TAX NEWS

Happy New Year

WINTER 2020

Dear Client:

First and foremost – our wishes for a healthy and happy holiday for those who celebrate; and a very happy 2021 filled with good health and peace.

There is so much that has happened in the past year from both a personal and business perspective. Our world has gotten smaller as we stay safe at home, cutback on our traveling, and limit our gatherings of family and friends. We have sped at warp speed into the virtual world of meetings, doctor appointments, visits with family and friends, and education.

In our profession we recognize the challenges of every tax season, however, the 2021 tax season will be presenting its own unique set of circumstances that will impact every taxpayer. We encourage you to contact our office to address any questions or concerns you may have.

If you received unemployment benefits in 2020 and did not have withholding taxes deducted, there is a good possibility that you will have a smaller refund, or even a balance due, when your taxes are prepared in 2021.

This issue of Tax News will review the new legislation in 2020 as well as some of the prior legislation to consider in preparation for the 2021 tax filing season. Be sure to read about the newest scam targeting receipt of the Economic Impact Payment.

Contact the office if you have any questions or changes to your tax situation that may be impacted by the legislation.

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COVID-19 TEXT SCAM:

The IRS is warning of a new text scam created by thieves that trick people into disclosing bank account information under the guise of receiving the $1,200 Economic Impact Payment.

The IRS reminds taxpayers that neither the IRS nor state agencies will ever text taxpayers asking for bank account information so that an EIP deposit may be made.

"Criminals are relentlessly using COVID-19 and Economic Impact Payments as cover to try to trick taxpayers out of their money or identities," said IRS Commissioner Chuck Rettig. "This scam is a new twist on those we've been seeing much of this year. We urge people to remain alert to these types of scams."

The scam text message states: "You have received a direct deposit of $1,200 from COVID-19 TREAS FUND. Further action is required to accept this payment into your account. Continue here to accept this payment . . ." The text includes a link to a fake phishing web address.

This fake phishing URL, which appears to come from a state agency or relief organization, takes recipients to a fraudulent website that impersonates the IRS.gov Get My Payment website. Individuals who visit the fraudulent website and then enter their personal and financial account information will have their information collected by these scammers.

People who receive this text scam should take a screen shot of the text message that they received and then include the screenshot in an email to phishing@irs.gov with the following information:

- Date/Time/Time zone that they received the text message.
- The number that appeared on their Caller ID.
- The number that received the text message.

The IRS does not send unsolicited texts or emails. The IRS does not call people with threats of jail or lawsuits, nor does it demand tax payments on gift cards.

Executive Order to Defer Employee Social Security Taxes:

In August, The President signed an Executive Order allowing for the deferral of Social Security taxes from employee wages for the period of September 1, 2020, to December 31, 2020, for employees who earn up to $4,000 bi-weekly ($104,000 annually). This deferred amount will not be charged interest, penalty, or additional assessments. For employers electing to defer the payment of the Social Security taxes from the employee paychecks, repayment will be required January 1, 2021 through April 30, 2021.

THE SECURE ACT:

In December 2019, Congress passed The Setting Every Community Up for Retirement Enhancement Act (the SECURE Act). The legislation may affect how you will be able to plan for your retirement years. Many of the provisions went into effect as of January 1, 2020 and now may be a good time to discuss if there are any year-end tax moves you should be considering.

Following are some of the key provisions of the SECURE Act – contact us if you have any questions as to the effect on your tax liability and/or tax planning:

1. Repeal of the maximum age for traditional IRA contributions: prior to 2020, traditional IRA contributions were not allowed to be made once the taxpayer had reached the age of 70 ½. The new rules, which started January 1, 2020, allow an individual of any age to make contributions to a traditional IRA as long as they had earned income from wages or self-employment.
2. The age for the required minimum distribution (RMD) from an IRA or qualified plan was raised from age 70 ½ to age 72. Eligible individuals are those who reach age 70 ½ after December 31, 2019. (Note: the CARES Act eliminated the RMD for 2020 so all required distributions were pushed back one year.)
3. Changes to the designated beneficiary of IRAs and qualified employer plans: Prior to January 1, 2020 designated beneficiaries were allowed “stretch-out” the tax-deferred advantages of the pension plan or IRA. Under the new rules, with a few exceptions, distributions to non-spouse beneficiaries are generally required to be distributed within ten years following the date of death.
4. Expansion of the §529 Education Saving Plan now covers registered apprenticeships and distributions to repay certain student loans. Student loans of up to $10,000 for either the designated beneficiary or a sibling of the designated beneficiary can be paid from the Education Saving Plan.

5. Penalty-free retirement plan withdrawals for expenses related to the birth or adoption of a child up to $5,000 per taxpayer so a couple would be eligible up to $10,000. The 10% early withdrawal penalty would not apply; however, the distribution would still be subject to ordinary tax.

Contact our office if you have any questions about these provisions or any other changes to your tax situation.

Work from Home May Trigger State Taxes:

For those who have been working from home in a different state then where their employer is located may find they have a state filing requirement.

