HELPFUL TIPS FOR ISSUES AFFECTING 2020

Education Credit – Since the American Opportunity credit for higher education expenses is only allowed in the first four calendar years for each eligible student, taxpayers may benefit from prepaying the education expenses for an academic period beginning in the first three months of the next year. This is especially important when you consider that most students enter college in the last half of the first eligible tax (calendar) year and qualify for the credit with only half a year's expenses during the first year. Working out a payment plan where the tuition is prepaid under the three-month rule in each of the eligible years would more evenly spread the tuition over the four years.

Extenders Passed – Recent legislation retroactively extended several tax provisions that had previously expired. These are the most commonly encountered:

- **Residential energy efficient credit** – credit ranging from 10 to 30% (lifetime max of $500) of the cost certain energy efficient improvements to a taxpayer's home.
- **Exclusion of Cancellation of Debt (COD) Income** – COD income up to $2 Million ($1 Million if married filing separate) from the discharge of home acquisition debt.
- **Mortgage Insurance Premiums** – Treats qualified mortgage insurance premiums as deductible home mortgage interest.

Because these are retroactive it may be possible to file an amended return for a tax refund.

Spousal IRA Strategy –If one spouse works and the other does not, tax law allows the non-working spouse to base his or her contribution to an IRA on the working spouse's income. This tax benefit is frequently overlooked when spouses have been working and basing their individual contributions on their own income for years and then one of the spouses retires. Even if the working spouse has a pension plan at work and his or her income precludes making an IRA contribution, the non-working retired spouse can still make a contribution based on the working spouse's income. This restriction does not apply to Roth IRA contributions.

Maximum Age for Traditional IRA Contributions Eliminated – Recent legislation repealed the maximum age for traditional IRA contributions effective for contributions made for taxable years beginning after December 31, 2019.

Qualified Charitable Distributions (QCD) – With the tax reform's substantial increase in the standard deduction, many taxpayers no longer itemize their deductions and thus get no tax benefit from making charitable contributions. However, individuals age 70 ½ or older can annually transfer up to $100,000 from their IRAs to qualified charities. Here is how this provision, if utilized, works:

(1) The IRA distribution is excluded from income;
(2) The distribution counts toward the taxpayer's required minimum distribution (RMD) for the year; and
(3) The distribution does NOT count as a charitable contribution deduction.

At first glance, this may not appear to provide a tax benefit. However, by excluding the distribution, a taxpayer lowers his or her adjusted gross income (AGI), which helps for other tax breaks (or punishments) that are pegged at AGI levels, such as medical expenses when itemizing deductions, passive losses, and taxable Social Security income. In addition, non-itemizers essentially receive the benefit of a charitable contribution to offset the IRA distribution.

Caution: Because beginning in 2020 the age limit of 70 ½ for making traditional IRA contributions has been repealed, if a taxpayer makes a non-taxable QCD, then the non-taxable amount must be reduced by any deductible IRA contributions made for the year.

Medical Expenses – Self-employed taxpayers can deduct health insurance premiums they pay for themselves and their dependents above the line, which is helpful when taking the standard deduction or when the medical expenses do not exceed the 7½ % of AGI threshold for itemized deductions. Also, don't overlook including long-term care and Medicare B and D premiums.

Election to Deduct Start-Up Costs – Many taxpayers overlook that they can elect to deduct up to $5,000 of start-up and $5,000 of organizational expenses in the first year of a business. Each of these $5,000 amounts is reduced by the amount by which the total start-up expense or organizational expense exceeds $50,000. Expenses not deductible in the first year of the business must be amortized over 15 years.

State and Local Tax (SALT) Deductions – The IRS has released final regulations related to the state and local taxes (SALT) deduction limitation imposed by the 2017 tax reform legislation and the attempts by various states, most notably NY, NJ, and CT, to skirt the $10,000 ($5,000 MFS) limitation. These attempts to bypass the limitation offered the states' residents the ability to make a charitable contribution in return for a credit against their state or local taxes, thus converting a limited tax deduction into a fully deductible charitable contribution. The final regulations only allow a charitable deduction for the difference between the contribution amount and the tax credit provided by the state.

The regulations also include an exception for when the tax credit does not exceed 15% of the taxpayer's payment or 15% of the fair market value of the property transferred by the taxpayer.

Electric Car Credit – There is a non-refundable tax credit for as much $7,500 when purchasing a plug-in electric motor vehicle. However, that credit begins to phase out once each manufacturer's sales reach 200,000 vehicles. Three of the more popular plug-in electric vehicles have reached the phaseout, and Tesla vehicles will no longer qualify for the credit in 2020. In addition, the credit for Chevrolet and Cadillac vehicles is being phased out, and only $1,875 of credit will be allowed for purchases in the first quarter of 2020, after which the credit will no longer apply.

