

# TAX TIME 2020

## What's New for Filing 2019 Taxes?

### Last-Minute Tax Legislation Impacts 2019 Returns

The above-the-line deduction for tuition & fees, the itemized deduction for mortgage insurance premiums, the exclusion from gross income of up to two million dollars of discharged qualified principal residence indebtedness, and the 7.5% floor for claiming an itemized deduction for out-of-pocket medical expenses have all been extended through 2020 by H.R. 1865.

Distributions from Section 529 education savings accounts after 12/31/18 are allowed tax-free for registered apprenticeship programs and up to \$10,000 of qualified student loan repayments.

The legislation repeals the "Kiddie Tax" rules adopted in the Tax Cuts & Jobs Act that required unearned income of children to be taxed at the rate for estates and trusts. The new rule provides that Children's unearned income would be taxed at their parent's top marginal rates as was the case before the TCJA was enacted.

Various new disaster relief deductions and credits are in effect for certain major federal disasters.

Check out our "Looking Ahead" article on the reverse for important changes impacting 2020 and beyond.

### California Low-Income Credits Expanded

A California earned income credit of as much as \$2,982 is now available for wage earners or self-employed persons with three children and income as high as \$30,000. Smaller credits are available to persons without children. Families with children under age 6 can get an extra \$1,000 through the new Young Child Tax Credit.

### Health Credits and H.S.A. Distributions

If you received health coverage through an exchange such as CoveredCA, we need their Form 1095-A in order to reconcile any available credits.

Although qualified distributions from health savings accounts are excluded from income, they must still be reported on your tax returns. Please be sure to provide us with Form 1099-SA for the year of the distribution.

### More Than Just Taxes

In addition to preparing tax returns, Gandrud Financial Services offers general bookkeeping, bill-paying, payroll, budgeting, debt-reduction, financial planning, QuickBooks setup, and business consulting services.

We welcome the opportunity to discuss how changes in tax laws impact you and how to minimize your tax liability.



Gregory Gandrud graduated with honors in 1982 from the U.S.C. School of Business and is licensed, registered, and bonded. He's been in Carpinteria for over thirty-one years.

### Mileage Rate Accelerates

The standard business mileage rate rose to 58 cents/mile. The charitable rate stayed at 14 cents/mile. The medical and moving rates rose to 20 cents/mile.

### Long-Term Gains & Dividends

The maximum long-term capital gains rate for higher-income people is 20%. These individuals can also face the 3.8% Medicare surtax on investment income, which can result in a maximum 23.8% Federal tax rate on long-term gains and dividends. It may make sense to gift appreciated stock rather than cash. Lower-income taxpayers may face a zero federal tax rate on long-term gains.

## Checklist of Itemized Deductions

Please scan this partial list for overlooked deductions: Medical & dental costs which, in total, exceed 7.5% of Adjusted Gross Income including:

- Prescription Medicines
- Insulin
- Doctor and dentist fees
- Nursing fees
- Hospital expenses
- Dentures
- Eyeglasses
- Medical insurance premiums
- Weight loss programs
- State & local taxes (income OR sales)\*
- Real estate taxes\*
- Taxes paid for property held as investment\*
- Personal property taxes\*
- Home mortgage interest
- Points paid on the purchase of residence
- Estate tax on income of a decedent
- Gambling losses to the extent of winnings
- Investment interest
- Charitable contributions
- Impairment-related work expenses of a disabled person
- Casualty & theft losses only in a federal disaster area

\*Limited to \$10k combined on federal returns

None of the following will be allowed for employees on federal returns but will be allowed by California and some other state returns:

- Employment-related education
- Subscriptions to professional magazines
- Investment advice and management fees
- IRA or Keogh fees paid out of pocket
- Cost of looking for a new job
- Legal fees related to employment
- Employee's malpractice insurance premiums
- Medical exams required by employer
- Tools and supplies used in employee's work
- Hobby expenses to the extent of hobby income
- Convenience fees for paying income taxes
- Unrecovered investment in a retirement plan or annuity
- Tax return preparation fees
- Work clothes not suitable for normal wear
- Uniforms
- Dues to work-related professional societies
- Union dues
- Appraisal fees for casualty losses
- Appraisal fees for charitable contributions

## Looking Ahead

The SECURE Act, which was part of H.R. 1865, allows individuals to avoid tapping into their tax-deferred retirement account savings by increasing the age for beginning required minimum distributions from a defined contribution plan or IRA to 72 (from 70 1/2 under current law). It also allows a person of any age to contribute to a traditional IRA. Penalty-free withdrawals can be made for birth or adoption. The annual \$100k limit on Qualified Charitable Distributions will be reduced by prior-year QCD distributions. Amounts in IRA or defined contribution plans generally must be distributed within 10 years of the death of the holder or participant unless the beneficiary is within 10 years of the holder's age, an individual with special needs, a minor, or the holder's spouse (in those cases the 10-year rule would apply after the beneficiary dies or, if the beneficiary is a minor, reaches the age of majority).

Mileage rates in 2020 will decrease to 57.5 cents/mile for business and to 17 cents/mile for medical or moving. Charitable mileage will remain at 14 cents.

Penalties for failure to file a tax return will increase to the lesser of \$435 or 100% of the amount required to be shown as tax on the return.

California residents will be required to be covered by health insurance. The penalty for non-compliance will be the higher of either: a flat amount, based on the number of people in the tax household, or a percentage of the household income. Under the flat amount formula, the penalty will be \$695 per adult and \$347.50 per child. Under the percentage formula, the penalty will be 2.5% of the amount of gross income that exceeds the filing threshold requirements based on the tax filing status and number of dependents.

## California Renter's Credit

California provides up to \$120 credit for people earning less than \$85,864 (\$60 for singles earning less than \$42,932).

**Our fax number is 805-684-0411**

*This newsletter is intended to provide generalized information that is appropriate in certain situations. It is not intended or written to be used, and it cannot be used by the recipient, for the purpose of avoiding federal tax penalties that may be imposed on any taxpayer. The contents of this newsletter should not be acted upon without specific professional guidance.*

*Please contact us if you have questions.*

*We maintain \$5000 surety bond #106823056 issued by Travelers Casualty and Surety Co.*

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