

2020 TAX PLANNER

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**Cook Martin Poulson P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

# Cook Martin Poulson Tax Planning Worksheet 2020

Summary	2020	2021
Medicare Tax on Net Investment Income Married over \$250,000 AGI	3.8%	3.8%
Addtl Medicare Tax on Wages and Self-Employment Income over \$250K	0.9%	0.9%
Social Security Payroll Tax	6.2%	6.2%
Self-Employment Tax	15.3%	15.3%
Bonus Depreciation for New or Used Business Equipment	100%	100%
IRC Section 179 Expensing Limit	1,040,000	1,050,000 ♦
Estate Tax Rates	40%	40%
Unified Credit (Estate & Gift Exemption)	11,580,000	11,700,000 ♦
Annual Gifting Exclusion	15,000	15,000 ♦

## Wages

- ☐ Contribute to employer sponsored retirement plans
- ☐ Employer sponsored Health Savings Accounts \$7,100 Family \$3,550 Individual catch-up 55 or over \$1,000 ♦
- ☐ Utilize Flex-Spending Accounts \$2,500 limit
- ☐ Have employers reimburse expenses rather than pay wages
- ☐ Pay appropriate/ reasonable officer wages in S-Corps
- ☐ Include officer health insurance on W-2
- ☐ Accelerate or defer year end bonuses

## Interest and Dividends

- ☐ Municipal bond interest not taxed at federal level (Utah and participating states not taxed at state level)
- ☐ Qualified dividends taxed at long-term capital gain rates
- ☐ Subject to new 3.8% Medicare Tax if over AGI \$250,000 MFJ \$200,000 Single

## Capital Gain

- ☐ Installment sales
- ☐ Like-Kind Exchanges (IRC Sec 1031)(Real Property Assets or any other Real Property qualifies, homes don't qualify, must be property held in trade or business or investment property)
- ☐ Use combination of installment sales and Like-Kind Exchange
- ☐ Subject to new 3.8% Medicare Tax if AGI over \$250,000 MFJ
- ☐ Capital losses limited to offset capital gains or \$3,000 allowed against other income categories
- ☐ Harvest capital losses from other investment to offset gains
- ☐ Non-Business Bad Debts are a capital loss (must document debt and collection efforts)
- ☐ Consider small business investment losses for corporations under IRC Sec 1244 (ordinary loss)

## Retirement Distributions

- ☐ Roth Conversions to offset NOLs or maximize tax brackets. This may also be done to reduce future Required Minimum Distributions (RMD's), or to reduce a taxable estate.
- ☐ Consider donating Required Minimum Distributions to charity to avoid including in AGI and causing Social Security to be taxed (this is available only to individuals age 70½ or older)
- ☐ No RMDs necessary for 2020
- ☐ RMDs start at age 72 for those who didn't turn 70½ prior to 2020
- ☐ 10-year rule on inherited retirement accounts
- ☐ In-Plan 401(k) Roth rollover (plan must allow in plan document, will pay ordinary income tax but no penalty)
- ☐ Consider 401(k) loans in lieu of taxable distributions
- ☐ Consider exceptions to the 10% early withdrawal penalty
- ☐ COVID-related provisions on loans, withdrawals from 401(k) plans

## Business Income

- ☐ Proper basis of accounting and inventory being used
- ☐ Accelerate/delay income or prepay/defer expenses depending on tax situation
- ☐ Qualified Business Income Deduction 199A. See QBI worksheet for additional information.
- ☐ IRC Section 179 deduction \$1,040,000 for 2020 purchase threshold of \$2,590,000 limited to income, cannot create a loss
- ☐ 100% Bonus depreciation on original or used assets (no limit and can create a loss)
- ☐ Automobile depreciation limits luxury auto limits on Trucks and Vans Gross Vehicle Weight 6,000 lbs or less. Heavy duty or specialized trucks over 6,000 lbs GVW have no limits
- ☐ Health Insurance and Health Reimbursement Plans (Sole Props pay spouse and deduct on Sch C)

## Retirement plans

- ☐ Simple IRAs \$13,500 plus \$3,000 catch-up if age 50 or over ♦
- ☐ Safe-harbor 401(k) \$19,500 plus \$5,500 catch-up if age 50 or over ♦
- ☐ Total contribution limit \$58,000 plus \$6,500 catch-up if age 50 or over ♦
- ☐ Defined Benefit contribution limit \$230,000 ♦
- ☐ Traditional vs. Roth IRA contributions \$6,000 plus \$1,000 catch-up for 50 and over ♦

