



**Albert P. Lanzillotti, II**  
 Certified Public Accountant



PRESORT STD  
 U. S. POSTAGE  
**PAID**  
 PARK PRESS  
 PRINTERS

# 2020 TAX LETTER

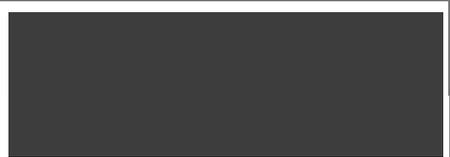
*Helping our Clients Navigate the Complexities of Tax*



**2020** has been quite a challenge, to say the least. The COVID-19 crisis brought massive unemployment, business closures, and an enormous amount of uncertainty. Most of us faced personal and financial challenges that required us to reimagining how we live, work, attend school and even file our taxes. This most recent tax season was unlike any we've ever experienced with the

filing deadline extended to July 15th along with major law changes enacted to provide much needed tax and financial relief to taxpayers.

This year's newsletter will examine relief provided by the, **CARES Act, SECURE Act, and Payroll Protection Program** and how these recent laws impact your tax bill and year-end planning strategies.



## In This Issue

CARES, SECURE & PPP-2020 Planning for Individuals & Businesses

State Nexus Issues – What's my tax home?

Other Year-end Strategies & Reminders

IRS Options to Help with Tax Bills During COVID

Impact of Presidential Election on Tax Policy

2021 Office Procedures & COVID-19 Guidelines

**420 LINCOLN AVE  
 SAUGUS, MA 01906**

**781-231-2580  
 WWW.APL2CPA.COM**

## YOUR 2020 TAXES

*Don't let coronavirus related tax issues take you by surprise*

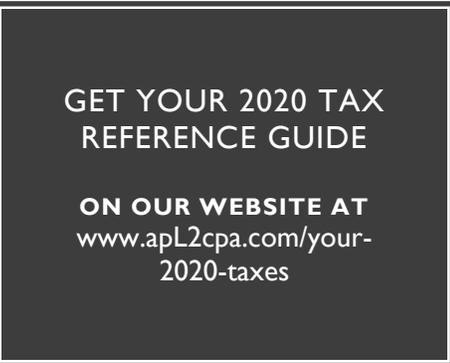
### Individuals

- The **extra weekly \$600 and/or \$300 pandemic unemployment (PUA)** payments are TAXABLE.
- The **Stimulus checks** are NOT TAXABLE but must be reconciled on your 2020 tax return.
- A **\$300 charitable deduction** is allowed this year even if you don't itemize.
- **Required Minimum Distributions** from retirement accounts are waived for 2020 & **withdrawals to pay for COVID related expenses** can be made without penalty if under age 59 1/2.
- This may be the year to do a **ROTH conversion**.
- If you withdrew from a **529 plan** and can't use it all because your college student was sent home, **PUT IT BACK**.
- **Working remotely due to COVID-19** does NOT mean you can take the home office deduction. So, what is your tax "home"?

### Businesses

- **Expenses paid with PPP funds are NOT DEDUCTIBLE** for tax purposes (per IRS as of this writing).
- When should you **apply for forgiveness** of your **PPP Loan**?

*Please read on for a more in depth look at the above issues*



**GET YOUR 2020 TAX  
 REFERENCE GUIDE**

**ON OUR WEBSITE AT  
 www.apL2cpa.com/your-  
 2020-taxes**



## CARES, SECURE ACTS & Payroll Protection Program 2020 Planning: How will new legislation affect your taxes?

### CARES ACT

Expanded Unemployment  
Stimulus Checks  
\$300 Charity Deduction  
RMD Waiver

### PAYROLL PROTECTION PROGRAM

Loan program originated from the CARES Act and backed by the SBA to provide small businesses with 8 or 24 weeks of cash-flow assistance to pay for wages, rent & utilities

### SECURE ACT

New IRA Rules  
- RMD age increase  
- Stretch eliminated  
Expanded 529 Plan Uses

## INDIVIDUALS

**Unemployment Benefits:** Yes, your unemployment benefits are taxable, including the extra **Pandemic Unemployment of \$600/\$300 per week** established under the CARES Act. If you received the maximum 17 weeks this means \$10,200 of taxable income at both the federal and Massachusetts state level. Ideally, you had taxes withheld. If you did not you can make an estimated tax payment. Call our office if you would like us to prepare a projection of tax.

