Tax Tidbits

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A World of Change

The 2020 world-wide coronavirus pandemic created an economic fallout. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress with overwhelming, bipartisan support and signed into law by President Trump on March 27, 2020. The $2 trillion economic relief package provides assistance for American workers and families as well as assistance for small business.

The beginning of 2020 has had more change than any year that I have experienced. There have been tax deadline changes that have many taxpayers confused. Initially, the extended date of July 15 was only for the tax payments and then later was changed to cover tax returns and IRA contributions as well. Although the federal government has changed many of the filing dates, you should verify if your state is following the extended federal deadlines.

The CARES Act created many changes for 2020. Required minimum distributions for 2020 can be waived. There is a $300 above the line deduction for cash contributions for non-itemizers. The 50% of adjusted gross income limitation on charitable contributions has been suspended for 2020.

There are special rules allowing individuals to take money out of their retirement plans if they have been affected by COVID-19. Currently, the definition of an individual affected is as follows:

- You are diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention;
- Your spouse or dependent is diagnosed with SARS-CoV-2 or with COVID-19 by a test approved by the Centers for Disease Control and Prevention;
- You experience adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to SARS-CoV-2 or COVID-19;
- You experience adverse financial consequences as a result of being unable to work due to lack of child care due to SARS-CoV-2 or COVID-19; or
- You experience adverse financial consequences as a result of closing or reducing hours of a business that you own or operate due to SARS-CoV-2 or COVID-19.

The Treasury Department and the IRS have received and are reviewing comments from the public requesting that the list of factors be expanded.

During 2020, distributions from IRAs, employer retirement plans, 457(b) plans, and 403(b) annuities of up to $100,000 can be made to an individual affected by COVID-19 without a 10% additional tax.

These distributions will be taxed ratably in 2020, 2021 and 2022. If you repay a coronavirus-related distribution, the distribution will be treated as though it were repaid in a direct trustee-to-trustee transfer so that you do not owe federal income tax on the distribution. If, for example, you receive a coronavirus-related distribution in 2020, you choose to include the distribution amount in income over a 3-year period (2020, 2021, and 2022), and you choose to repay the full amount to an eligible retirement plan in 2022, you may file amended federal income tax returns for 2020 and 2021 to claim a refund of the tax attributable to the amount of the distribution that you included in income for those years, and you will not be required to include any amount in income in 2022.

These affected individuals can also borrow up to 100% of the vested balance or $100,000, whichever is less, from an employer's retirement plan. Loan payments due between March 27, 2020 and December 31, 2020, can be delayed for one year. Subsequent payments will be adjusted for the delay of these payments and interest accruing during the delay.

There are many changes to the tax laws for 2020 and more to come.

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Employee Retention Credit

The Employee Retention Credit is a refundable tax credit equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. For each employee, wages (including certain health plan costs) up to $10,000 can be counted to determine the amount of the 50% credit. Employers, including tax-exempt organizations, are eligible for the credit if they operate a trade or business during calendar year 2020 and experience either full or partial suspension of operation of their business during any calendar quarter because of governmental orders due to COVID-19 or if the business has a significant decline in gross receipts.

A significant decline in gross receipts begins on the first day of the first calendar quarter of 2020 for which an employer's gross receipts are less than 50% of its gross receipts for the same calendar quarter in 2019. The significant decline in gross receipts ends on the first day of the first calendar quarter following the calendar quarter in which gross receipts are more than 80% of its gross receipts for the same calendar quarter in 2019, or with the first calendar quarter of 2021.

The credit applies to qualified wages (including certain health plan expenses) paid during this significant decline in gross receipts period or any calendar quarter in which operations were suspended. The term qualified wages has two different definitions depending on if the employer averaged more than 100 full-time employees during 2019 or 100 or less full-time employees during 2019. Qualified wages are generally wages, including certain health care costs, up to $10,000 per employee.

For employers that averaged more than 100 full-time employees, qualified wages are generally wages paid to employees that are not providing services because operations were suspended or due to the decline in gross receipts. These employers can only count wages up to the amount that the employee would have been paid for working an equivalent duration during the 30 days immediately preceding the period of economic hardship.

For employers that averaged 100 or fewer full-time employees, qualified wages are wages paid to any employee during the period operations were suspended or the period of the decline in gross receipts, regardless of whether or not its employees are providing services.

To be eligible, a business cannot have received a Small Business Interruption Loan under the Paycheck Protection Program, authorized under the CARES Act. Additionally, wages for this credit cannot include wages for which the employer received a tax credit for paid sick and family leave under the Families First Coronavirus Response Act or a credit for paid family and medical leave under section 45S of the Internal Revenue Code. If the employer is allowed a Work Opportunity Tax Credit, those employees are not counted for Employee Retention Credit.

