

# 2020 Income Taxes

*PPCUG General Meeting*

*November 10, 2020*

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## What's New

*Two recent **Tax Laws** passed by Congress will impact your 2020 taxes and most of their provisions have not received very much publicity*

- *The Secure Act passed in December 2019, took effect January 1, 2020, and effects Retirements Accounts, particularly the rules when they are Inherited*
- *The Cares Act passed in March, 2020 also had some little known provisions that will effect your 2020 tax return*

# What's New

*We will also discuss the potential Tax Changes that could result from the 2020 General Election*

*What Tax Changes is the new President Elect and his Party proposing?*

# The Secure Act

- *The Secure Act passed in December 2019, took effect January 1, 2020*
  - ✓ *It changed the start date for Required Mandatory Distributions (RMDs) from Retirement Accounts to age 72 from  $70\frac{1}{2}$*
  - ✓ *It also changed the rules when a Retirement Account is Inherited by other than a Spouse and a few other beneficiaries*

## The Secure Act

- *Prior to 2020, all beneficiaries of traditional IRAs and 401Ks were permitted to "stretch" their withdrawals, with an annual RMD. Now this option is limited to a Spouse and a few others*
- *Other beneficiaries, like children and grand children, are no longer required to take an annual RMD, but they must withdraw all the funds within 10 years after the Death of the Original Owner*

# The Secure Act

- In addition to a spouse, these other beneficiaries can still "stretch"  
Distributions from Inherited traditional IRAs & 401Ks
  - ✓ Disabled & Critical Ill Individuals
  - ✓ Individuals, older, or less than 10 years younger than the Account Owner
  - ✓ Minor Children until they turn 18

## The Secure Act

- *The problem with the 10 year time limit to withdraw the funds, is that some, if not most, retirement account distributions are taxable. If the amount in an account is substantial, taxes can near 40%*
- *If the funds are not withdrawn within the 10 year time limit, there is a 50% penalty on the balance in the account and the tax on it too*

# Types of Retirement Accounts

## ➤ Traditional IRAs and 401Ks

- ✓ *Most Contributions are Tax Deductible*
- ✓ *Contributions and Earnings are taxed when withdrawn (Distributed)*
- ✓ *There can be a Penalty if withdrawn before age  $59\frac{1}{2}$ , with some exceptions*
- ✓ *Changed Distribution rules when Inherited were previously discussed*



# Types of Retirement Accounts

## ➤ Roth IRAs

- ✓ Contributions are After Tax
- ✓ Distributions and Earnings not Taxed if over 59½ and account is over 5 years old
- ✓ 10% Penalty if withdrawn before age 59½ with some exceptions, but earnings taxed
- ✓ When Inherited, all Distributions are still tax free if the account is over 5 years old
- ✓ If Inherited and less than 5 years old, contributions can be withdrawn tax free, but withdrawn earnings are taxed

# Types of Retirement Accounts

## ➤ Qualified Annuities

- ✓ *Most Contributions are Tax Deductible*
- ✓ *Distributions and Earnings are taxed when withdrawn*

## ➤ Nonqualified Annuities

- ✓ *Contributions are After Tax*
- ✓ *Distributions of contributions not taxed, but earning can be taxed*

*Annuities can have unique rules with each Policy – Non spouse beneficiaries may have a 5 year time limit to withdraw funds*

# The Secure Act – What to do Now

- Review your Beneficiaries, if Spouse, the rules are unchanged
- If beneficiaries are affected by the time limits and they are or will be in a higher tax bracket than Original Account Owner, consider converting Traditional IRAs and 401Ks accounts to a Roth IRA
- If you do convert to Roth, you will be taxed on the amount converted and can potentially increase your Medicare costs two years later

## Roth Conversions

- *You can convert cash or securities in an existing Traditional IRAs*
- *No cost to convert except you will pay income tax on the amount you convert. See tax brackets and rates on following slides*
- *Also your Medicare monthly cost may increase based on your higher income. See Medicare rates on a following slides*

# 2020 Tax Brackets and Rates

<b>Indiv. Income Tax Rates</b>	<b>Single</b>	<b>Married Filing Jointly</b>
10 percent	0 to \$9,875	0 to \$19,750
12 percent	\$9,876 to \$40,125	\$19,751 to \$80,250
22 percent	\$40,126 to \$85,525	\$80,251 to \$171,050
24 percent	\$85,526 to \$163,300	\$171,051 to \$326,600
32 percent	\$163,301 to \$207,350	\$326,601 to \$414,700
35 percent	\$207,351 to \$518,400	\$414,701 to \$622,050
37 percent	\$518,401 and up	\$622,051 and up

