



1040 News

Q2 2020

Quarterly news & tips for folks in every tax bracket

Introduction:

The global COVID-19 pandemic has made 2020 a year we will not soon forget. In addition to the changes to our daily lives, there are several new tax laws to explore.

The CARES act was signed on 3/27/20. Let's take a look at the highlights, keeping in mind that the IRS has not finished interpreting the new law and there could be changes to what is written here.

Stimulus Payments to Individuals:

How much are the payments? Taxpayers with Adjusted Gross Incomes (AGI) below \$75,000/\$112,500/\$150,000 (single/HH/MFJ) will receive federal tax rebates of \$1,200 (single/HH) or \$2,400 (MFJ). There will be an additional \$500 for each child you claim as a dependent under the age of 17 (nothing for dependents 17 or older).

The tax rebate will be phased-out for higher income taxpayers. Rebates will be reduced by 5% of your income in excess of the thresholds listed above. Based on this formula, taxpayers with AGI greater than \$99,000/\$136,500/\$198,000 (single/HH/MFJ) will not receive the rebate.

Those that can be claimed as a dependent on another person's return (e.g. kids claimed on their parent's return) will not receive the rebate.

How will you receive the payment?

That depends. Your payment will be direct deposited if you had either a 2018 or 2019 federal refund direct deposited. If you received a paper check for both of those years (or if you owed) your rebate will arrive via a paper check (mailed to your most recent address on file with the

IRS). If you have changed addresses since your last filing you should fill-out IRS form 8822 and mail it to the IRS (see form 8822 instructions for the IRS mailing address).

Can I submit direct deposit details directly to the IRS? Possibly soon. The IRS is working on a system for taxpayers to submit (or change) their bank account and routing numbers. In the coming weeks the IRS will post those details at www.irs.gov/coronavirus. If you need your rebate quickly it is wise to pay attention to this website (payments by check will take longer to receive).

What if I never filed in 2018/2019?

You have several options.

1. If you think you might get a rebate you should file.
2. If you don't file for 2018/2019 then you can wait until you file your 2020 return to claim a tax credit for the unclaimed rebate.
3. Taxpayers on Social Security who typically don't file a return will likely get the rebate even if they do not file. The IRS intends to cross-reference information from the Social Security Administration to determine who these folks are. If you are one of them then your rebate will likely be paid the same way you receive your Social Security payments (either direct deposit or a paper check).

When will I get my rebate? It will vary. The IRS is moving as fast as they can to begin making payments. It is estimated that those with direct deposit will start getting refunds before the end of April. Those without direct deposit will receive their rebate weeks (if not months) later. If you need your rebate fast see the comment above about how to submit direct deposit details to the IRS.

Will I be notified? Yes. Within 15 days of the rebate being issued the IRS will send a letter in the mail notifying you about the amount of the rebate and how it was paid.

What if I never get my rebate? You will be able to claim the unused portion of your rebate as a tax credit on your 2020 tax return.

Will my rebate be taxable income?

No, but you still need to keep track of the amount you receive. That's because the dollar amount will be needed for your 2020 tax return.

I used to be high-income but I lost my

job. Will I get the rebate? Maybe. If you make less than the income threshold (see column 1 for details) in 2020 then you can claim the unused portion of the rebate as a tax credit on your 2020 return.

Can the IRS take-back all of a portion of a rebate that is paid-out? We don't know yet.

It is anticipated (though not certain) that the IRS will not make you pay-back the rebate if your situation changes in 2020. Common examples might include:

- Your income increases in 2020 to an amount above the threshold for receiving the rebate.
- You claim fewer dependents on your 2020 return.
- Your dependent turns 17 during 2020.

Keep an eye on that website mentioned above for further details: www.irs.gov/coronavirus

Turn the page for more tax changes due to COVID-19.

COVID-19 Tax Changes, cont.

Normally in April we are encouraging taxpayers to learn from the past but look to the future. This year is different. Millions of taxpayers haven't even filed yet and the IRS has given everyone some much needed **extensions**.

Extension of time to pay: You do not need pay your 2019 balance due until 7/15/20. This is true even if you have already filed but haven't paid yet. If you have already paid you cannot request your money back.

