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It's not too late...
to reduce your 2020 income taxes!

General Tax-Saving Tips & Updates

- 1) New \$300 charity rule... Even if you do not itemize, you can still deduct up to \$300 of donations paid by check, credit card, debit card or payroll deduction. Reminder to pay all monetary donations by check, credit card, debit card or payroll deduction in order to deduct.
- 2) New... 2020 stimulus checks. The CARES Act directed the IRS to issue stimulus checks based on 2018 or 2019 return information. The payments phased out for higher income taxpayers. But if your 2020 income was actually less, you may be able to collect more stimulus money as additional refund with the 2020 tax return.
- 3) 2020 election results... significant tax law changes are not expected for tax year 2021. Probably the soonest any changes could get pushed through the gridlock would be 2022 assuming that Joe Biden is inaugurated this coming January.
- 4) 2020 alimony awards... use the new rules. Payments are not deductible by the payer, and non-taxable to the recipient. Also, when signing alimony modifications of older pre-2019 alimony agreements... you should indicate whether you are electing to use the “revised 2019 tax rules” or not. (2018 and prior alimony agreements are grandfathered in and use the old rules).
- 5) Home equity loans... contact me before borrowing from home equity loans to learn if your circumstances allow a tax deduction.
- 6) 2020...no Obamacare penalties for not having health insurance.
- 7) Consider installing **solar energy home improvements** by 12/31 for a 30% tax credit. Keep receipts and manufacturer paperwork.
- 8) Consider installing **other energy-efficient home improvements** by 12/31... available for insulation, windows, water heater, furnace, heat pump, central air, exterior doors, pellet stoves, metal roof and certain a special asphalt roof with special cooling granules. Keep receipts and manufacturer paperwork. Tax breaks may be limited based upon prior energy tax credits taken.
- 9) If you still itemize deductions... Clean out your closets and garage before 12/31. Contribute items in at least “good” condition to a **qualified charity** by 12/31 and ask for a receipt. Many will still qualify for this deduction.

- 10) Consider contributing to a 529 Plan for college savings by 12/31 to utilize a PA tax deduction. Tax deductions are allowed for out-of-state 529 Plans too. Set up with parent as custodian (better yet... grandparent, uncle, etc.) and child as beneficiary to maximize financial aid.
- 11) Certain 18-23 year old dependent children must pay taxes on a portion of their investment income at the higher estate and trust tax rates. To avoid this... consider tax-free 529 Plan investments or holding the investments in the name of a trusted adult in a lower tax bracket. Achieve transfers via the \$15k annual gifting rules.
- 12) Consider delaying year-end bonuses until January to delay income tax consequences for 12 months.
- 13) Deduct excessive medical expenses paid by 12/31 for yourself and your dependents... but sometimes also allowed for elderly family members, domestic partners, and children even if they are not claimed as your dependent on your tax return.
- 14) Sales tax deduction... if you itemize, consider deducting sales tax paid. You have the choice to deduct either state & local income taxes paid OR sales tax paid. Most working taxpayers will benefit from deducting state & local income taxes. However, the sales tax deduction may benefit retirees and/or taxpayers with multiple vehicle or boat purchases.
- 15) Consider contributing to a traditional IRA by April 15th. Call for qualifying details.
- 16) Consider funding a Roth IRA by April 15th which provides tax-free earnings. Call for details.
- 17) Consider converting funds from a traditional IRA and certain pensions to a Roth IRA by 12/31. The conversion is a taxable event. Future investment earnings will be tax-free if you follow the Roth IRA rules. Call for details.
- 18) Avoid or minimize penalties on early withdrawals from IRA's, pensions, and annuities. Call me before moving funds.
- 19) Take advantage of pre-tax reimbursement accounts (medical, dental, dependent care, education, etc.) at your place of employment. Amounts paid for each type of expenditure reduce your W-2 earnings.
- 20) Take advantage of employer sponsored retirement plans with pre-tax employee contributions and matching employer contributions. Employee and employer contributions are tax deferred.
- 21) Consider shifting income to a child in a lower tax bracket by gifting income-producing assets (including S corporation stock). A dependent child can earn up to \$1,100 of investment income tax-free for Federal tax purposes.
- 22) Investments including real estate:
 - a. Never make investment decisions based solely on tax savings.
 - b. Consider selling virtually worthless investments by 12/31. You deduct the loss the year you actually sell or the year that the investment becomes unsellable.
 - c. Hold investments more than 1 year to take advantage of the lower capital gains tax

- rates.
- d. Consider selling capital loss investments by 12/31 to offset other capital gains and to offset up to \$3,000 of ordinary income such as wages.
 - e. Consider delaying mutual fund purchases until January to avoid taxable year-end reinvested dividends.
 - f. Taxpayers in higher tax brackets should consider tax-free investments such as muni bonds.
 - g. Consider contributing appreciated stock held more than 1 year to a qualified charity by 12/31. You will pay zero tax on the capital gains and receive your full charity deduction. Applies to publicly held stock.
 - h. Consider 1031 exchanges for the sale of real estate rentals in order to defer capital gains.

