

# *SJS* Tax Update for 2020

## Individual Changes

## Business Changes

Following is a summary of some of the significant changes to the tax laws for the upcoming year. The Tax Cuts and Jobs Act of 2017 (**TCJA**) was signed into law on December 22, 2017. Most of the changes introduced by the act went into effect on January 1, 2018, and taxpayers saw the effects of the TCJA reflected in their 2018 tax filings. The Consolidated Appropriations Act, 2020 was signed into law on December 20, 2019 and takes effect January 1, 2020. This act incorporates the Setting Every Community Up for Retirement Enhancement Act of 2019, (**SECURE Act**) which makes major changes for 401(k) plans and IRAs. The bill includes significant provisions aimed at increasing access to tax-advantaged accounts and preventing older Americans from outliving their assets.

The information provided below are only highlights. This letter is not a substitute for professional advice regarding your individual tax situation. Please call us for more information about any of these issues and how they apply to you.

### **Individual Tax Changes**

#### *Annual inflation adjustments:*

The standard deduction will increase to \$24,800 for married individuals filing jointly or surviving spouses, \$18,650 for heads of households, and \$12,400 for unmarried individuals and married individuals filing separately. An additional standard deduction for taxpayers who are blind or age 65 or older is \$1,300 for married taxpayers, and \$1,650 for unmarried.

The exemption amounts for the alternative minimum tax will be \$113,400 for married taxpayers filing jointly or surviving spouses, \$72,900 for unmarried individuals, \$56,700 for married individuals filing separately, and \$25,400 for estates and trusts.

The qualified business income threshold under Section 199A will increase to \$326,600 for married individuals filing jointly, and \$163,300 for married individuals filing separately, single individuals, and heads of households.

The foreign earned income exclusion amount will increase to \$107,600.

The exclusion amount for estate tax will be \$11,580,000 for decedents dying in 2020; the annual gift tax exclusion amount remains at \$15,000 per donee.

The standard mileage rate for the use of a vehicle for medical purposes will be 17 cents and will be 14 cents for charitable purposes for 2020.

### *Extenders:*

The Consolidated Appropriations Act, 2020 provided for the extension of several expired tax provisions, including:

The exclusion of the discharge of qualified principal residence indebtedness from gross income.

The treatment of mortgage insurance premiums as qualified residence interest at certain income levels.

The 7.5% adjusted gross income floor for medical deductions (this would have increased to 10%).

The above-the-line deduction for qualified tuition and related expenses.

Previously expired energy credits are reinstated, including credits for nonbusiness energy property and qualified fuel cell vehicles.

### *SECURE Act:*

The SECURE Act is included in the Consolidated Appropriations Act and makes changes to retirement accounts.

### *IRA Changes:*

The start date for required minimum distributions is increased to 72 from 70 ½. This only applies to taxpayers who reach 70 ½ after 2019.

The maximum age for IRA contributions is repealed; it was formerly 70 ½.

The distribution period for non-spouse inherited IRAs, with a few exceptions, is shortened to a 10-year maximum.

### *401(k) Changes:*

Plans are required to offer participation to certain part-time employees; generally, those working at least 500 hours for three consecutive years.

Distributions up to \$5,000 may be made penalty-free for qualified birth or adoption costs.

Auto-enrollment is encouraged by a tax credit for small employers to offset the costs of starting a 401(k) plan or SIMPLE IRA with auto enrollment.

The Act makes it easier for small employers to pool together in “multiple employer plans” and thus lower costs. These provisions do not take effect until 2021.

### *TCJA fixes:*

Under the TJCA, certain unearned income of children (the “kiddie tax”) was taxed at the rates applicable to trusts and estates. This caused the unintended consequent of increasing the tax on some children in low income families; for example, children who receive military death benefits. The SECURE Act repeals the TCJA change and is effective for 2020 and beyond. With the repeal, the tax rate for the unearned income of children reverts to the tax rate of their parents. There is an option to apply the rules to 2019 tax returns and amend 2018 returns.

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### **Business Tax Changes**

#### *Annual inflation adjustments:*

The section 179 depreciation limitation will be \$1,040,000 with a phaseout threshold for property placed in service of \$2,590,000.

The standard mileage rates for the business use of a vehicle is 57 ½ cents for 2020.

The dollar limitation for employee salary reductions for contributions to health flexible spending arrangements is \$2,750.

#### *Extenders:*

Certain energy credits that had previously expired were reinstated, including alternative fuel vehicle refueling property, and energy efficient commercial buildings.

#### *Health Care taxes:*

The Consolidated Appropriations Act, 2020 repealed three taxes that were enacted to fund the Affordable Care Act (Obamacare). The repealed taxes were the excise tax on certain high-cost employer health plans (popularly referred to as the Cadillac tax), the excise tax on medical devices, and the annual fee on health insurance providers.

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We hope we have provided you with useful information. Please be aware that many of these items are subject to complex rules. Please call us for more information about how these changes affect your situation.

**Squyres, Johnson, Squyres & Co. L.L.P.**

