

GILLAM & ZETZL, INC.

Certified Public Accountants

December 2020

Enclosed please find your organizer for the 2020 filing season. The organizer will assist you in gathering your tax information by showing you what was reported on your 2019 return. This year has seen numerous tax law changes primarily in response to the COVID-19 pandemic are itemized below.

We want to continue to warn you about numerous scams perpetrated by individuals attempting to steal your personal identity information via telephone calls or emails. Please stay vigilant and call our office if you have concerns about the legitimacy of a communication you receive.

Important Tax Law Changes - Individual

- The SECURE Act passed 12-20-2019 which contained many initiatives, including:
 - The required minimum distribution (RMD) age increased from 70 ½ to 72 (although no RMD is required in 2020 regardless of age, see below).
 - The rule that disallowed IRA contributions when an individual hit the RMD age is removed. Therefore, if you have “earned income” like wages or self-employment income, you may contribute to a traditional IRA regardless of age.
 - §529 College Savings Plans can be utilized to pay for up to \$10,000 of student loans.
- The CARES Act passed 3-27-2020 which contained many initiatives, including:
 - RMD's for 2020 are eliminated. Of course, you may take money out of your retirement accounts, but you aren't forced to do so for 2020.
 - 10% early withdrawal penalties for distributions up to \$100,000 are eliminated IF the distribution was related to COVID-19.
 - Early distributions that are COVID-19 related may be repaid without taxation or you have the option of taking into taxable income over a three-year period.
 - You may take an early withdrawal from your retirement account of up to \$5,000 without penalty (but is still taxable) if you had a birth or adopted a child in 2020.
 - **Most taxpayers received a Federal Stimulus check during 2020. We will be required to reconcile contained many initiatives, including Treasury Department should have furnished you a copy of Notice 1444 which shows the amount, please give us a copy of this form if you can locate it.**
 - A new \$300 above-the-line deduction for charitable gifts beginning in 2020 even if you can't itemize. To qualify these must be cash gifts.
- The IRS is ramping up scrutiny of virtual currency transactions (like Bitcoin) and the new Form 1040 requires every taxpayer to confirm whether or not that participated in these types of transactions during 2020. Please discuss any such transactions with us.
- In a change of policy, the IRS has proposed allowing healthcare sharing ministry payments to be deductible as health insurance. If you have this arrangement, please let us know and we can discuss.
- The standard mileage rate for business use of a vehicle was 57.5 cents-per-mile for 2020.
- The maximum rate for long-term capital gains for 2020 remains at 15% for many taxpayers; however, upper income taxpayers will pay a maximum rate of 20%.
- Personal exemption deductions are no longer allowed after 2017 for federal purposes.
- Standard deduction amounts have been increased for 2020 to \$24,800 for married couples (plus \$1,300 for each spouse over age 65), \$12,400 for singles and \$18,650 for heads of households (plus \$1,650 if over age 65).
- Alimony is not deductible by the payor, nor includible as income by the payee for agreements entered into after December 31, 2018.
- The gift tax exclusion amount is \$15,000 per donee for 2020. The federal estate tax exclusion is currently \$11,580,000 for 2020. Indiana's inheritance tax has been repealed for individuals who passed away after December 31, 2012.

Individual Reminders

- We are required to report on your income tax return the amount of any distributions from a health savings account (HSA), even if the funds were properly used for qualified medical costs. Please provide us with a copy of the Form 1099-SA from your HSA administrator.
- All charitable deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity. Note: most “go-fund-me” donations are not deductible because the contribution is not to an IRS recognized charity. Also, the IRS is intensifying efforts to audit non-cash donations so be sure to retain documentation like detailed receipts and photographs.
- Interest on home equity loans is no longer deductible unless the funds are utilized for home improvements.
- State and local taxes are still deductible on Schedule A but are limited to \$10,000 in total for years after 2017.
- Personal casualty and theft losses are not permitted after 2017.
- Moving expenses are not deductible for years after 2017, and employer paid moving costs are a taxable fringe benefit to the employee.
- The IRS is now requiring taxpayers to obtain Form 1098-T for higher education expenses in order to claim education credits and/or deductions. Please provide us a copy of this form if you wish to claim these expenses on your 2020 income tax return.
- Indiana allows a deduction of up to \$1,000 for K-12 dependents in private or home schools for expenses related to tuition, books, etc.
- Distributions from 529 plans are tax-free when used for tuition, room and board, fees, books, computers and up to \$10,000 for student loan payments. Also keep in mind that Indiana “College Choice” plans are eligible for a credit of 20% of the contribution up to a maximum credit amount of \$1,000.
- If you bought health insurance through the Marketplace, please provide us with Form 1095 so we can calculate any credits you may be entitled to receive.
- If you have foreign financial accounts please let us know. You may need to file disclosure forms required by the Department of Treasury. Penalties can be severe, so please discuss with us if in doubt.

