TaxTips

Keeping You Informed ▪ Winter 2020

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Tax-saving strategies

Make a move now

It's always a good idea to look for ways to minimize your tax liability. Taking advantage of opportunities before the year comes to a close is a smart move. Here are a few things to think about:

- **Are you making the maximum contribution to your §401(k), IRA or other retirement plans?** If the answer is no, think about increasing your contribution percentage between now and the end of the year. Not only will this increase your retirement savings, but it could also potentially lower your taxable income. If you are age 50 or older, you are eligible to make additional "catch-up" contributions. Contributions to retirement plans must be made by December 31. IRA contributions can be made up to the due date of your tax return, generally April 15.
- **Are you around age 70?** Don't forget that you must start taking regular minimum distributions (RMDs) from your traditional IRA by April 1 following the year in which you reach age 70½. Failing to do so triggers a painful 50% IRS penalty on the amount you should have withdrawn. Each year thereafter, you must take your RMD by December 31 to avoid the penalty. Consider asking your IRA custodian to withhold tax from the payment; this could prevent you from having to make estimated tax payments. Also, remember that if you own a Roth IRA, you are never required to withdraw money from it.
- **Did you have any capital gains during the year?** If so, now may be a good time to consider selling some under-performing investments in order to generate a capital loss. Capital losses can offset capital gains. In addition, generally up to an additional $3,000 of capital losses may be deducted against your ordinary income per year with any additional losses carried to future years.

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- **Did you know that you can give a tax-free gift to a beneficiary of any age by putting money into a §529 education savings plan account?** Generally, you can make a gift up to $15,000 per beneficiary per year or up to $30,000 for married couples, and you don't even have to file a federal gift tax form! Under new tax laws, §529 plans can also be used to pay up to $10,000 of tuition annually for the beneficiary's enrollment or attendance at a public, private or religious elementary or secondary school. Let's plan ahead for those little ones!
- **Do you have a favorite charity?** Donations are still tax deductible if you itemize, but not if you take the standard deduction. If you give regularly to charities, consider putting several years' worth of gifts into a donor-advised fund for the current year. This strategy may make it worthwhile for you to itemize this year while giving you the ability to spread out the giving over the next several years. Another way to boost a charitable deduction is to donate appreciated stock or property, rather than cash, to charity. If you have owned the asset for more than one year, you get a double tax benefit from the donation! You can deduct the asset's fair market value on the date of the gift and you circumvent paying capital gains tax on any appreciation in value.
- **Did you contribute to an employer's flexible spending account (FSA) at the beginning of the year?** These flex plans are a fringe benefit many companies offer where you can direct part of your pay into a special account that you can later use to pay child care or medical bills. The benefit is that the money contributed to the account avoids both income and Social Security taxes. However, the catch is that it's a "use it or lose it" rule. So if you contributed to an FSA, make sure you use it all by year-end or you'll forfeit the excess.
- **Do you make state estimated tax payments or pay property taxes?** If so, contemplate making an early payment before year-end. In general, the due date for fourth quarter state estimated tax payments is January of the following year. Yet, if you pay the fourth quarter estimated payment by year-end, you can deduct it in the current year. The same is true if you pay your next property tax installment before the end of the year (for a tax that has been officially assessed). This tactic only works if you are able to itemize deductions, you are not over the $10,000 state local tax limit and you are not subject to AMT.

Contact me to discuss how we can make these strategies work to your advantage before the end of the year rolls around!

Retroactive Tax Extender bill signed into law

You may be able to amend for a refund

The Extender bill was passed and signed into law on December 20, 2019. Consequently, many popular tax goodies that were thought to be long gone have been brought back from the dead for your tax deducting pleasure. Many items are retroactive to tax years 2018 & 2019 in addition to being proactive for 2020. You may wish to peruse the following list of selected reinstatements to see if it may be worth your while to amend a prior year return to claim the newly reenacted deduction. Some of these changes may have ripple effects on your tax return causing the benefit to be substantially greater than just the changed amount. Of course there will be a cost to amend your return, so we will have to weigh the cost of amending compared to the benefit you receive from the amendment. A good time to discuss these extenders is during your tax appointment when we already have all of your information on the table. But if you just can't wait, feel free to give us a call now to see how things affect you.

1. Private Mortgage Insurance deduction reinstated for TY 2018 – 2020. (New higher standard deduction amounts make it more difficult to benefit from this deduction but you should already have the necessary information on your form 1098 mortgage interest paid statement for each year)
2. Discharge of personal residence indebtedness is tax free again (could be a huge deduction for those who lost a home to foreclosure)
3. Tuition and fees deduction reinstated for those who meet income limits
4. Medical expenses deduction threshold reduced back to 7½% of AGI from 10%
5. Student fellowship & stipend payments qualify as income for IRA contributions and Savers credit
6. Maximum age limit to contribute to an IRA increased from 70½ to no age limit with qualifying income.
7. Required beginning date for RMDs (Required Minimum Distributions) is increased to age 72 from 70½ (No change if you were 70½ on or before Dec 31, 2019)
8. The Stretch IRA is dead, beneficiaries must fully distribute and pay taxes within 10 years, (minor children may continue to stretch until age of majority plus 10 years, however, grandchildren are still limited to 10 years)
9. Penalty free distribution up to $5000 from qualified retirement plans for expenses incurred for birth or adoption of a child (tax still due)
10. Penalty free distribution up to $100,000 from qualified retirement plans for qualifying federal disasters (tax still due)
11. Maximum qualified retirement plan loan limit increased to $100,000
12. May now use 529 plans to pay tuition on registered apprenticeship programs and or student loan payments for the child or siblings (loan payments limited to lifetime max of $10,000)
13. The Lifetime Energy credit is reinstated for tax years 2018 thru 2020 for energy efficient doors & windows etc. $500 limit still applies even if you previously used it years ago

Maximizing student financial aid

Seven tax strategies

What's on your tax return plays a big role in determining how much financial aid a college offers to students. To get the most financial aid possible, you need to plan out any tax moves several years before applying.

