

TAX TIME 2021

What's New for Filing 2020 Taxes?

COVID Relief

Economic Impact (Stimulus) Payments were an advance on a new Recovery Rebate Credit which you may be able to claim on your tax return.

Coronavirus-related withdrawals in 2020 of up to \$100k from eligible retirement plans can be reported in the current year or over a three year period or may be repaid within three years. They are not subject to the penalty for early distribution. Eligible loans can be repaid in up to six years.

Businesses are eligible for Paycheck Protection Program loans based on payroll and/or net income from self-employment. These PPP loans are forgivable under certain conditions and forgiven loans do not increase taxable income for federal purposes. At press time, California has not conformed with the new federal law re PPP loans.

Businesses are eligible for Economic Injury Disaster loans with 30-year fixed rates of only 3.75% and no personal guarantee.

New Charitable Deduction

Taxpayers who do not itemize can deduct up to \$300 of monetary donations to qualified organizations.

California Low-Income Credits Expanded

A California earned income credit of as much as \$3,027 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.

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-two years.

Protecting your Health

We can prepare your returns remotely. You may fax or email a PDF of your documents or you may drop them off or ship them to us. Returns can be signed remotely as well and then filed electronically.

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.

Mileage Rate Decelerates

The standard business mileage rate fell to 57.5 cents/mile. The charitable rate stayed at 14 cents/mile. The medical and moving rates fell to 17 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

Mandatory Health Insurance

California residents are required to be covered by health insurance. The penalty for non-compliance is 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 is \$750 per adult and \$375 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.

Retirement Distributions

The SECURE Act 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 prior 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).

California Renter's Credit

California provides up to \$120 credit for people earning less than \$87,066 (\$60 for singles earning less than \$43,533).

Looking Ahead

Mileage rates in 2020 will decrease to 56 cents/mile for business and to 16 cents/mile for medical or moving. Charitable mileage will remain at 14 cents.

Businesses can deduct 100% of business meals provided by a restaurant.

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 \$5,000 surety bond #106823056 issued by Travelers Casualty and Surety Co.

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