Alimony – As a reminder, for divorce decrees finalized after 2018, alimony is no longer deductible by the payer or taxable to the recipient. This change has no effect on divorce decrees entered into before 2019 that are unmodified, for which alimony continues to be deductible by the payer and taxable to the recipient.

Health Insurance Penalty – The ACA penalty for not being insured no longer applies at the federal level. But some states have instituted a penalty.

Cryptocurrency Transactions – Beware! The IRS has cryptocurrency on its radar and is ramping up enforcement programs. Cryptocurrency (virtual currency) is treated as property, and every time it is sold or used, the gain or loss from the transaction must be computed and reported in the same manner as a stock transaction.

Qualified Opportunity Funds (QOFs) – Taxpayers can defer capital gains into QOFs, with tax on the gain deferred until 12/31/26 or when the QOF is sold, whichever is earlier.

Solar Credit – A federal credit for the purchase and installation costs of a residential solar system is fading away. After being 30% of the cost for several years through 2019, the credit amount will drop to 26% in 2020 and then 22% in 2021, the final year of the credit.

$1 LUMP SUM AT VARIOUS RATES (FUTURE VALUE OF $1, COMPOUNDED ANNUALLY)

Interest Rate	5 Yrs	10 Yrs	15 Yrs	20 Yrs	25 Yrs	30 Yrs
2%	1.104	1.219	1.346	1.486	1.641	1.811
4	1.217	1.480	1.801	2.191	2.666	3.243
6	1.338	1.791	2.397	3.207	4.292	5.743
8	1.469	2.159	3.172	4.661	6.848	10.063
10	1.611	2.594	4.177	6.727	10.835	17.449

Example: If you invest $10,000 at an interest rate of 6%, at the end of 30 years you will have $57,430 ($10,000 multiplied by 5.743).

$1 PER YEAR AT VARIOUS RATES (FUTURE VALUE, COMPOUNDED ANNUALLY)

Interest Rate	5 Yrs	10 Yrs	15 Yrs	20 Yrs	25 Yrs	30 Yrs
2%	5.310	11.17	17.64	24.78	32.67	41.38
4	5.416	12.006	20.024	29.778	41.646	56.085
6	5.637	13.181	23.276	36.786	54.865	79.058
8	5.867	14.487	27.152	45.762	73.106	113.283
10	6.105	15.937	31.772	57.275	98.347	164.494

Example: If you put $1,000 at the end of each year in an investment paying 6% a year compounded annually, at the end of the 30th year, you will have $79,058 saved ($1,000 x 79.058).

LIFE EXPECTANCY*

Current Age	Remaining Years	Current Age	Remaining Years
25	57.0	55	28.6
30	52.2	60	24.2
35	47.3	65	20.0
40	42.5	70	16.0
45	37.7	75	12.5
50	33.1	80	9.5

Assume a planned retirement age of 60. Based on average statistics, you will need to accumulate retirement assets by age 60 to last for 24.2 yrs.* Life expectancy rates based on the IRS Unisex Single Life Tables.

TAXABLE-EQUIVALENT YIELD OF MUNICIPAL BONDS BASED ON VARIOUS FEDERAL INCOME TAX BRACKETS

	Tax-Free Yield								
%	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0
Tax Bracket	Equivalent Taxable Yield								
10	2.2	2.8	3.3	3.9	4.4	5.0	5.6	6.1	6.7
12	2.3	2.8	3.4	4.0	4.5	5.1	5.7	6.3	6.8
22	2.6	3.2	3.8	4.5	5.1	5.8	6.4	7.1	7.7
24	2.6	3.3	3.9	4.6	5.3	5.9	6.6	7.2	7.9
32	2.9	3.7	4.4	5.1	5.9	6.6	7.4	8.1	8.8
35	3.1	3.8	4.6	5.4	6.2	6.9	7.7	8.5	9.2
37	3.2	4.0	4.8	5.6	6.3	7.1	7.9	8.7	9.5

Example: A taxpayer in the 24% tax bracket would have to purchase a taxable investment yielding more than 3.3% to outperform a 2.5% tax-free investment.