## Ordinary and Necessary Business Expenses

- ☐ Automobile actual vs. mileage \$0.575 (keep mileage logs) ♦
- ☐ Promotional expenses paid to non-profits claimed as advertising rather than contributions
- ☐ Paying children through business for work performed
- ☐ Cell phone, home internet, office expenses (if used for business)
- ☐ Home office deduction of \$5 per sq. ft., up to 300 sq. ft (\$up to \$1,500)
- ☐ Travel expenses (document properly, entertainment not deductible)
- ☐ Per Diem Meals High Cost \$76 Low Cost \$55 ♦
- ☐ Self-Employed cannot use Lodging Per Diem but can use Meal Per Diem
- ☐ Accountable reimbursement plans
- ☐ Pay rent to LLC to avoid SE tax (be careful not to overpay and create Net Investment Income subject to 3.8%)
- ☐ Accurate accounting system in order to capture all deductions (On-Line Quickbooks is a great option)

#### **Hobby loss rules**

- ☐ Profit motive, increase in investment value, advice of professionals
- ☐ Consider S-Corporation or LLC business structure to save SE tax

#### **Oil and Gas Investments**

- ☐ Deduct up to 95% of investment made (look at amortization for AMT)
- ☐ Will offset all buckets of income
- ☐ Passive income after initial year
- ☐ Percentage depletion deduction

#### **Business Tax Credits**

- ☐ Research and development credits
- ☐ New markets tax credit (investments in community development entities)
- ☐ New small employer pension plan setup credit (50% of costs up to \$500)
- ☐ Small Employer Health Insurance Credit (Must be enrolled in State SHOP exchange)
- ☐ Disable Access Credit (50% credit up to \$5,000)
- ☐ Employer-Paid FICA on Tips (for amounts paid on tips above \$5.15 per hour)

#### **Rents and Royalties**

- ☐ Passive loss rules do not allow passive losses to offset ordinary income
- ☐ Active Participation in Real Estate allows a \$25,000 loss against ordinary income phased out \$125,000 to \$150,000
- ☐ Cost Segregation Studies used to accelerate depreciation from 39 year class lives to 5, 7, & 15 year class lives
- ☐ Energy efficient improvements for insulation, mechanical, and lighting (IRC 179D studies)
- ☐ At-Risk, Basis Rules
- ☐ Cannot claim IRC Section 179 deduction but can claim bonus depreciation
- ☐ Repairs versus Capital Improvements

#### **Personal Itemized Deductions**

- ☐ Consider lumping itemized deduction into one year if close to the standard deduction each year

#### **Medical Expenses**

- ☐ Health Insurance (If does not qualify for Self-Employment)
- ☐ Consider paying with credit cards to lump installment payment plans in current year
- ☐ Medical travel and lodging
- ☐ Auto rate \$0.17 per mile ♦
- ☐ Phase-out is 7.5% of AGI for 2020
- ☐ Consider setting up a IRC Section 105 plan if Self-Employed, or a QSEHRA plan

#### **Taxes**

- ☐ Consider using sales tax if purchased large ticket items (vehicles, home improvements)
- ☐ Prepay state income tax before December 31 (Beware of AMT & SALT tax limits)
- ☐ Property taxes on investment property

#### **Interest**

- ☐ Mortgage Interest deduction limited to mortgage indebtedness under \$750,000
- ☐ Consider interest tracing for mortgage proceeds used to invest
- ☐ Home Equity Mortgage Interest deduction limited to mortgages under \$250,000
- ☐ Investment Interest deductions limited to investment income
- ☐ Consider harvesting capital gains to utilize investment interest expense
- ☐ Investment Interest on flow-through entities deductible on Schedule E

#### **Charitable Contributions**

- ☐ Contribute appreciated capital gain assets and receive FMV deduction (limited to 30% of AGI)
- ☐ Contribute RMD directly to charity and avoid including RMD in AGI on income tax return (QCD - Qualified Charitable Distr)
- ☐ Contribute to a Donor Advised Fund and get the deduction now designate charity and amounts later
- ☐ Pre-pay for missions
- ☐ Cash charitable contributions limited to 100% of AGI
- ☐ Donations over \$5,000 required to have an appraisal if other than cash or stocks
- ☐ Auto Rate 14 Cents per mile

