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Return Preparer

TAX NEWS & TIPS

YEAR END 2020

Dear Client:

Another year has come and gone and this one was for sure one for the books.

Please be sure to complete the enclosed Client Checklist (the green sheet) as we are required to collect accurate and current information for proper filing of your return.

This year we are encouraging all clients to provide their tax documents to us by either mail, email, or drop off. Emailed statements should be saved as a PDF file for best delivery. Drop offs may be made any time during our office hours at the front desk. If you prefer to have zero contact we have a mail drop just to the right of our main door that you may use. After we review your information we will contact you via a phone call or email to confirm any details we feel are missing or require further explanation. We understand that it may be necessary for some clients to have an in person appointment. If you prefer to have an appointment please give us a call to schedule.

We appreciate your cooperation and continued business.

If you have any questions or are ready to schedule your appointment please contact our office today.

New Tax Laws in 2020

As you begin planning to file your 2020 tax return, here are some of the new tax laws passed over the last year that could affect you.

➤ **Early distribution penalty waived.** The 10% early distribution penalty on up to \$100,000 of retirement withdrawals for coronavirus-related reasons is waived during 2020. New rules allow tax liabilities on these distributions to be paid over a three-year period.

➤ **Required minimum distributions waived for 2020.** Required minimum distributions in the year 2020 for various retirement plans is suspended. The corresponding 50% penalty associated with not taking a distribution is also suspended in 2020.

➤ **Medical deduction threshold decreases.** Qualified medical expenses that exceed 7.5% of your adjusted gross income may be used as an itemized deduction. The lower

threshold (formerly 10% is a carryover from a late 2019 tax law change.

➤ **Mortgage forgiveness is not income.** If a bank forgives mortgage indebtedness, it is typically income to you. Qualified principal residence indebtedness that is forgiven, however, may be excluded from income with the reactivation of this tax law.

➤ **Mortgage insurance premium deductions.** If your mortgage bank requires insurance on your loan and the loan qualifies, you can deduct this premium as an itemized deduction.

➤ **The tuition and fees deduction is available.** The above-the-line deduction for up to \$4,000 in qualified tuition and fees expenses that expired is still available in 2020. You will need to evaluate this tax break versus others like the American Opportunity Credit or the Lifetime Learning Credit.

Income Brackets for 2020 Tax Rates

Tax Rate	Single	Married filing Joint	Head of Household	Married Filing Separate
10%	\$1 - 9,875	\$1 - 19,750	\$1 - 14,100	\$1 - 9,875
12%	9,876 - 40,125	19,751 - 80,250	14,101 - 53,700	9,876 - 40,125
22%	40,126 - 85,525	80,251 - 171,050	53,701 - 85,500	40,126 - 85,525
24%	85,526 - 163,300	171,051 - 326,600	85,501 - 163,300	85,526 - 163,300
32%	163,301 - 207,350	326,601 - 414,700	163,301 - 207,350	163,301 - 207,350
35%	207,351 - 518,400	414,701 - 622,050	207,351 - 518,400	207,351 - 311,025
37%	Over 518,400	Over 622,050	Over 518,400	Over 311,025

New Charitable Contribution Tax Breaks in 2020

There are several new tax breaks for charitable donations in 2020. Here are three changes to help your favorite charity while receiving a tax break:

\$300 charity deduction without itemizing. You can claim an above-the-line deduction of up to \$300 for cash donation to qualified charities. In other words, you get a deduction whether you itemize or not.

Donate up to 100% of your income. You can donate as much of your 2020 income as you feel like giving. The annual deduction for monetary donations is normally limited to 60% of your income, but this has increased to 100% in 2020.

Businesses can contribute more! A business can give up to 25% of its taxable income, an increase from the normal threshold of 10%.

Businesses also qualify for a special enhanced deduction for gifts of food from 15% of taxable income to 25%.

