Key Tax Law Changes for Tax Year 2020

Economic Impact (Stimulus) Payments

First Payment:
The CARES Act provided Economic Impact Payments (EIPs) to taxpayers based on the following table. Taxpayers also received a $500 EIP for each qualifying child. The IRS issued Notice 1444 within 15 days after the EIP was sent out, showing how the payment was made. The payment is not includible in gross income and will not reduce a refund or increase the amount owed.

	Single & Married Filing Separate	Head of Household	Married Filing Joint
Stimulus Payment	$1,200	$1,200	$2,400
Full Payment (AGI)	≤ $75,000	≤ $112,500	≤ $150,000
No Payment (AGI)	> $99,000	> $136,500	> $198,000
Phase-out	In between thresholds - payment reduced by $5 for each $100 above floor		

Second Payment:
Half the amount of the first payment for taxpayers and $600 per qualifying child.

There will be a settle-up for both payments based upon your 2020 tax return. If your Stimulus payments were less than what you qualify for on your 2020 return you will get a credit on your return for the difference. If you received more payments than what is calculated on your 2020 return, you get to keep the excess that you received.

Forms 1099-MISC and 1099-NEC:
Payments of more than $600 in nonemployee compensation including independent contractors, attorneys, and golden parachute payments will be reported on Form 1099-NEC Box 1, instead of Box 7 on the 1099-MISC. The 1099-MISC Form will still be used to report Rents, Royalties and Other Income.

Charitable Contributions:
The CARES Act makes the following changes to charitable contributions beginning in tax year 2020:

- A $300 above-the-line charitable contribution deduction is now available for taxpayers who do not itemize deductions.
- The 60% adjusted gross income (AGI) limit on cash contributions by individuals is disregarded.
- For corporations, the taxable income limit is increased from 10% to 25% on cash charitable contributions.
- The taxable income limit on contributions of food inventory is increased from 15% to 25%.

Kiddie Tax Changes:
Prior to the Tax Cuts and Jobs Act (TCJA), the net unearned income of a child under 19 years old (or a full-time student under 24) was taxed at the parent's tax rates, if the parent's rates were higher than the child's rates. For tax years beginning after 2017, the TCJA changed the rule so that the unearned income of the child would be taxed at trust and estate tax rates.

However, this change seemed to unfairly increase the tax on certain children. Effective for tax years beginning after Dec. 31, 2019, the SECURE Act repeals TCJA rules, and you may elect to apply the pre-TCJA rules in 2018 and 2019. Also, a child's earned income is taxed at single rates and this has not changed.

Required Minimum Distributions:
Required minimum distribution age raised from 70½ to 72.

Note: Under the CARES Act, RMDs are not required for 2020.

Retirement Plan Distributions:
Under the CARES Act and for 2020 distributions from IRAs and workplace retirement plans, if the taxpayer is impacted by COVID-19, they can take a distribution up to $100,000 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 also contribute the money back to their retirement plan within three years and treat the transaction as a direct rollover.

Retirement Plan Loans:
Under the CARES Act and for taxpayers affected by COVID-19, loans from a qualified plan on or after March 27, 2020, and before Sept. 23, 2020, may be made up to the lesser of $100,000 (instead of $50,000) minus loans you have outstanding, or 100% of your non-forfeitable account balance or accrued benefit.

The taxpayer has up to six years (instead of five) to repay the loan. Amounts in IRAs are eligible for COVID-19-related distributions, but you cannot take a loan from an IRA.

For new and existing loans, plans can also suspend loan repayments due between March 27, 2020, and Dec. 31, 2020, for up to one year. Typically, at least those repayments originally scheduled for 2021 must resume in January 2021.

Repeal of Maximum Age for Traditional IRA Contributions:
Under the SECURE Act and for contributions made for tax years beginning after 2019, individuals of ANY AGE can make contributions to a traditional IRA, assuming there is enough compensation. Prior to this rule change, taxpayers were not allowed to make an IRA contribution once they reached age 70½ by the close of the year. The rationale for the rule change is that Americans are living longer, and many are continuing to work past 70½ years old. The restriction did not apply to Roth IRA contributions.

For qualified charitable distributions (QCDs) made after 2019, the taxpayer's QCD is reduced by the excess of the total amount of IRA deductions allowed after reaching age 70½, over the aggregated amount of reductions in prior years.

Penalty-free Retirement Plan Withdrawals for Births and Adoptions:
In general, retirement plan distributions are included in income, and unless an exception applies, distributions before the recipient turns 59½ years old are subject to a 10% early withdrawal penalty. Under the SECURE Act and beginning in 2020, taxpayers can take up to $5,000 (for each spouse) of penalty-free retirement plan distributions for expenses related to the birth or adoption of a child.

Extender Provisions:
On Dec. 19, 2019, Congress passed the Taxpayer Certainty and Disaster Tax Relief Act of 2019, which extends more than 30 tax code provisions. These measures will expire at the end of 2020 unless further extended.

Higher-impact extender items:

- Exclusion from gross income for discharge of debt income from qualified principal residence debt (expired after 2017, retroactively extended through 2020).
- Deduction for mortgage insurance premiums (expired after 2017, retroactively extended through 2020).

- Tuition and fees deduction for higher education (expired after 2017, retroactively extended through 2020).
- Nonbusiness energy property credit (expired after 2017, retroactively extended through 2020).
- Medical expense deduction subject to 7.5% of adjusted gross income threshold, instead of 10% (expired after 2018, extended for 2019 & 2020).

Self-Employment Taxes:
If you wish to defer the payment of the Social Security portion of self-employment taxes you owe, we need the amount of self-employment income you earned between March 27, 2020 and December 31, 2020. The deferral is ½ due 12/31/21 and ½ due 12/31/22.

Sick and Family Leave Credit:
If you are self-employed, we will need the number of days which you were unable to work for reasons related to COVID-19 so we can calculate the tax credit you can take.

Qualifying reasons for leave are that the taxpayer-

1. is subject to a Federal, State, or local quarantine or isolation order related to COVID-19;
2. has been advised by a health care provider to self-quarantine related to COVID-19;
3. is experiencing COVID-19 symptoms and is seeking a medical diagnosis;
4. is caring for an individual subject to an order described in (1) or self-quarantine as described in (2);
5. is caring for a child whose school or place of care is closed (or childcare provider is unavailable) for reasons related to COVID-19; or
6. is experiencing any other substantially similar condition specified by the Secretary of Health and Human Services, in consultation with the Secretaries of Labor and Treasury.