

Hons Tax Associates

Information for 2020 Tax Returns

2020 individual tax returns: summary

IRS is officially starting processing e-filed tax returns Friday February 12 (they take some before to test their systems). This is about 3 weeks later than usual. They wanted most people to receive their second Stimulus money before filing. Returns (we can do your return before!) are being queued and will be sent to IRS in the order they were done. It may take IRS computers a few days to catch up at first.

We expect refunds to be processed as previous years: 2 weeks or less when no credits claimed on the return, 3 weeks or more if credit claimed. Fastest way to get your refund is direct deposit on your bank account (also if further Stimulus: "The Biden American Rescue Plan"). Deadline to file return or extension is still April 15. The Stimulus money (last year and this year) most of you got is an **advance on a credit** in your 2020 return, so if you did not get it and you qualify for it, we will claim it in your 2020 tax return. We have to input in the return how much you received, so you'll need to let us know when you bring your tax documents.

Other than numbers being updated like every year (standard deduction is now \$12,400 Single and \$24,800 Married Filing Jointly), the three main changes in the tax returns this year are:

- . Stimulus money: if you were phased out using your 2018 or 2019 return and did not get it (or fully get it), we will compute if you qualify for it using your 2020 income. In some cases, you may and get some or all of it as a credit in your 2020 return.
- . Up to \$300 charitable contribution (money only) is deductible when standard deduction taken.
- . If your income is lower in 2020 than 2019, and you qualify for the Earned Income Credit (EIC), we will compute per new tax regulations the highest possible EIC using your 2019 or 2020 earned income.

2020 individual tax returns: more details

Economic Impact payment

Most of you should have received:

- . last year: \$1,200 per person (so \$2,400 when filing married jointly) and \$500 per qualifying child. This was subject to an AGI phaseout of \$75,000 single, \$112,500 head of household and \$150,000 married filing jointly and usually came fast from IRS when you e-filed (not paper) and had a refund via direct deposit.
- . this year \$600 per person, subject to the same phaseouts

Again, the Stimulus money (last year and this year) was an advance on a credit in your 2020 return, so if you did not get it and you qualify for it, we will claim it in your 2020 tax return. We have to input in the return how much you received.

- . An example of this is if you had a newborn in 2020, it would qualify you for an extra \$1100 credit on your 2020 return (\$500 1st stimulus, \$600 2nd stimulus). The stimulus you received, which was an advance on this 2020 "recovery rebate credit", did not figure it in (child was not born in 2019), but because this credit is for 2020 tax year, you would get it when you file!

. Another example is if your 2019 income phased you out of the stimulus but your 2020 income is lower (and it is often the case because of Covid), we will compute in your return if you now qualify for some or all the stimulus money given your 2020 income and if so it would lower your taxes / increase your refund.

\$300 charitable contributions deduction for taxpayers who don't itemize: This is money only (not in kind) and you should keep receipts when claiming this. Although it is unlikely IRS would audit such a small amount, they could include it part of a larger scope audit. If your marginal tax rate is 22%, \$300 is worth \$66 in your federal return and \$14 in your Colorado return, not much, but not a reason to leave it on the table. Also, it is an "above the line" deduction, reducing your AGI (Adjusted Gross Income) which can bring other tax benefits.

2020 Traditional IRA maximum deductible contribution is as in 2019: \$6,000/person and \$7,000 if 50 and older, unless one gets into income phaseouts when taxpayer or spouse have a retirement plan at work. 401k maximum deductible contribution is \$19,500 and \$25,000 if 50 and older.

IRA contributions, SEP (for self-employed) and HSA (Health Saving Accounts) contributions are the only 3 things you may still be able to tweak at tax time to lower your AGI (Adjusted Gross Income), this is often important for people who have marketplace insurance (Obamacare) in order to increase their health insurance subsidy ("premium tax credit") reconciled in the tax return unless their income is clearly too high to get into subsidy territory (which is below 400% of Federal poverty line per tables)

Required Minimum Distributions (RMDs)

Many of you may know that the law has changed in two ways: from 70.5 years old to 72 years old and 2020 optional suspension.

Your RMD is the minimum amount you must withdraw from your account each year. It is normally calculated for you by your financial institution. You have to start taking withdrawals from your retirement accounts when you reach age 72 (but still 70 ½ if you reached 70 ½ before 01/01/2020). Roth IRAs do not require withdrawals.

Deadline to take the RMD is April 1 of the year after for the first RMD and then Dec 31 for each year after. Congress in the "Care" act of 03/27/20 allowed for an optional suspension of 2020 RMD: you can take it or not: your choice

PPP loan

Businesses are now allowed to deduct expenses associated with their forgiven Pay Check Protection Program (PPP) loans. This finally clarifies the law in the best possible way for the taxpayer: forgiven loan is NOT taxable income, expenses (payroll, rent, utilities, and now a few more) paid with it ARE deductible.

If the loan was for less than \$50,000 this is the form to claim forgiveness of the loan:

[PPP loan forgiveness application](#)

Small businesses are eligible to receive a second PPP loan when less than 300 employees and can demonstrate a revenue reduction of 25 percent in any quarter of 2020 or using the full 2020 year. Use this SBA form to claim it: [PPP loan 2nd draw application](#)

For 2021

Social Security recipients get a 1.3% increase in their benefits in 2021

It certainly appears that the Supreme Court will not strike down the remaining provisions of the ACA (Affordable Care Act), meaning marketplace insurance (Obamacare) is still in place in 2021. In Colorado this is done at connectforhealthco.com (either directly or through a broker). Open enrollment for 2021 was till Dec 15 2020, but one can still enroll “when a life changing” event. This includes a newborn, unemployment, new job and many other situations. Those of you who have it, and are not higher/high income, know that it is a very workable health insurance solution with a subsidy depending on your income. As in 2019, there is no penalty to pay in the 2020 tax return when having no health insurance coverage (this was the part of ACA which was struck down)

Minimum wages for 2021 (starting 01/01/2021, highest apply)

Colorado: \$12.32/hr (from \$12.00/hr)

Denver: \$14.77/hr (from \$12.85/hr)

Federal: \$7.25/hr (has not changed since 2009):

Federal contract workers: 10.95/hr (from 10.80/hr)

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