

## 2020 YEAR-END LETTER

*Greetings! We hope that everyone is staying safe and healthy during these uncertain times. Here are our staff updates along with some helpful tax and estate planning ideas and reminders.*

### Office Announcements

#### **We bid a fond farewell to two Associates:**

Kathy White has worked for us as a second career for over 20 years, our longest-term employee. She is retiring to spend more time in California with her two granddaughters and their families. We will especially miss Kathy's voice of reason and strong ethics.

Tara Spruill-Jones complemented our upbeat first floor atmosphere for four tax seasons. She is transitioning to the non-profit world to promote financial literacy for women and like-minded causes. We will especially miss Tara's ingenuity and ability to make us laugh.

#### **We welcome our three new Associates:**

Steve Elman, CPA, LL.M. (Tax) is a native Washingtonian with extensive tax experience. As a member of the MD Bar, Steve will also assist with estate planning for MD residents. He plans to reactivate his DC Bar membership.

Brook Castro has several years professional tax experience as well as serving as Controller for a family business. He is pursuing his M.S. in Accounting and has completed all education and work requirements to sit for the CPA exam (delayed due to Covid).

Anna Gencarelli, another native Washingtonian, recently returned to DC from Los Angeles. Anna is handling the front desk and other administrative duties on a part-time basis. She will come on board full-time for tax season.

Please visit our website [[www.abramsontax.com](http://www.abramsontax.com)] for full bios and pics of all our staff.

We remain working mostly remotely.

### Deadlines

**Tax Client Organizers:** Engagement Agreements and Tax Organizers will be sent out by early January. We will accommodate as many clients as possible, but if we don't receive your information by **February 22, 2021**, we may need to extend your returns. Even if you are awaiting a brokerage 1099, K-1, or other information, please timely submit what you have by February 22<sup>nd</sup> and note what is missing.

#### **Payments to Housekeepers, Child & Health Care Providers:**

Unless hired through an agency, such providers are classified as employees. In 2020, if you will have paid any such worker **\$2,200** or total wages to all household employees of **\$1,000** during any three-month calendar quarter, you must issue them a Form W2 by January 31, 2021. [State unemployment reporting requirements vary.] If you want us to prepare W2s, we need your information by **January 13, 2021**.

#### **Payments to Independent Contractors:**

In the course of your business [including rentals], if you pay any non-corporate contractors \$600 or more during 2020, you must issue a Form 1099 by January 31, 2021. The same **January 13<sup>th</sup>** cut-off date for us to receive your household employee information applies if you want us to prepare 1099s.

**FBAR:** If you have foreign financial accounts that exceed \$10,000 in aggregate at any time in 2020, a Report of Foreign Bank and Financial Accounts is due April 15, 2021.

## SECURE Act

The SECURE Act made the following key changes to retirement taxation effective beginning in 2020:

**Required Minimum Distributions [RMDs]:** The age at which RMDs must begin has increased from age 70.5 to 72. This applies to traditional IRAs as well as to employer tax deferred accounts.

**IRA Contribution Age:** With sufficient earned income, contributions to IRAs may now be made at any age.

**Elimination of "Stretch" IRA:** Prior rules allowed non-spouse individual beneficiaries to "stretch" distributions from an inherited IRA or 401(k) over their own lifetime. Now, distributions to non-spouse individuals must be made within 10 years of death.

## CARES Act

The CARES Act provided the following key benefits for 2020: Stimulus payments to qualifying taxpayers [up to \$1,200 for individuals and \$2,400 for joint filers, plus an extra \$500 for each eligible under age 17. The payments were computed based on 2019 tax returns with Adjusted Gross Income up to \$99,000 for individuals and \$198,000 for joint filers. If your income was too high in 2019, but your 2020 income falls below the threshold, you should get a stimulus payment as a tax credit on your 2020 tax return.

**Required Minimum Distributions [RMDs]:** All 2020 RMDs are waived. If an RMD was recently taken, you can re-contribute it to a qualified plan within 60 days of the distribution.

**Charitable deduction rules:** An individual who claims a standard deduction can additionally deduct cash charitable contributions up to \$300.

## 2021 IRA Tax Planning Tidbit

**Charitable Donating Directly from an IRA:** When RMDs are again required in 2021, consider making charitable contributions directly from your IRA. Such distributions are excludable from income.

## Social Security Planning

**Maximizing Social Security Benefits:** To receive a statement of earnings, call the Social Security Administration [SSA] 1.800.772.1213 or create an on-line account <https://secure.ssa.gov/RIL/SiView.action>.

