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Today's Business: Year-end tax planning for a different kind of year

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Russell L. Abrahms; Contributed photo

Every year at about this time, I write about the latest year-end strategies to help minimize taxes. As with everything else, this year is different.

Due to the pandemic and legislation designed to offset some of its resulting economic impact, there are a number of issues that need consideration, both when reviewing options for year-end tax planning as well as options for 2021.

One of the most significant new laws is the Coronavirus Aid, Relief, and Economic Security Act. This law, coupled with related legislation, is likely to impact individuals' tax liability in some way.

Under the CARES Act, individuals with income under a certain level are entitled to a rebate tax credit. Most (not all) of these so-called stimulus checks already have been sent to those eligible. Most single individuals and joint filers are entitled to a payment of $1,200 or $2,400, respectively, plus $500 for each qualifying child.

Under the CARES Act, if an employer repaid some or all of your student loan debt after March 27, 2020, and before 2021, that repayment up to $5,250 is not taxable (it would have been without the CARES Act).

Here are some additional highlights:

— Required minimum distribution rules for 2020 are waived for IRAs and 401(k)s, reducing many retirees' taxable income in 2020.

— The age limit for making contributions to a traditional individual retirement account, previously 701/2 years old, was repealed in 2020, so anyone otherwise eligible may make a contribution to a traditional IRA.

— You can now receive a retirement account distribution of up to $5,000 without penalty if the distribution is the result of a birth or adoption.

— Anyone impacted by the coronavirus can withdraw up to $100,000 from a retirement plan without penalty. Those funds generally are includible in income over three years.

— The start date for required minimum distributions is now age 72, up from 701/2.

Meanwhile, if you can afford to, investing the maximum amount allowable in a qualified retirement plan will yield a large tax benefit. Take advantage of employer matching funds to the maximum. For those with a simple 401(k), the maximum pre-tax contribution for 2020 is $13,500, increasing to $16,500 if age 50 or older. The maximum IRA deductible contribution for 2020 is $6,000, increasing to $7,000 if age 50 or over.

For 2020, the standard deduction amounts are: $12,400 (single); $18,650 (head of household); $24,800 (married filing jointly); and $12,400 (married filing separately). Consider whether advancing deductions from 2021 — or the opposite — makes sense for you.

Also for 2020, medical expenses are deductible to the extent they exceed 7.5 percent of adjusted gross income. Here, too, you may want to accelerate optional medical expenses into 2020 or defer them until 2021.

A health savings account is another way to reduce tax liability. Contributions are deductible if you participate in a high-deductible health insurance plan. Distributions for medical expenses are tax-free for qualified medical expenses. For 2020, the annual contribution limits are $3,550 for an individual and $7,100 for an individual with family coverage. Incidentally, under the CARES Act, "qualified medical expenses" that may be reimbursed from those accounts include some over-the-counter products and nonprescription medications.

Don't itemize deductions? You still may get a benefit from making charitable contributions. An individual can claim an "above-the-line" deduction of up to $300 for contributions made during 2020. This will not be available for contributions made after 2020.

Working from home? Unfortunately, if you are an employee and have been working from home, your related expenses are not deductible. If you are self-employed and work from home, deductions still are available.

Going to school? Supporting a child in school? Certain education-related tax deductions, credits and exclusions from income may apply. Tax-free distributions from a qualified tuition program, dubbed a Section 529 plan, of up to $10,000 are allowed for qualified education expenses. In addition, if your modified adjusted gross income is below certain thresholds, a deduction of up to $4,000 for qualified tuition and related expenses may apply. There's also the American Opportunity Credit for $2,500 and the lifetime learning credit of up to $2,000 for tuition and fees for courses of instruction at an eligible educational institution.

For 2020, you may claim as much as a $2,000 credit for each child under age 17, a credit reduced for high income taxpayers.

Sole Proprietors, S Corps, Partnerships and some LLCs: Under the qualified business income tax break, a 20 percent deduction is allowed for qualified business income. This tax break is subject to some complicated restrictions and limitations but it has the potential for significant savings.

As for tax year 2021, it is unclear what, if any, tax legislation may be coming. So, base year-end planning on existing law but remain flexible should laws and regulations change.

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