quite risky, from a legal point of view.

## PASS-THROUGH INCOME

This is good news: Under the Tax Cuts and Jobs Act, owners of some pass-through businesses can now take a deduction of up to 20% of qualified business income from these businesses - plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. This tax break phases out for single taxpayers at $163,300 of taxable income, and for married taxpayers at $326,600 - not including a qualified business income deduction. Above these thresholds, the deduction is based on whether you are a specified service trade or business (SSTB) or not.

## TAX BENEFITS FOR RENTAL REAL ESTATE INVESTORS

There's additional good news for taxpayers who own rental real estate. Certain interests in rental real estate now qualify for the 20% pass-through income deduction. These enterprises are generally defined as owning real estate for purposes of generating rental income. In order to claim the deduction, you'll need to meet these requirements:

- Keep separate books and records showing income and expenses for each rental real estate enterprise.
- Complete 250 hours or more of rental services each year if your rental real estate enterprise is less than four years old. For older enterprises, 250 or more hours of rental services are performed in at least three of the past five years. Rental services include advertising the property for rent, collecting rent, and completing routine repairs or maintenance on the property.
- Maintain contemporaneous records, including time reports, logs, or similar documents for hours of all services performed; description of all services performed; dates on which such services were performed; and who performed the services.
- Attach a statement to your return.

Unfortunately, there is some bad news: The formula to figure out your tax liability with the pass-through income provision is extremely complex. Work with your tax professional, who can help you calculate your pass-through income and its tax.

# NOTEWORTHY CHANGES

### THE CORPORATE AMT IS REPEALED

Thanks to the recent tax changes, the corporate Alternative Minimum Tax (AMT) is history. However, businesses can still receive credit for previous AMT payments that exceed their regular tax liability through 2021.

### NET OPERATING LOSSES

The deduction for net operating losses is capped at 80%. There is no carry-back, but there's unlimited carry-forward.

### SECTION 179

For 2019, the limit for Section 179 expensing on eligible property is now $1,020,000 and phases out completely at $2,550,000. The limits for 2020 are $1,040,000 and phases out completely at $2,590,000.

Within these guidelines, Section 179 also allows for immediate and 100% expensing of qualified improvement property placed in service starting in tax year 2018. This provision phases out in 2023. Improvements include:

- Qualified improvement property, which means any improvement to a building's interior but not building enlargements, elevators and escalators, or changes to the internal structural framework of the building
- Roofs, HVAC, and alarm, security and fire protection systems

### BONUS DEPRECIATION

The amount of bonus depreciation percentage you can use for qualified property acquired and placed in service after September 27, 2017 until January 1, 2023 is now 100%. In contrast, the bonus depreciation percentage for qualified property that a taxpayer acquired before September 28, 2017 and placed in service before January 1, 2018, remains at 50%. Talk to your tax pro to get the specifics, of which there are many.

> ***Work with your tax professional to get the most out of the tax provisions and keep good records. Accurate books lead to an accurate tax return. An inaccurate tax return could lead to costly penalties.***

### LUXURY VEHICLES

Depreciation limits have changed for passenger vehicles placed in service after December 31, 2017. If the taxpayer doesn't claim bonus depreciation, limits range from $10,000 in the first year to $5,760 for years four and beyond.

- $10,000 for the first year,
- $16,000 for the second year,
- $9,600 for the third year, and
- $5,760 for each taxable year thereafter in the recovery period.

If the taxpayer claims 100% bonus depreciation, the first year limit is $18,000, while the limits for the other years remain the same. However, computer or peripheral equipment placed in service after December 31, 2017 is excluded.

### INTEREST EXPENSING

Through 2021, amended IRC Section 163(j) limits corporations' business interest expensing to any business interest income, plus 30% of the business' adjusted taxable income. This interest expensing provision doesn't apply to companies with gross average receipts of $25 million or less for the three previous years.

> ***When you expect your business income to increase in a given year, consider using the more generous expensing and depreciation rules to reduce taxes on any gain.***

### MEALS AND ENTERTAINMENT

While companies generally may continue to deduct 50% of the cost of business meals, they can no longer deduct entertainment expenses.

### ACCOUNTING METHODS

In 2020, if your average annual gross receipts were $26 million (up from $25 million in 2018) or less in the three previous tax years, you can choose either a cash or accrual method of accounting.