**Stimulus Checks (Economic Impact Payments):** The \$1,200 checks received by many taxpayers are NOT taxable, however, they MUST be reported on your 2020 Form 1040. So, you must notify us of the amount you received. Taxpayers who received more than the amount they are entitled do NOT have to repay it unless they were not eligible to receive it in the first place, e.g. deceased individuals or non-resident aliens. Conversely, if your payment was limited and your income is lower in 2020 you may be entitled to additional stimulus money. A person claimed as a dependent in 2018 or 2019 may also be entitled to the refundable credit if they are not claimed as a dependent in 2020 even though their parent received the \$500 credit already. Finally, if you didn't receive a check but feel you are entitled to one you have one more chance for the credit on your 2020 tax return.

**Charitable Deductions:** For 85% of taxpayers who do not itemize, a \$300 above-the-line deduction for "CASH" contributions is available for 2020. The charity rules still apply including documenting your gift with a cancelled check or credit card receipt.

**Retirement Rules:** There are a number of changes implemented by the CARES and SECURE Acts...

- There is a temporary waiver of required minimum distributions (RMD's) for the 2020 calendar year.
- You are allowed penalty free distributions of up to \$100,000 taken **between January 1 and December 30** for COVID-related expenses. Any income attributable to an early withdrawal is TAXABLE over a three-year period, however taxpayers may re-contribute the withdrawn amounts to a qualified retirement plan within three years and amend prior year tax returns.
- You can now contribute to your IRA after age 70 ½ as long as you have earned income (i.e. wages, self-employment income).
- The age when you must take your RMD is 72 (no longer 70 ½), applies if you turn 70 ½ in 2020 or later.
- The "stretch" is eliminated for non-spouse inherited IRA's. Distributions must now be made over 10 years.
- Taxable compensation that qualifies for IRA contributions now includes fellowships or stipends paid to graduate or post-doctoral students.

**ROTH Conversions:** For households with some spare cash, it just might make sense to do a Roth conversion — that is, converting a portion of your traditional individual retirement account to a Roth IRA. Roth IRAs are a source of tax-free income at retirement. Converting now means paying the tax due upfront. However, if you had lower income this year, you might be in a lower tax bracket. Combine that with the fact your IRA investments may have dropped significantly in value and a ROTH conversion may make sense.

**529 Plans:** The SECURE Act expanded the use of 529 withdrawals to include: repayment of student loans up to \$10,000 (a lifetime limit) and apprenticeships for trade programs. On a less positive note — if you receive(d) a refund for tuition or boarding from your student's school because of COVID closures you must re-contribute the refund within 60 days from the date the refund was issued. If you do not, it will be considered taxable income and carry a 10% penalty. If this situation applies to you contact the 529 provider and document the refund and re-contribution just in case the IRS questions it.

**Home Office Deduction:** Many of us are working from home now but won't be able to take a home office deduction. Employees are not eligible to claim the deduction, even if an employer requires remote work because of COVID-19. The Tax Cuts and Jobs Act passed in 2017 eliminated employee business expenses on Schedule A. Independent contractors, partners and the self-employed can take a home office deduction but should be aware of the stringent rules to do so.

The broader issue for some "teleworkers" is to which state will they owe tax, i.e., what is their state tax domicile or NEXUS?  
See article on page 3

## STATE TAX NEXUS

Typically, you pay taxes on income earned in the state where you permanently reside and the state where you work. But with so many companies sending employees home to work to prevent the spread of the coronavirus, it's possible many workers may end up paying taxes to two jurisdictions. This could happen if you've moved, even temporarily, but your income is still derived from work done for a company located in another state. Unless you instruct your employer to withhold taxes for the appropriate states, you could get an unexpected tax bill.

The good news is most states allow a taxpayer to apply for a tax credit for income taxes paid to another jurisdiction and 16 states have reciprocity agreements with neighboring states that exempt residents from income tax withholding.

If you have "permanently" moved out of state due to COVID-19 or other reason there are some key things you can do to establish the new state as your official tax home or domicile:

- Register to vote
- Obtain a state driver's license
- Register cars and other property
- Change car insurance to the new state
- Change mailing address
- Establish bank accounts in the new state
- Change addresses for credit cards, etc.
- Update wills and other legal documents
- Join local organizations

## 2020 Planning continued...

### BUSINESSES

The **Paycheck Protection Program (PPP)** approved \$525 million in loans to support struggling businesses and the self-employed in need of cash flow to cover payroll, rent, and utilities during the COVID-19 slowdown. Many of our business and self-employed clients obtained a loan and are ready to apply for forgiveness. In general, a loan will be forgiven if used for allowed expenses with 60% of the funds used for payroll.

