TAX LAW CHANGES FOR THE TAX YEAR 2020

Tax Cuts and Jobs Act (TCJA – Began January 1, 2019 and ends December 31, 2025)

The TCJA includes many new and revised provisions. Most common are:

- Tax Brackets changed - 10%,12%,22%,24%,32%,35%,37%
- Increased standard deduction and repealed personal exemptions
- Increased child tax credit - $2,000 per child under 17 and $500 other dependent credit, requires valid social security number, income limitations apply
- Repealed overall limitation on certain itemized deductions
- Limited Mortgage interest deduction – Interest payments on up to $750,000, application to principal and one other residence, other limitations apply
- Limited deduction for state and local income or sales taxes (SALT) – Capped at $10,000 ($5,000 for MFS)
- Here are some other highlights:
  - **Standard Mileage Rates:**
    1. 57.5 cents per mile driven for business use
    2. 17 cents per mile driven for medical or moving purposes
    3. 14 cents per mile driven in service of charitable organizations (currently fixed by congress)
  - **Misc. Itemized deductions**
    1. Taxpayers cannot claim deduction for unreimbursed employee travel expenses
    2. Taxpayers cannot claim deduction for moving expenses, except members of the Armed forces on active duty under orders to a permanent change of station
  - **Flexible Spending Accounts (FSA)**
    1. Available only with job-based health plans
    2. Annual dollar limit on contributions increased to $2,750
    3. Allows employers and offer carryover up to $550 unused FSA funds to following year OR, continue a grace period option giving employee 2 ½ month extension to spend remaining FSA funds
  - **Health Savings Account (HSA)**
    1. HSA holders can choose to save up to $3,550 for an individual and $7,100 for family and these are 100% tax deductible (55+ contribution limit is $4,550 single and $8,100 family)
    2. Minimum annual deductibles are $1,400 self-only coverage and $2,800 for family

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3. Annual out-of-pocket expenses (deductibles, copayments, and other amounts, but not premiums) cannot exceed $6,900 for self-only coverage and $13,800 for family

Coronavirus Aid, Relief, and Economic Security (CARES) Act

RETIREMENT PLANS:

- Waives 10% early withdrawal penalty tax (Under IRC Section 72(t) and allows to take distribution up to $100,000 free from penalty related to "coronavirus related distribution"

  What qualifies "coronavirus related distribution"?

  - Individual diagnosed with SRS-COV-2 or COVID-19 by a test approved by the CDC
  - Spouse or dependent is diagnosed with one of the two diseases
  - Experiences adverse financial consequences as a result of being quarantined, furloughed, or laid off or having work hours reduced, or being unable to work due to lack of childcare
- Allows individuals to either pay tax on the income from distribution ratably over a three-year period or allows individuals to repay back to the plan tax-free over the next three years
- Retirement loan amount is doubled with limits to the lesser of $100,000 or 100% of the participant's vested account balance in the plan. Loan repayments can be delayed up to one year

CHARITABLE CONTRIBUTIONS:

- Taxpayer can deduct up to $300 for charitable contributions whether you itemize or not.
- Cash contribution deduction 100% of AGI for 2020, with any excess contributions available to be carried over to the next five years

STUDENT LOANS FROM EMPLOYERS:

- Act provides income exclusion of up to $5,250 for employees receiving educational repayment assistance from an employer.
- "Education assistance" includes (but is not limited to) payment for expenses incurred for tuition, books, supplies, and equipment
- **NOTE:** *Interest paid on a student loan is not allowed.*

NET OPERATING LOSS (NOL)

- Disallow all carrybacks related to post-2017 losses
- Allows indefinite carryforward

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- Limit use of post-2017 losses when carried forward to 80% of taxable income, now allows 100% carryforward (80% limitation reinstated after December 21, 2021)
- Losses from 2018, 2019 & 2020 will be allowed to be carried back for up to five years
- Eliminates loss limitation rules application to sole proprietors and pass-through entities and allow NOL carryback.

Further Consolidated Appropriations ACT

1. Taxpayer's with qualified principal residence indebtedness, was able to exclude that amount from income, provision expired in 2017 but has been renewed
2. The medical expenses deduction has moved back to 7.5% of AGI
3. Mortgage insurance premium (also known as PMI) deduction extended through 2020
4. Qualified tuition and related expenses deduction extended through 2020 (this is above the line and reduces taxable income)
5. Credit for Paid Family and Medical Leave and the Work Opportunity Tax Credit extended through 2020
6. Biodiesel credit has been extended