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Many of the changes made under President Trump are not permanent, and are scheduled to revert back to the 2016 laws by 2025. Now we have President Biden – will taxes be impacted sooner? Stay tuned.

Stimulus Checks (Economic Impact Payment)

- This is not taxable income.
- \$1,200 personal stimulus per person and \$500 per child. 2nd round of \$600 per person and child in December 2020.
- If you got a partial amount or did NOT get a stimulus check: There will be a reconcile on the 2020 tax return, and if you qualify with your 2020 income, then you will receive a credit on it on the tax return for the difference.

The CARES Act – Signed in March 2020

- Charitable donations. Line-item deduction on the 1040, for Cash Donations, up to \$300 for Single, \$600 for Married. This deduction is separate from the Itemized Deductions on the Schedule A.
- New for 2021 tax year. Business Meals are 100% rather than 50% deductible. There must be a business purpose to meal.
- If you do itemize deductions on Schedule A, then you can deduct the donations up to 100% of your income in 2020.
- Retirement account Required Minimum Distributions RMD are waived for 2020.
- Waiver of the 10% early withdrawal penalty from retirement funds IF you were impacted by COVID. A qualified COVID withdrawal can be taxed over 3 years. Or the withdrawal will be non-taxable if the funds are returned within 3 years.

Tax Items to Keep In Mind

- Question on the tax return regarding virtual currency. I have to ask you if you Sold or Exchanged any virtual currency during the 2020 tax year. Virtual currency includes: Bitcoin, Litecoin, Ripple, Dash, Monero, etc. The use of virtual currency will be treated like a stock sale – virtual currency transactions will be taxed as a capital gain at capital gains tax rates.
- The Standard deduction for 2020 is \$24,800 for Married Filing Jointly and \$12,400 for Single. Plus an additional \$1,300 if over age 65. (There is no longer a personal exemption.)
- Child Tax Credit is \$2,000 per child under age 17 at year end. Other Dependent Tax Credit up to \$500. Qualifiers are dependents ages 17-18, or full-time students ages 19-23.
- Maximum Traditional IRA or Roth contribution - \$6,000 or \$7,000 if over age 50. Contribution must be made by 4/15/2021.
- HSA maximum contribution for 2020 is \$3,550 for single, and \$7,100 for family. If over 55 years old, can contribute additional \$1,000.
- Total Non-Taxable Gift to an individual is \$15,000 for 2020. Gift tax is due if give in excess of \$15,000. The person giving the gift pays the gift tax, not the person receiving the gift.

SSN Security and the IRS

- The IRS has set up a program for those who have had their taxes compromised with a fraudulent filing. IRS assigns an Identity Protection PIN, a 6-digit code set up by the IRS. IRS mails out the PIN to taxpayers every January and this has been successful in stopping further problems with taxpayers' accounts. The code is inputted as part of the E File submission.
- Starting with 2020 tax filings, there is an Opt-In program to voluntarily secure your identity with the IRS. If you'd like to participate, go to the web-site listed below. The program should be available sometime in January 2021.
- <https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin>

Notes for the Self-Employed

- Standard mileage rates: For 2020, the rate will be .575 cents per mile. (Tax Year 2021 rate is .56 per mile). Mileage logs are required. I know this a hassle, but it is the only way the deduction is legitimate w/IRS. Consider adding a mileage tracking app to your smart phone!
- Increased depreciation Section 179 and 100% Bonus depreciation. This means we can deduct the full amount of equipment or furniture put into business use in most cases.
- If business vehicle purchase is less than 6000 pounds, the max depreciation is \$10,000 in the 1st year. If the vehicle is greater than 6000 pounds, then the vehicle purchase will be eligible for Section 179 and/or 100% bonus depreciation. This will make a potential option of taking actual expenses rather than mileage rate. However, you will be stuck with actual expenses going forward from then on as the vehicle expense. Note 1: Mileage logs required. Note 2: the sale of a business vehicle is a taxable event. Note 3: Vehicle deduction is limited to business percentage of usage.
- Home office. Possible Election. If using a room in the house exclusively for business, you can elect to use \$5 per square foot for a maximum deduction of \$1,500. Otherwise, you can still use the % method on utilities, rent/mortgage costs.
- Form 1099-K, to match up income received via credit cards and PayPal. Please provide 1099-Ks to me, as IRS is doing some matching with these forms. Make sure your business code on the 1099-K form is correct.

