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2020 Tax Update

This year has been a topsy-turvy one with an unending barrage of change. But taxes are a sure thing—even this year. Because of COVID-19 relief measures, there are many opportunities available to taxpayers, as well as some variables that could significantly change a person's typical tax scenario. Know your options and be prepared with these tax updates for 2020.

Unemployment Compensation Could Lower Your Refund

More than 50 million Americans have lost their jobs either temporarily or permanently during the COVID-19 pandemic. Faced with this crisis, many have relied on unemployment compensation to survive and pay their bills.

If you received unemployment compensation in 2020 and you live in Pennsylvania, you will pay federal tax, but not state or local tax, on the amount received. Many other states do tax unemployment benefits. Any tax you owe will be due with your 2020 tax return.

Bottom line: Be prepared for a smaller refund or even some tax due on your 2020 tax return if you did not have any federal tax withheld from your unemployment compensation.

Stimulus Checks Won't Increase Your 2020 Taxes

Economic Impact Payments (EIP), more commonly known as stimulus checks, were issued by the government to offset the impact of COVID-19. These payments are not taxable, but they do need to be reconciled against 2020 income.

If you received an EIP, you must report the amount on your tax return. Your return will not be affected by the payment unless it is in your favor. Changes on your 2020 return, such as having a lower income or an additional child, could increase your EIP. In that case, you would receive the additional amount as a credit against tax owed or receive a refund if no tax is owed.

Bottom line: You must report the amount of your Economic Impact Payment ("Stimulus Check") to Gehman Accounting when you submit 2020 tax information. Because reconciling these payments will take extra time, Gehman Accounting will be adding a $20 surcharge to 2020 tax preparation fees.

Deferring Social Security Tax: A Good Option?

For Employees

Employees can defer Social Security withholding from September 1 to December 31, 2020—if their employer offers this option. An employee who opts in could see a temporary 6.2% increase in take-home pay through December.

Starting in January 2021, the employee would begin paying back the deferred tax by having an extra percentage of Social Security tax withheld from wages. Since Social Security tax is 6.2% of wages, the employee would have 12.4% withheld until the deferred tax is paid in full. Any tax not paid in 2020 must be paid by April 30, 2021.

Bottom line for employees: This is a tax deferral, not forgiveness. You will pay the tax eventually. If you are exempt from Social Security tax or work for an exempt employer, this provision does not apply to you.

For Employers and Self-Employed Individuals

Employers are not required to offer the Social Security tax deferral to employees. Based on the minimal benefit of the deferral—a short delay in tax payment—many employers choose not to offer it.

An additional Social Security deferral option is available to employers and self-employed individuals under the CARES Act of March 2020. They may defer their share of Social Security tax that would otherwise be due on or after March 27, 2020, and before January 1, 2021. Half of the deferred payments need to be deposited by the end of 2021 and the other half by the end of 2022.

» Employers may defer payment of their full share of Social Security taxes.

» Self-employed individuals may defer payment of 50% of Social Security taxes.

Bottom line for employers and the self-employed: Discuss the pros and cons of Social Security tax deferment for you or your business by contacting Gehman Accounting.

New Options for Your Retirement Plan

Options for retirement plans have improved under the SECURE Act, passed late last year. The CARES Act of this year also provides some temporary benefits for retirement distributions in 2020.

Key Takeaways

» Required minimum distributions begin at age 72 instead of 70 ½.

» You may contribute to an IRA after age 70 ½ as long as you have earned income.

» No one is required to take a required minimum distribution in 2020, under the provisions of the CARES Act. You may still make a qualified charitable distribution from an IRA directly to a charity.

- You may deduct up to $300 in cash charitable contributions without having to itemize your deductions.
- Early distributions from an IRA (up to $100,000) are not subject to the 10% penalty if used for coronavirus-related purposes (some restrictions apply). You will pay income tax on the distribution, but that tax will be paid over three years. Also, you may re-contribute the amount withdrawn within 3 years.

Covid-Related Loans and Grants Make Tax Planning Crucial

PPP Loans

Under the Paycheck Protection Program (PPP), loans qualifying for forgiveness are excluded from gross income. This provision should give recipients a tax-free benefit, but it does not. The IRS essentially reversed the benefit with a notice in April stating that expenses paid with tax-free income are not deductible. At this point, Congress has not passed a law to address this inconsistency.

What does this mean for busines owners who paid expenses with PPP funds? Your expenses will not be deductible in the year that the loan is forgiven. This could create a higher-than-expected income for that year and potentially raise your tax bill. You should consult with your tax professional to determine if it is best to have the loan forgiven in 2020 or wait until a future year.

Grants

Other loans or grants provided for COVID-19 relief can affect your taxable income and should be factored into your tax planning. Grants provided under the Economic Impact Disaster Loan (EIDL) program, as well as from local governments such as Lancaster County are included in taxable income.

Bottom line: If you received a PPP loan or other grants, contact Gehman Accounting soon to schedule tax planning. You don't want an April surprise.

ERTC Saves Money for Qualified Employers

Attention employers: You could improve your cash flow and save money on employee taxes with the Employee Retention Tax Credit (ERTC). This provision allows employers to claim a fully refundable tax credit for retaining workers during the COVID-19 crisis.

Your business may qualify if:

- You were forced to close or limit operations due to a COVID-19 government mandate, or
- Your gross receipts are less than 50% of the same quarter last year.

The ERTC can reduce your required employment tax deposits or provide a refund from the IRS.

For wages paid after March 12, 2020, and before January 1, 2021, the credit provides:

- 50% of an employee's qualified wages, up to $10,000 total wages per employee
- A maximum credit of $5,000 per employee

As with any tax provision, you must meet certain criteria to be eligible. Employers who received a loan under the Paycheck Protection Program cannot use this credit.

Bottom line: Contact Gehman Accounting to see if this credit could reduce your employee taxes for 2020.

Now is the time to schedule your tax planning consultation.

Contact Gehman Accounting to plan ahead and minimize your taxes.

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