Dixie Wilson, CPA
Craig Blom, CPA

WILSON HANSON & BLOM, LLP

Happy New Year!! The year 2020 had its share of ups and downs. Through it all, we weathered it together and soon we can close the chapter of what was an extraordinary year. In response to the COVID-19 crisis, Congress passed two bills providing much needed relief to individuals and businesses. This included the business Paycheck Protection Program, unemployment assistance and stimulus checks just to name a few.

REMINDER TO CLIENTS WHO MAKE ESTIMATED TAX PAYMENTS

The last estimated tax payment for 2020 is due January 15, 2021

Tax due on your tax return and estimated tax payments can be withdrawn from a financial institution of your choice. This takes the headache out of trying to remember to send a check to the IRS for your tax due and/or estimated tax payments four times a year. If you're interested, please advise your preparer.

Our doors are open for tax season. It is reasonable to estimate that 2,000+ people come through our doors during this time of year. This tax season has additional challenges due to the pandemic. How do we provide the same high level of service while keeping our clients and staff healthy? To accomplish this, we are making some changes to limit physical interactions between clients and WHB staff. Appointments will be made on a limited basis as we anticipate fewer face to face meetings. Masks are encouraged in the building.

This year we are mailing our tax organizer in the hopes that you will take the time to provide necessary information, particularly the areas highlighted in yellow. We will not start preparing your return until we have a signed engagement letter. The signature line is highlighted in yellow. If you have a small business or rental, you can access those organizers on our website; www.whbcpa.com.

Our tax season office hours are Monday through Friday 7-5:30. We are encouraging clients to drop off your tax organizer and documents. We will have a secure drop box on the landing leading down to our office as well as envelopes and other supplies. We understand this isn't an ideal solution but if a majority of clients can utilize this dropoff method, it will greatly cut down on contact and minimize the risk of exposure to you and to our staff. If we have questions, we will call you for explanations and clarifications once we start your return.

Tips for a COVID-19 Tax Season

- sign engagement letter and drop off your updated organizer in our NEW DROP BOX
- drop off organizer midweek to avoid the rush on Mondays and Fridays
- mail in your organizer and a copy of your documents
- consider having your tax return mailed to you
- initiate automatic withdrawals from your bank account for tax due and estimated tax payments
- pay tax preparation fees by telephone with a debit or credit card
- keep in mind this tax season will be filled with unchartered challenges and patience will be necessary to deal with whatever comes our way

Once your return is finished you can either pick up or have your return mailed to you. If you prefer to have your return mailed to you, it would reduce the cost of mailing if you provide copies to WHB rather than original tax documents. If you choose to pick up your return; we would encourage keeping the encounter brief. Make sure to read the instruction letter for details on how to file your return. If you have further questions, email your preparer. Your tax return will be e-filed once you've returned the signed Form 8879. The form must be signed by both husband and wife, if filing a joint return. Please do not delay returning Form 8879 to our office. The deadline to pay your tax is April 15, 2021 – not the day the return is electronically filed. In order to protect our clients' privacy, our staff cannot provide the amount due or the amount of the refund on your return.

2640 Jackson Blvd., Suite 2 ❖ Rapid City, SD 57702
605-342-8681 ❖ Fax: 605-342-8658 ❖ www.whbcpa.com

KEY TAX FACTS & INFO

- **ECONOMIC IMPACT PAYMENTS RELATED TO COVID-19 –** Earlier in 2020 eligible individuals received a payment of $1,200 ($2,400 for joint filers) plus $500 for each qualifying child with payments phased out based on adjusted gross income. The payments are treated as advance refunds of a 2020 tax credit. Individuals that qualify will receive another stimulus payment of $600 per family member. 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 the stimulus payments they were entitled to will be able to claim the difference as a Recovery Rebate Credit on their 2020 tax return.

- **PAYCHECK PROTECTION PROGRAM LOANS –** Eligible small business owners were able to obtain low-interest loans from SBA in 2020. A new round of PPP will commence in January 2021 for businesses that qualify. The Small Business Administration may forgive these loans, in whole or in part, if PPP funds are spent on eligible expenses during the covered period. For tax purposes, PPP loans are excluded from gross income, and all expenses will be deductible on the tax return. EIDL advances will not reduce maximum amount of PPP loan forgiveness.

