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As we write our annual newsletter, we are constantly reminded that this is no ordinary year. This year has been full of twists and turns creating burst of emotions and negativity. Many in this world have experienced loss of life, livelihood, education, and most basic human needs- warm embrace from another human being. While many are facing difficult times, business does not stand still.

We do not get to control much of the above, we can control how we feel, and we are choosing to feel gratitude. We are so incredibly grateful to all our clients who have become our family over theses many years

With our year-end letter, we have always urged readers to not only do their annual tax planning, but to use this period to conduct a full financial review of their portfolios and estate planning as well. This year, such a financial review is not just recommended, it is critical.

Wishing you all a healthy, wealthy and an prosperous New Year.

Federal Income Tax Filing Deadline:

The filing deadline for the year 2020 is Thursday April 15, 2021. Information appearing in this article applies to changes effective in 2020, which then become part of a taxpayer's return in 2021.

2020 Individual Tax Provisions

Tax rate	Single	Married, filing jointly	Married, filing separately	Head of household
10%	$0 to $9,875	$0 to $19,750	$0 to $9,875	$0 to $14,100
12%	$9,876 to $40,125	$19,751 to $80,250	$9,876 to $40,125	$14,101 to $53,700
22%	$40,126 to $85,525	$80,251 to $171,050	$40,126 to $85,525	$53,701 to $85,500
24%	$85,526 to $163,300	$171,051 to $326,600	$85,526 to $163,300	$85,501 to $163,300
32%	$163,301 to $207,350	$326,600 to $414,700	$163,301 to $207,350	$163,301 to $207,350
35%	$207,351 to $518,400	$414,701 to $622,050	$207,351 to $311,025	$207,351 to $518,400
37%	Over $518,400	Over $622,050	Over $311,025	Over $518,400

The number of brackets remained the same at seven. The tax bracket thresholds increased significantly for each filing status.

2020 Standard Deduction and Personal Exemptions:

Personal exemptions have been eliminated in its place, the standard deduction has been roughly doubled. That will work out well for singles and couples, but it will be a definite negative for anyone with dependents.

And like other numbers in the tax code, the standard deduction will be increasing slightly for 2020. Here's how that will look:

Filing Status	2019	2020
Single	$12,200	$12,400
Married filing jointly	$24,400	$24,800
Head of Household	$18,300	$18,650

2020 Itemized Deductions:

Several key changes are coming for itemized deductions.

- **Medical and dental expenses.** You can only deduct out-of-pocket medical expenses that exceed 7.5% of your adjusted gross income in 2019 and 2020
- **State and local income taxes and property taxes.** The TCJA capped the deduction for state and local taxes- including property tax and either income tax or sales tax at $10,000 starting with 2018 returns. Under prior rules, the deduction for state and local taxes was unlimited.
- **Home mortgage interest.** You can deduct interest paid on home mortgage debt of up to $750,000 (down from $1,000,000 in 2017). To qualify, the mortgage must have been used to “buy, build, or substantially improve” your home. In other words, home equity debt that was not used for home renovation and remodeling is not eligible.
- **Gifts to charity.** You can claim a deduction for cash or property donated to a qualified tax-exempt organization. For Non-itemizers $300 cash contribution deduction is available for 2020 which is increased to $600 for 2021.

- **Casualty and theft losses.** You can deduct only losses from a federally declared disaster.

2020 Alternative minimum tax:

The Alternative Minimum Tax (AMT) was created in the 1960s to prevent high-income taxpayers from avoiding the individual income tax. This parallel tax income system requires high-income taxpayers to calculate their tax bill twice: once under the ordinary income tax system and again under the AMT. The taxpayer then needs to pay the higher of the two.

The AMT uses an alternative definition of taxable income called Alternative Minimum Taxable Income (AMTI). To prevent low- and middle-income taxpayers from being subject to the AMT, taxpayers are allowed to exempt a significant amount of their income from AMTI. However, this exemption phases out for high-income taxpayers. The AMT is levied at two rates: 26 percent and 28 percent.

The AMT exemption amount for 2020 is $72,900 for singles and $113,400 for married couples filing jointly (Table 3).