If your gross receipts exceed that threshold, you must use the accrual method. For more information on the advantages and disadvantages of each method, speak with your tax professional, or see IRS Publication 238 – *Accounting Periods and Methods*.

### WORK OPPORTUNITY TAX CREDIT EXTENDED FOR 2020

The Work Opportunity Tax Credit – originally set to expire at the end of 2019, is extended for 2020. This credit provides an incentive for employers to higher long-term unemployed individuals (i.e., those unemployed for 27 weeks or longer.) Generally, the credit is equal to 40 percent of the first $6,000 in wages paid out to the newly hired worker.

# EMPLOYEE BENEFIT CHANGES

The SECURE Act makes major changes to employee benefits and retirement plan administration. Employers should review these changes carefully. Unemployment remains historically low, so you may want to consider fine-tuning your total compensation package, including fringe benefits, to attract and retain qualified employees.

## TAX CREDITS FOR SMALL BUSINESS RETIREMENT PLANS

The SECURE Act significantly increased the maximum allowable small business retirement plan tax credit, from $500 to $5,000. This credit is designed to provide small business owners with an incentive to provide access to a retirement plan for their employees. Another $500 in tax credits each year for up to three years is available for businesses that enroll new hires automatically. The maximum auto-enrollment contribution for the first year of employment is 10% of compensation. Employees must have the choice to opt out of auto-enrollment.

After the worker's first year, the SECURE Act also allows safe harbor plans to automatically increase employee contributions up to a maximum of 15% of compensation. Again, employees must have the option of 'opting out.'

Additionally, you now have until the due date for your company's tax return filing to establish a plan and claim the credit for the previous year. This also gives you more time to provide your employees with a profit-sharing contribution.

## "CADILLAC" EMPLOYEE HEALTH CARE PLAN TAX REPEALED

The Affordable Care Act imposed a 40% tax on certain high-end employee health plans, which was slated to become effective in January 2022. Congress has repealed it entirely.

## MULTIPLE EMPLOYER PLANS

The SECURE Act allows employers of all sizes to collaborate to open "pooled plans," or Multiple Employer Plans (MEPs) for plan years starting after December 31st, 2020. Employers need not show a common interest to do so. Until now, employers were discouraged from entering into MEP arrangements because of the "One Bad Apple" rule. Under this rule, if one member employer had problems complying with ERISA requirements, the entire plan could be disqualified. The SECURE Act reduces employer risk by allowing for the non-compliant plan to be separated from the MEP, leaving the remaining plans under the MEP intact.

### COMPLIANCE PENALTIES INCREASED

The SECURE Act substantially increases fines and penalties for non-compliance with ERISA requirements. The penalty for failure to file a Form 5500 increased ten-fold, from $25 to $250 per day. The maximum penalty also increased ten-fold- from $15,000 to $150,000.

The SECURE Act also increased penalties for failures relating to annual deferred vested participant registration statements, change of status notifications, and withholding notices. The penalty increases apply to returns and notices due after December 31, 2019. Make sure your HR and compliance staff are up to speed, or outsource these tasks as necessary.

### QUALIFIED RETIREMENT PLAN OFFSET

Previously, employees with a defaulted plan loan who were no longer with their qualified plan's company, or had a terminated plan, had 60 days to roll over the loan plus withholding taxes before penalties and interest accrued. Now, they have until the tax filing deadline (plus extensions) of the following year to make a rollover.

### QUALIFIED PLAN LIMITS

The annual compensation limit for retirement accounts under Sections 401(a)(17), 404(l), 408(k)(3)(C) and 408(k)(6)(D)(ii) was $280,000 in 2019. In 2020, the limit increases to $285,000.

### ESOPs

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a five-year distribution period is $1,130,000 in 2019, and $1,150,000 in 2020. The dollar amount used to determine the lengthening of the five-year distribution period is $225,000 in 2019, and $230,000 in 2020.

### TRANSPORTATION BENEFIT

The corporate tax break for employer-paid transportation benefits was repealed. However, it is still tax-free to employees.

### EMPLOYER FMLA TAX CREDIT EXTENDED

The Employer Family Medical Leave Act credit, originally set to expire at the end of 2019, has been extended through 2020. This credit is equal to 12.5% to 25% of eligible wages paid to low-and moderate-income employees while they are on family or medical leave.

### THE MEDICAL DEVICE TAX IS REPEALED

A 2.3% tax on medical devices from the Affordable Care Act, set to become effective in 2020, is now repealed.

