BRSW CPA'S
DECEMBER 2020 NEWSLETTER

Dear Clients and Friends,

Even though we have just started a new decade, it has felt like a whole decade worth of activities all packed in a single year, 2020.

2020 tax planning takes place against the backdrop of the COVID-19 pandemic and the government's efforts to help individuals and businesses weather the disaster. In addition, taxpayers still must deal with the changes brought by the Tax Cuts and Jobs Act (TCJA).

With all that has happened this year, now is a good time to consider planning moves that may lower your tax bill for this year and possibly future years. As we develop an understanding of the new tax law, there are changes that make this year unique compared to prior years. If your email address has changed in the year, please contact our office immediately to update the changes.

We have compiled a checklist of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your situation, but you (or a family member) will likely benefit from many of them. We can narrow down the specific actions that you may want to take once we meet with you. In the meantime, please review the attached list, and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make.

We appreciate the opportunity to be of service to you!

Sincerely,

Bashore Reineck Stoller & Waterman Inc

Your friends at Bashore Reineck Stoller & Waterman Inc

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YEAR-END TAX PLANNING FOR INDIVIDUALS

Long Term Capital Gains

Long-term capital gain from sale of assets held over one year is taxed at 0%, 15% or 20%, depending on taxable income. Planning for the timing of sales to capture gains or losses to maximize the 0% or 15% brackets can save significant tax dollars over time. Taxpayers whose 2020 taxable income from long-term capital gains and other sources is below the zero-rate amount should try to avoid recognizing long-term capital losses before year end as they may receive no benefit from the loss.

Health Savings Account

The rising cost of health care coverage has caused many individuals and employers to switch from traditional health insurance coverage to high-deductible health plans (HDHPs). Individuals or employees who were covered by a high-deductible health plan at any time during 2020 may have a tax-sheltered savings opportunity. Depending on the health plan deductible and out-of-pocket limits, they may be able to make contributions to a health savings account (HSA) and receive an above-the-line deduction.

Roth IRA

Individuals considering whether to roll over or convert to a Roth IRA for 2020 should keep in mind that unlike the usual IRA rollover, a switch from traditional IRA or qualified plan to Roth IRA, as well as an In Plan Roth Rollover (IPPR) is not income-tax-free. Instead, it is subject to tax as if it were distributed from the traditional IRA or qualified plan and not recontributed to another IRA, but it generally is not subject to the 10% premature distribution tax.

Required Minimum Distribution

Taxpayers can skip their required minimum distributions (RMDs) for 2020. Taxpayers who turned 70½ in 2019 and delayed taking their RMD until April 1, 2020 can skip taking that RMD also. In addition, if a taxpayer has already taken a distribution in 2020 that was considered an RMD, the taxpayer has 60 days from the date of the distribution to roll it back into an eligible retirement plan. Even though a taxpayer can skip taking an RMD for 2020, the taxpayer might want to consider taking a distribution anyway because tax rates in 2021 or future years might be higher than in 2020 to pay for COVID relief.

Deductions

In 2020, taxpayers claiming the standard deduction will be able to take an above-the-line deduction, up to $300, for cash contributions to charity. This above-the-line deduction is not available with respect to donations of property, such as used clothes and household items. As a result, many taxpayers who no longer itemize their deductions will be able to deduct up to $300 of charitable contributions. Taxpayers planning to claim the standard deduction can reduce AGI by up to $300 by making eligible charitable contributions before year-end.

Economic Impact Payment

IRS automatically made advance payments (Economic Impact Payments or EIPs) of the recovery rebate credit to most eligible individuals during 2020. EIPs will not be available after December 31, 2020. Individuals who should have automatically received an EIP, but have not yet, should check the IRS's "Get My Payment" tool (see below for website) to determine the status of their payment. Taxpayers that do not receive an EIP before December 31, 2020 will need to wait until filing their 2020 tax return to benefit from any recovery rebate credit.

www.irs.gov/coronavirus/get-my-payment

Home Office Deduction

Independent contractors or self-employed individuals who work out of part of their home for business may be eligible to claim a home office deduction. Employees working from home during the COVID-19 pandemic cannot deduct expenses for using their home as an employee because miscellaneous itemized deductions on Schedule A are suspended through 2025.