- **GIFT & ESTATE TAX -** A common question each year involves gifting. A gift of money is not deductible on your tax return and the recipient does not report gifts as income. The annual gift exclusion for 2020 is $15,000 per person and $30,000 for joint gifts by husband and wife. Be sure and include all birthday and holidays gifts when figuring out how much was given to the recipient. Gifts of a direct payment to providers for medical and education expenses do not count toward the annual gift tax limit. The 2020 estate and gift exemption for estates is $11,580,000.

- **PERSONAL EXEMPTION AMOUNT & STANDARD DEDUCTION -** The 2020 standard deduction for married joint filers is $24,800 and $25,100 in 2021; Head of household is $18,650 in 2020 and $18,800 in 2021 and single is $12,400 in 2020 and $12,550 in 2021. Because the standard deduction is generally claimed only when it exceeds available itemized deductions, the increase in the standard deduction will not benefit you if you itemize deductions.

- **CHILD/DEPENDENT TAX CREDIT –** The child tax credit remains at $2,000 per child. The maximum age for a child eligible for the credit remains at 16. In addition, a $500 nonrefundable tax credit for dependent children over age 16 and all other dependents is available.

- **CREDITS FOR HIGHER EDUCATION EXPENSES -** You **may** be able to take the American Opportunity Tax Credit or the Lifetime Learning Credit for tuition and fees paid for post-secondary education, graduate school or courses to gain or improve job skills. The American Opportunity Tax credit also includes books as qualified expenses. The tuition and fees deduction for higher education is deductible in 2020.

- **AFFORDABLE CARE ACT –** Form 1095-A is required for anyone who has health insurance on the Market Place. We must have this form in order to prepare the 2020 tax return. The amount of your premium tax credit is reconciled on your return which can result in a refund or amount due.

- **ITEMIZED DEDUCTIONS -** The ability to itemize deductions has been dramatically decreased because the standard deduction is a much larger amount. You are allowed to deduct the greater of the standard deduction or your itemized deductions. However, we still need to accumulate the information on your medical, tax, mortgage interest, charity and other deductions in order to apply the rules and to complete state tax returns, if required.

  In the current tax era of the higher standard deduction, a tax "bunching" strategy is absolutely mandatory. The "bunching strategy" recognizes that the best tax deductions are obtained by putting deductions in one year rather than spreading them amongst several years. For example, in years where your charitable contributions are very low, hold off until the next year to catch up, then also pay the full amount of the next year's contributions in the "catch up" year in order to double your chances of itemizing. Similarly, few Americans receive medical deductions anymore, but if you incur a large expense in one year try to have as many dollars in the same year which may allow you to itemize. Thus, taxpayers can itemize deductions in the year deductible expenses are bunched and take the standard deduction in other years.

  Not deductible -Work related expenses as an employee, moving expenses (moving reimbursements are taxable to the recipient)unless the taxpayer is a member of the Armed Forces, home equity interest unless loan proceeds are used to buy, build or substantially improve a main home or second home, union dues, uniforms, tax preparation fees, safe deposit box rentals, IRA maintenance fees, investment advisory fees, hobby expenses (but income is still taxable) and continuing education expense. Alimony will not be deductible nor will it be taxable to the recipient for divorces executed after December 31, 2018.

- **STANDARD MILEAGE RATE -** The standard mileage rate in 2020 for business miles is 57.5 cents, 14 cents for charity/volunteer miles and 17 cents for medical miles. The 2021 standard mileage rates are 56 cents-business, 14 cents-charitable and 16 cents-medical. Vehicle expense deductions are generally calculated using one of two methods: the standard mileage rate or the actual expense method. The IRS tends to focus on vehicle expenses in an audit and disallow them if they are not properly substantiated. You should ensure that you are keeping records of your business mileage in a notebook, diary, trip sheets, calendar or electronic app. Records are considered adequate to substantiate the expense only if the records are prepared and maintained in such a manner that each recording of the expense is made at or near the time the mileage is incurred.