- **Independent Contractors.** Businesses are required to prepare tax form 1099-MISC for individuals receiving greater than \$600. IRS penalty for not filing a required 1099 form is up to \$270 per form.
- **New for 2021 tax year.** Form 1099-NEC for reporting independent contractor income.
- **Maintain accurate records for all of your ordinary and necessary business expenses.** The strongest argument for a deduction is documentation, so it's to your own benefit to be organized and maintain records.

New Section 199A Deduction

The basics of this deduction is a 20% deduction on net qualified business income. Qualified business income is the self-employed: Schedule C - Sole Proprietors, K1 income from Partnerships and S Corps. In high-income situations, the deduction is limited or eliminated.

Example: Schedule C business has net income of \$100,000. The deduction would be $100,000 * 20\% = 20,000$. Wow! There are income limitations and complications that are too comprehensive to get into in this summary letter.

Note on Health Care Sharing Plans

- With health insurance costs skyrocketing, some are going to Health Sharing Plans/Ministries as a cheaper option.
- From a tax perspective, these plans are NOT recognized as health insurance with the IRS. Therefore, there is no tax deduction for the monthly costs and they do not qualify towards Self-Employed Health Insurance deduction.
- Medical expenses paid to doctors will qualify as a deductible medical expense.
- There is no longer a penalty for required health insurance, so this is not a problem. However, since most plans have a religious affiliation, it would qualify for an exemption from a penalty.

Tax Return Late Filing Penalty

- The fine for filing late returns is higher for returns with post-2019 due dates. The minimum penalty for returns filed 60 or more days after the due date is now the lesser of \$435 (up from \$215) or 100% of the required tax shown on the return.

Penalties & Interest

IRS and Colorado try to force compliance by penalties and interest. Here is a brief listing of some of the penalties and interest.

- Most common. Late paying. IRS penalty is .5% per month penalty, plus interest 5% on the tax due.
- Colorado Late paying. Colo penalty is 5% +.05% per month, plus interest 5% on the tax due.
- Late filing penalty. This is late filing after the extension deadline or filing late without an extension. 10% on balance due, plus previous late paying penalty above.
- Accuracy related penalty. IRS assesses additional tax due to negligence or intentional disregard. The penalty is the greater of \$5,000 or 10% of tax that was understated.
- Tax preparer penalties. Accuracy related penalty is \$5,000. Penalty for Failure of due diligence related to EIC Credit, Child Tax Credit, Education Credit is \$540 per return.

Identity Theft

Tips to protect yourselves from the fastest growing crime in the U.S.:

- IRS scams are abundant. The latest is a Social Security impersonation. There are many telephone IRS impersonation scams as well as email scams. These calls and emails tend to sound very threatening. The IRS does NOT send out emails and rarely calls directly.
- If you are solicited to pay tax or solicited for your personal information, feel free to ask me before paying or responding.
- Watch for requests for information on "IRS" forms or account verification forms - it's likely bogus to get your information.
- <https://www.irs.gov/newsroom/tax-scams-consumer-alerts>
- Review your Credit Report at least once a year for any inaccuracies.
- Free annual credit report: <http://www.annualcreditreport.com>
- Free credit report by mail: Annual Credit Report Request
PO Box 105283 Atlanta, GA 30348-5283

Our Office Policy: We shred all of our recycle/trash that has sensitive information on it. We will not disclose any information about a client unless specifically directed by the client. Any disclosure or forwarding of any tax returns requires signed written approval per IRS Circular 230.

Best wishes and prosperity in 2021!!

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Sources: National Center of Professional Education, Internal Revenue Service