Your Referrals Are Greatly Appreciated!

Thank you again this year for referring family, friends and co-workers. However, we have reduced the number of new client appointments available in an effort to give **more attention to our existing clients...** YOU!!! We are still accepting new personal & business clients, but most will need to contact us in the off-season (May-November) to come aboard as a client.

Business Tax-Saving Tips

- 1) Refer to my “50 Tax Breaks & Strategies for Your Small Business”. Call if you need a copy.
- 2) Purchase tax deductible equipment, computers, etc. on or before 12/31 by utilizing a bank loan, lease, or bank credit card. In most cases you can deduct the entire cost of the property even before your first monthly payment.
- 3) Mail your 4th quarter PA and Local estimated tax payments early (by 12/31) to deduct this tax year... if you itemize deductions.
- 4) Contribute to a business retirement plan as late as your tax return due date (including extensions). It is very easy to establish a variety of tax-deductible, tax-deferred retirement plans.
- 5) Business owners can contribute significantly more to a Roth IRA. Call for details.
- 6) Proprietorships & LLC’s... hire your children under age 18 by 12/31 to convert fully taxable business income into tax-free income. Call for more details and requirements.
- 7) Proprietorships & LLC’s... hire your spouse in order to deduct 100% of your family's significant medical expenses as a business deduction. Call for more details and requirements.
- 8) S Corporations – minimizing shareholder wages saves FICA tax. However, future social security benefits may be reduced since the shareholder pays less into the social security system. I recommend that you visit www.ssa.gov in order to approximate your monthly

social security benefit upon retirement. Generally, your tax savings are significantly greater than the related reduction in social security benefits. Our general policy is to minimize your social security tax due. Please notify me if you would rather use a different strategy and pay more social security tax in.

- 9) Cash basis clients - Pay and mail as many bills as possible by 12/31 to deduct in 2020.
- 10) Year-End Billing Practices Cash basis clients should consider delaying year-end billings so that payments will not be received until after 12/31. Accrual basis clients should consider delaying invoicing until after 12/31.

Year-End “To-Do” Reminders for Business & Rental Clients

- ❑ Record year-end odometer mileage on 2020 mileage logs. Record beginning odometer mileage on 2021 logs. Consider using mileage smart phone apps such as “Mile IQ”.
- ❑ Perform a year-end inventory count of unsold merchandise at 12/31 and record total cost.
- ❑ Quickbooks users: Enter dates carefully for 2021... use the correct year. The program continues to use the date of the last transaction you posted. Be cautious after inputting prior year entries.
- ❑ 1099 forms... please contact me in early January if 1099’s apply to you. Business owners are required to issue 1099’s for payments for services/rents to an individual or partnership/LLC exceeding \$600 for all of 2020. (NOTE: not needed for corporations other than medical & legal service corps). I suggest that you have your subcontractors complete their ID #'s, etc. on a W-9 form available at www.irs.gov. Retain W-9 forms, insurance certificates, as well as copies of business cards & print advertising to prove subcontractor is in business.
- ❑ Employers... New W-4's are only necessary for employees who wish to change their Federal withholding. Notify our office of employee address changes asap.
- ❑ Employers... verify the social security numbers of new 2020/2021 employees at www.ssa.gov/employer/ssnv.htm. You can no longer verify by phone. There are penalties if you use an invalid social security number on a W-2.
- ❑ Employers... PA minimum wage is unchanged at \$7.25/hr for 2021.
- ❑ Employers... the 2021 \$52 LST (formerly known as EMST and OPT) must be withheld at only \$1/week. The exception is Harrisburg City work locations... \$3 per week for \$156 grand total. If our firm prepares your payroll, we do this for you automatically.
- ❑ Call the PA sales tax hotline at 787-1064 to ask if there are 2021 sales tax changes for your industry.
- ❑ Sole proprietors should consider the tax advantages of converting to an S corp/LLC.

- ❑ Partnerships and multi-member LLC out-of-pocket expenses... Verify your partnership/LLC agreement includes a clause that lists the agreed-upon expenses that each partner/member will be paying out of their own pocket without reimbursement (mileage, home office, etc.). The last item on the list should be "any other expense mutually agreed upon by all partners/members". If you don't have this clause, then add an "Addendum page" and have all owners sign. You should hire an attorney to prepare this Addendum.
- ❑ Corps... submit expense reports to the corporation for reimbursement of your 2020 out-of-pocket expenses... this applies to health insurance too. You can use Petty Cash Logs from my web site. If possible, reimburse by 12/31.
- ❑ It is very important to pay business expenses out of the business bank account and pay personal expenses out of the personal account.

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