

2020 / 2021 Federal Income Tax Update

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2020 COVID Relief Provisions for Individuals

- Direct-to-taxpayer Economic Impact Payment
 - \$600 per eligible family member
 - Phase-out \$5 per \$100 when adjusted gross income exceeds:
 - \$150,000 Married filing jointly
 - \$112,500 Head of Household
 - \$75,000 Single
 - Payments issued based on 2019 income

Economic Impact Payment

- 2021 recovery rebates are in addition to 2020
- Payments are actually advances on a 2020 credit
 - Claim additional credit on 2020 Form 1040 if income has dropped
 - Do not have to repay if 2020 income exceeds thresholds

Deductions

\$250 Educator Expense Deduction

- Eligible Educators K-12 teachers, instructors, etc.
- Enhanced to include:
 - Personal protective equipment (PPE)
 - Disinfectant
 - Other supplies used for the prevention of the spread of COVID-19

Medical Expense Deductions

- 7.5%-of-AGI “floor” on medical expense deduction is permanent, which was to increase to 10% for 2020
- Consider Married Filing Separately if medical expenses are significant

Mortgage Insurance Premium Deduction

- Ended in 2017
- Extended through end of 2021
- Retroactive for 2018 and 2019 (amend returns for refund)
- Phases-out starts at income of \$100k (\$50k for married filing separately)

Above-the-line Charitable Contribution

- Extended through 2021
- \$300 deduction for those who do not itemize
- Starting in 2021, double to \$600 for Married Filing Jointly (still \$300 for 2020, though)

Charitable Contribution Limit

- For 2020 and 2021, charitable contributions are allowed up to 100% of an individual's Adjusted Gross Income
- Usual limit is 60% of AGI
- Excess carries forward for up to five years

Charitable Donation from IRA

- Available if age 70 ½ +, even though Required Minimum Distribution (RMD) age was raised to 72
- Although RMDs were suspended in 2020, Qualified Charitable Distributions (QCD's) were still allowed
- Up to \$100,000 per year
- Counts toward RMD (but not limited to RMD)

Charitable Donation from IRA

- Situations to consider using QCD's:
 - Use the standard deduction \$24,800 MFJ/\$12,400 Single (+\$1,700 if >65 or blind)
 - Paying additional Medicare Premium due to high AGI
 - Deducting medical expenses (reduces AGI threshold)
 - Reduce portion of taxable social security

Exclusions From Income

Exclusions From Income

- Volunteer firefighters and emergency medical responders
- Discharge of qualified mortgage debt was set to expire end of 2020
 - Up to \$2 million (\$1 million Married Filing Separately)
 - For 2021 through 2025, \$750,000 (\$375,000 Married Filing Separately)

Employer Payment of Student Loans

- Previously, up to \$5,250 of qualified education expenses paid by employer were excluded from income
- Expanded to include payment of student loans by employer through end of 2025

Tax Credits

Tax Credits

- Deductions save a percentage based on tax bracket
 - For example, \$10,000 of charitable deductions save \$2,400 for someone in the 24% tax bracket
- Credits are dollar-for-dollar savings
 - A \$2,500 tuition tax credit reduces tax bill (or increases refund) by \$2,500

Tax Credits

- 2020 child tax credit and earned income credit – can choose to use 2019 earned income if beneficial
- Energy credits for homeowners
 - Extended through 2021
 - Energy efficient replacements of a/c, furnace, windows, doors
 - \$500 lifetime limit
 - See energystar.gov for specifications to qualify as “energy efficient”

Tax Credits

- Residential Energy-Efficient Property (REEP)
 - Extended two years
 - Qualified solar electric property
 - Qualified solar water heating property
 - Qualified fuel cell property
 - Qualified geothermal heat pump
 - 26% of qualified costs

Disaster-related Retirement Plan Rules

- The CARES Act allowed for coronavirus related distributions, not subject to penalty and could be taxed or repaid over three years
- The December 2020 Consolidated Appropriates Act did NOT extend treatment for coronavirus related distributions

President Biden's Tax Plan

President Biden's Tax Plans

- Timing – effective 2021 or 2022? Legislation won't be quick – a lot on his plate.
- Promised not raise taxes on those making < \$400,000

Higher Taxes for Wealthier Americans

- Raise highest personal income tax bracket from 37% back up to 39.6%
- Cap on itemized deductions
- Limit like-kind exchanges for real estate investors
- Phase out the 20% Qualified Business Income Deduction
- Eliminate “step-up in basis” for inherited assets
- Eliminate capital gains rates for anyone making > \$1 million

Tax Breaks for Low- and Middle-Income Taxpayers

- Increase child tax credit from \$2,000 to \$3,000 for children age 6 - 17 (\$3,600 for children under 6 years of age)
- Child and Dependent Care credit – currently \$600 per child (\$1,200 maximum) increase to \$8,000 per child (\$16,000 maximum)
- Student loan forgiveness and excluding it from taxable income
- Tax credit for small businesses that offer retirement plans for their workers

Tax Breaks for Seniors

- Tax benefits for paying long-term care insurance premiums from retirement savings
- Expand earned income tax credit for low-wage earners to include those over age 65
- \$5,000 tax credit for “informal” caregivers such as family members

Corporate Tax Changes

- Increase corporate income tax rate from 21% to 28% (2017 tax reform dropped the rate from 35% to 21%)
- Increase tax on profits earned by foreign affiliates of U.S. companies
- Pharmaceutical industry to pay more taxes
- Tax breaks for certain businesses
- Tax credits for manufacturers revitalizing, renovating and modernizing existing or recently closed facilities.
- 10% “Made In America” tax credit for companies that invest in the U.S.

Questions?



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Thank You!

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