2020 POCKET TAX GUIDE

2020 TAX CALENDAR

January 15	4th Quarter 2019 Estimate Due
April 15	FBAR Form Due
April 15	2019 1040 or Extension Due
April 15	1st Quarter 2020 Estimate Due
June 15	2nd Quarter 2020 Estimate Due
July 31	Pension Plan (Form 5500) Returns Due (calendar yr plans)
September 15	3rd Quarter 2020 Estimate Due
October 15	2019 1040 Extension Returns Due

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EXEMPTIONS & STANDARD DEDUCTIONS (2020)

Personal & Dependent Exemption: under the current tax law exemptions are not allowed

Standard Deduction:

Joint SS	MS	Single	Head of Household
$24,800	$12,400	$12,400	$18,650

An additional standard deduction of $1,300 is allowed for each married elderly (age 65 and over) or blind individual. If elderly and blind, the additional standard deduction is $2,600. Single individuals (elderly or blind) are allowed an additional standard deduction of $1,650, $3,300 if both elderly & blind.

SOCIAL SECURITY (OASDI), MEDICARE & SELF-EMPLOYMENT TAXES

	Social Security OASDI*	Medicare***	Total
Employee	6.20%	1.45%	7.65%
Self-Employed**	12.40%	2.90%	15.30%

Wage Base for Soc. Sec. & Self-Employment Tax (2020): $137,700
Wage Base for Medicare Hospital Insurance – no limit
*Old age, survivor and disability insurance portion of social security tax.
**Self-employed individuals are allowed to take an income tax deduction for 50% of the self-employment tax.
***Add 0.9% to rate when income exceeds $200,000 ($250,000 for married taxpayers)

SOCIAL SECURITY BENEFITS

Earnings Test – SS benefits of an individual who is under the full retirement age (66) are reduced when earnings from working exceed: $18,240/yr.

Maximum Earnings Benefit – The maximum retirement benefit for workers retiring in 2020 at age 66 (full retirement age): $3,011/mo.

Taxation Thresholds – A certain % of an individual's SS benefits are taxed when his or her provisional income* exceeds certain threshold amounts:

	Up to 50% Taxed	Up to 85% Taxed
Married Joint	$32,000 - $44,000	Over $44,000
Others**	$25,000 - $34,000	Over $34,000

*Provisional income generally includes adjusted gross income plus nontaxable interest plus one-half of social security benefits.

CAPITAL GAINS

Special rates (capital gain rates) apply to gains attributable to sale of capital assets held for more than a year.

Capital Gain Rates: The Tax Cuts & Jobs Act altered the regular individual tax rates, which the capital gains rates were previously tied to and created a separate rate schedule for capital gains tax. The table below illustrates the 2020 CG tax rates by filing status and range of income within the filing status.

CG Rates	MFJ	MFS	HH	Single
Zero	0 to $80,000	0 to $40,000	0 to $53,600	0 to 40,000
15%	80,001 to 496,600	40,001 to 248,300	53,601 to 469,050	$40,001 to 441,450
20%	496,601 & Up	248,301 & Up	469,051 & Up	441,451 & Up

Excluded From the 0%, 15% & 20% Rates:
Gain attributable to real property depreciation: 25% Max
Gain attributable to collectibles & qualified small business stock: 28% Max

Maximum Annual Net Loss Deduction: $3,000 ($1,500 MFS filers)

Netting Short-Term (ST) and Long-Term (LT) Gains & Losses: ST gains and losses are netted as are LT gains and losses. Then the two are netted together, with the result being either a net ST or LT gain or loss. Taxpayers, when possible, can achieve a better overall tax benefit by offsetting short-term capital gains with long-term capital losses, thus offsetting higher-taxed profits with lower-taxed losses.

LONG-TERM CARE INSURANCE DEDUCTIONS

The maximum deductible amounts of long-term care premiums are based on age and for 2020 are:

40 or Less	41 to 50	51-60	61-70	71 & Older
$430	$810	$1,630	$4,350	$5,430

KIDDIE TAX

2017 Tax reform changed how the income of dependent children was taxed causing an unintentional tax increase for survivors of service members and first responders who died in the line duty. The pre-tax reform method has been restored in 2020. Taxpayers can elect to use the pre-tax reform method for 2018 and 2019.

TRADITIONAL IRA - MAX DEDUCTIONS & LIMITS

Maximum Contribution & Deduction for 2020: $6,000 ($7,000 if age 50 & older) (1)

The deduction is ratably phased out for higher income individuals who actively participate in an employer-sponsored plan and/or whose spouse is an active plan participant. The following are the phase-out ranges based on Modified AGI:

Single (Active)	$ 65,000 – $ 74,999
Married (only spouse is active)	$196,000 – $205,999
Married (both spouses active)	$104,000 – $123,999
Married Separate	$ 0 – $9,999

Contributions must be made by the due date of the tax return, NOT including extensions.
A recent law change repealed the age restriction on making traditional IRA contributions. Thus, 2020 traditional IRA contributions can be made at any age, but must have earned income.