Business Deductions and Important Law Changes & Reminders

As in previous years we urge you to develop a mindset that you may be asked by taxing agencies to produce your documentation when organizing your records this year end. With that in mind, please take a moment to review the items below and please don't hesitate to contact us regarding specific questions about your business.

- The CARES Act passed 3-27-2020 containing important business items:
 - Paycheck Protection Plan loans. The PPP loans were a lifeline for many businesses impacted by COVID-19. If you received one, please let us know. Forgiveness applications are due within 10 months after the end of the “covered period.” As of this writing, the loan amounts are essentially taxable in the year the loan is forgiven by the SBA.
 - Employers were required to provide up to 80 hours of paid sick time to employees unable to work due to COVID-19 related reasons (with a few exceptions). Employers are eligible for payroll tax credits if sick time is paid. **If you are self-employed (including farmers) and were diagnosed with COVID, or were caring for someone with COVID, during 2020 please let us know. You may also be eligible for tax credits.**
 - Retention credit equal to 50% of the first \$10,000 of wages paid per employee between 3-12-2020 and 12-31-2020. Employers who received PPP loans are not eligible.
 - Employers may pay up to \$5,250 in workers' college loans and exempt these amounts from payroll reporting to the employee.
 - Net Operating Losses (NOLs) may be carried back five years for NOLs generated after 12-31-2017 and before 1-1-2021. The previous treatment only allowed the carry forward of NOLs.
- The Code §179 expensing election for equipment is \$1,000,000 for 2020 but the Indiana limit remains only \$25,000. In addition, 100% “bonus” depreciation deductions are available for eligible items purchased after September 27, 2017.
- Business interest deductions are limited for years after 2017 to 30% of the entity's adjusted taxable income. Disallowed amounts may be carried forward.

- **Be sure to file 1099 forms** for non-incorporated providers of services over \$600, for rental payments or attorney fees paid. Intentionally disregarding this responsibility is a \$550 penalty for each 1099 not filed. Also note that the filing deadline to submit copies to the IRS and the recipient has advanced to January 31, 2020.
- All business expenses must be ordinary and necessary to be deductible. In addition, deductions reported on an income tax return must be verifiable. To corroborate an amount a taxpayer must have a receipt that indicates the vendor, amount, date and a description of the item or service purchased. Merely having a credit card statement (including American Express) that details the charges is not enough. You must have receipts. The backup documents must be maintained for as long as the statute of limitations remains in effect. **We recommend keeping the information for a minimum of six years.**
- Business meals with clients, customers or employees may be deductible only if the meal is (1) directly related to the active conduct of your business and (2) a substantial and bona fide business discussion takes place. Proof that these requirements were met must be documented on the receipt or in a separate journal. Meals where only business owners and their families are present are only deductible when traveling away from home. "Away from home" means requiring an overnight stay.
- Entertainment expenses are not deductible for years beginning after 2017.
- Reimbursements to employees for business deductions must fall under an "accountable plan." This means that employees must provide receipts to their employer for the expenses. Reimbursing an employee without substantiating the expense will require treating the amounts as wages, subject to all the related payroll tax burdens.
- The personal portion of automobiles provided to employees must be included in their compensation unless they reimburse the employer for the personal usage. **Contemporaneous logs of automobile usage are required to validate the deduction.** The log should include dates, customers/vendors visited and the business purpose for each trip as well as the total miles driven on the vehicle during the year.

Planning Tips

- If you regularly incur expenses related to your work as an employee, encourage your employer to reimburse those costs to you under an "accountable plan."
- Due to larger standard deductions beginning in 2019 many taxpayers no longer itemize deductions which reduced the federal tax benefits for charitable givers. However, if you are over age 70 ½ and must take required minimum distributions from an IRA, consider making a direct transfer to your charity. This can reduce taxable income even if you cannot itemize.

Other

In an effort to protect taxpayer personal information the IRS is now requiring that we obtain a written consent signed by our clients in order to release any information to a third party. We are happy to accommodate your request to release copies of tax returns, financial statements or other documents to banks, insurance companies and others, but keep in mind that we will need the consent form before processing your request.

Gillam & Zetzel will continue to provide clients with electronic copies of tax returns (in a PDF format), however paper copies are available if you prefer. If the electronic option is chosen, we will email the returns to you, or provide them on a portable storage device. All electronic returns will be password protected and can be read with a free Adobe PDF application.

Thank you for the opportunity to be of service to you!

Happy Holidays from everyone at Gillam & Zetzel, Inc.