

# A Tenacious Trek Through Tantalizing and Timely Tax Topics



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- Interests: Taxes, retirement, investments





# CARES Act Refresher

- No RMDs for 2020\*
- Relaxed rules on distributions and loans from retirement plans
- New charitable adjustment: \$300 in cash donated to charity
- Expanded qualified expenses for FSA, HSA, and HRA



# No RMDs for 2020\*

No RMDs for 2020, including inherited accounts\*

\*Exception did not apply to Money Purchase Plans or Cash Balance Pension plans

What about 2021? No news...yet.



# Relaxed rules on retirement withdrawals

- Distribution prorated over three years
- Can also repay within three years
  - Amend taxes to remove evidence of withdrawal
- Only applied to 2020 distributions



# \$300 Charitable adjustment

10 Adjustments to income:

a From Schedule 1, line 22 . . . . .

10a

b Charitable contributions if you take the standard deduction. See instructions

10b

- \$300 in cash to a qualified charity
  - Not a Donor Advised Fund
  - Must be cash
  - For AGI calculation
  - Dollar limit for all return types...in 2020\*



# FSA, HSA, and HRA

- Qualified Medical Expenses Expanded
  - FSA, HSA, some HRAs
  - Over the counter drugs are reimbursable
  - Menstrual products are reimbursable
    - tampons, pads, liners, cups, sponges, or similar products used by individuals with respect to menstruation



# Economic Impact Payments

- \$2,400 for MFJ
- \$1,200 for every other filing status
- \$500 per qualifying child
  - Child Tax Credit rules (<17 years old)\*



# Economic Impact Payments

- Who was eligible for \$1,200?
  - Everyone!
    - Including
      - Homeless
      - Incarcerated
    - Except
      - Dependents
      - Nonresident aliens
      - High income filers



# Economic Impact Payments

- Based on 2019 taxes
  - Based on 2018 taxes
    - Based off of Social Security/SSI
      - Based off of Veterans Benefits



# Economic Impact Payments

- No clawback provisions
  - Except death before 2020
- Reconciled on 2020 tax return
  - Recovery Rebate Credit
    - Why can't the names be similar?

30 Recovery rebate credit. See instructions

- Scenario
  - Non Custodial parent and custodial parent



# Economic Impact Payments

- Scenario
  - Non Custodial parent and custodial parent
  - Non Custodial claimed child in 2019
    - Received an Economic Impact Payment based on child
  - Custodial parent is claiming child for 2020
    - Will receive the Recovery Rebate Credit based on same child
    - Non Custodial parent doesn't need to repay anything
    -



# Recovery Rebate Credit

- No clawbacks\*
- 2020 1040 software will ask for amounts
- Notice 1444

THE WHITE HOUSE

WASHINGTON

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ANDREW & VALERIE ZUMWALT

**NOTICE DATE: May 22, 2020**

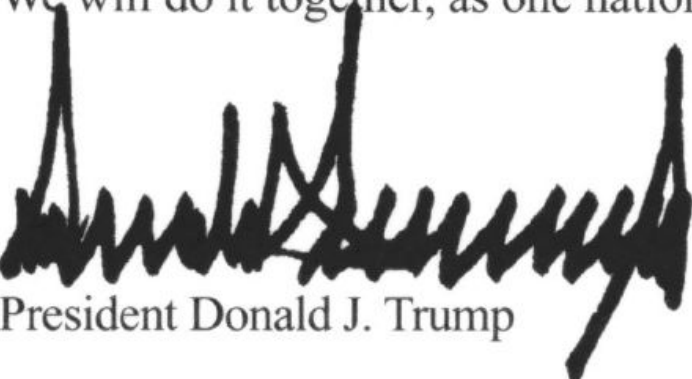
**NOTICE NUMBER: 1444 (EN-SP)**



I am pleased to notify you that as provided by the CARES Act, you are receiving an Economic Impact Payment of \$ 3,400.00 by check/debit card. We hope this payment provides meaningful support to you during this period.