The scenario is as follows:

> *Brad is domiciled in Wisconsin and lives just across the border from Minnesota. He normally commutes daily into St. Paul, Minnesota to work. Minnesota and Wisconsin do not have reciprocal agreements. Therefore, Brad must pay income tax to Minnesota on his W-2 wages. He then claims a tax credit on his Wisconsin income tax return for income taxes paid to Minnesota. Brad also owns a second home on a lake near Bemidji, Minnesota, where he and his family vacation for several weeks and weekends each year. In March 2020, Brad is informed that he must telecommute for his work rather than drive into his office in St. Paul because of the stay at home orders due to COVID-19. Since Brad can do all of his work via computer from his home office, he and his family decide to travel to his lake home in Bemidji to live and work during the pandemic. Brad spends most of the rest of the year living and telecommuting from Bemidji.*

In general, states will tax a resident's worldwide income. A resident is generally someone who is domiciled in that state. A taxpayer can only be domiciled in one state at a time. If a nonresident earns income in that state, the nonresident is taxed only on his or her income earned in that state. The taxpayer can then claim a tax credit on his or her home state's tax return for taxes paid to the nonresident state. Many states, such as Minnesota, also have a second residency rule. If the taxpayer owns a home in that state and is physically present in the state for 183 days or more, the taxpayer is considered a resident, even if he or she is domiciled in another state. Thus, in the example above, if Brad is physically present in his secondary home in Bemidji Minnesota for at least 183 days during 2020, Minnesota will consider Brad to be a resident and tax him on his worldwide income. Wisconsin will also tax Brad on his world-wide income because he is considered domiciled in Wisconsin. In this scenario, depending upon the states involved and their respective state tax laws on taxing multi-state income, it is possible that a taxpayer could be subject to state income tax in multiple states on the same income.

Even though we all may be working remotely, our office staff is available to help you with your tax questions. If you are concerned regarding some of the tax provisions discussed here, or would like a projected tax liability "check-up" contact us for a virtual appointment.

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

In March 2021, Congress enacted the CARES Act in response to the COVID-19 pandemic. The Act includes many provisions, of which we are only going to address those related to individuals. There has been subsequent guidance released by Congress and the Internal Revenue Service, but no additional substantive legislation.

A nationwide emergency was declared on March 13, 2020 which allowed for all states to be eligible for federal assistance. Declaring the entire country a disaster area produced several federal tax temporary changes which allowed for the relief of the filing and payment of taxes for individuals and businesses.

Individual provisions as a result of the CARES Act include (but are not limited to):

- Economic Income Payment (EIP) of up to $1,200 per individual and $500 per child which are tax-free to the individual. The payment is reconciled on the 2020 income tax return. Taxpayers who did not receive the EIP, or were limited due to income reported on the 2018 or 2019 tax return, may be eligible to receive a refundable credit with the filing of their 2020 income tax return.
- Required minimum distributions (RMDs) were waived for 2020. For inherited IRAs, 2020 is not counted in the five-year payout period; the initial RMD payment which had been deferred until April 1, 2020 is now waived until April 1, 2021; and while it waived the initial payment until April 1, 2021 the 2021 required minimum payment would then be due by December 31, 2021.
- The early distribution penalty of 10% (for those distributed before the age of 59 ½) from an IRA or qualified plan is waived for coronavirus-related distribution up to $100,000.
- Coronavirus related distributions from an IRA or qualified plan up to $100,000 have the option of either 1) subject to income tax over a three-year period, or 2) can be repaid to the plan over a three-year period.
- If you do not itemize, you can claim up to $300 in charitable donations on the tax return. The donation does not have to be to a coronavirus related charity.
- For those who do itemize, they will be able to claim up to 100% of adjusted gross income in charitable donations.
- There are some additional provisions that were implemented with the Tax Cuts and Jobs Act (TCJA), affecting the ability of individuals to deduct business losses which were eased with the CARES Act.

Families First Coronavirus Response Act (FFCRA):

If you received sick pay or family leave pay from your employer for reasons due to the coronavirus, your Form W2 will reflect the amounts paid by the employer in a separate notice. The FFCRA benefits of 10 days for the sick leave provisions and the 10 weeks of family leave benefits are interpreted to be per taxpayer, not per place of employment.

For self-employed taxpayers who also received a Form W2 for employment during the year; any payments received from the employer will be reconciled with the FFCRA benefits claimed as a sole proprietor on a new IRS Form 7202, Credit for Sick Leave and Family Leave for Certain Self-Employed Individuals.

The guidelines for who is eligible for the FFCRA benefits, which is provided by the employer are as follows:

Emergency Paid Sick Leave – Covered employers are required to provided covered employees with two weeks of paid leave (i.e., 10 days) where the employed:

1. Is subject to a federal, state or local quarantine or isolation order related to COVID-19
2. Has been advised by a healthcare provider to self-quarantine.
3. Is experiencing COVID-19 symptoms and seeks medical diagnosis.
4. Is caring for an individual subject to an order described in (1) or (2) above.
5. Is caring for a child whose school is closed or whose childcare provider is unavailable for reasons related to COVID-19.
6. Is experiencing any other substantially similar condition specified by the Secretary of Health and Human Services, along with the Secretaries of Labor and Treasury.

