

WELCOME

Tax Tips

A Webinar Hosted By

St. Francis of Assisi Church

November 12, 2020

# AGENDA

- ▶ Welcome Capital Campaign Chair  
Bill DeMucci
- ▶ Opening Prayer
- ▶ Event Outline
- ▶ Presenters
- ▶ Q&A
- ▶ Close

# Opening Prayer

**Lord, make me an instrument of  
your peace:**

**where there is hatred, let me sow  
love;**

**where there is injury, pardon;**

**where there is doubt, faith;**

**where there is despair, hope;**

**where there is darkness, light;**

**where there is sadness, joy.**

**O divine Master, grant that I may not  
so much seek**

**to be consoled as to console,  
to be understood as to understand,  
to be loved as to love.**

**For it is in giving that we receive,  
it is in pardoning that we are  
pardoned,  
and it is in dying that we are born to  
eternal life.**

**Amen.**



## **Godecke Clark – serving the Coachella Valley since 1977**

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- six experienced CPAs on staff to provide comprehensive accounting services from bookkeeping, payroll, tax planning and tax preparation to business management consulting, wealth management consulting and assistance with Trust and Estate administration

### **Dennis Godecke, CPA**

- over 30 years of experience in all areas of accounting and tax preparation
- graduated from Valparaiso University in 1972, CPA certified in California and Oregon
- former chairman of the Living Desert Board of Trustees and of the Building Committee of the Family YMCA
- enjoys spending time with his two granddaughters

### **Vera Mederos, CPA**

- over 14 years of experience, analytically minded and excels in research of complex tax issues and new tax laws
- graduated from Masaryk University, Czech Republic, in 2003, CPA certified in California
- member of American Institute of CPAs, California Society of CPAs and California Women for Agriculture



# 2020 Tax Tips Webinar

Godecke Clark

Palm Desert, CA

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# How to benefit from all the Covid-19 incentives

The most talked about 2020 topic right after the PPP loans

Recovery rebates of \$1,200 will be claimed on 2020 tax returns as a tax credit if not already received based on 2019 or 2018 tax return.

- ▶ Credit phase-out range:
  - ▶ Joint filers between adjusted gross income of 150k and 198k.
  - ▶ Single filers between adjusted gross income of 75k and 99k.
  - ▶ Head of household between adjusted gross income of 112.5k and 136.5k.
- ▶ Tax planning opportunities to bring 2020 income down for those who did not qualify based on 2019 or 2018 income
- ▶ Recovery rebates are not taxable income

# How to reduce 2020 adjusted gross income

- ▶ There are no minimum required distributions (RMD) from IRA accounts for 2020.
  - ▶ Normally the IRA owners are required to take distributions once they turn 72. Before 2020 the age used to be 70 ½.
  - ▶ In the year you turn 72 you can postpone the RMDs till before April 1 of the following the year.
  - ▶ All the subsequent years the RMDs must be taken by December 31 otherwise 50% penalty applies.
  - ▶ For 2020 distributions can be returned back to IRA within 60 days.
- ▶ Charitable donations up to 100k paid directly from IRA are excluded from gross income.
  - ▶ Distribution will reduce market value of the IRA account as of 12/31/20 which will reduce RMD for subsequent years.

# How to reduce 2020 adjusted gross income

- ▶ Maximize retirement contributions to pension plans.
  - ▶ \$6,000 IRA contributions plus additional \$1,000 if over 50
    - ▶ Starting in 2020 individuals older than 70 ½ can make IRA contributions as long as they earn compensation.
    - ▶ Deduction might be limited if either spouse is participating in employer pension plan
  - ▶ \$19,500 for 401k contributions plus additional \$6,500 for individuals over the age of 50
  - ▶ \$13,500 for SIMPLE plans contributions plus additional \$3,000
  - ▶ SEP plans - lower of 25% of self-employed income or \$57,000
- ▶ Maximize bonus depreciation.
  - ▶ Business owners and lessors take advantage of 100% bonus depreciation on acquisition of property, equipment and interior improvements on nonresidential real estate.



# How to reduce 2020 adjusted gross income when facing capital gains

- ▶ Postpone sale of appreciated assets to 2021 but might face higher tax rates next year.
- ▶ Lower substantial realized capital gains by selling stock with capital losses to offset the gains.
- ▶ Like kind exchanges of real property held for business use or investment
  - ▶ The gain is deferred till the new acquired property is sold unless cash boot is received or outstanding loans paid down through the exchange.
  - ▶ The new replacement property must be identified within 45 days and received within 180 days from the sale.
- ▶ Installment sale to defer the gain - when seller carries a note receivable from a buyer the seller has an option to each year recognize only profit percentage of the loan principal collected and interest income received.

# How to reduce 2020 adjusted gross income

- ▶ Gain deferral for investment in Opportunity Zones.
- ▶ Capital gain that is reinvested to Qualified Opportunity Zone Fund (QOF) within 180 day of the sale is deferred until the earlier of date of sale of QOF investment or 12/31/26.
  - ▶ If investment is held for 5 years only 90% of the deferred gain is recognized
  - ▶ If investment is held for 7 years only 85% of the deferred gain is recognized
  - ▶ If investment is held for at least 10 years any appreciation of the QOF investment is not taxable. The sale or exchange must occur before 2048.
    - ▶ However, the original deferred gain will be recognized on 12/31/26.
  - ▶ Qualified Opportunity Fund is a corporation or partnership that holds at least 90% of its assets in qualified opportunity zone.
  - ▶ <https://opportunityzones.hud.gov/resources/map>

# Tax refunds opportunities

- ▶ Net operating losses generated in 2018, 2019 and 2020 have 5 year carryback period. For example 2018 losses will reduce taxable income in years 2013-2017 and generate tax refunds.
- ▶ Net operating losses are generated by business losses of sole proprietors, certain pass-through K-1 investments, losses on sale of business property, certain losses from rental properties with active participation.
- ▶ Net operating loss need to exceed the current taxable income adjusted for nonbusiness income and deductions to qualify for the 5-year carryback.
- ▶ Elect out of carryback for 2018 and/or 2019 loss on 2020 tax return.