Beginning with the second quarter of 2020, eligible employers will report their total qualified wages and the related health insurance. Employers can be immediately reimbursed for the credit by reducing their required deposits of payroll taxes. Eligible employers can also request an advance of the Employee Retention Credit by submitting Form 7200, Advance of Employer Credits Due to COVID-19.

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The CARES Act Suspended RMDs for 2020

The Coronavirus Aid, Relief and Economic Stimulus (CARES) Act suspended all required minimum distributions (RMD) for 2020. This is similar to the provision in 2009 during the financial crisis. The RMD rule applies to IRAs, 401(k)s, 403(b)s, SEP IRAs, SIMPLE IRAs, traditional IRAs and Roth IRAs. The waiver applies to both original owners and inherited accounts.

This Act has generated some questions regarding the rules.

What if I already took my RMD?

You can return the RMD into any retirement account by July 15, 2020. The IRS extended the tax deadline, which also extended the 60-day rollover rule. If you took your RMD February 1 to May 15, you have until July 15, 2020 to rollover the gross amount of your RMD. Unfortunately, if you took your RMD before February 1, you cannot roll over the RMD and if you took your RMD after May 15, you are subject to the strict 60-day terms. However, there is a chance that the IRS will make all RMDs taken in 2020 available to return to the account as they did in 2009.

There is also a rule that you can only do one IRA to IRA or Roth IRA to Roth IRA rollover per 365 days. This does not apply to direct rollovers between plans and IRAs and you can rollover from a 401(k) to an IRA or the other way around to avoid the once per year rule.

Normally you cannot rollover an RMD to a Roth IRA but, since all RMDs are considered a distribution in 2020, you can rollover the payment into a Roth IRA. You will have to include the distribution in your gross income and pay tax on it, but now it is in a tax-free account where you can invest it.

What if I turned 70½ in 2019?

If you deferred your first RMD for 2019 until April 1, 2020, you are eligible to defer both your 2019 and 2020 RMDs. If you took your RMD in 2019, there is no relief for that payment, but you can defer your 2020 RMD.

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Considerations Regarding the CARES Act and Coronavirus Related Retirement Plan Distributions

The Treasury Department has provided on its website some personal finance resources. Outlined are some priorities to consider when wading through this challenging economic time. It suggests first and foremost to make sure your family's basic needs are met. Things like medical care, housing and utilities, caregiving for children or other family members, telephone and internet services, and transportation related expenses are outlined as priorities. Unfortunately, scarce resources to meet obligations can become even more scarce during times like these.

With the rapid passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act in response to the economic shutdown, several items contained in the legislation are aimed at helping certain individuals navigate this period. This legislation allows for coronavirus-related retirement plan distributions, if eligibility conditions are met. For example, if you own a small business and have had to close due to COVID-19 or if you have experienced adverse financial consequences because you have been quarantined, your retirement plan may permit a distribution. The CARES Act allows for these coronavirus related withdrawals from accounts in eligible retirement plans to be taken without having to incur the usual 10% early withdrawal penalty. It should be noted that plans are not required to allow these distributions in all cases.

Taxes on the income would have to be paid, though they can be paid over three years beginning in tax year 2020. Correspondingly, the Act enables the withdrawal to be recontributed back and treated as a tax-free rollover into the plan in one or more payments within the three-year window. The recontributed amount would not count towards the maximum contribution limit in the year the funds are put back into the plan. Restrictions on the number of retirement plan rollovers in a 12-month period exist so the whole of your activity in a tax year needs to be understood to fully understand tax consequences and a consultation with your tax advisor is recommended in order to optimally arrange your timeline of activity.

The tradeoff between having to meet the prioritized and basic needs for a family versus depleting one's retirement savings makes for a difficult decision. If there are alternative resources or other sources of funds, which can meet emergency needs, then that may be a superior route to take. It is important to consider the opportunity costs associated with the loss of potential compounded growth in your retirement accounts, as well as any tax consequences.

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CARES Act

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Are qualified charitable distributions (QCDs) suspended for 2020?

A QCD is a distribution from an IRA directly to a public charity. The distribution is not included in your gross income and you can donate up to $100,000 per year per taxpayer. You can still do a QCD, but it will not count as an RMD. You are, however, reducing the value of your IRA, which will reduce your RMD for future years and you are benefiting your chosen charity.

You should talk with your financial advisor and tax preparer to decide your best course of action for your financial needs.

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Where is my Stimulus Payment?

If you are wondering where your stimulus payment is, you can call the IRS Economic Impact Payment line at (800) 919-9835. The Service has added 3,500 telephone representatives to answer some of the most common questions about Economic Impact Payments. IRS telephone assistance and other services will remain limited.

