



# 1040 News

Q3 2020

Quarterly news & tips for folks in every tax bracket

## **Introduction:**

2020 has been a record-setting year of changes. The \$2.2 trillion CARES Act was the largest economic relief bill in US history. Plus, there have been four other coronavirus related relief bills passed by congress... and maybe another one on the way that has been passed by the House but not the Senate.

This issue of 1040 news is full of updates. Page 1 gets you up-to-speed on the progress of the stimulus payments. Page 2 covers updates to the PPP loan program and other tax provisions created during these unprecedented times.

## **Stimulus Payment Update:**

The prior issue of *1040 News (Q2, 2020)* covered the Economic Impact Payments (a.k.a. the “stimulus”) in detail. Here are several follow-up topics to explore:

The **vast majority of stimulus payments have been sent** (160+ million taxpayers and counting). Roughly 75% were direct-deposits into bank accounts. The remainder were paid as paper checks (20%+) or pre-paid debit cards (< 5%).

If you receive a **prepaid debit card** it will be from “Money Network Cardholder Services”. Information included with the card will indicate that it is an Economic Impact Payment Card. There will be instructions on how to activate and use it. Visit [www.eipcard.com](http://www.eipcard.com) for more details.

**Keep track of how much stimulus you receive.** You will need this information for your 2020 tax return.

If you **haven't received your stimulus** use the IRS' ***Get My Payment*** tool to track the

progress. The tool will indicate if the payment has been sent and how it was delivered (direct deposit vs. mail). If it says “we are unable to provide the status of your payment” there isn't much you can do but wait. The IRS did staff 3500 telephone service reps to help with stimulus questions. However, the special help line (800-919-9835) usually has pre-recorded information with no IRS people answering. The recorded message says to call back “the next business day” if you need assistance. Presumably, IRS folks will answer when call volumes are lower. That said, if you are patient enough to keep calling you probably are patient enough to simply wait for your stimulus to arrive.

**Don't fall for stimulus scams.** Scammers are using the stimulus to steal information from unsuspecting taxpayers. Keep safe by never giving your information to anyone over the phone, email, text, or social media. The IRS will send you a letter in the mail if they need information from you. If you do receive a letter from the IRS you should also scrutinize it to make sure it is legitimate.

Given how quickly the stimulus was created, **several mistakes have been made.**

- Some **taxpayers were underpaid.** If that happened to you don't worry. Simply keep track of how much you received so you can claim the unpaid portion of the stimulus on your 2020 tax return.
- Some **deceased taxpayers received the stimulus.** The IRS has instructed people to return the money that was accidentally paid to deceased taxpayers. If a surviving spouse receives the funds

the IRS wants them to return the portion that was for the deceased taxpayer (which would be \$1200 in most cases). If the money is already in the bank you are supposed to send a check or money order to the IRS for the deceased taxpayer's portion. There are instructions for returning the funds on IRS.GOV.

- Some **taxpayers got too much.** If that happened to you don't worry. Put the money in the bank. You will not likely have to pay it back, but save it just in case (see below for details).
- Some **dependents got the stimulus** (dependents were not supposed to get it). The IRS has not issued guidance on what to do in this situation. As such, dependents should put the money in the bank, but not spend it out of an over-abundance of caution. (see below)

**If you believe you were over-paid you could choose to save the money rather than spend it.** Fortunately, the CARES Act did not include a “clawback” provision and you will not **likely** have to pay it back.

Don't forget, **all is not lost if you never received stimulus that you were due.** You can claim it on your 2020 tax return.

Finally, **about that unpassed bill being debated in Congress...** Write your elected officials to tell them what you want. Aside from additional stimulus payments, Congress is considering ‘above-the-line’ charity deductions for donors that don't itemize (see page 2 for further details).

Turn the page for more tax changes due to COVID-19.

## **COVID-19 Tax Changes, cont.**

Let's take a closer look at some of the changes Congress has passed since the pandemic began.

### **Paycheck Protection Program:**

If you are reading this on 7/1/20 or later, the application deadline for PPP loans has expired. This deadline may be further extended (or challenged in court) because there is still about \$150 billion in remaining PPP funding.