- **BONUS DEPRECIATION/SECTION 179 DEDUCTION -** Through 2022 businesses can elect to deduct 100% of the cost of new and used tangible property purchased and placed in service. Section 179 allows businesses to expense a maximum of $1,040,000 for qualifying property in 2020. The definition of property that qualifies for the Section 179 deduction has been expanded to include personal property purchased for rentals and any of the following improvements to **nonresidential real property**: roofs, heating, ventilation, air-conditioning property, fire protection, alarm systems, security systems and qualified improvement property.

- **INDIVIDUAL RETIREMENT ACCOUNTS -** You **may** be able to contribute $6,000 to a Traditional or Roth IRA. The traditional IRA is deducted on the tax return, whereas, the Roth IRA is not a deduction for tax purposes. It is important to note contributions for Traditional and Roth IRAs combined is limited to $6,000/$7,000 depending on your age and the contribution must be made by April 15, 2021. Beginning in 2020 there is no age restriction imposed on contributing to a Traditional IRA.

  It is important that you tell your tax preparer if you have contributed to an IRA account, Roth or Traditional. Not everyone qualifies for an IRA contribution and there is a 6% excise tax and 10% penalty on excess contributions for IRAs, both Traditional and Roth. The excise tax applies each year until the excess contribution is withdrawn. Your accountant needs to track your Roth contributions in case you withdraw monies from this account before turning age 59 ½ as there may be earnings on the account that may be taxable. If there is any doubt if you qualify for an IRA deduction we advise waiting until the amount can be determined by your preparer.

  Beginning in 2020, the mandatory age to begin required minimum distributions from your IRA is age 72. The penalty for skipping a required minimum distribution is 50 percent of the amount that should have been withdrawn. However, if you are in the fortunate position of not needing the distribution for living expenses and are charitably inclined, you can avoid income tax on your required withdrawal by donating your money directly to a qualifying charity. You must utilize the direct IRA to charity transfer tool to make the charitable contributions up to $100,000. This simple trick can save you hundreds of dollars in income tax.

  Please note: Under the CARES Act, required minimum distributions (RMDs) were 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 for the distribution to be recontributed by August 31, 2020.

  Under the CARES Act, a taxpayer who was impacted by COVID-19 could take a distribution up to $100,000 from IRAs and other qualified plans and not be subjected to the 10% early withdrawal penalty. The distribution can be included in income ratably over a 3-year period unless the taxpayer elects otherwise. The taxpayer can contribute the money back to the retirement plan within three years and treat the transaction as a direct rollover.

- **HEALTH SAVINGS ACCOUNT / HEALTH FLEX PLAN -** An HSA is a tax-exempt custodial account (similar to an IRA account) in which you can set aside tax-exempt dollars exclusively for medical expenses. The plan requires a high deductible health insurance plan as defined by the IRS. To qualify you must be self-employed or an employee of an employer who maintains a qualified High Deductible Health Plan. Neither income nor withdrawals used to pay medical costs are taxed, but other distributions are taxed and penalized 20%, except for payouts after age 65 or because of death or disability. In 2020 contributions are limited to $3,550 for single coverage and $7,100 for family coverage.and there is an additional $1,000 catch-up contribution for persons age 55. HSA contributions must be contributed by April 15, 2021.

- **CAPITAL GAINS TAX –** The tax rate for both long-term capital gains and qualified dividends is generally no higher than 15% for most taxpayers. A zero capital gain rate apples where income is not above $40,000 (single), $80,000 (joint), or $53,600 (head of household) in 2020. The maximum rate for capital gains tax is 20% which is assessed on high income tax returns.

  Gifting appreciated stock to a qualified nonprofit can save tax dollars. Generally the higher the appreciated value of an asset, the bigger the potential value of the tax benefit. It entitles you to a charitable donation at the fair market value and avoids capital gains if you sold the stock.