#### **Casualty Loss**

- ☐ Fraud deductions offset ordinary income and can create a NOL
- ☐ Damaged personal property has a 10% AGI phase out (and \$100 threshold per occurrence)

#### **Investment Expenses**

- ☐ Legal fees to protect or defend property or investment claims
- ☐ Investment management fees
- ☐ Estate tax planning
- ☐ Losses from annuities and Roth IRAs if the entire account is closed out
- ☐ Tax preparation fees

#### **Unreimbursed Employee expenses** (Suspended after 2017)

- ☐ Auto Rate \$0.575 per mile ♦
- ☐ Travel
- ☐ Phone
- ☐ Home Internet
- ☐ Office in the home (New home office rules)

#### **Personal Tax Credits**

- ☐ 10% Energy efficient tax credits for biomass stoves, HVAC, insulation, roofs, water heaters windows & doors
- ☐ 26% Energy efficient tax credits for geothermal heat pumps, small wind mills (residential) and solar systems
- ☐ Adoption tax credits
- ☐ Earned income credits
- ☐ Dependent Care credit
- ☐ Child Tax Credits
- ☐ Education Credits

#### **Alternative Minimum Tax**

- ☐ Income and expense timing to minimize AMT
- ☐ State Income tax timing
- ☐ Consider accelerating deductions or income to average rates between years

#### **Estate Planning Issues**

- ☐ Annual gift exclusion \$15,000 per person for 2020 ♦
- ☐ Estate exclusion \$11,580,000 for 2020 ♦
- ☐ Unused Estate exclusion is portable to surviving spouse if an estate tax return, form 706, is filed (DSUE)
- ☐ Estate tax rate is 40% for 2014 and later years
- ☐ 529 Plan contribution for children and grandkids
- ☐ Irrevocable life insurance trust
- ☐ Updating wills, trusts, personal representatives, medical directives, durable power of attorneys
- ☐ Consider defective grantor trusts to freeze appreciating assets
- ☐ Is the trust (LLC) properly funded (titled)
- ☐ Crummey letters issued for gifts to trusts
- ☐ Consider family limited partnerships or LLCs for gifting
- ☐ Certified business appraisals required for estate returns or gifting
- ☐ Consider naming IRA or retirement plan individual beneficiaries instead of trust or estate

#### **General Issues**

- ☐ Buy/Sell agreements current or updated for valuation changes
- ☐ Corporate documents current and up-to-date
- ☐ Lease documents current
- ☐ Employment contracts current
- ☐ Plan for business succession or transactions (basis step up issues on retirements or buyouts)
- ☐ Retirement planning

♦ Indicates that these amounts are indexed for inflation.

## Federal Individual Income Tax Rates

2020 MFJ Tax Rates			
If Taxable Income is:		Ordinary	Capital Gains
-	19,750	10.0%	0%
19,751	80,250	12.0%	15%
80,251	171,050	22.0%	15%
171,051	326,600	24.0%	15%
326,601	414,700	32.0%	15%
414,701	622,050	35.0%	15% up to \$496,600 20% over \$496,600
622,051	Over	37.0%	20%
Remember .9% or 3.8% Tax over \$250k			

2021 MFJ Tax Rates			
If Taxable Income is:		Ordinary	Capital Gains
-	19,900	10.0%	0%
19,901	81,050	12.0%	15%
81,051	172,750	22.0%	15%
172,751	329,850	24.0%	15%
329,851	418,850	32.0%	15%
418,851	628,300	35.0%	15% up to \$501,600 20% over \$501,600
628,301	Over	37.0%	20%
Remember .9% or 3.8% Tax over \$250k			

2020 Single Tax Rates			
If Taxable Income is:		Ordinary	Capital Gains
-	9,875	10.0%	0%
9,876	40,125	12.0%	15%
40,126	85,525	22.0%	15%
85,526	163,300	24.0%	15%
163,301	207,350	32.0%	15%
207,351	518,400	35.0%	15% up to \$441,450 20% over \$441,450
518,401	Over	37.0%	20%
Remember .9% or 3.8% Tax over \$200k			

2021 Single Tax Rates			
If Taxable Income is:		Ordinary	Capital Gains
-	9,950	10.0%	0%
9,951	40,525	12.0%	15%
40,526	86,375	22.0%	15%
86,376	164,925	24.0%	15%
164,926	209,425	32.0%	15%
209,426	523,600	35.0%	15% up to \$445,850 20% over \$445,850
523,601	Over	37.0%	20%
Remember .9% or 3.8% Tax over \$200k			