Pandemic Tax Surprises

Numerous new laws provide economic relief to individual and businesses hardest hit by this year's pandemic. This much-needed financial assistance, however, comes with a few strings attached. Here are potential surprises if you used the available economic relief packages:

Be prepared for a tax bill for unemployment benefits. You will have to report unemployment benefits on your tax return as income. In addition to paying federal taxes on your unemployment compensation, most states also impose a tax on unemployment benefits.

Pay estimated tax payments. If you collect unemployment benefits and did not have taxes withheld you may have been required to pay

estimated tax payments. If these quarterly payments were not made you may see an additional penalty for underpayment.

Report emergency distributions from retirement accounts. You may have withdrawn up to \$100,000 in 2020 from various retirement accounts to help cover pandemic-related emergency expenses without incurring penalties. These distributions can be returned to your retirement account over a three year period with no tax liability owed, or you can keep the money and have three years within which to pay the tax liability. If you withdrew funds and plan to keep the money, reserve enough of the money to pay the tax.

Standard Deductions			
Item	2020	2019	Change
Single	\$12,400	\$12,200	+ \$200
Married Filing Joint	24,800	24,400	+ \$400
Head of Household	18,650	18,350	+ \$300
Married Filing Separate	12,400	12,200	+ \$200
Elderly/Blind: Married	+ \$1,300	+ \$1,300	-
Elderly/Blind: Unmarried	+ \$1,650	+ \$1,600	-

Mileage Rates			
Item	2020	2019	Change
Business	57.5¢/mi	58.0¢/mi	- 0.5¢
Medical	17.0¢/mi	20.0¢/mi	- 3.0¢
Charitable	14.0¢/mi	14.0¢/mi	-

2020 Key Retirement Plan Limits			
Retirement Plan	2020	2019	Change
401(k), 403(b), 457 Plans	\$19,500	\$19,000	+\$500
IRA: Roth	6,000	6,000	-
IRA: Simple	13,500	13,000	+\$500
IRA: Traditional	6,000	6,000	-

Of Greatest Importance To Most Taxpayers For Tax Year 2020....

The standard deduction for married filing jointly rises to \$24,800 for tax year 2020, up \$400 from 2019. For single taxpayers and married individuals filing separately, the standard deduction rises to \$12,400 for 2020, up \$200, and for heads of households, the standard deduction will be \$18,650 for tax year 2020, up \$300.

The personal exemption for tax year 2020 remains at \$0.

Annual Gift Limits. The annual exclusion for gifts is \$15,000 for calendar year 2020, the same as it was for both calendar years 2018 and 2019.


Maximum Earned Income Tax Credit			
	2020	2019	Change
No Child	\$538	\$529	+\$9
One Child	3,584	3,526	+\$58
Two Children	5,920	5,828	+\$92
Three + Children	6,660	6,557	+\$103


"Important Tax Information Enclosed"


Most of the needed tax records to prepare your tax return will show up in the mail or online in January 2021. Collecting all your tax related documents is important so that we complete an accurate return.


The IRS also gets copies of many of these documents and will match your tax return to their records.

Here's what you should be on the lookout for...


 **W-2s.** Open and read them carefully. Contact your employer if there is a discrepancy or if you do not receive them by the end of January.


 **1099s.** You should receive **1099-INT** or **1099-DIV** forms for any accounts that pay interest or dividends. Even tax-exempt interest must be reported. **IMPORTANT:** "Corrected" forms are always a possibility. Be alert for such announcements.

 **1095-A.** You would receive a 1095-A if you purchased Health Care through the Health Insurance Marketplace and had part of your premiums offset by the Advance Payments of Premium Tax Credit. This form is needed to calculate the actual Premium Tax Credit for which you would be entitled.


 **Other 1099s.** Real estate sales are often reported on **1099-S**. Stock sales on **1099-B** or **Consolidated 1099**. Pension, 401K and IRA distributions are reported on **1099-R**. Pay special attention to forms **1099-A** and **1099-C**. These report

foreclosures or debt cancellations which may or may not result in taxable income. We need to see them to correctly prepare your return.

 **Form 1098.** Reports mortgage interest paid to a bank, savings & loan or credit union. These forms may also report real estate taxes (if payments are escrowed by the lender).