ROTH IRA - MAX CONTRIBUTIONS & LIMITS

Maximum Contribution for 2020: $6,000 ($7,000 if age 50 & older) (1)

There is no tax deduction for contributions to a Roth IRA, there is no tax on qualified distributions, and the accounts benefit from tax-free accumulation. The contributions are ratably phased out for higher income individuals. The following are the phase-out ranges based on Modified AGI:

Married	$196,000 – $205,999
Married Separate	$ 0 – $9,999
Others	$ 124,000 – $138,999

Contributions must be made by the due date of the tax return, NOT including extensions.
Contributions can be made at any age (must have earned income).

(1) The $6,000 and $7,000 limits apply to the combined Traditional and Roth IRA contributions of the individual for the year.

RETIREMENT PLANS – CONTRIBUTION LIMITS

SE Defined Contribution Plans: Lesser of 25%(1) of compensation or $57,000

SEP Plans: Lesser of 25%(1) of compensation or $57,000

401(k) and 403(b) Plans Elective Deferrals: $19,500 ($26,000 age 50+) (2) (3)

SIMPLE Plans Elective Contributions: $13,500 ($16,500 age 50 and over) (3)

Defined Benefit Plans: Max annual benefit: $230,000

Highly Compensated Employee Status Threshold: $130,000 (4)

Key Employee Status Threshold: $185,000

(1) Effectively 20% of net self-employment income.
(2) The annual contribution to all of an employee's retirement accounts, including elective deferrals, employee contributions, employer matching, discretionary contributions and forfeiture allocations cannot exceed the lesser of 100% of compensation or $57,000.
(3) Maximum compensation that can be considered in determining employer and employee contributions (employer non-elective contribution for SIMPLE Plans) is $285,000 ($130,000 for highly compensated employees).
(4) Includes 5% owners and at employer's election 20% of the top paid employees.

SAVING FOR EDUCATION

National Average Annual College Costs (2018-2019)

	Tuition & Fees	Room & Board	Other Expenses	Total
Public 4-yr In-state Institutions	$ 9,970	$10,800	$4,520	$25,290
Public Out of State	$25,620	$10,800	$4,520	$40,940
Private Non-Profit Colleges	$34,740	$12,210	$3,950	$50,900

Source: Lendingtree

Three tax plans are provided to save funds for a child's education. Contributions to them are NOT tax deductible. The tax benefit is the account earnings accrue tax deferred and are free from tax if used for qualified education expenses.

Coverdell Account – The annual contribution limit for 2020 is $2,000 per student. Funds can be used not only for higher education but also for Kindergarten through grade 12. Contributions must be made by the April due date for filing the return. The contribution limit is ratably reduced to zero for Joint filers with MAGI between $190K and $220K and $95K and $110K for others.

Sec 529 Plan – Funds are generally limited to post-secondary education expenses. However, through 2025, up to $10,000 per year can be used for elementary and high school tuition and beginning in 2019, qualified distributions include the costs of certain apprenticeship programs and up to $10,000 for repayment of qualifying student loans.

Savings Bonds – A taxpayer who pays qualified higher education expenses with redemption proceeds from Series EE or I Bonds issued after 1989 may be able to exclude the bonds' income. To qualify they must have been purchased when the individual was at least age 24 and redeemed at the time of the education expense for the taxpayer, spouse, or dependent. The income exclusion phases out for joint filers with a MAGI between $123,550 and $153,550 ($82,350 and $97,350 for others).

STANDARD MILEAGE DEDUCTIONS

These are the $/mile rates in effect during 2019.

Business	Charitable	Medical & Moving
$0.575	$0.14	$0.17

PER DIEM RATES*

	High-Cost Locality	Low-Cost Locality
Meals and incidental expenses (M & IE)	$ 71	$ 60
Lodging and M & IE	$ 297	$ 200

*Reflects rates in effect since 10/1/2019, using the simplified method of determination.

SEC 179 BUSINESS ASSET EXPENSING

Each year, an amount of the cost of certain eligible personal property purchased during the year and used in the active conduct of a trade or business can be expensed. For 2020, the maximum that can be expensed under Sec 179 is $1,040,000*.
*The limit is reduced when more than $2,590,000 of qualifying property is placed into service.