# 2020 Medicare Part B Rates

Medicare uses  
Modified  
Adjusted Gross  
Income

(MAGI) is AGI  
plus Tax-  
Exempt Income  
on your Tax  
Return

Current Year  
Cost is based on  
income from two  
year ago

If your yearly income in 2018 (for what you pay in 2020) was			You pay each month (in 2020)
File individual tax return	File joint tax return	File married & separate tax return	
\$87,000 or less	\$174,000 or less	\$87,000 or less	\$144.60
above \$87,000 up to \$109,000	above \$174,000 up to \$218,000	Not applicable	\$202.40
above \$109,000 up to \$136,000	above \$218,000 up to \$272,000	Not applicable	\$289.20
above \$136,000 up to \$163,000	above \$272,000 up to \$326,000	Not applicable	\$376.00
above \$163,000 and less than \$500,000	above \$326,000 and less than \$750,000	above \$87,000 and less than \$413,000	\$462.70
\$500,000 or above	\$750,000 and above	\$413,000 and above	\$491.60

# **The Cares Act**

- *The **Cares Act** passed in March, 2020, took effect immediately. It is best known for the \$1,200 Stimulus checks, but it also included two Tax Provisions affecting 2020 Tax Returns*
  - ✓ *It waived the **Require Minimum Distribution (RMD)**, from Retirement Accounts for 2020*
  - ✓ *It allows Taxpayer(s) to deduct **Cash - Charitable Donations** up to \$300 (Single) or \$600 (MFJ) in addition to the **Standard Deduction***

# Potential Tax Changes by New President

President- Elect Joe Biden has proposed a number of tax changes, most will impact taxpayers with incomes above \$400,000

Many of these changes involve the repeal of provisions that were part of The Tax Cut and Jobs Act (TCJA), Signed by President Trump in December of 2017

Most provisions in this law are scheduled expire after 2025 without extensions from Congress.



# Potential Tax Changes by New President

## Specific Biden Tax Proposals

- Restore the top rate (now 37.9%) to 39.6% for incomes over \$400,000
- Cap the tax benefit for Itemized Deductions at 28%
- Reduced tax rate (now 20% Max) on Capital Gains and Qualified Dividends would disappear when Cap Gains and Qualified Div Income exceeds \$1 million
- Increase Child Tax Credit from current \$2000 to \$8,000 (\$16,000 for two or more children)

# Potential Tax Changes by New President

## More Specific Biden Proposals

- *Currently Forgiven Student Loan Debt is considered taxable, Biden is proposing this would not be taxed*
- *Payroll Tax for Social Security at 6.2% for employees would restart when earned income exceeds \$400,000 (Currently, only \$137,700 is taxed-Indexed for inflation)*

*This Payroll Tax proposal will create a "Donut Hole" that will close over time with inflation adjustments*

# Potential Tax Changes by New President

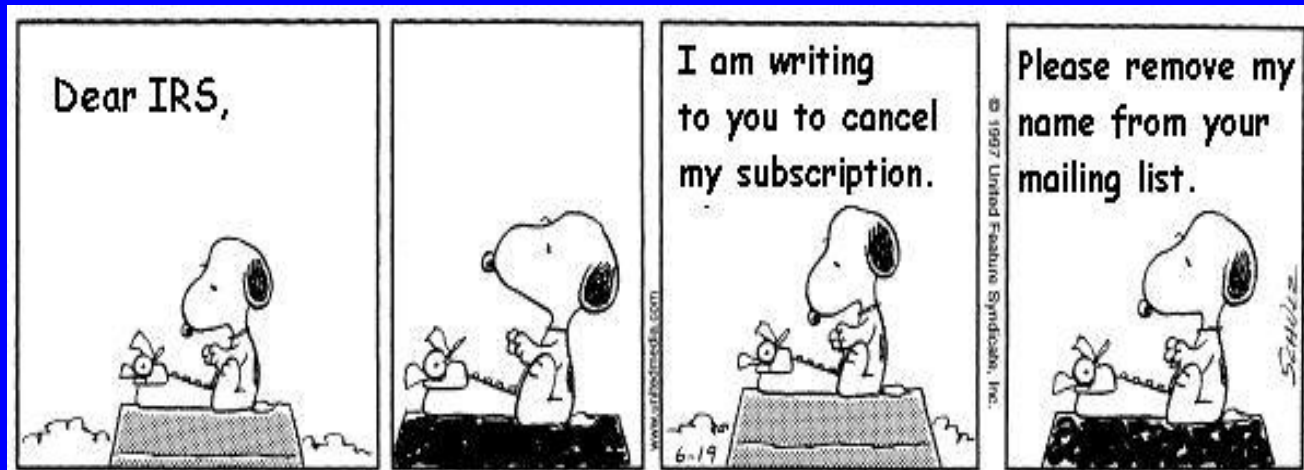
## More Specific Biden Proposals

- *Lower the current Estate Tax Exemption that was doubled by the TCJA, now \$11.58 million, indexed for inflation*
- *Eliminate the current Step-Up Basis in Inherited assets*
- *Raise the Corporate Tax Rate to 28% from the Current 21%. (TCJA lowered it from 35%)*

# Potential Tax Changes by New President

- *All of these Biden (Democratic) tax proposals will require approval by both the House and Senate*
- *Based on the election results that appear to have the Senate still with a Republican majority, the approval of most of these changes by the Senate will be very difficult at best*
- *Stay Tuned!*

If don't want to Pay Taxes write the IRS



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*Questions?*