



Year-End Tax Update

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Introduction:

- KatzAbosch
 - Founded in 1969, KatzAbosch is one of the largest certified public accounting and business consulting firms in the State of Maryland. Our professional and support personnel offer a full range of client services.
 - Our mission is to provide the highest quality accounting, tax, financial and management consulting services to our regional clients. We understand the needs and challenges of our clients and we have made it our obligation to create, grow and protect their asset value.
- Michael Andrews, CPA
 - Manager, joined the firm in 2014 and is a member of the Tax Department
 - Specializes in serving a diverse clientele that includes tax compliance and planning for individuals and closely held businesses



Overview

- Tax Update: Individual & Business
- SECURE Act of 2019
- CARES Act of 2020
- Election of 2020: Impact on Taxes



Tax Update

Individual & Business



Individual Tax - Deductions

- Standard Deduction
 - Single - \$12,400
 - MFJ - \$24,800
- Itemized Deductions:
 - Medical Expenses – 10% of AGI
 - Mortgage Interest Deduction
 - Acquisition indebtedness (\$750,000)
 - Acquiring, constructing, improving qualified residence
 - SALT Deduction - \$10,000
 - Charitable Donations
 - Donor Advised Funds

Individual Tax – Deductions (continued)

- Retirement Contributions
 - IRA - \$6,000
 - Catchup over 50 - \$1,000
 - 401k - \$19,500
 - Catchup over 50 - \$6,500
 - SEP IRAs - \$57,000
- Health Savings Account
 - Single - \$3,550
 - Family - \$7,100

Business Tax - Deductions

- Depreciation Rules:
 - Bonus Depreciation
 - Expensing - 100%
 - Qualified property = New and Used Property
 - Qualified Improvement Property
 - A key technical error in the 2017 reform act was corrected allowing Qualified Improvement property to be eligible for the 100% bonus depreciation
 - Section 179
 - Dollar Limitation - \$1,040,000
 - Acquisition phase - \$2,590,000
 - Section 139
 - Allows employers to make qualified disaster relief payments to employees – payments that are both tax-free to the employees and deductible to the employer
 - Pass-Through Entity State Tax Deduction
 - LA, OK, RI, WI, NJ, MD, & CT

Pass-Through Deduction (199A) - Basics

- Deduction equal to 20% of Qualified Business Income
 - Income is less than \$163K (Single) or \$326K (Married)
 - No further analysis is required
 - If income above these thresholds... things get more complicated
 - “Qualified Trade or Business” (a “GOOD” business) or
 - “Specified Service Trade / Business” (a “BAD” business)
 - Services in the fields of **health, law, accounting, performing arts, consulting, athletics, financial services, brokerage services,**
 - Above the income threshold(s) and own a “GOOD” business:
 - Additional tests - you support the deduction with the greater of:
 - 50% of W-2 wages paid OR
 - 25% of W-2 wages + 2.5% of the unadjusted basis of qualified property

Planning to Maximize the QBI Deduction

- Wage Analysis
 - The “**PERFECT**” wages = 28.57% of net income before wages
- Planning Opportunities to decrease taxable income below threshold
 - Utilize tax deductions
- Evaluate entity choice/structure help achieve the wage/asset limitation test under the Section 199A Deduction
- Reevaluate owner’s compensation to determine an appropriate/reasonable amount
 - Year-End Bonus vs. Distribution (*S-Corp*)
 - Withholding Taxes vs. Estimated Tax Payments
 - Distributions vs. Guaranteed Payments (*Partnership*)



SECURE Act of 2019: The forgotten act



SECURE Act of 2019

- Eliminates age restrictions on traditional IRA contributions
 - **Old Law:**
 - Traditional IRA contributions could **NOT** be made after **age 70 ½**
 - **New Law:**
 - Beginning in 2020 – **no age limit** on IRA contributions
 - Must have earned income

SECURE Act of 2019

- Required Minimum Distributions (RMD) Starting at Age 72
 - **Old Law:**
 - RMDs to start no later than April 1st of the year following the year in which the account owner turned **70 ½**
 - **New Law:**
 - Accounts owners who turn 70 ½ AFTER 2019, the required date for taking their RMD = April 1st of the year following the year the turn **72**
 - Those who turned 70 ½ in 2019 but deferred RMS until 4/1/2020 are under OLD LAW
 - Age for make Qualified Charitable Distribution (QCD) is still 70 ½