Emergency Family and Medical Leave (EFML) – Covered employers are required to provide up to an additional 10 weeks of job-protected leave to covered employees. However, the sole reason for which EFML is allowed is to care for a son or daughter under age 18 if their school is closed or whose childcare provider is unavailable for reasons related to COVID-19.

2020 INDIVIDUAL TAX ORGANIZER:

Are you getting ready for the 2021 tax season? With so many changes in our personal lives that will impact the preparation of the 2020 individual tax return, it is advised that you start gathering the information you will need while some of these considerations are fresh in your mind. The documents (Forms W-2, 1099's for unemployment, state refund, self-employment, 1099-INT, 1099-DIV or 1099-B, etc.) will start arriving in mid-January. The IRS has not yet announced when they will start accepting the individual income tax returns in January.

The following is a list of questions /considerations that may apply in your tax situation:

Questions — All Taxpayers

(Provide related statements or other documentation.)

"You" refers to both taxpayer and spouse—enter "?" if unsure about a question.

LIFESTYLE & TAXES	Yes	No	Are either you or your spouse legally blind?		
	Yes	No	Did you pay or receive alimony? *Paid Received $*	*Recipient's SSN*	*Date of divorce or separation*
	Yes	No	Did you have health insurance for you, your spouse, and all dependents for the entire year?		
	Yes	No	Did you purchase health insurance through a public exchange?		
	Yes	No	Will there be any significant changes in income or deductions next year, such as retirement?		
	Yes	No	Have you paid alternative minimum tax (AMT) in previous years?		
	Yes	No	Did you pay anyone for domestic services in your home?		
	Yes	No	Did you purchase a new energy-efficient car, truck, or van?		
	Yes	No	Are you involved in bankruptcy, foreclosure, repossession, or had any debt (including credit cards) cancelled?		
	Yes	No	Are you a member of the military?		
	Yes	No	Were you a citizen of or lived in a foreign country?		
	Yes	No	Do you own or have financial interest in a foreign bank or financial account?		
	Yes	No	Would you like to allow your tax preparer or another person to discuss your return with the IRS? *Designee's name*	*Phone number*	*PIN (any five digits)*
CHILDREN & EDUCATION	Yes	No	Were any children born or adopted? *(Provide statement for other expenses.)*		
	Yes	No	Were any children attending college? *Year in college*	Paid by you: *Tuition $* / Paid by student: *Tuition $*	*Student loan interest $* *Books $* / *Student loan interest $* *Books $*
	Yes	No	Did you pay any tuition for a private school for a dependent or take classes yourself?		
			Student		*Amount paid $*
			Name and address of school		
	Yes	No	Did you pay for child or dependent care so you could work or go to school? *(add statement if needed)*		
			Name of provider		*EIN or SSN*
			Address		*Amount paid $*
	Yes	No	Do you have any children who earned more than $2,200 of investment income?		
	Yes	No	Did you make any contributions to a 529 plan?		
INVESTMENTS	Yes	No	Did you, or will you, contribute any money to an IRA?		Traditional IRA Roth IRA
	Yes	No	Did you roll over any amounts from a retirement account?		
	Yes	No	Did you sell or transfer any stock or sell rental or investment property?		
	Yes	No	Did you receive any income from an installment sale?		
	Yes	No	Did you have any investments become worthless or were you a victim of investment theft?		
	Yes	No	Were you granted, or did you exercise, any employee stock options?		
	Yes	No	Did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?		
DEDUCTIONS	Yes	No	Did you pay any interest on a loan for a boat or RV that has living quarters? If yes, provide details.		
	Yes	No	Did you pay sales taxes on a major purchase, such as a vehicle, boat, or home?		
	Yes	No	Did you make any charitable contributions?		
BUSINESS	Yes	No	Did you work from a home office or use your car for business?		
	Yes	No	Did you receive income from a sharing/gig economy activity (e.g. Airbnb, Uber, etc.)		
	Yes	No	Do you own a business or an interest in a partnership, corporation, LLC, farming activities, or other venture?		
HOME	Yes	No	Did you purchase or sell a main home during the year? If yes, provide closing statement.		
	Yes	No	If you sold a home, did you claim the First-Time Homebuyer Credit when it was purchased? If yes, provide details.		
	Yes	No	Did you refinance a mortgage or take a home equity loan? (Provide closing statement)		
	Yes	No	Did you use any mortgage loan proceeds for purposes other than to buy, build, or substantially improve your home?		
	Yes	No	Did you make any new energy-efficient improvements to your home? If yes, provide details.		

State information Full-year resident Part-year resident Nonresident

States of residence and dates

School district Do you rent or own your home? Rent Own