# 1040 News Q4 2020

**Quarterly news & tips for folks in every tax bracket**


## Introduction:

After a record-setting start to 2020, with five tax bills becoming law, we had a relatively quiet summer (tax wise). So let's look to the future rather than the past.

Page 1 of this issue will be devoted to the Presidential candidate's tax proposals.

Page 2 will cover a range of tax-saving tips to consider before 2020 comes to an end.

## Presidential Tax Proposals:

*1040 News* is non-partisan. As such, we will go topic-by-topic rather than candidate-by-candidate.

### Topic #1: Low/Middle Income Tax Cuts

Both Biden and Trump want low and middle income taxpayers to pay less tax.

**Biden** proposes:

- Expanding the Earned Income Tax Credit (EITC) to workers over age 65.
- Increasing the Dependent Care Credit expense limit from $3000 to $8000 per child in daycare.
- New tax breaks for first-time home buyers and renters.
- Tax incentives for those who care for elderly or disabled relatives.
- Making cancellation of student loan debts non-taxable.

**Trump** proposes:

- Boost take-home pay for workers by permanently reducing the employee's share of payroll taxes.
- Reduced tax rates for middle income folks (percent and income thresholds currently unspecified).
- Make the Tax Cuts and Jobs Act (TCJA) permanent. The TCJA is currently scheduled to expire after 2025.

### Topic #2: High Income Taxpayers

Trump and Biden differ on this topic.

**Trump** proposes:

- Reduce the tax burden on the wealthy by making the TCJA permanent. Under the TCJA, the highest tax bracket was reduced from 39.6% to 37%. The TCJA also raised the income threshold for the highest bracket.

**Biden** proposes:

- Raise the upper income bracket from 37% to 39.6%.
- Limit itemized deductions for high income taxpayers.
- Employees with wages over $400,000 pay more Social Security tax.

### Topic #3: Capital Gains Taxes

Biden wants wealthy investors to pay more in capital gains tax while Trump wants all investors to pay less.

**Biden** proposes to raise the long-term capital gains tax rate for millionaires.

**Trump** proposes:

- Lower the capital gains tax rate for upper-income folks from 20% to 15%.
- Eliminate the 3.8% investment surtax for investors with incomes over $200,000/$250,000 (single/married).
- Index gains for inflation, so all investors pay tax on less than the actual gain.

### Topic #4: Healthcare and The Affordable Care Act (ACA)

Trump and Biden have opposite views.

**Trump** wants to end the ACA and is backing a lawsuit to strike-it-down. The Supreme Court will hear arguments regarding the lawsuit after the election.

**Biden** wants to enhance the ACA by increasing the Premium Tax Credit.

### Topic #5: Business Taxes

Trump and Biden differ on this topic.

**Biden** proposes:

- Raise the corporate tax rate from 21% to 28%.
- New 15% minimum tax on large corporations. This would raise taxes for some large corporations.
- Phasing-out the Qualified Business Income (QBI) deduction.
- New breaks for small firms that offer retirement plans to their employees.
- New credits for manufacturers that renovate aging plants and facilities.
- Increased credits for employers that hire disabled workers or improve workplace accessibility.

**Trump** proposes:

- Cut the corporate tax rate from 21% to 20%.
- Allow businesses to deduct the full cost of meals and entertainment.
- Allow businesses to expense more asset purchases.
- Tax breaks for companies that invest in US supply chains that bring back jobs from China.
- Enhanced R&D tax credit.

### Topic #6: Estate Taxes

The candidates differ on this topic:

**Trump** wants to make the TCJA estate tax exemption increase permanent. The TCJA doubled the exemption to $11 million per person (now $11.58 million with inflation adjustments). This reduces tax for wealthy estates.

**Biden** wants to lower the estate tax exemption to pre-TCJA values. He also wants unrealized capital gains to be taxed at death.

*This is far from a comprehensive summary of the candidate's views on taxes. But it's enough to see that they agree on very little.*

Turn the page for 2020 year-end tips.

## Tax Tips for 4th Quarter, 2020

Ponder the following year-end tax tips. Remember to ask for help as needed:

**Is your 2019 return done?** The deadline is October 15th (if you filed an extension). Even if you are anticipating a refund you should still get it done ASAP.