#### 4 KEY FACTS ABOUT PPP LOAN FORGIVENESS

**Forgiveness Application Due Date:** Borrowers can apply for forgiveness at any time up until their loan matures (2-5 years depending on your loan terms). However, if you don't apply for forgiveness within 10 months after the last day of the covered period – the 8-week or 24-week period for using the proceeds – then you will have to start making payments on your loan. Keep in mind, it could take up to 5 months for your forgiveness to be approved, so plan accordingly.

**EIDL Grants:** Under current SBA guidance, if you received an EIDL grant (available up to \$10,000), it will reduce the amount of PPP loan forgiven.

**Three (3) Forgiveness Applications Available:** If you wish to apply now, gather your documentation, contact your lender, and utilize one of the following forms...

- 3508EZ – for sole proprietors, independent contractors, and self-employed individuals who had no employees
- 3508S – for businesses with loans of \$50,000 or less
- 3508 – for others who do not meet the criteria to use the simplified forms.

**PENDING LEGISLATION:** Under Senate proposed HEALS Act all PPP borrowers receiving \$150,000 or less shall automatically have their loan forgiven if the debtee attest that they made a good faith effort to comply with the use of funds. STAY TUNED!

**Expenses Paid with Forgiven PPP Funds are NOT Deductible:** As of this writing, the IRS has taken the position that expenses paid with forgiven PPP monies are NOT tax deductible. This means your business income may be higher than anticipated for 2020. The IRS position is being strongly challenged by the accounting profession and legislators. The *HEROES Act proposal*, not yet signed into law, would reverse the IRS ruling. For now, we recommend you assume expenses are not deductible when projecting and paying estimated taxes for 2020.

We will continue to update our website as new information becomes available. Visit us at [www.apl2cpa.com/covid-resource-center/small-business-programs/](http://www.apl2cpa.com/covid-resource-center/small-business-programs/).

## OTHER YEAR END STRATEGIES & REMINDERS

- **Review your year-to-date paystub.** Are you withholding enough? Did your income change significantly throughout the year? A big bonus or a one-time income boost could leave you with a larger tax bill unless you adjust your W-4 to withhold more during the remainder of the year. Also, did you max out on your 401k contributions (\$19,500 plus \$6,500, if over 50). To check your withholding, go to our website at [www.apl2cpa.com/irs-withholding-calculator/](http://www.apl2cpa.com/irs-withholding-calculator/) to access the IRS paycheck checkup tool.
- **Watch your flexible spending accounts (FSA).** Check to see if your employer has adopted a grace period permitted by the IRS due to COVID, allowing employees to spend 2020 set-aside money as late as March 15, 2021. If not, make a last-minute trip to the drug store, dentist or optometrist to use up the funds in your account
- **Sell loser investments to offset gains.** A key year-end strategy is called "loss harvesting"—selling investments such as stocks and mutual funds to realize losses. You can then use those losses to offset any taxable gains you have realized during the year.
- **Sell winner investments if you have year-to-date realized losses.** If you are in need of cash or just want to diversify your portfolio this may be the time. If you have realized capital losses in your portfolio you can sell stock and benefit from a *tax-free capital gain* up to the amount of the loss. For example...

Jen's 2020 net realized losses are \$53,000. Her portfolio includes \$100,000 of stock that she paid only \$50,000 for. Jen wants to sell to diversify her portfolio but is concerned about the capital gains tax. Now might be a good time to sell the stock because her \$50,000 gain would essentially be tax-free: The gain would absorb \$50,000 of losses, leaving her with a \$3,000 deductible net loss.

## YEAR END STRATEGIES & REMINDERS, continued...

- **If you are selling rental real estate consider tax deferral strategies.** These include an installment sale, 1031 exchange or reinvestment in an opportunity zone fund. Please contact our office if you are considering these complex transactions.
- **Get ready for tax season by organizing your files.** Start with last year's tax return and make a list of all the tax forms you should look out for in the mail -- W-2's or 1099 Retirement forms, proof of health insurance forms 1095 and 1099-HC (MA residents). If you itemize gather all your deduction paperwork – charitable contributions, 1098-mortgage interest statements, property tax bills, etc.

## IRS COVID Relief for Collection of Tax Debt

### Short-term Payment Plan Extensions

The short-term payment plans that typically must be paid in full in 120 days are extended to 180 days.

### Less Documentation for Installment Agreements

Individual who owe less than \$250,000 may set them up without providing a financial statement if their monthly payment proposal is sufficient.

### Tax Liabilities Automatically Added

The IRS will also now automatically add certain new tax balances to existing Installment Agreements. While this doesn't sound like a good thing; it will help some taxpayers avoid default.

