CAPE CORAL ACCOUNTING SERVICE, INC.
Established 1961

Dear Clients and Friends:

Without question 2020 has been an unusual tax year.

Here at Cape Coral Accounting Service, we appreciate your business and look forward to working with you to calculate and file your taxes.

It is not too soon to be taking steps to gather the vital tax information we will need to ensure you file both a complete and accurate tax return and to pay the lowest legal amount of tax.

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Steps to take - You should gather Forms W-2, Wage and Tax Statement, Forms 1099-MISC, Forms 1099 NEC, a new form to report Non-employee Compensation rather than the 1099 MISC, and other income documents to help determine if you are eligible for deductions or credits. Most income is taxable, including unemployment compensation, refund interest and income from the gig economy and virtual currencies. If you received non-wage income such as self-employment income, investment income, taxable Social Security benefits and in some instances, pension and annuity income, you may have made estimated tax payments. We will need the date and amount of each estimated payment, remembering the one made in January 2021 is for 2020 tax year.

Recovery Rebate Credit - New in 2021, those who didn't receive an EIP may be able to claim the Recovery Rebate Credit.
Taxpayers may be able to claim the Recovery Rebate Credit if they met the eligibility criteria in 2020 and they didn't receive an Economic Impact Payment this year, or their Economic Impact Payment was less than it should have been.

You will need Notice 1444, Your Economic Impact Payment, to calculate any Recovery Rebate Credit you may be eligible for on their 2020 Federal income tax return.

Interest payments - Taxpayers who received a federal tax refund in 2020 may have been paid interest. The IRS sent interest payments to individual taxpayers who timely filed their 2019 federal income tax returns and received refunds. Most interest payments were received separately from tax refunds. Interest payments are taxable and must be reported on 2020 federal income tax returns. In January 2021, the IRS will send a Form 1099-INT, Interest Income, to anyone who received interest totaling at least $10.

3501 DEL PRADO BOULEVARD, SUITE 212 • CAPE CORAL, FLORIDA 33904
PHONE (239) 542-2558 • FAX (239) 542-2320
WEB: WWW.CAPECORALACCOUNTING.COM

Refunds - Although the IRS issues most refunds in less than 21 days, the IRS cautions taxpayers not to rely on receiving a 2020 federal tax refund by a certain date, especially when making major purchases or paying bills. Some returns may require additional review and may take longer.
Refunds that include the Earned Income Tax Credit or Additional Child Tax Credit should be available by first week of March. By law, the IRS cannot issue refunds for people claiming the EITC or ACTC before mid-February. The law requires the IRS to hold the entire refund – even the portion not associated with EITC or ACTC.

The IRS expects most EITC/ACTC related refunds to be available in taxpayer bank accounts or on debit cards by the first week of March, if they chose direct deposit and there are no other issues with their tax return.

For 2020, the SECURE Act as well as the CARES Act made several changes to your tax calculation. They include:

- Waiver of the 10% Early Withdrawal Penalty on up to $100,000 withdrawal from IRAs and Defined Contribution Plans, such as 401(k)s made between January 1 and December 31, 2020 by a person who or whose family, is infected with the Coronavirus or they are economically harmed. Rules are complex and we should discuss.

- Required Minimum Distributions, RMDs, otherwise required for 2020 from 401(k) plans and IRAs are waived, meaning you do not have to take them in 2020. This includes distributions that would have been required by April 1, 2020, due to the account owner's having turned age 70 1/2 in 2019.

- Many provisions in both the SECURE Act and the CARES Act allow for amendments to prior returns which may be a savings to you.

- The CARES Act instituted an Employee Retention Credit that an employer can qualify for a refundable credit against generally the employer's 6.2% portion of the Social Security payroll tax for 50% of certain wages paid to employees during the COVID-19 crisis.

- Net Operating Losses (NOLS) have been liberalized. The 2017 Tax Cuts and Jobs Act limited NOLs arising after 2017 to 80% of taxable income and eliminated the ability to carry NOLs back to prior tax years. For NOL's arising in tax years beginning before 2021, the CARES Act allows taxpayers to carryback 100% of NOL's to the prior five tax years, effectively delaying for carrybacks the 80% taxable income limitation and carryback prohibition until 2021. NOL carryforwards are also liberalized. For NOL's in tax years beginning before 2021, taxpayers can take an NOL deduction equal to 100% of taxable income, rather than the present 80% limit.

- If you participated in a Paycheck Protection Program loan by the SBA, be aware that some loans under SBA Section 7(a)(36) guaranteed loans that are forgiven under the CARES Act are not taxable as discharge of indebtedness income if the forgiven amounts are used for one of several permitted purposes. The loans have to be made during the period beginning on February 15, 2020 and ending on June 30, 2020. The complexity of this loan forgiveness may determine whether the costs used to obtain debt forgiveness will be deductible.

For 2020:

- **Brackets and Rates**
  For tax year 2020, the top tax rate remains 37% for individual taxpayers filing as single and with income greater than $518,400, which is a modest bump up from $510,300 for 2019.[9] The income threshold for this rate will be $622,050 for married couples filing jointly (MFJ) and $311,0215 for married individuals filing separately (MFS).

  Income ranges of other rates up to the next-highest threshold are as follows:

- 35% for single and MFS income exceeding $207,350 ($414,700 for MFJ)
- 32% for single and MFS income exceeding $163,300 ($326,600 for MFJ)
- 24% for single and MFS income exceeding $85,525 ($171,050 for MFJ)
- 22% for single and MFS income exceeding $40,125 ($80,250 for MFJ)
- 12% for single and MFS income exceeding $9,875 ($19,750 for MFJ)

  The lowest rate is 10% for single individuals and married couples filing separately, whose income is $9,875 or less. For married individuals filing jointly, the combined income may not exceed $19,750.