Every citizen should take tremendous pride in the selflessness, courage and compassion of our people. America's drive, determination, innovation and sheer willpower have conquered every previous challenge---and they will conquer this one too. Just as we have before, America will triumph yet again---and rise to new heights of greatness.

We will do it together, as one nation, stronger than ever before.



President Donald J. Trump

**It never said to keep the letter!**

For more information on your Economic Impact Payment, please visit [IRS.gov/coronavirus](https://www.irs.gov/coronavirus) or call 800-919-9835.



# Recovery Rebate Credit

- Child born in 2020
- Income higher in 2019 vs 2020 (below phaseout)
- New dependent that qualifies for Child Tax Credit

All of these scenarios will result in higher Recovery Rebate Credit



# Economic Impact Payments

## ROUND 2!

- \$600 per primary and spouse
- \$600 per child (Child Tax Credit Rules)

Received in 2021...Reconciled on 2021 return?



# Economic Impact Payments

- Received in 2021...Reconciled on 2020 return!
  - Not logical...but taxes so:  $\overline{\_ (\ツ) \_}$
- Second round payments stopped on 1/15/2021
  - Get the correct (reconciled) amount on tax return



# Payment #2 Status - Not Available

We are unable to provide the status of your payment right now because:

- We don't have enough information yet (we're working on this), or
- You're not eligible for a payment.

For more information about why you're receiving this message, see our [Frequently Asked Questions](#).

You can check the application again to see whether there has been an update to your information. Go back once per day, so there's no need to check back more often.



# Recovery Rebate Credit

- Need to know First Round and Second Round
  - Second Round on a 1444-B Notice
  - Anyone noticed a slowdown in mail?
- No lookup tool
  - Remember Making Work Pay Credit
  - Can use the IRS Account Transcript tool
    - (└ ⊙ ⊙)└ ≡ └ └ └



# Other tax changes

- Carryforward of FSA balances
  - From 2020 to 2021...from 2021 to 2022
  - Employers must opt in
- Earned income to calculate Earned Income Tax Credit and Additional Child Tax Credit
  - Can use 2019 if 2020 is less than 2019