# Opportunities for amending 2018 tax returns to reduce taxable income

Several tax provision enacted retroactively for 2018:

- ▶ Limitation of excess business losses on personal tax returns was removed till 2021.
- ▶ Interior improvements to nonresidential rental properties (except for elevators, escalators, internal structural framework, enlargement) qualifies for 100% bonus depreciation.
- ▶ Corrected recalculated depreciation can be also claimed on 2019 or 2020 tax return instead by filing form 3115 Change of Accounting Method.
- ▶ Depreciation corrections for depreciation not taken in multiple prior years.

# Other provisions of the CARES Act

- ▶ 2020 Coronavirus-related pension distributions up to 100k:
  - ▶ not subject to 10% early withdrawal penalty,
  - ▶ can be included in income over 3 years, or
  - ▶ can be nontaxable if recontributed back within 3 years
  - ▶ Coronavirus-related includes being quarantined, laid off, reduced hours, unable work due to lack of child care
- ▶ Sick leave and family leave tax credits for self-employed due to COVID-19.
  - ▶ Sick leave credit - 100% of average self-employment income up to \$511/day up to 10 days if quarantined, self-quarantined, or experienced symptoms and were seeking medical diagnosis.
  - ▶ Family leave credit - 67% of average self-employment income up to \$200/day up to 50 days
  - ▶ Self-employed claim on their 2020 income tax return.

# Deductions

- ▶ Standard deduction \$24,800 for joint and \$12,400 for single filers.
- ▶ Taxpayers who don't itemize can deduct up to \$300 for cash charitable contributions.
- ▶ 20% deduction on qualified business income from sole proprietors, partnerships, S-corporations, rental properties if conditions met:
  - ▶ Rental property to qualify must maintain separate books and records for each rental, must spend at least 250 hours performing rental services, must maintain time reports of activities performed and time spent.

# Deductions

- ▶ Itemized deductions:
  - ▶ No AGI limitation on cash charitable contributions in 2020. 30% limitation still applies to donations of appreciated property.
  - ▶ Mortgage interest on 750k loans for first or second homes, or on 1 mil. loans if originated prior 12/15/17.
  - ▶ Investment interest - deduction limited to investment income.
  - ▶ Income taxes, property taxes and DMV fees still limited to 10,000.
  - ▶ Medical expenses in excess of 7.5% of AGI.

# Tax credits

- ▶ Child tax credits
  - ▶ Expanded to \$2,000 for each child under the age of 17
  - ▶ \$500 tax credit for a qualifying relative or a child over the age of 17
    - ▶ Qualified relative is defined as either a person related to taxpayer, or unrelated person who lives in the same household for the entire year. Designed to claim friends, distant relatives, domestic partners.
    - ▶ Qualified relative gross income must be less than \$4,300.
- ▶ Taxpayer must provide at least 1/2 of qualifying relative's support Dependent care tax credit - for children under the age of 13
  - ▶ between 20% and 35% of daycare expenses subject to phase out
  - ▶ Maximum credit \$3,000 per on child, or \$6,000 total for multiple children
- ▶ Energy efficient property credit - up to \$500 over the life of taxpayer
  - ▶ Furnaces, certain fans, A/C units, water heaters, heat pumps, energy-efficient windows, insulation, exterior doors
- ▶ Solar tax credits - reduced from 30% to 26% of total cost. Scheduled to decrease to 22% in 2021.



# Tax planning strategies

- ▶ Maximize itemized deductions every other year.
- ▶ Fully utilize your deductions by taking IRA distributions or recognizing capital gains.
- ▶ Take advantage of 0%, 15% and 20% tax rates on long term capital gains and qualified dividends:
  - ▶ 0% tax rate on income up to 40k for single/ 80k for joint filers
  - ▶ 15% tax rate on income up to 441,450 for single / 496,600 for joint filers

# Biden's Proposed Tax Policies

- ▶ Proposed increasing the tax rate for the top tax bracket from 37% to 39.6%.
- ▶ Proposed increasing the top rate on long term capital gains from 23.8% to 43.4% for taxpayers earning more than 1 mil.
- ▶ Proposed eliminating step-up basis allowing decedents to pass capital gains to heirs without tax
- ▶ Proposed expanding earned income tax credit and dependent care credit of \$8,000 per child up to \$16,000.
- ▶ Proposed a new \$5,000 tax credit for caregivers of individuals with certain physical and cognitive needs.
- ▶ Proposed restoring phaseout on itemized deductions for taxable incomes above 400k.
- ▶ Proposed increasing corporate tax rate from 21% to 28% and minimum tax on corporations with book profits of 100 mil or more.
- ▶ Proposed phase out on qualified business income deduction for incomes above 400k.

Q&A

# Closing and Thank you

Capital Campaign update. Even during this worldwide pandemic the parishioners of St. Francis Church have continued their sacrificial giving and our Capital Campaign has now raised over \$8,000,000+ in cash and pledges.

THANK YOU!

For more information visit our website:

[www.stfrancislq.com](http://www.stfrancislq.com)