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As in previous years, we would like to take this opportunity to review a few of the tax law changes and alert you to some tax saving moves that can still be made for the year 2020. This letter presents some planning ideas to consider while there is still time to act before the year-end.

This year will be different with respect to tax return interviews. We will not ask you to come to our office for an in-person interview. Our office will reach out to each individual to schedule a zoom meeting, phone call or some other form of communication that works best for each individual.

### **Economic Impact Payment**

U.S. resident individuals who are not dependents of another taxpayer may have been eligible for an Economic Impact Payment (aka stimulus payment) of \$1,200 (\$2,400 for MFJ taxpayers) plus an additional \$500 per qualifying child. If you received an Economic Impact Payment, please include this in your tax return paper work.

The payment is not includible in gross income, and will not reduce a refund or increase the amount owed.

Taxpayers who didn't get some or all of the Economic Impact Payment they were entitled to will be able to claim the difference as a Recovery Rebate Credit on their 2020 tax return. The amount will not offset any prior year unpaid amounts due.

### **Required Minimum Distribution (RMD) Age Raised From 70½ to 72**

Prior to 2020, participants in employer-sponsored retirement plans (for example, 401(k) plans), traditional IRAs, and individual retirement annuities needed to begin taking required minimum distributions (RMDs) from their plans by April 1 of the year following the year they turned 70½ years old.

The SECURE Act changed the rule for distributions required to be made after Dec. 31, 2019. The age which individuals must start taking distributions from these retirement plans has been increased from 70½ to 72.

Please note: Under the CARES Act, RMDs are not required for 2020. Initially, the provision stated that you may return an RMD within 60 days if you had already taken the distribution. Notice 2020-51 allowed you to return the distribution by Aug. 31, 2020.

### **Retirement Plan Distributions -CARES Act changes**

If a taxpayer is impacted by COVID-19, they can take a distribution up to \$100,000 and not be subjected to the 10% early withdrawal penalty for 2020 IRAs and workplace retirement plans.

These distributions are included in income ratably over a three-year period, starting with the year in which you receive your distribution. You have the option of including the entire distribution as income in the initial year.

### **Charitable Contribution Changes**

The CARES Act provides an opportunity for individual taxpayers claiming the standard deduction to deduct \$300 of cash charitable contributions from adjusted gross income. This allows an opportunity for a tax benefit for donations which would not normally be permitted.

For tax year 2020, the CARES Act modifies the usual limitations on deductions of charitable contributions by individuals and corporations. The CARES Act temporarily lifts the limitation provision for individuals to 100 percent of adjusted gross income. It was previously 60% of adjusted gross income. Similarly, the CARES Act raises the 10 percent of income limit on deductions by corporations to 25 percent of income.

## **Exclusion for Student Loan Repayment**

Employees can exclude up to \$5,250 from income for student loan repayments made by an employer after March 27, 2020, and on or before Dec. 31, 2020. The exclusion is subject to the same restrictions as an educational assistance program (e.g., the payments need to be available on a nondiscriminatory basis to employees who meet criteria established by the employer, cannot be in lieu of other taxable compensation, etc.). The exclusion appears to be available regardless of whether the student loan repayment has any connection to COVID-19.

## **Retirement Contribution Limits for 2020**

<http://fieldercpa.com/chart-of-retirement-contribution-limits.php>

## **Depreciation for Business Equipment for 2020**

<http://fieldercpa.com/pdfs/Depreciation%20Chart%20Year%202020-2021.pdf>

## **2020-2021 Standard Mileage Rates**

<http://fieldercpa.com/standard-mileage-rates.php>

Reminder- The IRS does not accept "same as last year" as accurate mileage substantiation.

## **Estate and Gift Tax**

For 2020, estates over \$11,580,000 will be subject to estate tax. For 2021, the exemption is \$11,700,000. You may choose to make annual exclusion gifts before year end to minimize estate tax. You can give \$15,000 in 2020 and 2021 to an unlimited number of individuals free of gift tax. However, you may not carry over unused exclusions from one year to the next. The transfers also may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax. Gifts in excess of the annual exclusion may require you to report on Form 709.

