

More COVID relief on the way

New legislation features more stimulus payments, help for small businesses



You could soon see another stimulus payment in your bank account with the recent passage of the Emergency Coronavirus Relief Act of 2020. Here are some of the bill's major points to be aware of:

■ Direct payments to you

The legislation includes a \$600 payment per person, including adults and your dependent children. Payments are based on your 2019 tax return and should start being distributed shortly, per Treasury Secretary Steven Mnuchin. The amount you receive will be phased out between \$75,000 and \$87,000 for single taxpayers and between \$150,000 and \$174,000 for married couples.

Things to consider:

- If your income is too high in 2019, but you become eligible based on 2020 income, you will have an opportunity to request the funds on your tax return.
- Unlike the first round of stimulus payments in 2020, if you have someone in your household that is ineligible, you can still get payments for those individuals that ARE eligible.
- If the number of adults or dependents in your household changed during the year, you will need to keep track of this and be prepared to issue corrections to ensure you receive the correct payment amount.

■ Extension of unemployment benefits

Federal unemployment benefits of up to \$300 per week will be extended through March 14. Benefits include payments to self-employed workers.

Things to consider:

- If you have not already done so, you must file for unemployment with your state. State offices and websites are being slammed, so the sooner you get in the queue the better for you and your loved ones.
- Remember, these benefits also apply to self-employed and part-time employees. Many workers who were eligible for these benefits earlier in 2020 did not file because this class of workers is typically not eligible for most state unemployment programs.

■ Deductibility of expenses paid with PPP loans

Businesses that received PPP loans and had them subsequently forgiven will be permitted to deduct the expenses covered by those loans on their federal tax returns. Much to the chagrin of the IRS, the recent bill clarifies that PPP loan forgiveness now means no tax impact due to the forgiveness. For example, if you used \$100,000 of payroll in your application to get your loan forgiven, you can still deduct the payroll as an expense on your tax return.

■ New PPP loan funds

There is additional money available from the Small Business Administration (SBA) for a new round of PPP loans. The new loan program is targeted to businesses that need the funds. To qualify, your business must have 300 or fewer employees and have seen a drop in revenue of 25% or more during any quarter in 2020. Some of the money is earmarked for very small borrowers, underserved communities and small lenders.

■ Eviction moratoriums and rent assistance

The bill extends until January 31, 2021 a moratorium on evictions that was scheduled to expire at the end of 2020. The bill also includes \$25 billion in emergency assistance to renters.

There is much more in this huge bill, including relief for hard-hit industries, education, student loans, and vaccine assistance. Please keep up-to-date as more is learned after a full review of the bill is made available. □

TAX PLANNING INSIGHTS

New Year 2021

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Dear clients and friends,

***"If everyone is moving forward together,
then success takes care of itself."***

– Henry Ford,
inventor and entrepreneur

It took teamwork to navigate the numerous personal and financial obstacles presented to us in 2020. Teamwork will continue to play an important role as many of us are still facing these same obstacles as we head into 2021.

As you welcome the new year, this Tax Planning Insights newsletter will help plan for what's ahead with a look at the most recent COVID relief legislation enacted in December. There are also highlights of important 2021 tax information, and a list of reminders you can use to make the upcoming tax season a little less painful. Finally, there is an article discussing tax issues encountered with mutual funds.

These insights are sent as a reminder of our commitment to help you minimize your taxes. Please call if you'd like to develop your 2021 tax planning strategy and learn more about the tax benefits available to you throughout the year.

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New Year 2021: This newsletter is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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Got mutual funds?

Pay attention to possible tax complications

If you're among the millions of Americans who invest in mutual funds, you need to be aware of possible tax complications that could affect your 2020 tax bill.

▶ Year-end distributions

Mutual funds are usually required to distribute their income annually to shareholders. If you purchase a mutual fund just before a distribution date, you will receive the distribution and be required to include it in your taxable income. Since the price of the fund shares before and after a dividend distribution reflect the amount of the dividend, you are actually paying income tax on part of your own purchase price.

▶ Your tax basis

Your taxable gain on sales you've made during the year will generally be the sales price minus your

tax basis. Note that transactions such as check redemptions and exchanges are usually treated just like sales. Your tax basis is generally the purchase price plus any related transaction costs, such as sales charges and brokerage fees. Your basis also includes reinvested dividends.