**Did you not get the stimulus?** Qualifying taxpayers can still get an Economic Impact Payment (a.k.a. 'stimulus') if you file your 2019 return by October 15th. The IRS is sending letters to an estimated 9 million taxpayers about this matter.

If you miss the 10/15/20 deadline you will still be able to claim the stimulus on your 2020 tax return (if you qualify, of course). However, if you qualify based on your 2019 return you should file it by the deadline just to be certain that you will get it. See the past two issues of *1040 News* for details about who qualifies.

**Do you anticipate owing for 2020?** This is your last chance to change your withholding. If you owed last year and didn't make any changes you will probably owe again.

Folks without withholding (primarily business owners) should estimate their tax too, especially if they had a good year and anticipate owing.

Folks who received unemployment benefits in 2020 should check if they will owe. This is especially true if you received the \$600/week FPUC payment (which often had zero withholding taken out).

**Have you not taken your Required Minimum Distributions (RMDs)?** The IRS is letting taxpayers skip RMDs for 2020 for all retirement accounts except defined-benefit pensions. RMDs are scheduled to resume in 2021. As a reminder, RMDs are required for taxpayers age 72+ and those that turned $70^{1/2}$ before 1/1/20.

**Did you already take your 2020 RMD and now want to put it back?** In the previous issue of *1040 News* we wrote about a special deadline (8/31/20) for putting back RMDs (even those that were made over 60 days prior). Unfortunately, now that the deadline has passed you can only put back a distribution made within the last 60 days. Furthermore, you are only allowed to do this once per year.

**Do you not itemize but still want a tax deduction for charitable contributions?** The first \$300 of your 2020 charitable contributions can be deducted even if you do not itemize. The new rule applies to cash contributions only (not goods).

What if you don't itemize and want to deduct more than \$300? You can if you're older than age $70^{1/2}$ and have an IRA. Such taxpayers can give up to \$100,000 per year directly to a charity from your IRA. Ask your IRA trustee for further details.

What if you don't itemize and aren't older than $70^{1/2}$? Just because you're not getting a tax deduction doesn't mean you can't be generous. Consider the following:

- **Give anyway:** Now more than ever folks need your help.
- **Volunteer:** The value of your time was never a tax deduction anyway, so you're not missing out on anything.
- **Gift more:** Gifts to individuals and all groups that aren't 501(c)(3) charities are also not deductible. You can gift up to \$15,000 per year per person without having to file a gift tax return.

**Do you want to increase your retirement savings?** You have until 12/31/20 to contribute to employer sponsored plans (401k, 403B, etc.) for tax year 2020.

Individual retirement plans give you more time to contribute:

- **Roth IRA:** 2020 contributions are allowed until 4/15/21. However, most high income taxpayers aren't allowed to contribute.
- **Traditional IRA:** 2020 contributions are allowed until 4/15/21. However, most high income taxpayers can't deduct the contributions.
- **SEP IRA:** 2020 contributions allowed until 10/15/21 (with an extension). However, you must be profitably self-employed. You can shelter up to 20% of your self-employment profits in a SEP.

**Are you planning a 2020 Roth conversion?** You need to get it done by 12/31/20. Unlike Roth contributions, there is no income limitation for a Roth conversion. Just remember that Roth conversions are taxable income and can no longer be reversed.

**Are you Self Employed?** You have until 12/31/20 to make purchases that count as a business deduction for tax year 2020. This is true even if you pay by credit card. Don't forget to save receipts. Consider using a smartphone app to organize your business purchases and receipts. There are dozens of great apps that make this easy… simply search for "business expenses" in your phone's app store for options.

**Are you selling investments?** If your taxable income is likely to fall below \$40,000 (single) or \$80,000 (married) consider selling long term investments that have gained in value. You will not pay any federal tax on the gain if you keep your taxable income below those thresholds.

Conversely, it might be wise to check your portfolio for losses to reduce your income. You can offset up to \$3,000 of other income with investment losses. If you wish to repurchase the stock again, wait at least 31 days to avoid a wash sale, which would eliminate the loss.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

**Buying Investments?** In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

**Have you chosen a 2021 health insurance plan yet?** If you pick a plan that is HSA compatible you can shelter some income from tax during 2021 by contributing to an HSA. If you choose a plan that is not HSA compatible ask your employer if they offer a flexible medical spending account (FSA) to shelter income from tax.

Thanks for reading. Stay healthy & safe.