Filing Status	Exemption Amount
Unmarried Individuals	$72,900
Married Filing Jointly	$113,400

Table 3. 2020 Alternative Minimum Tax Exemptions

In 2020, the 28 percent AMT rate applies to excess AMTI of $197,900 for all taxpayers ($98,950 for married couples filing separate returns).

AMT exemptions phase out at 25 cents per dollar earned once taxpayer AMTI hits a certain threshold. In 2020, the exemption will start phasing out at $518,400 in AMTI for single filers and $1,036,800 for married taxpayers filing jointly (Table 4).

Filing Status	Threshold
Unmarried Individuals	$518,400
Married Filing Jointly	$1,036,800

Table 4. 2020 Alternative Minimum Tax Exemption Phaseout Thresholds

2020 Child tax credit:

The child tax credit totals at $2,000 per qualifying child and is not adjusted for inflation. However, the refundable portion of the Child Tax Credit, also known as the Additional Child Tax Credit, is adjusted for inflation. The Additional Child Tax Credit will remain at $1,400 for 2020.

2020 Section 529 plans:

One of the many benefits of saving for a child's future college education with a 529 plan is that contributions are considered gifts for tax purposes. In 2020, gifts totaling up to $15,000 per individual will qualify for the annual gift tax exclusion, the same as in 2019.

2020 Roth IRAs:

The annual Roth IRA limit is $6,000 in both 2020 and 2019, up from $5,500 in 2018 (if you're 50 or older, you can add $1,000 to those amounts). The maximum Roth contribution amount applies to all of your traditional and Roth IRAs, combined

2020 Health insurance:

The new tax reform bill does not repeal Obamacare (the Affordable Care Act), but starting in 2019 and 2020, it does effectively eliminate Obamacare's individual mandate, which requires people to pay a tax penalty if they don't buy health insurance. The individual mandate still applies for 2018

2020 Estate tax:

Estate tax is a tax on the transfer of property after death. The federal estate tax generally applies when a person's assets exceed $11.58 million in 2020 and $11.70 million in 2021 at the time of death. The estate tax rate can be up to 40%.

2020 Business Tax Provisions

Unlike the individual tax provisions in the new law, the key provisions relating to businesses are generally permanent. Following is a brief rundown.

Corporate tax rates: As per the TCJA the C Corporation tax rate is flat 21%, which is significantly lower than the top individual rate of (37%).

Pass-through entities: Under the new law, pass-through entities -- such as partnerships, S corporations, limited liability companies (LLCs) and sole proprietors -- can claim a 20% deduction on earnings, subject to special rules restrictions. The deduction is not available to higher-income personal service providers.

Section 179 deduction The deduction limit for Section 179 is $1,040,000 for 2020 and beyond, while the limit on equipment purchases remains at $2.59 million.

Further, the bonus depreciation is 100% and has been made retroactive to 9/27/2017. It is good through 2022. The bonus depreciation also now includes used equipment.

2020 Luxury car rules:

Regulation IRC Sec. 280F limits the depreciation deduction allowed for luxury passenger cars for the year they're placed into service and each succeeding year. It increased the limit on first-year depreciation for qualified property acquired before September 28, 2017 and placed in service in 2020. The first-year depreciation including bonus is $18,100.

2020 Section 199 deductions:

199A allows taxpayers to deduction up to 20% of qualified business income (QBI) from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust, or estate. The Sec. 199A deduction can be taken by individuals and by some estates and trusts.

2020 Corporate AMT:

The Tax Cuts and Jobs Act repealed the AMT on corporations. Conforming changes also simplified dozens of other tax code sections that were related to the corporate AMT. The TCJA also allows corporations to offset regular tax liability by any minimum tax credit they may have for any tax year. And, a corporation's MTC is refundable for any tax year beginning after 2017 and before 2022 in an amount equal to 50% (100% for tax years beginning in 2021) of the excess MTC for the tax year, over the amount of the credit allowable for the year against regular tax liability. Thus, the full amount of the corporation's MTC will be allowed in tax years beginning before 2022.