**RMDs suspended in 2020 under CARES Act*

SECURE Act of 2019

- **“Stretch” IRA eliminated** for non-spousal beneficiaries
 - Payouts must be made within 10 years of death rather than over the life expectancy of the beneficiary
 - Affected Accounts
 - Traditional IRAs, ROTH IRAs, & employer defined contribution plans
 - New law is effective for retirement accounts of decedents dying after 2019
 - 50% penalty for each year on any remaining balance beyond 10th year

SECURE Act of 2019

- Four exceptions whereby the beneficiary can use their life expectancy for required distributions:
 - Surviving spouse
 - Beneficiary less than 10 years younger than account owner
 - Chronically ill or totally disabled person (as of date of death)
 - Minor child of the account owner (NOT grandchild)
 - Until age of majority – then 10-year rule begins

SECURE Act of 2019

- Potential Planning:
 - Spread over multiple beneficiaries
 - Leave IRA to charity (pays no tax) and other assets (cash, investments) to individual beneficiaries
 - Convert To ROTH IRA
 - Especially if the IRA account owner is in a lower tax bracket than beneficiaries



CARES Act of 2020:

A response to Coronavirus

CARES Act of 2020

- Direct Stimulus Payments
 - \$1,200 for singles – phases out \$75,000 - \$99,000
 - \$2,400 joint – phases out \$150,000 – 198,000
 - Dependents on another return will not get a rebate
 - 2018 or 2019 tax return used to determine payment
 - Advance on 2020 Tax Credit
 - Adjustments will be reported on 2020 tax return

CARES Act of 2020

- Cash Donations
 - Those taking a standard deduction can take above the line \$300 charitable deduction
 - The 60% limitation on donations by individuals is lifted
 - Cash Donations
 - Cannot fund Donor Advised Fund
 - Corporation limitations were raised from 10% to 25%

CARES Act of 2020

- Retirement Related
 - The 10% penalty is waived on up to \$100,000 of coronavirus related payouts
 - Eligible individuals can borrow up to \$100,000 from retirement accounts until 12/31/2020.
Any repayments & taxable income can be delayed up to 3 years
 - Required Minimum Distributions (RMDs) have been waived for 2020
 - Includes RMD from inherited IRAs
 - Ability to re-contribute RMD
 - 60-day rule must be done by 12/31/2020
 - Limit of one in a rolling 12-month period
 - ROTH Conversions
 - Proactive strategy while tax rates are relatively low

CARES Act of 2020

- Paycheck Protection Program – PPP
 - Funding for payroll, rent / mortgage, and utilities
 - Loan Forgiveness
 - 60% used for payroll
 - Impact on Taxes
 - Forgiveness of the loan is NOT taxable; however...
 - Expenses paid by proceeds of the forgiven loan are NOT deductible for tax purposes
- REVENUE RULING 2020-27

A taxpayer that received a covered loan guaranteed under the PPP and paid or incurred certain otherwise deductible expenses listed in section 1106(b) of the CARES Act may not deduct those expenses in the taxable year in which the expenses were paid or incurred if, at the end of such taxable year, the taxpayer reasonably expects to receive forgiveness of the covered loan on the basis of the expenses it paid or accrued during the covered period, even if the taxpayer has not submitted an application for forgiveness of the covered loan by the end of such taxable year

Second Round of Federal Relief

- **ROUND 2: Paycheck Protection Program – PPP II**
 - Congress could have agreement before Holiday break
 - *Restore deductibility of PPP expenses*
 - Loan Forgiveness Simplification – under \$150,000
 - Unemployment benefits
 - Vaccine Distribution Funding
 - PPP II – \$288 Billion for small businesses
 - 300 employees or less
 - 30% decline in revenue for any quarter (2019 vs. 2020)
 - Proceeds used for Payroll, Rent, Utilities, PPE, Facility Modifications, & Supplier Costs



Election of 2020:

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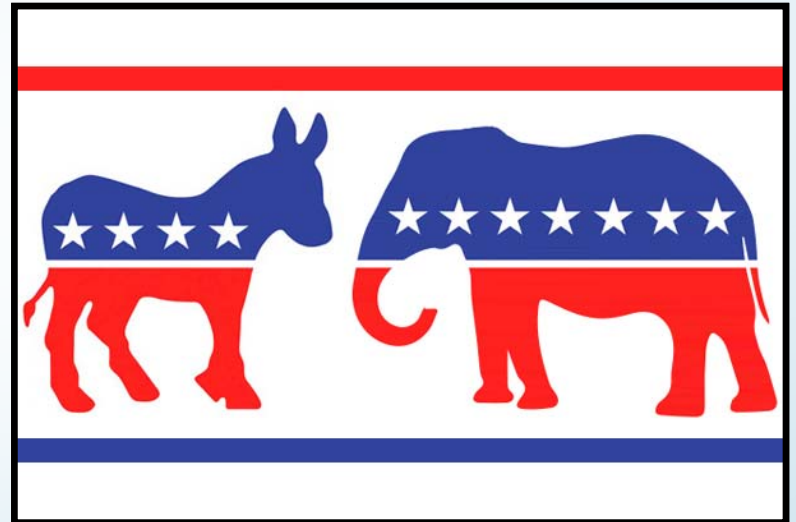
A Look Back

- 2016 Election
- Tax Cuts & Jobs Act 2017
 - A popular tax cut?
 - A cut for corporations & the wealth?
 - Many Provisions Sunset – 12/31/2025
- Democratic Response to TCJA
 - “No tax increase for taxpayers making less than \$400,000”
- 2020 Election
 - What will happen in Georgia run-off?



A Look Forward

- 2020 Presidential Election
 - Will Democrats control congress?
- 2022 Mid-Term Election
- 2024 Presidential Election
- December 31, 2025
 - Many provisions in the Tax Cuts & Jobs Act of 2017 are scheduled to sunset