CARES Act – Retirement Distributions

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act, PL 116-136) provides for special tax treatment for a "coronavirus-related distribution" (CRD) from a retirement plan. To avoid the 10% penalty, the distribution must be:

- made to a qualified individual,
- from an eligible retirement plan,
- $100,000 or less in aggregate, and
- between Jan. 1, 2020 and Dec. 31, 2020.

Personal Identity Protection (PIN) Option

Starting January 2021, IRS will expand the Identity Protection (IP) PIN opt-in program to all taxpayers who can accurately verify their identities. The IP PIN can be gotten through IRS's "Get An IP PIN" tool in their website. PIN once generated is valid for one year.

ESTATE & RETIREMENT PLANNING

Gift Tax

The annual gift tax exclusion for 2020 and 2021 is $15,000 per person.

Trust and Estate Distributions

Complex trust and estate distributions made within the first 65 days of 2021 may electively be treated as paid and deductible in 2020. The election is generally made on the return for the election year. Thus, fiduciaries do not need to make payments in 2020 for the payments to be deductible in that year. They can wait until 2021, when the 2021 tax picture will be clearer, to decide whether the payments may be more profitably imputed back to 2020 via the 65-day rule or treated as 2021 payments.

Keogh Plans

A self-employed person who wants to contribute to a Keogh plan for 2020 must establish that plan before the end of 2020. If that is done, deductible contributions for 2020 can be made as late as the taxpayer's extended tax return due date for 2020. However, a self-employed person who misses the year-end deadline to establish a Keogh plan has until the person's extended 2020 return due date both to establish and to make deductible contributions to a Simplified Employee Pension (SEP) for 2020.

Non-Spouse Beneficiaries

Effective in 2020, distributions to a non-spouse individual beneficiary must be made within 10 years of the account owner's death. December 31, 2020 is an important deadline for individuals who inherited an IRA from an IRA owner who died in 2019. Where there are multiple beneficiaries for the IRA, splitting up the account into several accounts no later than December 31, 2020 can yield important tax and other benefits for each beneficiary. There are some exceptions to this rule, the main one being minor children. Only when the child becomes an adult does the 10 year requirement become effective.

YEAR-END TAX PLANNING FOR BUSINESSES

Reminder: Gift cards are taxable to the employees and must be included in gross wages on Form W-2.

Families First Act Coronavirus Response Act (the "Act")

On March 14, 2020, the House passed the Act to provide emergency supplemental appropriations and support Americans during the COVID-19 pandemic. Parts of the Act provide for emergency family and medical leave benefits, emergency paid sick leave benefits, and employer and self-employed tax credits and exclusion from employer FICA tax with respect to the payment of those benefits. The Act provides tax credits to employers to cover wages paid to employees while they are taking time off under the bill's sick leave and family leave programs.

Other Tax Cuts and Jobs Act (TCJA) and CARES Act business provisions

Pass-through businesses, e.g., sole proprietorships, partnerships, limited liability companies and S corporations, may be able to take a deduction of up to 20% of their business income from a qualified trade or business (qualified business income (QBI) deduction). The deduction cannot exceed 20% of the excess of the taxpayer's taxable income over his or her net capital gain for the tax year. New for 2020: The CARES Act retroactively increased the amount of business interest expense that may be deducted for tax years beginning in 2019 and 2020 by computing the limitation using 50% of the taxpayer's adjusted taxable income (ATI) instead of 30%. An accrual basis corporation can take a deduction in its current tax year for a bonus not actually paid to its employees until the following tax year if:

1. the employee does not own more than 50% in value of the C corporation's stock, or 2% or more of the S corporation's stock,
2. the bonus is properly accrued on its books before the end of the current tax year, and
3. the bonus is actually paid within the first 2-1/2 months of the following tax year (for a calendar year taxpayer, within the first 2-1/2 months of 2021).