The IRS's website (IRS.gov) is another way to obtain information on the stimulus payment. The IRS regularly posts new and updated answers to the most often asked questions about Economic Impact Payments on their website. Additionally, one can check the status of their payment with the "Get My Payment" tool. The information updates frequently and taxpayers should check regularly.

If you are not required to file a tax return for reasons such as income below the filing requirements, you may be eligible for an Economic Impact Payment. Individuals will need to register using the "Non-Filers tool" on the IRSs website to receive a payment.

The IRS will issue Form 1444 notice within 15 days from the issue date of the check. The notice is mailed to the taxpayer's last known address and states the amount of payment and the method by which the payment was made. If you did not receive the payment stated, there is also an IRS contact number for you to call and report the issue.

The stimulus payment is an advance for the tax credit on the 2020 tax return. The good news is that if you did not receive a stimulus check based on your 2018 or 2019 tax return because of income limitations, you may still be eligible for the credit on the 2020 tax return. When calculating the credit on the 2020 tax return, the advance rebate check will reduce the credit but not below zero. If the credit is less than the rebate, the taxpayer is not required to pay back any of the advance rebate.

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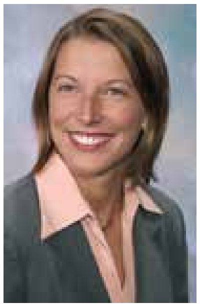
Health and Wellness During Difficult Times



Millions of Americans are adjusting to a new and challenging "norm." As we continue to manage through the uncertainty of the rapidly changing COVID-19 pandemic, it is important to take the time necessary to maintain both physical and mental health for yourself and your family.

As I made the difficult but necessary decision to separate our staff and implement a mandatory work from home policy, I have realized the many challenges of balancing homeschooling my children and working from home full time in a "full house." I know I am only one of millions adjusting to this new way of life, but there's comfort in knowing I'm not alone and if I can share some simple tips that have helped me the past few weeks, I know we can all be well during these unprecedented times.

While there's no one-size-fits-all solution, I have found focusing on these tactics helps to make the most of this new logistical reality.

Create a Schedule

With everyone home, schedules are usually the first things to fall by the wayside. Resist the urge to let this happen. This is not summer vacation; the kids still have school work to complete. Stick to your normal work routine the best you can. Be sure to set up a schedule for your kids. It is likely you may not be able to mirror a school day, but setting expectations for the day will help. There are a number of sample schedules online to help develop your own family work/school schedule. Having your child(ren) invest in this process of creating a schedule will help ensure their participation and willingness to work together.

Stay Active

Staying at home does not mean giving up your workout routine. On the contrary, you can train daily by making a quick transformation of extra space in your home. If you are stuck for space, get creative and push some furniture aside. Many local gyms and yoga studios have recorded fitness and yoga classes that are available daily on Facebook for all levels of activity. If you are fortunate to be in a warmer climate, take an extra walk or two a day. You will find this not only helps your heart, but also helps your head.

Stay Connected

If you are someone like me, you need interaction. While social distancing has prohibited us from leaving our homes or gathering in groups, we can turn to "Virtual Connections" using technology to stay connected and to reach out to family and friends during this extended period of separation. Zoom, FaceTime and GoToMeeting have all been used in our home to help us connect with family and friends. We have heard from some of our clients that they have had "Virtual Dinners" and "Virtual Happy Hours." Give it a try!

Eat Well

With easy access to the refrigerator and cupboards, eating well and refraining from comfort food stress eating can be a challenge for many. I have found that it is helpful to create a weekly meal plan and prep meals and healthy snacks that can be pulled out instead of reaching for the quick unhealthy snacks. Keep it simple with foods your family likes. Cut up and wash fresh fruits and veggies and keep them in baggies for quick access. In order to help with fresh produce not spoiling, experiment with freezing fresh fruit. Separate and wash/dry grapes and then freeze them on a tray in the freezer. When frozen, place in a baggie. Do the same with bananas. Peel, slice and place them on a parchment paper tray in a freezer and, when frozen, place them in a baggie. Both grapes and bananas are a fun frozen snack.

While these suggestions seem very common, I believe that it is important to connect and to share what you are having success with or find that someone with whom you can talk through your challenges. We are all facing unprecedented times with schedules, finances and health. Please continue to monitor the Centers for Disease Control (CDC) website at https://www.cdc.gov/coronavirus/2019-ncov/index.html for additional information and resources. From all of us at Valicenti Insurance Services, Inc., we want you to be well and safe.

Suzanne M. Valicenti
President/CEO
Valicenti Insurance Services, Inc.

Please note that our Tax and Business Services Department, our Insurance Division and our Investment Advisors are available to answer any questions that you may have regarding the articles in this publication. We look forward to hearing from you.