- **QUALIFIED BUSINESS INCOME – QBI DEDUCTION –** In its simplest terms, the deduction is 20% of the lesser of qualified business income or taxable income. The QBI deduction applies to business income of sole proprietors, partnerships/LLCs and S corporations. This deduction is the attempt to offer lower taxes to small businesses that are not treated as a C corporation that has a flat 21% tax rate. If a taxpayer's taxable income is less than $326,600 for a married filing joint return, or less than $163,300 for all others, the deduction is simply 20% of the lesser of taxable income or qualified business income.

  A taxpayer engaged in a "specified service trade or business" and whose taxable income exceeds the fully phased in threshold amount of $426,600 (joint filer) or $213,000 (all others) are not allowed a QBI deduction. A specified business is a business involving the performance of services in the fields of, health, law, consulting, accounting, performing arts, actuarial services, athletics, financial services or brokerage services.

- **SOCIAL SECURITY –** Social security tax is paid on earned income with a maximum earnings base of $137,700 in 2020 and increases to $142,800 in 2021. The medicare portion of social security taxes has an unlimited income threshold. Working retirees receiving social security benefits (younger than their normal retirement age) can earn $18,240 in 2020 and $18,960 in 2021 before having to repay the SSA. Make more than that in earnings and you lose $1 in annual benefits for every $2 that you are above the threshold. Social security benefits will increase by 1.3% cost-of-living adjustment in 2021.

- **MEDICARE MONTHLY PREMIUM-PART B –** The monthly premium paid in 2020 is based on the income reported on your 2018 tax return. Your 2021 monthly premium is based on the income reported on your 2019 tax return. Medicare Part B lowest monthly premium in 2020 is $144.60 and increased to $148.50 for 2021. Medicare premiums are adjusted if you have more income than $88,000 for a single person and $176,000 for married joint returns. The income-related monthly adjustment amounts (IRMAA) affect roughly 7 percent of people with Medicare Part B. If there is an upward adjustment in premium it will only be for one calendar year and then is reset based on the next year's tax return.

NEW IN 2020 -

- IRAs inherited from someone (other than spouse) who passed away after 2019 must be distributed within 10 years
- can withdraw $10,000 (lifetime limit) from 529 plans to repay student loans of beneficiary/siblings without penalty
- education 529 plans may now be used tax free to pay for an apprenticeship program if approved as such.
- parents can withdraw up to $5,000 from retirement accounts penalty-free within a year of birth or adoption.
- Kiddie tax was repealed—(children's unearned income being taxed at parents' highest rate)
- educator (K-12) deduction of $250 expanded to include amounts spent on protective equipment and supplies
- A $300 above-the-line cash charitable contribution deduction is available for a non-itemizer in 2020
- In 2021 business expense deduction for 100% of meals as long as food and beverages provided by a restaurant
- Form 1099-MISC has been redesigned, and Form 1099-NEC (non-employee compensation) reintroduced
- the employee retention tax credit is extended to June 30, 2021 for businesses
- medical expense deduction floor of 7.5% of adjusted gross income made permanent
- taxpayers with Identity Protection Personal Identification Numbers (IP PINs) need to be sure to bring in the letter from the IRS. A new IP PIN will be issued each year and without it your return will experience processing delays. Starting in January 2021 the IRS will allow all individuals to receive an IP PIN.

- **EXTENSIONS TO FILE -** There are no additional costs to file an extension as long as any income tax that may be due is sent to the IRS with the extension. Late payment penalty and interest will be assessed by the IRS from the due date until the day the tax is paid. The IRS will send a bill for penalties and interest. It is your responsibility to determine the amount to be sent with your extension and also to make your current year quarterly estimated tax payments even if your tax return is extended. WHB will send your extensions on April 15, 2021 to the IRS. The extended due date for individual tax returns is October 15, 2021. S corporation and partnership tax returns are due on March 15, 2021 and if extended, the due date is September 15, 2021. There are penalties for not filing by the due date or not filing an extension.

We thank you in advance for your patience as we navigate through these unprecedented times. Sending you warm holiday cheer and wishing you a Happy New Year!!

Wilson Hanson & Blom