### DISASTER RELIEF CREDIT EXTENDED

The Tax Extenders Act renews the disaster relief credit. This credit, originally set to expire this year, provides a tax credit of up to 40% of wages paid to each eligible employee while the trade or business is inoperable due to a qualified disaster during the taxable year. A cap of $6,000 in qualified wages per employee applies.

### INDIAN EMPLOYMENT CREDIT RESURRECTED

The Indian Employment Credit, which expired at the end of 2017, is back in force for 2020. This credit incentivizes employers to boost employment on Indian reservations. The credit is worth up to 20% of the first $20,000 in qualified employee wages and health insurance costs over the amount of these costs and wages incurred by the employer in 1993.

### EMPOWERMENT ZONE TAX INCENTIVES

The Empowerment Zone Tax Incentive program, which was designed to incentivize business investment and job growth in certain economically disadvantaged areas, expired at the end of 2017. However, the Tax Extenders Act renewed the incentives, and applies retroactively to 2018 and 2019. The program may entitle you to expanded Section 179 deduction allowances, potential deferral of capital gains under IRC Section 1397B, and the ability to finance projects using certain tax-exempt bonds under IRC Section 1394.

# TAX-RELATED STRATEGIES FOR BUSINESSES

- With so many changes, it is important to work with your tax professional to make the most of the new laws. Don't forget to ask your tax pro for a complete list of documents you'll need in the meeting.
- One area you may want to explore is your menu of employee benefits. Even with some reduced tax deductibility of benefits, now may be the time to enhance some of your offerings with unemployment historically low. Benefits can help you attract and retain talented workers.
- With lower tax rates for corporations and the new pass-through income provision for other types of business income, you may be tempted to change your business legal structure to take advantage. However, many factors go into how your business is legally organized, and taxes are only one.
- The "pass-through" tax benefit could be lower than your personal federal income tax rate, so check with your tax professional.
- Beware that not all tax jurisdictions are mimicking federal tax changes. Again, ask your tax professional how they may differ.
- You may want to reexamine your various cash-flow and investment strategies after changes in expensing and depreciation rules.
- The news isn't all good this year, as some deductions have disappeared and the allowable deduction for net operating losses is reduced.
- Although the Alternative Minimum Tax is gone, you may still get credit for previous AMT payments over your regular tax liability through 2021.
- Remember that even if you work for an employer but on the side for yourself, you may be able to use the business owner part of your income to achieve additional tax savings.

## WE CAN HELP

Tax regulations are ever-changing and always complex. It has never been more important to work with your tax and financial professionals to learn how to minimize taxes and leverage your savings to invest in your business or in your future. We urge you to call us as soon as you can to schedule an appointment.

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## PROFESSIONAL DESIGNATIONS:

• CPA, Certified Public Accountant

• CGMA, Chartered Global Management Accountant

• EA, Enrolled Agent before the IRS

• RFC, Registered Financial Consultant

## AFFILIATIONS (PROFESSIONAL MEMBER):

• American Institute of Certified Public Accoutants (CPA)

• International Chartered Management Accountants (CGMA)

• International Registered Financial Consultant (RFC)

## COMMUNITY SERVICES - LEADERSHIP ROLES:

• Metro East Regional Chamber of Commerce:
Board of Directors: 2013-Present
Executive Board Member: Treasurer
(Two terms: 2014-2015 and 2015-2016)

• Rotary Club of Fairview Heights

Treasurer ( Two terms: 2014-2015 and 2015-2016)

• Belleville Area Special Education District (Southern IL)
Chairman, Bi-lingual Advisory Committee, 1985-1987

## AWARDS AND RECOGNITIONS:

• 100 St Louisans You Should Know ( 100 individuals that can

inspire & direct your success), by St Louis Business Monthly April 2019

• Top Influencer in Southern Illinois, St Louis Business Monthly, Dec 2017 & Dec 2018

• Anh Le CPA 10 Year Anniversary Proclamation, City of Fairview Hts: Jan 2017

• Business of the Year in Southern Illinois, St Louis Business Monthly, May 2017

• Paul Harris Fellow, Rotary International, 2016

## EDUCATION:

• MBA, Southern Illinois University Edwardsville, June 1993

• BSEE, University of Illinois at Urbana-Champaign, December 1988

## BOOK:

• CRACKING THE SECRETS OF TAX ANXIETY DISORDER:

A Complete Guide to Tackle Your Tax Problems
Published and Distributed by Amazon