**Rogers & Rudisill CPAs, P.C. – Certified Public Accountants**

**Key Legislative Changes Affecting Individuals and Small Business for 2020/19/18/17©**

**As Provided in the Secure Act 2020, Cares Act, Taxpayer First Act 2019; TCDTR Act of 2019**

**Individuals**

* RMD’s will start at age 72 if born on or after 7/1/49, not 70 ½.
* With earned income you may contribute (2020) to an IRA if already 70 ½.
* Non-spouse IRA/401k/defined contribution plan beneficiaries may take 10 years to distribute all the funds. ‘Stretching’ over their own lifetime has been eliminated.
* RMD’s utilizing the SEPP (72(t)(4) do NOT qualify for the 2020 waiver – caution!!! Huge penalties may ensue.
* Up to $5k penalty-free retirement plan distribution/parent may be used for adoption/birth expenses.
* COVID19 – up to $100k (2020) retirement distribution may be spread out over 2020-2022 without penalty.
* Recovery Rebate Credit - $1200/$2400 and $500/child will be available if you did not receive the correct advanced amount.
* Unemployment compensation IS taxable.
* Sick/Family Leave tax credits may apply even to self-employed.
* Mortgage Insurance Premiums allowed through 2020 – deduction retroactive to 2018. We can amend for you.
* Virtual Currency reporting required – complex rules!!!
* Lower tax rates of: 0, 10, 12, 22, 24, 32, 35 & 37%. The median family tax reduction is over $2000.
* For non-itemizers the standard deduction is roughly double at $12,400/$24,800! A real plus for many retirees. Also, up to $300 charitable contribution still allowed.
* Child/Dependent Care AND the Adoption Tax Credits ($14,300/child) special needs kids do not require any expenses.
* Medical expenses – the 7.5% threshold was extended through 2020. You MAY be able to claim medical expenses of a parent who does not live with you due to an ‘income’ threshold.
* Charity – deductions continue and are expanded (written receipt required if > $250)
* Education – 529 savings (state tax deductible) plans now apply to elementary, secondary as well as college (public/private/religious). Also includes homeschooling, materials & educational therapies for students with disabilities.
* Capital Gains/Qualified Dividends – like prior law 0 – 20% rates with breakpoints rising to $40k/$80k taxable income.
* Personal Exemption for you and family members – eliminated.
* Divorces after 12/31/18 – alimony is not deductible by the payor nor taxable to the recipient.
* ‘Kiddie Tax’ – tax simplified and no longer tied to parents’ bracket.
* Personal casualty/theft losses eliminated except ‘Federally Declared Disasters’.
* Cancellation of Debt – forgiven mortgage debt on principal residence may be non-taxable.
* Cryptocurrency – IRS IS coming after you – beware and report all transactions if you have not already done so.

**Businesses (Individuals/Corp’s/LLC’s/Partnerships/ETC.), Estates & Trusts**

* Paycheck Protection Program – ‘forgiven loan’ is deemed ‘tax-exempt’ income and the deductions for the loan expenditures are still deductible. In other words, this is a tax-free grant.
* Qualified Business Income – 20% tax deduction of business profits for almost every type of trade or business. For services in the fields of: Health, Law, Consulting, Financial Services, Investing, etc., limits apply, and the deduction begins to phase out for those with taxable income exceeding 315k/$157k (joint/single). Limits are tied to W-2 wages paid and/or qualified property acquired.
* Bonus Depreciation of 100% for exempt SUV’s/trucks > 6000 GVW.
* $1million of qualifying (tangible, personal property & commercial real property improvements) may be fully expensed – wow!
* Business Loss Limitation (for individuals) – after applying Passive Loss Rules, allowable business losses generated by: proprietors, S-Corp, LLC, Partnerships are limited to 80% of taxable income – the excess is carried forward to future years as an NOL on the 1040.
* Entertainment, Amusement, Recreation and Business Club Dues – eliminated.
* Corporate Tax Rate Reduction – reduced from 38% (maximum) to 21% beginning 2018.
* IRC Sec. 1031 Like-kind exchanges now apply only to REAL property like rentals and offices, etc.
* Death Tax (gift/estate) exemption has doubled to about $10mil per person -this will help preserve American family businesses.