## **Nanny Tax**

If you have individuals over the age of 18 performing service in your residence their earnings may be subject to payroll taxes. The threshold for this is earnings greater than \$2,200 for 2020 and \$2,300 for 2021. You may also be required to issue them a Form W-2.

## **Businesses - Hiring Your Children Under 18**

One advantage of operating your own business is hiring family members. Payments for services of a child may have no income tax liability if their earned income is equal or less than \$12,200. Then you can combine this with a Roth IRA for your child. The annual maximum contribution for 2019 and 2020 is \$6,000.

## **Like-Kind Exchange (Sec 1031)**

Under the TCJA, like-kind exchanges are limited to real estate. Previously both real estate and personal property were eligible. Please note that real property located in the U.S and real property located outside of the U.S. are not considered property that are like-kind. **California requires that all individuals and business entities that perform like-kind exchanges of property located in California for property located outside California must file a California like-Kind exchange information return. You must continue to file this form annually as long as you defer the gain or loss.**

## **Individual Health Care Mandate**

The Federal requirement to maintain health care coverage was eliminated in 2019.

Effective January 1, 2020, California residents must obtain minimum essential health care coverage to avoid the new California individual health care mandate penalty. An individual who fails to secure coverage will be subject to an annual penalty of \$695 or more when they file their 2020 California tax return.

## **CalSavers**

Beginning in June 30, 2020, businesses with 100-plus employees who do not already have a qualified plan in place must implement CalSavers. Employers will not be able to make contributions but will submit employee contributions. There will be no fees to facilitate the program. The default rate is 5% of gross pay. Employees can opt out of the program at anytime.

## **General Reminders**

### **Foreign Accounts or Investments**

The reporting requirements for assets held overseas are increasing and the penalties for failure to report them are significant. Foreign bank accounts, notes receivable, ownership in a foreign partnership or corporation, and interest in Canadian RRSPS are some examples. Form 8938 and Form 114 may be required to be attached with your annual tax return. If you have any questions about any foreign accounts please contact me.

### **Inventory**

Make sure you take a thorough and accurately priced detail of your inventory at your business year-end. This documentation is critical in the event there is an audit.

### **S-Corporation Shareholders**

Remember to contact your payroll service for common year-end adjustments to your W-2. Health insurance paid for you by your corporation should be added to your W-2. Also, personal use of vehicles owned by your corporation may result in income to be reported by you on your W-2. This calculation should be done in late December or early January in order to avoid amending your W-2. It may be helpful to review your investment basis in a Partnership or S-Corporation prior to year-end in order to utilize any losses incurred. Please contact us for any year end calculations related to tax planning.

### **IRS Email and Telephone Spam**

Beware of any emails or phone calls you receive claiming that they are from the IRS. See link below for more information.

<https://www.irs.gov/newsroom/irs-warns-of-new-phone-scam-using-taxpayer-advocate-service-numbers>

<https://www.ssa.gov/antifraudfacts/>

### **Documentation**

IRS recently ruled that credit card statements are not sufficient support and that actual receipt of charges are required. Please keep 7 years of records. If assets are still owned, please keep purchase records for 7 years after the date of sale.

### **Form 1099s**

A reminder that these are due to recipients by February 1, 2021. If your trade or business pays a non-incorporated service provider greater than \$600/year then you will need to issue them a Form 1099-MISC and Form 1099-NEC. In addition, California requires that you submit Form DE 542 to report service providers you expect to do business with in 2021. Please see link below for more information

<https://www.irs.gov/instructions/i1099msc>

[https://www.edd.ca.gov/pdf\\_pub\\_ctr/de542faq.pdf](https://www.edd.ca.gov/pdf_pub_ctr/de542faq.pdf)

Sincerely,