Work from home Employees

Due to COVID-19, many employers asked their employees to work from home. This could have some withholding tax implications when an employee lives in a different state from the company or works in more than one state. Many states have issued guidance as to what creates nexus for an employer. This may force a business to file additional state income tax returns.

Qualified Improvement Property (QIP)

Depreciable lives have changed for qualified improvement property (QIP). In 2017, the TCJA modified some rules related to QIP; as a result, QIP was no longer eligible for bonus depreciation. Instead, it had to be depreciated over 39 years. The CARES Act changed that. The CARES Act assigned a 15-year recovery period to QIP. That means that QIP is now eligible for bonus depreciation. The change made by the CARES Act is effective for QIP placed into service after December 31, 2017. Because the change is retroactive, a taxpayer who placed QIP into service in 2018 or 2019 may be able to go back and amend an already filed 2018 or 2019 tax return and claim the bonus depreciation.

New 1099 Form

Please note that for 2020, employers will no longer use Form 1099-MISC to report nonemployee compensation. IRS has introduced Form 1099-NEC to report nonemployee compensation, has accelerated the due date for filing Form 1099 that includes nonemployee compensation (NEC) from February 28 to January 31, and eliminated the automatic 30-day extension for forms that include NEC.

Paycheck Protection Program (PPP)

PPP borrowers of less than $50,000 are exempted from forgiveness reductions for reducing full-time equivalent employees and reducing employee salary or wages. Interestingly 68% of the total number of loans approved by the SBA were less than $50,000, but only 11% of the total PPP funds were disbursed to loans that were $50,000 or less. There will still be some verification required in the forgiveness process, but for the loans less than $50,000 the process will be simpler than what was previously announced. The Small Business Administration (SBA) has started forgiving PPP loans of all amounts. If the borrower adheres to all PPP requirements, loans may be forgiven completely. Do not neglect to contact your banker immediately to start the paperwork to apply for forgiveness.

IRS Guidance

On November 18, 2020, the IRS issued guidance stating that taxpayers must consider expenses paid with PPP funds as non-deductible expenses even if forgiveness applications have not been approved by December 31, 2020 or if forgiveness applications have not been submitted by December 31, 2020. If taxpayers have reasonable assurance that the forgiveness application will be eventually approved, they must disallow expenses and thereby report income.

IMPORTANT PLANNING NOTE: All calendar year taxpayers should, therefore, plan on including PPP funds as income for tax years ending December 31, 2020. Professional C Corporations should include this as income when determining cash basis income as of December 31, 2020.

Fiscal Year Issues

Since the IRS issued this guidance on November 18, 2020, fiscal year entities with June, July, August, September, and October year ends had no time to plan for this result. It puts those taxpayers in a difficult position. The guidance issued only used examples that addressed calendar year taxpayers. The IRS guidance did not address fiscal year returns. We strongly encourage fiscal year returns that have not been filed to get extensions until this issue can be clarified. It is possible that if the 24 week covered period spans a time period both before and after the fiscal year, that at least some portion of the disallowed expenses could be assigned to the following fiscal year. But this is uncertain. Fiscal year businesses should consider contacting their elected representatives in Congress to voice frustration and advocate for a solution that does not penalize them, since there was no time allowed for tax planning as the IRS guidance was issued after most fiscal years had ended.

Legislative Fix?

AICPA and Ohio Society of CPAs are encouraging businesses to contact Congressional representatives to pass legislation that specifically allows for the deduction of the expenses paid with PPP funds. The CARES Act states that PPP forgiveness income is tax free, but IRS has taken the position that expenses paid with tax free income are non-deductible, thereby nullifying the tax-free treatment stated in the law. The result seems contrary to the intent of Congress as expressed in the CARES Act. Please consider contacting your legislative representative and express your support for allowing the deductibility of expenses paid with PPP funds. If this is not possible, then request that Congress specify that income is not recognized until the debt is forgiven which might not be until 2021.

Ohio

Governor Mike DeWine has designated up to $125 million of funding received by the State of Ohio from the federal CARES Act to provide $10,000 grants to small businesses. The application process opened on November 2, 2020 and is administered by the Ohio Development Services Agency.