  For those filing as head of household (HOH), the income thresholds are the same as rates for singles in the 37%, 35%, and 32% brackets.

  In Head of Household brackets, the income thresholds are now $85,501 to $163,300 in the 24% bracket; $53,701 to $85,500 in the 22% bracket; $14,101 to $53,700 in the 12% bracket; and up to $14,100 in the 10% bracket.

- **Standard Deduction**

  The Standard deduction for married filing jointly rises to $24,800, for single taxpayers and married individuals filing separately $12,400 and for head of household status $18,750

- **Itemizing Deductions**

The exclusion for Medical Expenses in 2020 is 7.5% of the Adjusted Gross Income. If your income is $100,000, the first $7,500 in Medical is not deductible.

Charitable Contributions are virtually unlimited in 2020, however contributions must be made in cash to a public charity. The unlimited amount is not applicable to private foundations nor to gifts of appreciated stock or Donor-Advised Funds.

The CARES Act allows a $300 "above-the-line" deduction for cash contributions to charity if you take the standard deduction when you file in 2021. For those who itemize, the law lifts the 60% of adjusted gross income (AGI) limitation, on cash contributions. Individuals can elect to deduct donations up to 100% of their AGI. 2020 is a wonderful year to be generous.

- **Other Taxing Issues**

The alternative minimum tax, AMT, exemption amounts for single filers is $72,900 and begins phasing out at $528,400. For married couples filing jointly, he AMT exemption amount is $113,400, which begins to phase out at $1,036,800.

- **Capital Gains**

Income thresholds for long-term capital gains rates also increased to the following levels:

- 0% for single and MFS income up to $40,000, up to $80,000 for MFJ, and up to $53,600 for HOH
- 15% for single income $40,001 to $441,450, $80,001 to $496,600 for MFJ, $40,001 to $248,300 for MFS, and $53,601 to $469,050 for HOH
- 20% for single income exceeding $441,450, exceeding $496,600 for MFJ, exceeding $248,300 for MFS, and exceeding $469,050 for HOH.

- **Retirement Plans**
- The contribution limit for employees Retirement Plans who participate in employer retirement plans such as 401(k)s, 403(b)s, most 457 plans, and the federal government's Thrift Savings Plan (TSP) has been increased to $19,500, up from $19,000 in 2019. The catch-up contribution limit for employees age 50 and older increased to $6,500, up from $6,000 in 2019. The contribution limit for SIMPLE retirement accounts for 2020 has been raised to $13,500, up from $13,000 for 2019.

  Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. During the year, if either the taxpayer or their spouse was covered by a retirement plan at work, the deduction may be reduced or phased out. If neither the taxpayer nor their spouse is covered by an employer-sponsored retirement plan, the phase-outs of the deduction do not apply. Phase-out ranges for 2020 are as follows:

- For single taxpayers covered by a workplace retirement plan, the phase-out range is $65,000 to $75,000, up from $64,000 to $74,000.
- For MFJ, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is $104,000 to $124,000.
- For an IRA contributor who is not covered by a workplace retirement plan, but who is married to someone who is covered, the deduction is phased out if the couple's income is between $196,000 and $206,000, up from $193,000 and $203,000.[7]
    - For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

The income phase-out range for taxpayers making contributions to a Roth IRA is $124,000 to $139,000 for singles and heads of household, up $2,000 from 2019. For married couples filing jointly, the income phase-out range is $196,000 to $206,000, up $3,000. There is no income limitation on taxpayers wishing to make a Roth conversion.

The income limit for the saver's credit (also referred to as the retirement savings contributions credit) for low- and moderate-income workers is $65,000 for married couples filing jointly, up from $64,000 in 2019; $48,750 for heads of household, up from $48,000; and $32,500 for singles and married individuals filing separately, up from $32,000.

- **Credits**

The tax year 2020 maximum earned income credit (EIC) is $6,660 for qualifying taxpayers who have three or more qualifying children, up from a total of $6,557 for 2019.

For tax year 2020, the modified adjusted gross income (MAGI) amount used by married joint filers to determine the reduction in the lifetime learning credit is $118,000 and phases out at $138,000, up from $116,000–$136,000 for tax year 2019. For single filers and heads of households, the MAGI range is $59,000–$69,000 for 2020, up from $58,000–$68,000 in 2019. You can't claim the credit if you are a married individual filing separately.

- **Health Spending**

For the taxable years beginning in 2020, the dollar limit for employee salary reductions for contributions to a health flexible spending account (FSA) is $2,750, up $50 from the limit for 2019.

For tax year 2020, participants who have self-only coverage in a medical savings account (MSA), the plan must have an annual deductible that is not less than $2,350 (the same as for tax year 2019) but not more than $3,550, an increase of

$50 from 2019. For self-only coverage, the maximum out-of-pocket expense amount is $4,750, up $100 from 2019. For participants with family coverage, the floor for the annual deductible is $4,750, up from $4,650 in 2019. The deductible cannot exceed $7,100, up $100 from the limit for tax year 2019. For family coverage, the out-of-pocket expense limit is $8,650 for tax year 2020, an increase of $100 from 2019.

- **Estates and Gifts**

  Estates of decedents who die during 2020 have a basic exclusion amount of $11.58 million, up from $11.4 million for estates of decedents who died in 2019. The annual exclusion for gifts is $15,000 for calendar 2020, the same as it was for calendar 2019.

We look forward to working with you with your taxes for 2020 and tax planning for changes that may occur in 2021. Those who do not plan, plan to fail and those are not our clients. Allow us to serve you.

Happiest of Holiday Seasons, Be well and safe.