Extension of time to file: You now have until 7/15/20 to file your individual return. This extension is automatic and requires no action on your part. If you need longer you can still file an extension, which gives you until 10/15/20. Remember if you file an extension that you should still pay the tax owed by July 15th to avoid penalties.

Extension of time to pay 2020 estimated tax: Taxpayers that pay their tax quarterly will not need to pay their 1st quarter 2020 taxes until 7/15/20. However, 2nd quarter payments are still due on the original date (which is 6/15/20).

Extension of time to contribute to an IRA: You now have until 7/15/20 to make 2019 contributions to an IRA (Traditional or Roth). The combined (Traditional + Roth) maximum you can contribute for tax year 2019 is \$6,000 (plus \$1,000 more if you are age 50+). If you have already filed your 2019 taxes you will not need to amend the return if you make additional Roth IRA contributions (but you will have to amend if you increase your 2019 Traditional IRA contributions).

Remember that **certain higher income taxpayers** cannot contribute to a Roth. Nor can they deduct Traditional IRA contributions if they (or their spouse) work for an employer that offers a retirement plan. The details of the IRA income rules are beyond the scope of this issue of *1040 News*. See back issues for details.

Self-employed taxpayers also get the

7/15/20 extension to make SEP IRA contributions.

Similar to IRAs, the new law also gives you until 7/15/20 to make 2019 HSA contributions. Such contributions are still subject to the same limitations as before (most notably, the requirement of having HSA compatible insurance during 2019 and the \$3500/\$7000 contribution limit for individual/family coverage).

Extension of time to report foreign accounts: Holders of foreign financial accounts receive an automatic 6 month extension to file their FINCEN/FBAR reports (final due date of 10/15/20). This is actually not a new law, but helpful to reiterate.

Extension of time to take Required Minimum Distributions (RMDs): Taxpayers can skip their mandatory retirement account distributions (a.k.a. RMDs) during 2020. As a refresher, RMDs were required for taxpayers that turned 70^{1/2} prior to 1/1/20 (or turned 72 on or after 1/1/20). RMDs will resume as usual in 2021.

If you have already taken your RMD then you cannot undo it. However, if the distribution occurred within the last 60 days you can use your one-time-per-year IRA rollover provision. For example, let's say you took out your 2020 RMD on 3/1/20. You would still have until 4/29/20 (60 days) to roll the funds into an IRA.

Other coronavirus related provisions: The deduction limit on cash contributions to charities (which was 60% of AGI per year) has been eliminated for tax year 2020.

The 10% penalty for early retirement distributions due to coronavirus is waived. Furthermore, if repaid within three years the funds are treated as a tax-free rollover. If they are not repaid the distribution is taxed over a three year period. There are qualifiers however. The taxpayer (or spouse/dependent) must have tested positive for coronavirus. Alternatively, you may also qualify if you experienced adverse financial effects due to quarantine, furlough, lay-off, reduced work hours, or

being unable to work due to coronavirus related matters.

Also enquire with your employer about the ability to borrow money from your employer sponsored plan (e.g. 401K, 403b, etc.). Certain eligible employees affected by coronavirus can increase the amount they borrow and defer repayment until 2021 (talk to your employer for details).

The IRS is very short staffed:

The IRS has closed many offices and service centers. For all practical purposes, do not expect the IRS to be able to resolve your tax matter until they are allowed back to work. Expect long wait-times for all IRS phone calls as well.

The IRS is also suspending most **new** audits until 7/15/20. Existing audits will proceed as planned (unless you are notified that your audit is being postponed).

The IRS is also suspending many collections activities through 7/15/20:

- Payments under some existing payment plans can be postponed. However, we do not recommend that you stop making payments without first contacting the IRS.
- Liens and levies are suspended.
- New delinquent accounts will not be sent to private debt collectors.

More expected from Congress:

Washington DC insiders expect more stimulus and tax related bills to pass in the coming months. Now is a very good time to write your elected officials. Each member of Congress has a website with easy-to-use eMail correspondence tools.

Lastly, don't forget that [IRS.gov/coronavirus](https://www.irs.gov/coronavirus) has further details and facts are changing by the day. Use this newsletter as a conversation starter rather than the final word on pandemic related tax provisions.

Best of health to you, your family and friends.

Thanks for reading. Look for our next issue in June.