**Mortgage Interest Deduction under the Tax Cuts and Jobs Act of 2017©**

What is deductible? Qualified Residence Interest for Acquisition Indebtedness on a Qualified Residence. This is defined as your principal residence **and/or** any other residence (condo, time-share, etc.).

What is QRI? This is the interest on a 1st mortgage, 2nd mortgage or HELOC used to either acquire, construct or substantially improve the QR.

More about a HELOC – while the new law suggests that interest on these are not deductible they may be **IF** the funds are used to purchase/build/improve a QR home and the loan is secured by a QR. Other deductions may be allowed using the ‘tracing principle’ that attaches the interest to the purpose, say, for an investment, rental property or for a business, etc.

What about HELOC/2nd mortgage interest NOT used for the above – say, for debt consolidation – the answer is NO deduction. Points & Loan Origination Fees may still qualify if the loan meets QRI status.

What are the debt limits - $1mil incurred before 12/16/2017 and $750k for after 12/15/2017 acquisitions (singles and separate filers = half these limits). Where two unmarried persons co-own a QR they each can claim up to the maximum limit of $500/$375k.

What about **PMI** or **MIP** (mortgage insurance) – still deductible for investment/rental/commercial property. This was slated to expire but has been retroactively reinstated effective 2018.

**Note** – when you have refinanced a QR one or more times the interest may or may not be fully deductible. It depends upon all the facts and circumstances. Re-fi’s and the use of funds are subject to complex allocation rules. Proper analyses should be performed to ensure you receive the fullest deduction possible.

**Medical & Other Itemized Deductions for 2020©**

Acupuncture Lodging (limited) **Certain Other Deductions**

Alcoholism Treatment Long-term care (depends) Ad Valorem Tax

Alternative healing Medical conference – fee & travel only Alimony (Pre-2019 Awards)

Ambulance Medical Savings Account Bad debts

Artificial limbs & teeth Medicines – Rx Casualty/disaster area losses

Bandages & supplies Mental – special home Certain loan costs

Breast reconstructions Non-Rx – only insulin Charitable contributions – cash & non-cash

Birth control pills Nursing home – some limits Foreign taxes – depends

Braille books, etc. Nursing services – some limits Gambling losses including travel - limited

Capital improvements Nutritional supplements – some limits Moving exp. – Military Only

Car – modification Organ donors – all expenses R/E tax

Chiropractor Orthopedic Massage Reservist’s travel exp.

Contact lenses Osteopath Self-Employment Health Ins.

Crutches Oxygen & equip. Self-Employment Tax

Dental treatment (not whitening) Physical Therapy State Estimated Tax Pmts.

Diagnostic equip. Prostheses State/local income tax or General sales tax

Disabled assistance care Psychiatric care Stock losses

Drugs – Rx Psychoanalysis Student loan interest

Eye exams & glasses Special education & schools Teacher supplies

Eye surgery & laser Sterilization Vehicle/MH/boat sales tax

Fertility enhancements Smoking cessation

Founder’s fee for retirement home Surgery – no unnecessary cosmetic

Guide dog, etc. (all expenses) Swimming – therapeutic only

**\*Note – many items subject to limitations. The federal income tax laws are complex. Consult your tax advisor.**

Hair transplant -corrective Telephone – hearing impaired

Health Savings Acct (HSA) 100%\*\* TV – hearing impaired type

Hearing aids, etc. Transplants

Home nursing care Transportation for medical & Rx

Hospital costs & meals/lodging Vasectomy & reversal

Insurance premiums – usually Weight loss & special diet if Rx

Lab fees Wheelchair

Learning disability – tutoring/school Wig if due to disease \*\* HSA OTC drugs now allowed

Lifetime care advance payments X-rays

Note – this list is not comprehensive. Several provisions have differing dates of applicability, limitations and phase-outs. Federal income tax laws are complex and may require the use of a CPA, tax attorney or qualified EA for interpretation. Ver 1.14.2021.