BONUS DEPRECIATION

Taxpayers can elect 100% first year (bonus) depreciation for tangible business assets (except structures) acquired after September 27, 2017 and placed into service during years 2018 through 2022.

INCOME TAX RATES – CORPORATIONS

The Tax Cuts & Jobs Act established a flat corporate tax rate of 21% beginning in 2018.

TRUST & ESTATE INCOME TAX RATES (2020)

Taxable Income Over	But Not Over	Pay	Plus	Of the Amount Over
0	$2,600	0	10%	0
$2,600	$9,450	$260.00	24%	$2,600
$9,450	$12,950	$1,904.00	35%	$9,450
$12,950		$3,129.00	37%	$12,950

UNIFIED ESTATE & GIFT TAX SCHEDULE

The Tax Cut & Jobs Act doubled the estate and gift tax exclusion and the amount is inflation adjusted for future years.

Year	Estate Tax		Gift Tax	
	Exemption (Millions $)	Top Tax Rate	Exemption (Millions $)	Top Tax Rate
2017	5.49	40%	5.49	40%
2018	11.18	40%	11.18	40%
2019	11.40	40%	11.40	40%
2020	11.58	40%	11.58	40%

2020 ANNUAL GIFT TAX EXCLUSION $15,000

Each individual is allowed an annual gift tax exclusion of $15,000 per donee for 2020 (the same as in 2019), with no limit to the number of donees. These gifts are not deductible by the giver nor are they taxable to the donee. Gifts in excess of the exclusion must be reported on a gift tax return. Gifts in excess of the exclusion are taxable but are offset with the Unified Estate and Gift Tax Credit until that credit is used up. Any amounts used to offset the gift tax will reduce the amount of credit available for the giver's estate tax.

2020 INCOME TAX RATE SCHEDULE - INDIVIDUAL

MARRIED TAXPAYERS* – JOINT/SURVIVING SPOUSE (SS)

Over	But Not Over	Pay	Plus	Of the Amount Over
0	$19,750	0	10%	0
$19,750	$80,250	$1,975.00	12%	$19,750
$80,250	$171,050	$9,235.00	22%	$80,250
$171,050	$326,600	$29,211.00	24%	$171,050
$326,600	$414,700	$66,543.00	32%	$326,600
$414,700	$622,050	$94,735.00	35%	$414,700
$622,050		$167,307.50	37%	$622,050

* Married separate (MS) use 1/2 of the joint dollar amounts.

SINGLE TAXPAYERS

Taxable Income				
Over	But Not Over	Pay	Plus	Of the Amount Over
0	$9,875	0	10%	0
$9,875	$40,125	$987.50	12%	$9,875
$40,125	$85,525	$4,617.50	22%	$40,125
$85,525	$163,300	$14,605.50	24%	$85,525
$163,300	$207,350	$33,271.50	32%	$163,300
$207,350	$518,400	$47,367.50	35%	$207,350
$518,400		$156,235.00	37%	$518,400

HEAD OF HOUSEHOLD

Taxable Income				
Over	But Not Over	Pay	Plus	Of the Amount Over
0	$14,100	0	10%	0
$14,100	$53,700	$1,410.00	12%	$14,100
$53,700	$85,500	$6,162.00	22%	$53,700
$85,500	$163,300	$13,158.00	24%	$85,500
$163,300	$207,350	$31,830.00	32%	$163,300
$207,350	$518,400	$45,926.00	35%	$207,350
$518,400		$154,793.50	37%	$518,400

ALTERNATIVE MINIMUM TAX (AMT) - INDIVIDUALS

The Tax Cuts & Jobs Act substantially increased both the AMT exemptions and the exemption phase out threshold which will substantially reduce the number of taxpayers affected by the AMT in 2020.

Tax Rate 26% of AMT income to..........$197,900*
28% of AMT income over......$197,900*

*** $98,950 for married taxpayers filing separately**

Filing Status	Exemption Amount (Reduced as AMT income exceeds threshold amount)	Phase-Out Threshold
Joint Return	$113,400	$1,036,800
Single and HH	$ 72,900	$ 518,400
Married Separate	$ 56,700	$ 518,400

ESTIMATED TAX PAYMENTS

To avoid possible underpayment penalties, taxpayer is required to deposit by withholding or estimated tax payments an amount equal to the lesser of:

1. 90% of current year tax liability, OR

2. One of the following amounts:

a. If the taxpayer's prior year AGI exceeds $150,000*, 110% of the prior year's tax liability.

b. Otherwise, 100% of the prior year's tax liability.

*$75,000 for taxpayers filing married separate.