In addition to verifying that all earnings [including self-employment income] are reflected, the earnings statement will provide estimates for retirement, disability, and survivor benefits for which you may be eligible. [Note: SSA has decreased the number of mailed statements.]

The most common concern is whether to claim benefits at 62/66/70 or to continue to let your benefits grow. There are also options worth examining when both spouses are entitled to benefits, especially if one spouse was born before 1954. Consider using a benefits analysis company such as Social Security Solutions, Inc. to help you navigate choosing the best strategy <https://www.socialsecuritysolutions.com/>.

## Updated 2020 Limits & Form W-4

**Standard Deduction:** The standard deduction is \$12,400 for single filers and \$24,800 for joint filers.

**IRA and 401(k) Limit:** For 2020, the contribution limit for 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is \$19,500; for those aged 50 or older, the limit is \$26,000. The IRA contribution limit remains at \$6,000; for those 50 and older it is \$7,000.

**HSA Contributions:** If offered by your employer, consider setting up a Health Savings Account. HSA contributions are deductible, and withdrawals are tax free if used for qualified medical expenses. To contribute to an HSA, you must have a High Deductible Health Plan. In 2020, individuals can contribute up to \$3,550 - up to \$4,550 if age 55 or older. Those with family coverage can contribute up to \$7,100.

**New Form W4:** The IRS completely revamped Form W4, eliminating withholding allowances and instead asking for key pieces of information about income and deductions. Please contact us if you need assistance with the new W4.

## **Estate and Gift Planning**

### **DC, MD & VA**

**Section 529 Plans:** DC, MD, & VA allow deductions for contributions to their state Education and ABLE plans benefiting those with disabilities.

**DC Homestead and Senior Citizen Property Tax Relief:**

1) The homestead deduction reduces your real property's assessed value by \$75,700.

2) The Sr. Citizen Property Tax Relief of 50% will apply to FY 2021 [10/1/2020 to 9/30/2021] if your total household income for calendar year 2020 is less than \$134,550.

Both forms of tax relief apply only to primary residences. Please review your tax bill annually as it is your responsibility to notify DC of any changes in eligibility: [https://www.taxpayerservicecenter.com/FP100\\_Homestead\\_Application.jsp](https://www.taxpayerservicecenter.com/FP100_Homestead_Application.jsp)

**Residential Rental Owner Requirements:**

**DC:** (1) Obtain a business license; (2) Register with DC Consumer and Regulatory Affairs (DCRA); and (3) Meet the District's housing code compliance standards [<https://dcra.dc.gov/service/dc-housing-code-standards>]. If you expect your DC rental property to earn more than \$12,000 of gross revenue per year, you will need to register with the DC Office of Tax and Revenue and file annual personal property and unincorporated business franchise tax returns.

**Montgomery County:** (1) Obtain a rental license; (2) Pass a lead test if built before 1950; and (3) Designate a MD resident agent. Units occupied by relatives, or in the cities of Rockville, Takoma Park, or Gaithersburg are exempt <https://www.montgomerycountymd.gov/DHCA/housing/licensing/>.

**Arlington County:** Obtain a business license: <https://taxes.arlingtonva.us/business/new-businesses/>.

**Estate and Gift Tax:** The current federal estate tax exemption is \$11,580,000. which is applied against the total assets held at death and cumulative lifetime reportable gifts [i.e., ones greater than the annual \$15,000. per donee exclusion]. The rate remains at 40%. The exemption for DC has been reduced to \$4,000,000 and for MD the exemption is \$5,000,000. VA has no estate tax.

For taxpayers with assets greater than their respective exemption amounts, planning using "marital", "disclaimer", and "irrevocable life insurance" trusts can provide estate tax savings and flexibility. In addition, since neither DC nor MD requires a decedent's estate to add back gifts made during one's life, lifetime gifts are an excellent state estate tax savings tool. [Note: Payments for qualified educational expenses and qualified medical expenses continue to be excluded from reportable gifts if paid directly to the institution.]

**Estate Documents:** We recommend that you review your estate planning documents every three to five years, whenever there is a change in law, or if you experience a major life event.

#### **IDENTITY THEFT ISSUES**

The IRS will not call you about any tax matter without first mailing you a letter; nor will the IRS demand immediate payment over the phone. To avoid being a victim of identity theft, unless you have initiated contact, do not give any personal information over the phone, through the mail, or on the internet.

If you have been a victim of tax-related identity theft, the IRS will issue you an Identity Protection PIN each year. Upon receipt, please send us your assigned PIN.

**STAY SAFE AND HAPPY HOLIDAYS FROM ALL OF US AT ABRAMSON & ASSOCIATES, LLC!**