2020 Meals and Entertainment deductions:

Section 210 of the Act allows a 100% deduction for business meals for amounts paid or incurred after 12/31/2020 and before 1/1/2023.

For 2020, still the law remains the same as in 2019. All of the following are expenses you can subtract from your year-end tax bill, either by 50 or 100 percent:

Business meals with clients (50%)

Office snacks and other food items (50%)

The cost of meals while traveling for work (50%)

Meals at a conference that go above the ticket price (50%)

Lunch out with less than half of company employees (50%)

Food for company holiday parties (100%)

Food and beverages given out free to the public (100%)

Dinner for employees working late at the office (100%)

2020 Interest deductions:

Generally, under the TCJA, interest paid or accrued by a business is deductible up to 30% of “adjusted taxable income” Taxpayers (other than tax shelters) with average annual gross receipts of $25 million or less for the three previous tax years are exempt from the interest deduction limitation.

Some other taxpayers are also exempt. For example, real property businesses can elect to fully deduct their interest, but then would be required to use the alternative depreciation system for real property used in the business.

The CARES Act increases the limit to 50% for 2019 and 2020. (Special partnership rules apply for 2019). It also permits businesses to elect to use 2019 ATI for the 2020 calculation, which may increase the deduction.

"adjusted taxable income" is computed without regard to deductions allowable for depreciation, amortization, depletion, or business interest expense (similar to EBITDA). For tax years beginning after December 31, 2021, adjusted taxable income will include deductions for depreciation and amortization, but not business interest expense (similar to EBIT).

2020 Foreign taxes:

There are two tax-preferred rates for the foreign earnings deemed repatriated: foreign earnings held in cash and cash equivalents were taxed at 15.5 percent and those not held in cash or cash equivalents at only 8 percent. The TCJA permits a US corporation to pay any tax on the deemed repatriations in installments over eight years. The tax revenue raised by this transition tax on earnings accumulated abroad was estimated at $340 billion over the 10 years from 2018 to 2027.

So far there have been many important tax developments. This letter highlights some of them for you. As always, give our office a call or email if you have any questions.

2020 Net Operating Losses (NOLs):

Under the CARES Act, taxpayers are now eligible to carry back NOLs arising in 2018 through 2020 tax years to previous five tax years. The CARES Act also allows taxpayers to potentially claim an NOL deduction equal to 100% of taxable income for prior-year NOLs carried forward into tax years beginning before 2021.

COVID-19 tax relief for employers:

Payroll Tax Credit: Under the CARES Act, credit is available to employers whose operations have been fully or partially suspended because of government order. Employers whose gross receipts have dropped more than 50% compared to the same quarter in the previous year are also eligible.

The credit equals 50% of up to $10,000 in compensation, including health care benefits, paid to an eligible employee after March 12, 2020, through Dec 31s, 2020.

Payroll Tax Deferral: The CARES Act enables employers to delay payment of their share (6.2% of wages) of the Social security payroll tax. Businesses can pay the tax over the next two years, with the first half due by Dec. 31, 2021 and the second half due by Dec. 31s, 2022.

Paid Leave Credit: This may be available to you under the Families First Coronavirus Response Act.

Life insurance

Life insurance can replace income, offer a way to equalize assets among children active and inactive in a family business, provide cash to pay estate tax or be a vehicle for passing leveraged funds free of estate tax.

Life insurance process generally are not subject to income tax. But if you own the policy, the proceeds will be included in your estate.

Always, consider why you want the insurance, such as to replace income, to provide liquidity or to transfer wealth to your heirs.

Living Trust

All estate planning is not about dying. It is about your control over your assets-control while you are living and control after your death.

A living trust, specifically a revocable living trust, helps individual greater control over their assets and have their wishes carried after they die. A Living trust can help save the expense and delay of probate, which can last as long as three years and take up to 10-15% of an individual's estate's vale.

It is a legal document that places your assets—investments, bank accounts, real estate, vehicles and valuable personal property—in trust for your benefit during your lifetime and spells out where you'd like these things to go upon your death. Because it is *revocable* you can cancel or change it at any time during your lifetime.