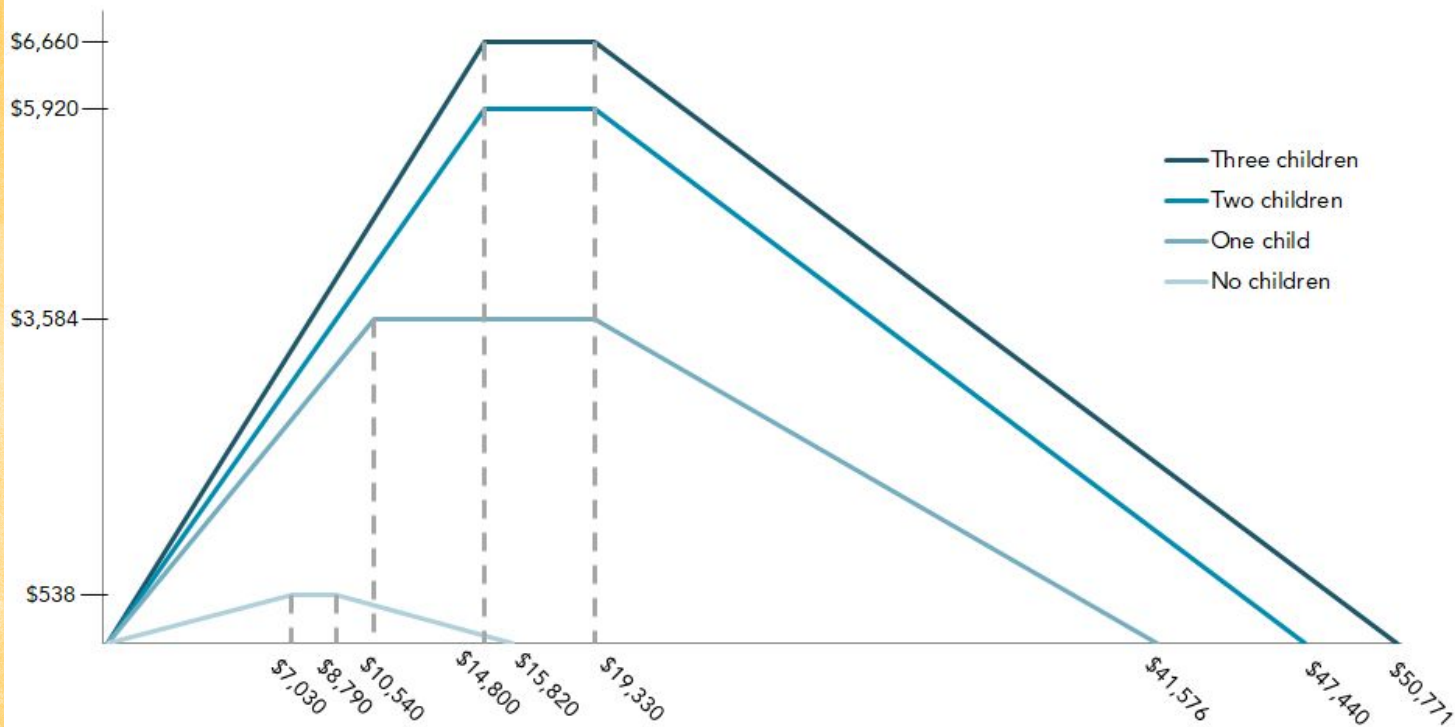


FIGURE 1

# Earned Income Tax Credit 2020



Credit amount



Source: Urban-Brookings Tax Policy Center (2020). Internal Revenue Procedure 2019-44, Internal Revenue Service.

Notes: Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income \$5,890 higher than shown.



# 2019 vs 2020 income

- Single parent with three children:
  - 2020 income was \$5,000
  - 2019 income was \$15,000
- Computations!
  - 2020 income: EITC: \$2,261, ACTC: \$375
  - 2019 income: EITC: \$6,660, ACTC: \$1,875
- Unemployment income\*
- No requirement, just run calculation



# Other tax changes

- Itemizing Medical Expenses
  - Permanent 7.5% AGI Hurdle
- Tuition and Fees deduction eliminated for 2021+
  - Increased phaseout for Lifetime Learning Credit
- Non itemizing charitable contribution
  - \$600 for MFJ, \$300 for everyone else
  - from AGI, but not itemizing (QBID)
- Tuition assistance from employer to pay student loans extended







# President Biden Tax Plan

- \$1,400 additional in stimulus payments
  - Include more dependents?
- Child Tax Credit Fully Refundable
  - Vs 15% of earned income over \$2,500
  - Increase CTC to \$3,600 for child <6, \$3,000 <18\*
- Reform EITC for childless workers
  - Higher credit, include more workers





# President Biden Tax Plan

- Child and Dependent Care Credit
  - \$4,000 for one child, \$8,000 for two children
  - 50% tax credit for families <\$125,000, phased out up to \$400,000
- Temporary\*
- May not be quick to pass





# Secure Act 2.0

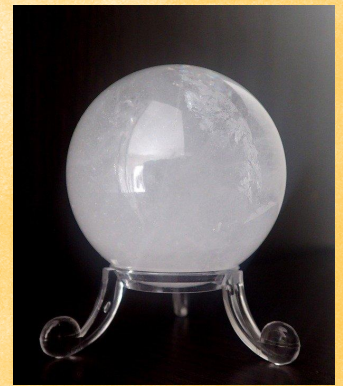
Negotiations

Automatically enroll new participants in DC plans

Auto escalation of contribution percentages

Small business tax credits to encourage matching contributions

RMD age increase to 75





# Secure Act 2.0



- Negotiations
  - May be easier to pass retirement legislation vs other laws
- Automatically enroll new participants in DC plans
- Auto escalation of contribution percentages
- Small business tax credits to encourage matching contributions
- RMD age increase to 75



# Secure Act 2.0



- No RMD for balances of \$100,000 or less
- Increase catch-up provisions
  
- Far from a final bill, but possible...



# Questions