

2020

IMPORTANT Tax CHANGES



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2020 Tax Alert

Slipped into the vast 1,700 page bill to keep the government funded are a number of tax changes that will impact most taxpayers during 2020. Here is a summary of those changes and other prescheduled changes for the 2020 tax year.

Individual Taxes

Tax Rates. Tax rates remain unchanged in 2020, though the brackets that apply to these rates have increased approximately 1.5%

2020 Beginning Income for Tax Rates		
Single	Rate	Married Joint
\$1	10%	\$1
9,876	12%	19,751
40,126	22%	80,251
85,526	24%	171,051
163,301	32%	326,601
207,351	35%	414,701
518,401+	37%	622,051+

Long-term capital gains tax rates remain unchanged for 2020 and range from 0%-20%.

The net investment income tax rate of 3.8% is still in place on investment income for taxpayers with adjusted gross income over \$200,000 (\$250,000 for married filing joint).

Alimony Rules Change for New Divorcees. Alimony is no longer tax deductible for those paying it, nor income for those receiving it, for divorce or separation agreements executed after 2018. Any changes to agreements prior to 2019 could inadvertently impact the tax treatment of payments. So, prior to making any changes, consult your tax advisor or attorney.

Standard Deductions & Exemptions.

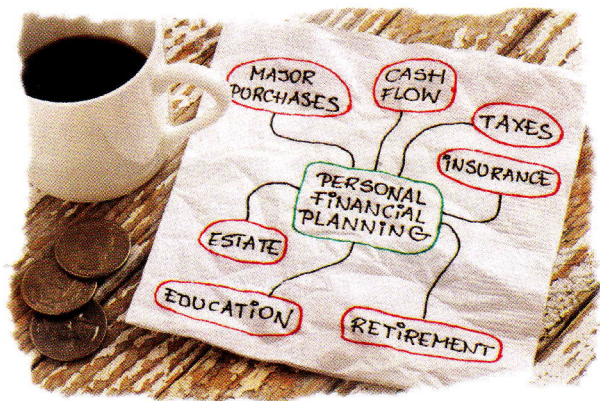
Personal exemptions are suspended through the year 2025. Standard deductions are:

Standard Deductions		
Item	2020	2019
Single	\$12,400	\$12,200
Married	24,800	24,400
Head of Household	18,650	18,350
Add'l for:		
Elderly/blind: married	1,300	1,300
Elderly/blind: unmarried	1,650	1,650

Itemized Deductions. Key itemized deductions in place for 2020 include:

- ✓ 7.5% of adjusted gross income medical expense threshold.
- ✓ Limit of \$10,000 for a combined state income, sales and property tax deduction.
- ✓ Elimination of miscellaneous deductions subject to 2% of adjusted gross income.
- ✓ A limit on interest deductibility on home indebtedness of \$750,000 for new loans taken out after December 14, 2017.
- ✓ Mortgage insurance premiums through 2020.
- ✓ Casualty losses limited to federally declared disaster areas.
- ✓ No phase out of itemized deductions.
- ✓ Limit on donations to qualified charities is 60% of income.

Child Tax Credit (CTC). The CTC remains at \$2,000 for 2020, with phase out of the benefit starting at \$400,000 for married and \$200,000 for unmarried taxpayers. The CTC is available for most parents with children under age 17. \$1,400 of the credit is refundable and there's a \$500 family credit for dependents ineligible for the CTC



Kiddie Tax. Unearned income of children 19 or younger (age 24 if a qualified student) above \$2,200 in 2020 will be taxed at the parent's tax rate. The rates range from 10% to 37%.

You have the option to file amended returns for 2018 or 2019 if you used the prior estate and gift tax tables.

Retirement Accounts. For the 2020 tax year, the maximum contribution for 401(k) accounts and SIMPLE IRAs is increasing by \$500.

2020 Retirement Plan Limits		
Item	2020	2019
Traditional IRA, Roth IRA	\$6,000	\$6,000
50 or older	add'l \$1,000	add'l \$1,000
401(k), 403(b)	\$19,500	\$19,000
50 or older	add'l \$6,500	add'l \$6,000
Simple IRA	\$13,500	\$13,000
50 or older	add'l \$3,000	add'l \$3,000

There are also a number of new retirement savings account rules. These include:

- ✓ Increasing the age for required minimum distributions (RMD) to 72 from age 70 ½.
- ✓ Eliminating the age restriction to contribute to traditional IRAs. The prior limit was age 70 ½.

- ✓ Allowing penalty-free withdrawals of up to \$5,000 for a new birth or adoption.
- ✓ Elimination of stretch withdrawals for beneficiaries of retirement funds. Now the money must be removed within ten years.

Health Savings Accounts. The Health Savings Account (HSA) annual contribution limits for those qualified high deductible health insurance plans is \$3,550 for a single taxpayer and \$7,100 for a family for 2020. If you are 55 or older, the amount increases by \$1,000.

Social Security. Social Security benefits increase by 1.6% for 2020. Income subject to Social Security tax also increases to \$137,700 for 2020.

Other Key 2020 Tax Laws

Estate Taxes. In 2020, the maximum estate tax is 40%. The amount of an estate's value exempt from federal tax is now \$11.58 million for single and \$23.16 million for married taxpayers.

Gift Taxes. The gift tax rates are unified with estate taxes. The annual gift exclusion amount for 2020 remains at \$15,000 (\$30,000 per couple).

Mileage Rates. The amount available for qualified deduction of automobile use is:

Mileage Rates (per mile)		
Item	2020	2019
Business	57.5¢	58.0¢
Medical/Moving	17.0¢	20.0¢
Charitable	14.0¢	14.0¢

Clock is Ticking. Remember that most of the changes brought about by the Tax Cuts and Jobs Act revert back to 2017 tax rules in the year 2025.

Business Taxes

The flat 21% tax for C corporations remains intact for 2020. Here are some common business tax items to keep you up to speed:

Section 179 Limits. The maximum section 179 deduction for property placed in service in 2020 is \$1.04 million. This limit is reduced by total purchases of qualified property in excess of \$2.59 million. Section 179 allows small business owners to expense versus depreciate qualified property up to the published limits.

First-Year Bonus Depreciation. The ability to take 100% first-year bonus depreciation is in place for 2020. This includes the purchase of new or used qualified property.

Please remember that business depreciation-related provisions only impact the timing of when you expense your depreciation, not the total amount of depreciation you may expense over the life of the assets purchased.

Section 199A Qualified Business Income Deduction. The 20% qualified business income deduction is available to pass-through entities including S corporations, partnerships, and sole proprietors. The benefit is limited for certain service businesses with income exceeding \$163,300 for single and \$326,600 for joint filers in 2020. It is also available for rental property business owners. Those with qualified business income above the threshold will have the benefit reduced.

This is a brief summary of some of the more common tax changes in 2020. Should you have any questions regarding your situation, please call to make an appointment to discuss your tax situation.

This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may impact your situation.