### Online Opportunities to Make Changes

Taxpayers with installment agreements paid by direct debit may now make changes online, including proposing lower payments and changing their payment due dates.

### Temporary Delays in Collection

May be an option - but you have to ask. But be careful: this does not mean the debt goes away and interest still accrues.

### Reasonable Cause Relief from Penalties (penalties, only)

Reasons include natural disasters, inability to obtain records, death, illness, or incapacitation affecting you or your immediate family.

## IMPACT OF ELECTION RESULTS ON TAX POLICY

Although legal action and recounts continue (as of this writing) every major network has called the 2020 election in favor of Joe Biden. So what does this mean in regards to your tax bill? Well, the answer is, it depends. It depends on if you are on the higher or lower end of the income scale. It depends on how you earn your income, i.e. wages, rental real estate, etc. And, it depends on the outcome of the Georgia senate run-off election. A Biden administration may have to work with a Republican Senate majority making it difficult to get new tax legislation passed.

The chart to the right provides a summary of the key component's of Biden's plan as compared to current tax law. Go to our website at [www.apl2cpa.com/your-2020-taxes/](http://www.apl2cpa.com/your-2020-taxes/) for a more detailed analysis.

| BIDEN'S PROPOSED TAX PLAN     |   |   |
|-------------------------------|---|---|
| TOPIC                         | CURRENT LAW   | BIDEN   |
| Income Tax Rates              | 10% up to 37%   | Increase max rate to 39.6% for income over \$400,000.   |
| Capital Gains Rates           | 0% to 20%   | Tax long-term capital gains and dividends at ordinary income rates for those with taxable income over \$1 million   |
| Payroll & Self-Employment Tax | 6.2 / 12.4% Social Security on earnings up to \$137,700. 1.45 / 2.9% Medicare tax on all earnings                 | Apply Social Security tax on earnings above \$400,000 (exemption for earnings between \$137,700 and \$400,000 would remain); Medicare tax on all earnings.          |
| Itemized Deductions           | No overall cap. State and local tax payments only deductible up to \$10,000                                       | Cap overall itemize deductions at 28% & limit if income is over \$400,000   |
| Credits                       | \$2,000 child tax credit, \$3,000 dependent care credit   | \$3,600 child tax credit, \$8,000 dependent care credit, \$5,000 credit for caregivers of elderly, and renter credit (reduce rent & utilities to 30% of income)     |
| Estate Tax                    | 40% estate, gift, exclusion of \$11.58 million per taxpayer w/ sunset 12/31/2025. Stepped-up basis applies assets | Return rate to 45%, base exclusion of \$3.5 million per taxpayer. Repeal of stepped-up basis at death   |
| Corporate Rate                | 21%   | Increase to 28%   |
| Pass-thru Business Income     | 199-A, 20% deduction on Qualified Business Income with a MFJ phase-out of \$421,400. Expires in 2025              | Reduce the phase-out amount to \$400,000, and remove the special qualifying rules for real estate   |
| Real Estate                   | Deferral of tax on like-kind exchanges. Various credits and incentives (like Opportunity Zones) are available     | Repeal like-kind exchanges of real property for taxpayers with income over \$400,000. Expand Low-Income Housing Credit. More reporting of Opportunity Zone projects |

## \*\*2021 OFFICE PROCEDURES & COVID-19 GUIDELINES\*\*

**DROP OFF:** We strongly encourage all clients to submit tax paperwork electronically, when possible. We have invested in secure, user-friendly file exchange software. **Please notify us of any changes in your email address.** For those without the technology, please mail or drop your paperwork off in the locked mailbox next to the front door. We will be checking it regularly throughout the day. **The deadline to receive all of your tax documents to avoid an extension, is March 22<sup>nd</sup>.** The fee to file an extension is \$125.00.

**APPOINTMENTS:** We anticipate the upcoming tax season to continue to be a challenge due to the impact of COVID. To keep you, your families, and our office staff safe we will continue to strictly limit face-to-face interactions. Except for very special circumstances there will be no in-office appointments. We will utilize ZOOM, Facetime, TEAMS or phone call for any post-tax preparation appointments.

**TAX RETURN DELIVERY:** You will have the choice to receive your completed tax return either electronically or via hardcopy mailed to your home. A \$10 Priority postage fee will be added to your invoice.

**NEW PAYMENT OPTION:** For the convenience of our clients we now accept credit card payments for services provided. To make a secure payment visit our website at [www.apl2cpa.com](http://www.apl2cpa.com) and click on "Make a Payment".