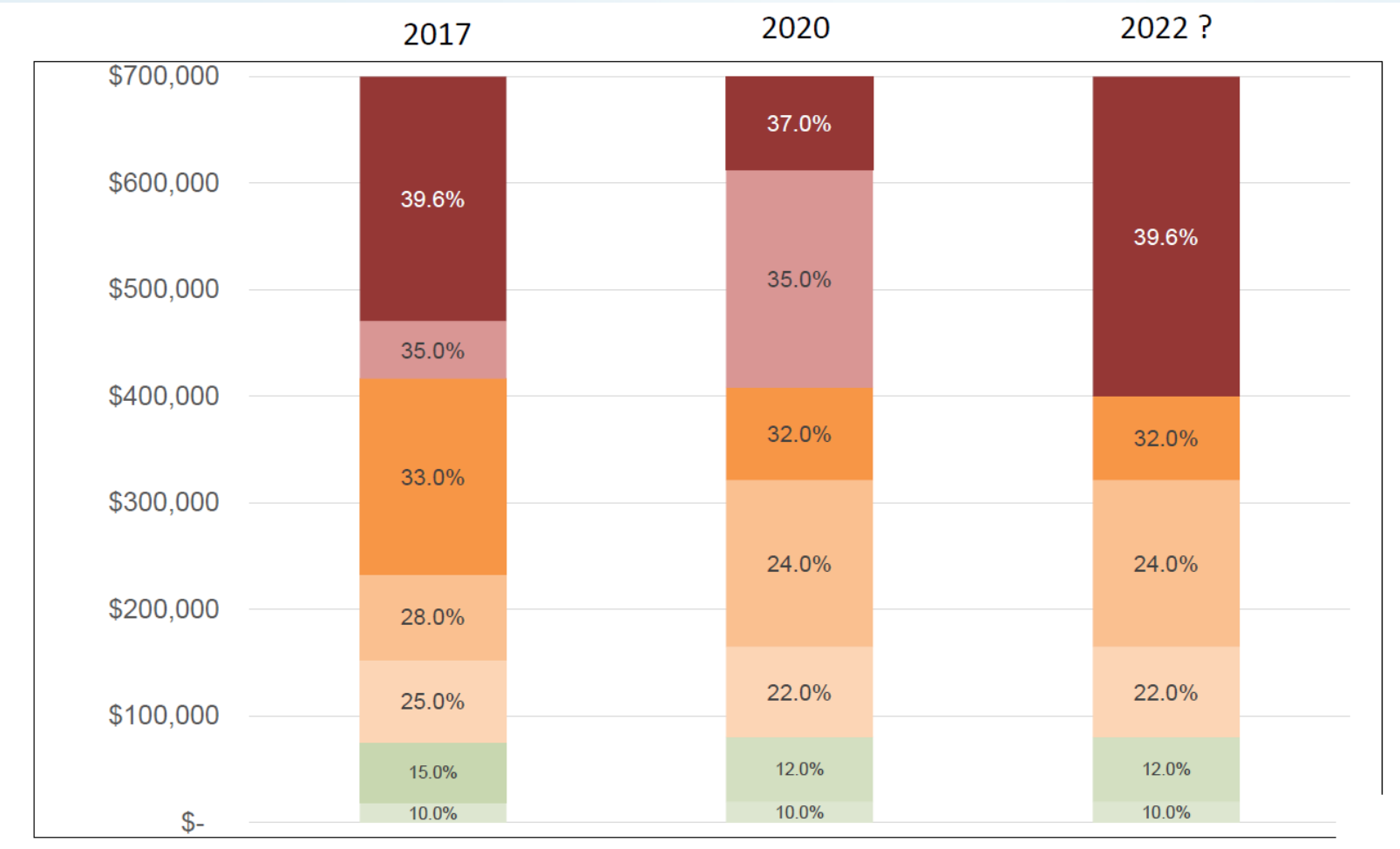


Individual Tax Rates

Biden Proposal

- Increase top rate to rate to 39.6%
- Taxpayers with income over \$400,000 would see taxes increase

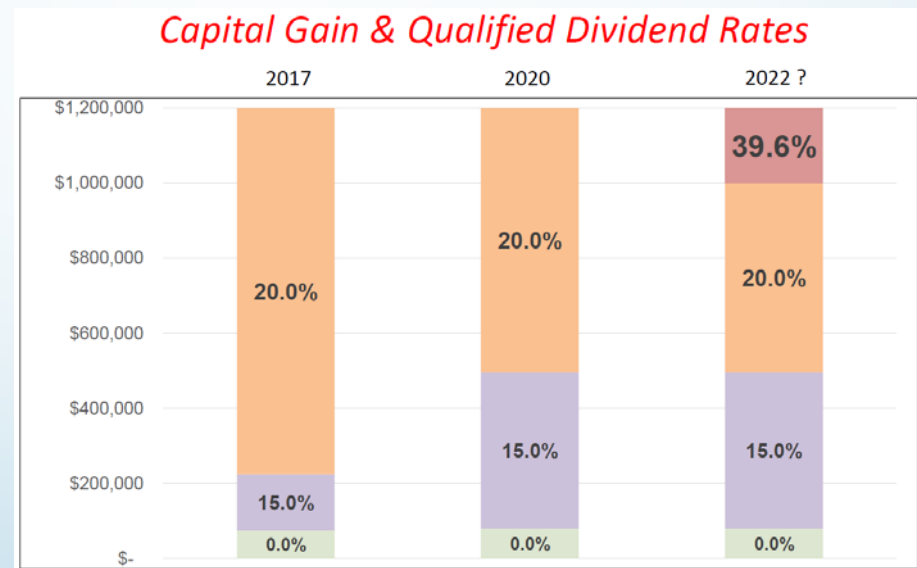




Capital Gains Tax Rates

Biden Proposal

- Capital gains rates = ordinary rates when income > \$1 million
 - Top capital gains rate of 43.4%
 - (including NIIT tax)



Corporate Tax Rates

- TCJA lowered the corporate tax rate to 21% (permanent)
 - Prior to TCJA the corporate tax rate = 35%

CURRENT	BIDEN*
21%	28%

*Supports a minimum 15% tax on firms with \$100 million or more in book income

Estate Tax

	CURRENT*	BIDEN
Exemption	\$11.58 million	\$3.5 million (<i>likely</i>)
Tax Rate	40%	<i>Not available</i>
Basis Step-Up	FMV at death	Eliminate

*Current exemption amount sunsets on 12/31/2025 back to \$5,000,000

Social Security / Payroll Taxes

Biden Proposal

- Maintain current SS Wage Base
 - Social Security Wage Base (12.4% tax):
 - 2020 = \$137,700
- SS tax would start again on incomes greater than \$400,000

Potential Future Planning Opportunities



- Accelerate Income
- ROTH Conversions
- Sell Appreciated Assets / Securities
- Corporate Structure
- **Review Estate & Gift Planning**



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