

2020 TAX UPDATE

YEAR END NEWSLETTER

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Greetings to clients and friends! 2020 has been tough for everyone and is finally winding down. As the holiday season approaches, the team here at Hua Gao CPA LLC wishes to thank you for your business and your kind referrals! May you and your family have a very happy and healthy New Year! We look forward to serve you soon!

Taxable Income Brackets for 2020

The income brackets for each tax rate are:

TAX RATE	SINGLE	MARRIED JOINTLY	HEAD OF HOUSEHOLD
10%	\$1-9,875	\$1-19,750	\$1-14,100
12%	\$9,876-40,125	\$19,751-80,250	\$14,101-53,700
22%	\$40,126-85,525	\$80,521-171,050	\$53,701-85,500
24%	\$85,526-163,300	\$171,051-326,600	\$85,501-163,300
32%	\$163,301-207,350	\$326,601-414,700	\$163,301-207,350
35%	\$207,351-518,400	\$414,701-622,050	\$207,351-518,400
37%	Over \$518,400	Over \$622,050	Over \$518,400

New Tax Laws in 2020

Here are some of the new tax laws passed over the last year that could affect you.

Early Retirement Distribution Penalty Waived

Generally, the amounts an individual withdraws from a retirement plan before reaching age 59½ are called early distributions. Individuals must pay an additional 10% early withdrawal tax unless an exception applies. The 10% early distribution penalty on up to \$100,000 of retirement withdrawals for corona virus-related reasons is waived during 2020 by the CARES Act. One third of the money you withdraw will be included as income in your taxes for each of the next three years unless you elect otherwise. You would still need to pay regular income taxes. The CARES Act also allows you to pay back what you withdrew from your accounts if you're able to do so.

Required Minimum Distributions Waived For 2020

Required minimum distributions in the year 2020 for various retirement plans is

suspended. The corresponding 50% penalty associated with not taking a distribution is also suspended in 2020.

Contribute to a traditional IRA at any age

While you have always been able to contribute to a Roth IRA at any age, 70½ was the cut-off for making contributions to a traditional IRA. This age limit for traditional IRAs is now gone. If you have earned income, you and your spouse can now each contribute \$6,000 to either a traditional or Roth IRA (\$7,000 for those age 50 and over).

New Charitable Contribution Tax Breaks In 2020

Typically, you don't see charitable contributions until you file Schedule A Itemized Deductions. However, due to the CARES Act, charitable cash contributions of up to \$300 are temporarily above-the-line deductions. That means that you do not have to itemize to claim those deductions - something that many taxpayers have grappled with because of the increased

standard deduction under the Tax Cuts and Jobs Act. In other words, you get a deduction whether you itemize or not.

The Tuition And Fees Deduction Is Available

The above-the-line deduction for up to \$4,000 in qualified tuition and fees expenses that expired is still available in 2020. The Tuition and Fees Deduction cannot be claimed during the same tax year that other education tax benefits are claimed for the same student. You will need to evaluate this tax break versus others like the American Opportunity Credit and the Lifetime Learning Credit. Or let your tax preparer choose the best for your benefit.



Stimulus Checks

The good news is, if you think you should get the Stimulus Checks but did not get, you may be eligible to get a credit when you file your 2020 federal income.

Checks is \$1,200 per adult - or \$2,400 for married couples filing jointly. And an additional \$500 per child. The amount of the checks would start to phase-out for those earning more than \$75,000 (\$150,000 for joint returns and \$112,500 for heads of household). You'll phase-out completely (meaning that you'll get nothing) once you hit \$99,000 as a single filer, \$198,000 as a married couple filing jointly, or \$146,500 for heads of household.

The Stimulus Checks you received is not includible in your gross income.

You are not eligible for a payment if: You may be claimed as a dependent on another taxpayer's return; or you are a nonresident alien.



For Small Businesses

Claim Bonus Depreciation for 2020 Asset Additions

100% first-year bonus depreciation is available for qualified new and used property that's acquired and placed in service in calendar year 2020. That means your business might be able to write off the entire cost of some or all of your current-year asset additions on this year's tax return.

Important: It doesn't *always* make sense to claim 100% bonus depreciation in the first year that qualifying business property is placed in service. For example, if you think that tax rates will increase substantially in the future — either due to tax law changes or a change in your income level — it might be better to forgo bonus depreciation and, instead, depreciate your 2020 asset acquisitions over time. If you take advantage of bonus depreciation in 2020 and then federal income tax rates go up in future years, you'll have effectively traded more valuable future-year depreciation write-offs for less valuable first-year write-offs.

Your tax professional can explain the details and help you choose the right depreciation method for you.

Establish a Tax-Favored Retirement Plan

If your business doesn't already have a retirement plan, now might be the time to take the plunge. Current retirement plan rules allow for significant deductible contributions.

For example, if you're self-employed and set up a SEP-IRA, you can contribute up to 20% of your self-employment earnings. If you're employed by your own corporation, up to 25% of your salary can be contributed to your SEP-IRA. The maximum 2020 contribution for these plans is \$57,000.

Other small business retirement plan options include:

- A 401(k) plan, which can even be set up for just one person (a solo 401(k)),
- A defined benefit pension plan, and
- A SIMPLE-IRA.

Depending on your circumstances, these plans may allow bigger deductible contributions.

Important: The deadline for setting up a SEP-IRA for a sole proprietorship business and making the initial deductible contribution for the 2020 tax year is October 15, 2021, if you extend your 2020 federal income tax return to that date. Other types of plans generally may have December 31, 2020 deadline. However, to make a SIMPLE-IRA contribution for 2020, you must have set up the plan by October 1, 2020. Consult with your tax professional about which plan is best suitable for your situation.

Retirement Plan Limits

Plan	2021	2020
401(k)	\$19,500	\$19,500
Age 50 and over	+\$6,500	+\$6,500
IRA	\$6,000	\$6,000
Age 50 and over	+\$1,000	+\$1,000
Simple IRA	\$13,500	\$13,500
Age 50 and over	+\$3,000	+\$3,000

Standard Deduction

Item	2021	2020
Single	\$12,550	\$12,400
Married - Joint	\$25,100	\$24,800
Head of Household	\$18,800	\$18,650
Married - Separate	\$12,550	\$12,400
Elderly/Blind, Married	+\$1,350	+\$1,300
Elderly/Blind, Unmarried	+\$1,700	+\$1,650

Mileage Rates (per mile)

Item	2021	2020
Business	\$0.56	\$0.58
Medical/ Moving	\$0.16	\$0.17
Charitable	\$0.14	\$0.14

Section 179

Limits	2020
Section 179	\$1.04 M
Property Limit	\$2.59 M