**Background:** Congress appropriated over \$659 billion dollars in low interest loans for small businesses to keep their employees working. The loans are regulated by the Small Business Administration (SBA) and administered by your local bank (currently 5458 lenders are participating). Amazingly, all or a portion of the loan can be forgiven depending on how much the business spends on payroll, rent, and utilities during a set period after they receive the loan. Details about the application, loan amounts, and forgiveness calculations are beyond the scope of this letter.

**Bottom line:** If you own a business ask your banker about PPP even if the application deadline has passed. If you can't get a PPP loan then ask your banker about Economic Injury Disaster Loans (EIDL).

If you have already received a PPP loan pay attention to the following:

- Carefully follow your bank's instructions when submitting the paperwork for loan forgiveness. Many banks have not finalized these instructions because the President signed new legislation affecting these rules on 6/5/20.
- Track the amount that was received and forgiven. You will need this for your 2020 tax return. The IRS says you can't deduct what you paid for with the forgiven portion of the loan.

### **Alternatives to PPP/EIDL:**

If you have employees ask your payroll service provider for details about Employee Retention Credits. Also ask about FFCRA credits for COVID related employee sick pay. You might qualify for a payroll tax credit under one of these new pro-

grams. Be sure to disclose if you received a PPP and/or EIDL loan (you may not qualify if you did). The details of these two new payroll tax credits are beyond the scope of this letter, so work with your payroll provider to learn more.

### **Other Tax Updates:**

The extended deadline for filing your 2019 tax return is still 7/15/20. If you can't get it done by then you should file an extension. However, you should still try to pay the balance due (if any) by 7/15/20 to avoid further penalty.

You have until 7/15/20 to make 2019 IRA contributions. Don't forget that 2019 traditional and/or SEP IRA contributions must be documented on your 2019 tax return. If you have already filed the return it would need to be amended to reflect the contribution. Roth IRAs contributions for 2019 do not require an amended return. However, don't forget that all IRA contributions have limits and other income based qualifiers (enquire for details).

You have until 7/15/20 to pay your 1st and 2nd quarter 2020 federal estimated tax payments. Usually these would have been due on 4/15 and 6/15 respectively.

The deduction limit on cash contributions to charities (which was 60% of AGI per year) has been eliminated for 2020.

The first \$300 of your 2020 charitable contributions can be deducted even if you do not itemize. The new rule applies to cash contributions only (not goods). This may sound small, but it is a step in the right direction. That's because 90% of taxpayers do not itemize. Congress is considering increasing the \$300 limit with the next relief bill.

Taxpayers can skip their mandatory retirement account distributions (a.k.a. RMDs) during 2020. As a refresher, RMDs were required for taxpayers that turned 70<sup>1/2</sup> prior to 1/1/20 (or turned 72 on or after 1/1/20). RMDs will resume as usual in 2021. The new rule does not apply to defined benefit pensions.

If you already took your 2020 RMD you can undo it and avoid the taxable income. You have until 8/31/20 to put the money

back into the retirement account. The IRS has further clarified that this strategy also works for inherited IRAs and folks that received their RMDs in multiple installments. Talk to your IRA trustee to learn more.

The 10% penalty for early retirement distributions is waived for coronavirus related withdrawals. Furthermore, if repaid within three years the funds are treated as a tax-free rollover. If they are not repaid the distribution is taxed over a three year period. There are qualifiers however. The taxpayer (or spouse/dependent) must have tested positive for coronavirus. Alternatively, you may also qualify if you experienced adverse financial effects due to quarantine, furlough, lay-off, reduced work hours, or being unable to work due to coronavirus related matters.

If you are one of the 30+ million folks on unemployment remember that the income is taxable (including the extra \$600 weekly compensation).

Great news for folks with tax debts!

The IRS lowered the interest rate on tax debts from 5% to 3% (starting 7/1/20).

The IRS is temporarily allowing mid-year changes to employer sponsored health benefits. Normally, changes are allowed during open enrollment periods. If you don't like your health plan talk to your benefits administrator to see if you can switch. Changes are also allowed for pre-tax medical spending accounts (FSA).

IRS workers are starting to go back to work, but still expect long wait times for taxpayer services. This is especially true for paper form processing such as amended returns and change-of-address forms.

The IRS suspended most new audits and collections activities through 7/15/20. When audits and collections resume there will likely be a focus on high-income/high-debt taxpayers (especially non-filers).

Thanks for reading. Stay healthy & safe.