Colleges look at the income and assets of the parents and the student when calculating the "expected family contribution," which in turn is used to calculate a student's need for financial aid. But schools don't look at last year's income. Instead they look at income reported two years before the start of the school year. Financial aid for the 2021–2022 school year, for example, will be based in part on how much adjusted gross income (AGI) is reported on your 2019 tax return.

Keeping AGI as low as possible can help result in a better financial aid package for the college student. Here are seven techniques that parents and future college students can use to lower their adjusted gross income:

- Avoid taking unnecessary distributions from IRAs and other retirement plans.
- Avoid selling stocks and investments with large capital gains, as this will increase your income.
- Consider selling investments that have lost value so you can take a capital loss, which in turn reduces your AGI.
- Consider selling rental property. In some situations, this can unlock accumulated passive losses and significantly reduce your AGI.
- Consider working abroad and claiming the foreign earned income exclusion. This can reduce your AGI by up to $105,900 for tax year 2019.
- Consider increasing contributions to a pre-tax 401(k) or 403(b) plan. This reduces your taxable wages, which in turn lowers your AGI.
- Consider making tax-deductible contributions to a traditional IRA, self-employed retirement plan, or health savings account. These deductions reduce your AGI.

As your tax adviser, I can help you figure out which strategies will work best for keeping your AGI as low as possible.

Data security

Protect your personal information

Scammers steal personal information and money from unsuspecting victims, predominantly during tax season. When it comes to sharing any of your personal information, be vigilant!

The easiest way for criminals to steal sensitive data is to simply ask for it; this is known as phishing. Phishing emails, calls or texts often pose as familiar organizations such as banks, credit card companies or even the IRS. They attempt to lure you into giving them personal information such as passwords, bank account numbers or credit card numbers. Don't assume Internet advertisements, pop-up ads or emails are from reputable companies or even from someone you know. Oftentimes, scammers can compromise your contacts and make it look like someone you know is asking you to download an attachment. If something seems suspicious, send your contact a direct email asking them if they sent you such an email before downloading anything. Also, remember that the IRS doesn't initiate contact with taxpayers by email, text message or social media channels to request personal or financial information.

Only provide personal information over reputable, encrypted websites; this includes shopping or banking sites. Look for an "https" at the beginning of a web address and be sure it's on every page of the site.

We all have too many passwords to count; however, strong passwords are a major barrier in protecting your personal information. Use at least 10 characters and mix letters, numbers and special characters. Make passwords arbitrary; don't use names, birthdates or common words. Do not use the same password for multiple accounts and do not share them via text or email. It is imperative to set password and encryption protection for wireless networks. If a home or business Wi-Fi is unsecured, it allows any device within range to access the wireless network and potentially steal information.

Double down for important information. In other words, copy vital files, including federal and state tax returns, onto a removable disc or a back-up drive and store it in a safe place. If you store sensitive information on your personal computer, be sure to use a file encryption program to add an additional layer of security.

And don't forget to educate children about all these data security measures as well!

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The Home Office Deduction

Qualifying for a tax deduction

Entrepreneurs who work from home can write off a portion of their housing and utility expenses.

A sole proprietor who uses 25% of her house as an office, for example, can deduct 25% of her rent or mortgage interest, property tax, homeowners or renter's insurance, and utilities.

To qualify for the home office deduction, entrepreneurs must have a dedicated space in their home that they use exclusively and regularly for business. IRS agents often focus on these two factors when auditing tax returns claiming the home office deduction. So, it's important you know what each of these factors mean.

- **Dedicated space used exclusively for business**. A home office doesn't have to be an entire room. It could be a desk and file cabinet sitting in a corner of a room. But, this area of the house must be used only for business, and nothing else. Using the room for recreation or having the kids do their homework at the desk means that the space is not exclusively used for business. And that would result in no home office deduction for that space.
- **Regularly and consistently use the space for business.** You don't have to work in your home office every single day. But you do need to use the space for business on a regular basis. Working from home only occasionally isn't sufficient. A dentist who sees clients in her home office only in emergencies, for example, might not be using the space regularly enough to qualify for the deduction.
- **Storage of inventory.** If you run a wholesale or retail business, you can also take a home office deduction for the area used to store your inventory and product samples. This storage area does not need to meet the exclusive use test. As long as you use the storage area on a regular basis, we can deduct the storage area in addition to the space you use for conducting business. This is a valuable deduction for eBay sellers and other merchants whose home is the only fixed location for their business.
- **Childcare, senior care, and adult daycare.** Day care providers can deduct the area of the home used for providing daycare services. The area doesn't have to be used exclusively for business. Instead, we take a deduction based on the amount of time the area is used for business.

Let us know if you work from home. We want to be armed with facts in case the IRS decides to ask any **questions.**