The IRS allows several different ways of determining basis when you've bought your shares at different times and don't sell them all at once. Mutual fund companies will often report your average cost basis, which divides the total cost of all your shares by the number of shares you own. A second option is the first-in, first-out method which assumes the shares sold were the earliest ones purchased. The specific identification method lets you choose which group of

shares you're selling. Before selling, check to see which method will provide you with the lowest tax bill.

▶ Where to hold your funds

Of course, if you're holding mutual funds in a retirement account, your investment gains shouldn't trigger any immediate tax. Just be aware that when distributions are made (other than from a Roth IRA), they'll be taxed at ordinary income rates. If you anticipate significant appreciation, you may want to own those mutual funds outside of a retirement plan so any future gains would be eligible for the preferential capital gains rates.

▶ Tax planning

Please call if you have questions about minimizing the income taxes on your mutual fund investments. ☐



Tax season checklist

With tax filing season just around the corner, now is a great time to look through your filing plan for your 2020 tax return. Here are some ideas:

✔ **Organize your records.** Find a place in your house and put all the documents there when you receive them, or consider scanning documents to store on your computer. You can also take pictures of the documents with your phone as backup. Missing items is one of the biggest reasons filing a tax return is delayed.

✔ **Create an April 15 reminder.** It's the deadline for filing your 2020 individual income tax return, completing gift tax returns, making contributions to a Roth or traditional IRA for 2020, and for paying the first installment of 2021 individual estimated taxes.

✔ **Gather your tax information for filing.** Items you'll need include K-1s, W-2s, 1099s and other forms you receive from your business, employers, brokers, banks and others. If you detect any errors, contact the sender immediately to request a corrected copy.

✔ **Know business return deadlines.** If you own a business or are in a partnership, the deadline for filing partnership and S corporation returns is March 15. Calendar-year C corporation tax returns are due by April 15.

✔ **Review your child's income.** Your child may be required to file a 2020 income tax return, too. Generally, a 2020 return is required if your child has earned more than \$12,400, or has investment income (such as dividends, interest, or capital gains) over \$1,100.

✔ **Contribute to your IRA.** There's still time to make 2020 IRA contributions—up to April 15, or until you've contributed the maximum allowed. That's the lesser of your earned income for 2020 or \$6,000 (\$7,000 if you're 50 or older).

✔ **Calculate your estimated tax if you need to extend.** If you file an extension, you'll still need to do a quick calculation to estimate your 2020 tax liability. If you owe Uncle Sam any money, you'll need to write a check by April 15. ☐

What's new in 2021

PROVISION	2020	2021
Standard deduction		
• Single	\$12,400	\$12,550
• Joint returns and surviving spouses	\$24,800	\$25,100
• Married filing separately	\$12,400	\$12,550
• Head of household	\$18,650	\$18,800
• Additional for elderly or blind (married)	\$1,300	\$1,350
• Additional for elderly or blind (single)	\$1,650	\$1,700
Alternative minimum tax exemption		
• Single	\$72,900	\$73,600
• Married, joint	\$113,400	\$114,600
• Married, separate	\$56,700	\$57,300
Social Security earnings limit		
• Under full retirement age	\$18,240	\$18,960
• Full retirement age	No limit	No limit
• Maximum wages subject to Social Security tax	\$137,700	\$142,800
Estate tax top rate		
	40%	40%
Estate tax exclusion		
	\$11,580,000	\$11,700,000
Annual gift tax exclusion (per donee)		
	\$15,000	\$15,000
Contribution limit		
• HSA for single	\$3,550	\$3,600
• HSA for family	\$7,100	\$7,200
• HSA additional for 55 or older	\$1,000	\$1,000
• IRA for those under age 50	\$6,000	\$6,000
• IRA for those 50 and over	\$7,000	\$7,000
• SIMPLE plan for those under age 50	\$13,500	\$13,500
• SIMPLE plan for those 50 and over	\$16,500	\$16,500
• 401(k) plan for those under age 50	\$19,500	\$19,500
• 401(k) plan for those 50 and over	\$26,000	\$26,000
"Kiddie tax" threshold		
	\$2,200	\$2,200
"Nanny tax" threshold		
	\$2,200	\$2,200

As you plan for 2021, be aware that Congress may make changes to the tax code. Call prior to making major business and personal financial decisions so that current rules and pending changes can be considered. ☐