# Qualified Business Income (QBI) for 2020

## Includes:

- Ordinary Business Income
  - Schedule C
  - Schedule F
  - 1065
  - 1120S
- Rental Income
  - Schedule E
- Income can be Passive or Active

## Excludes

- Interest Income
- Dividend Income
- §1231 Gains (sale of property used in a trade or business)
- Income from specified services (unless under the threshold amounts)
- Only domestic trades or businesses qualify

## Phaseout Thresholds (taxable income):

	MFJ	Single
Phaseout Begins	\$ 326,600	\$ 163,300
Phaseout Ends	\$ 426,600	\$ 213,300

## Deduction Limitations (only applicable if the income is over the Phaseout Thresholds above)

Limited to the Lesser of:

- 20% of Net QBI (on a per-company basis), or
- Taxable income

Limited to the Greater of:

- 50% of allocable W-2 wages
- 25% of allocable wages, plus 2.5% of the unadjusted basis of qualified property owned by the business ♦

♦ Qualified property is defined as:

- Depreciable property used in the trade or business.
- Only eligible if the asset was placed in service 10 or fewer years ago, or if the property is still within its depreciable class life.
- In the case of real estate, it does NOT include the cost of land.

## Other useful information:

- QBI does not reduce AGI or SE tax
- A QBI loss will be carried forward to offset potential positive QBI in a future year.

## New UT TAP (Rollout on 12/14/2020)

[Work with Someone Else](#)

**MIKE'S TRAINING**  
\*\*-\*\*\*1111  
210 N 1950 W  
SALT LAKE CITY UT 84134-9000

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**Withholding**  
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**Period: 30-Sep-2020**  
Withholding Return  
Due  
**02-Nov-2020**

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**Account**  
14925402-002-WTH  
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**\$0.00**

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 Taxpayer Access Point 

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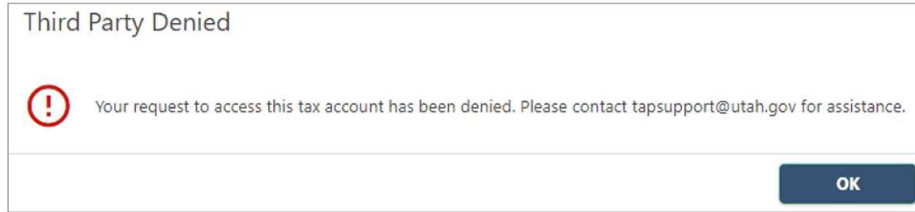
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 4 outstanding actions

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 3 outstanding actions

**SIGHTSEEING UNLIMITED**  
\*\*-\*\*\*2222  
210 N 1950 W SALT LAKE CITY UT 84134-9000  
 2 outstanding actions



I'm trying to add access to my clients account and I get an error...



This means your client has not set up their initial TAP account and must do so before you will be allowed to add access.

Steps to remove a client's account access

1. Remove Access
2. Delete Account from "Manage my Profile"

## 3<sup>rd</sup> Party Software Update

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- Certify electronic tax return and payment filing annually.
- In the past, returns and payment files were separate.
- New for 2020, returns and payments are combined into one file.
- More software providers should be able to use this format.
- Returns can be submitted without a payment.
- Payments can be submitted without a return.



# Tax Commission Resources

Contact Us	
Practitioner Hotline	801-297-7790 or 1-800-662-4335 ext. 7790
Customer Service – payment processing & liens	801-297-2200 or 1-800-662-4335
<b>Technical Research Unit</b> – all tax questions	801-297-7705 or 1-800-662-4335 ext. 7705
Taxpayer Advocate Service	801-297-7562 or 1-800-662-4335 ext. 7562
Email	taxmaster@utah.gov
Online Resources	
Tax Commission Website	tax.utah.gov
Forms and Publications	tax.utah.gov/forms
Online Services (TAP)	tap.utah.gov
Tax Practitioner Information	tax.utah.gov/taxpros
Individual Income Tax	incometax.utah.gov
Legislative Summaries	tax.utah.gov/legislation
Tax Training	tax.utah.gov/training
Twitter	Forms: UtahTaxWebsite All other Tweets: Utahtaxcomm



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