 **Other Income.** Look for 1099s of state tax refunds, unemployment income, prizes or gambling winnings or rents that you collect. Read each one carefully and keep them with all your other tax documents.

Gambling winnings can also be reported on Form W-2G. There will also be a new 1099 for self-employed called 1099-NEC. (see page 4)

 **Your Records.** Review your records for possible income or deductions. Add up medical expenses and any taxes paid. If you

recall paying a deductible expense but do not have a receipt, jot it down and we will discuss before preparing your return. Charitable contributions should have receipts or your deduction could be challenged and denied. If you are missing a receipt, contact the charity to see if you can get the document(s) needed.

The collection of these documents should be done prior to making an appointment so there is no delay in completing your return.



We want to take this opportunity to introduce our newest return preparer; Dinah Martin.

Dinah has been with E.E. Tax for over 6 years and has been training and learning from Earl to enter into this new role. Dinah was born in Wisconsin (Go Packers!), raised in South Dakota and attended school in Hawaii where she received a bachelor's degree in Business from BYU-Hawaii. She now lives in Scottsdale with her son and enjoys spending time outdoors hiking and attending her son's baseball games.

Many of you already know, and have had the chance to meet and work with Dinah. This year she will be meeting with more clients one on one and preparing returns.

We hope you join us in welcoming Dinah to this new role!



*May 2021 bring peace,
health and prosperity to
both you and your family!*

Arizona State Tax Credit Recap

The Arizona State Tax Credit program allows you to make a donation to an eligible organization and receive a dollar-for-dollar credit against Arizona state taxes owed. You can contribute up to the amount of your expected Arizona tax liability. If you contribute more than your total state tax amount, the credits can be carried forward five years, so not to worry if you end up with more credits than taxes. In general, you must make your tax credit donation by **April 15, 2021**, in order for them to apply to the 2020 year. You can find additional information on the Arizona Department of Revenue website at

azdor.gov/tax-credits

Most organizations provide a form or instructions on their website on how to donate. Some organizations allow you to donate by credit card online. Others require you to print a form and mail it in with a check.

Most organizations will mail you a receipt or letter that verifies your donation amount.

After you contribute, don't forget to print and save the confirmation page and provide it to our office. The receipt should include the following information:

- ✓ Dollar amount of donation
- ✓ Date donation was made
- ✓ Complete address of qualifying organization
- ✓ 5 digit identifying code number assigned to qualifying organizations
- ✓ 9 digit CTDS number for qualifying public and charter schools

We require proof of these donations as so much detailed information is reported to qualify.



2020 Arizona State Tax Credits

Item	Individual	Joint
Qualifying Charitable Organization (QCO)	\$400	\$800
Qualifying Foster Care Charitable Organization (QFCO)	500	1,000
Public Schools	200	400
School Tuition Organization	593	1,186
Additional "Switcher" Donation for School Tuition Orgs.	590	1,179

Introducing Form 1099-NEC

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		OMB No. 1545-0116 2020 Form 1099-NEC	Nonemployee Compensation Copy 1 For State Tax Department
1 Nonemployee compensation \$		2	
PAYER'S TIN	RECIPIENT'S TIN	3	
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code		4 Federal income tax withheld \$	
Account number (see instructions)		5 State tax withheld \$	
FATCA filing requirement <input type="checkbox"/>		6 State/Payer's state no. \$	7 State income \$

Form 1099-NEC
www.irs.gov/Form1099NEC
Department of the Treasury - Internal Revenue Service

Changes are in store this tax season for the more than 70 percent of filers in 2019 who reported information in Box 7 of Form 1099-MISC. Enter the new Form 1099-NEC to report nonemployee compensation.

Starting tax year 2020, any business, regardless of size, that pays at least \$600 for services performed in the course of their trade or business by a person who is not their employee is required to file Form 1099-NEC. Form 1099-NEC is required to be filed by January 31st to avoid any late filing penalties.

If you need to report nonemployee compensation we offer to file those forms for you. Call our office and we will be happy to assist.