

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.