

2020 Year-End Tax Planning for Individuals and Businesses

Tax
Advisory
Group

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The 2020 tax year has certainly been unique with its challenges, legislative changes, and political strife. The pandemic has added an additional layer of complexity to our typical year-end tax planning. At HBK CPAs & Consultants, we want to ensure that our clients and colleagues are aware of the many changes that have occurred over the past year, and how these changes may impact their tax situation.

Some of the changes that this year-end planning letter will address center around the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Setting Every Community Up for Retirement Enhancement (SECURE) Act, and the interaction these acts may have with the changes from the Tax Cuts and Jobs Act (TCJA) of 2017. While many questions still exist, the IRS has issued key guidance on many tax provisions that have helped provide clarity.

States and local governments also have been busy this year passing legislation that either adopts federal changes, or imposes a change from the federal rules. Planning for these differences will be critical this year and for the foreseeable future. State nexus should also be analyzed given the remote work environment that has become prevalent in 2020.

Lastly, we are mindful that 2020 is an election year and that the results of the Presidential election and Congressional elections will likely have an impact on tax changes that may be coming in future years. As of the writing of this letter, Joe Biden and Kamala Harris have been named as the presumptive President-Elect and Vice-President Elect. We are providing information on Mr. Biden’s tax proposals in order to help our clients and colleagues anticipate and plan for the potential changes that could come under a Biden presidency.

We hope that the information in this letter is helpful, and we encourage you to reach out to your HBK tax advisor to discuss these planning opportunities prior to implementing any changes.

Biden/Harris Potential Tax Changes

With Joe Biden and Kamala Harris projected to win the Presidential and Vice Presidential election, there may be some significant tax changes coming in the future. What changes may come, and how quickly they are implemented, may depend on the election results of the Senate, which are still unknown. We encourage you to reach out to your HBK Tax advisor to discuss how these potential tax changes may affect your tax situation.

Estate Tax Changes

- **Estate and Gift Tax Exemption Reduction.** While there has been discussion over lowering the federal estate and gift tax exemption, which is currently \$11,580,000 for 2020, President-Elect Biden has not provided details on how low the exemption may be reduced. Some advisors believe that it could go down to \$3,500,000, which was proposed during the Obama presidency.
- **Elimination of Basis Step-Up.** Perhaps a more drastic change that President-Elect Biden has proposed is the elimination of a basis step-up to the fair market value as of the date of death. Eliminating this step-up could result in significant capital gains owed by a beneficiary when an asset is eventually sold.

Income Tax Changes

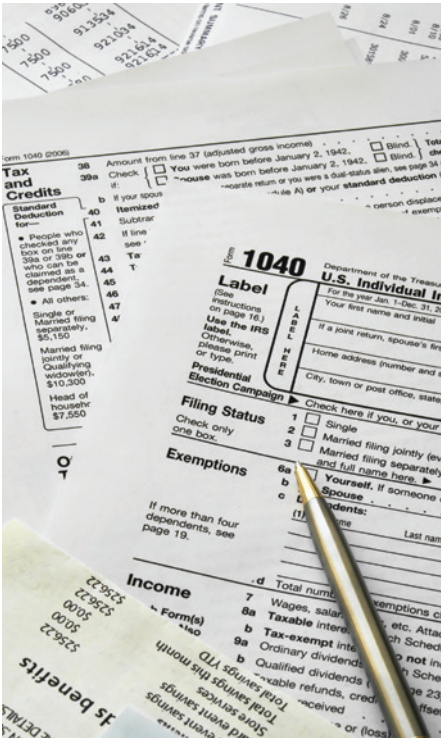
- **Removal of \$10,000 SALT Deduction Cap.** Since the limitation was put in place by the TCJA it has been widely criticized by states and taxpayers. President-Elect Biden has proposed eliminating the cap while reinstating the overall limitation on itemized deductions that existed prior to the enactment of TCJA.
- **Increase to Highest Income Tax Bracket.** President-Elect Biden has proposed increasing the current 37% high-income tax bracket to 39.6%, which was the high bracket under former President Obama.
- **Elimination of preferential rates on long-term capital gains and qualified dividends.** Currently, the tax rates on these income classes are 0%, 15%, and 20%. Removal of these preferential rates would result in these income items being taxed at income tax ordinary rates.

AT A GLANCE

KEY 2020 TAX FIGURES & FILING DEADLINES

STANDARD DEDUCTION >>	
Married Filing Jointly	\$24,800
Single	\$12,400
Head of Household	\$18,650
Married Filing Separately	\$12,400

ESTATE & GIFT TAX LIMITATIONS >>	
Annual Exclusion per Donee	\$15,000
Unified Exemption Amount	\$11,580,000



AT A GLANCE

KEY 2020 TAX FIGURES & FILING DEADLINES

IRA CONTRIBUTION »

(Traditional & Roth)

\$6,000 with additional \$1,000 catchup over age 50

HSA CONTRIBUTION »

(Employer & Employee)

Self Only	\$3,550
Family	\$7,100

DEADLINES FOR 2020 INDIVIDUAL & BUSINESS TAX FILINGS »

TAX TYPE	DUE DATE (for calendar year entities)
Partnerships (Form 1065) & S Corporations (Form 1120S)	March 15, 2021
Individuals (Form 1040), C Corporations (Form 1120), Foreign Bank and Financial Reporting Form (FBAR) FinCEN Report 114 and Trusts and Estates (Form 1041)	April 15, 2021
Tax-Exempt Nonprofit Organizations (Form 990)	May 17, 2021
Filing extensions for Partnerships & S Corporations	September 15, 2021
Filing extensions for Trusts & Estates	September 30, 2021
Filing extensions for Individuals, Foreign Financial Reporting & C Corporations	October 15, 2021
Filing extensions for Tax-Exempt Nonprofit Organizations	November 15, 2021

INDIVIDUALS

Many of the changes from the Tax Cuts and Jobs Act of 2017, such as the increased standard deduction, elimination of personal exemptions, and the cap, or removal of many deductions we once relied on, remain in effect for the 2020 tax year. The following provides an overview of these provisions.

Individual Tax Brackets for 2020 and 2021

For the 2020 tax year, each of the seven tax brackets have increased their income limits, although the rates remain the same. Below are the tax rates for both the 2020 and 2021 tax years.



2020 FEDERAL INDIVIDUAL INCOME TAX RATES

RATE	SINGLE	HEAD OF HOUSEHOLD	FILING JOINTLY/ SURVIVING SPOUSE	MARRIED, FILING SEPARATELY	ESTATE & TRUSTS
10%	\$0 to \$9,875	\$0 to \$14,100	\$0 to \$19,750	\$0 to \$9,875	\$0 to \$2,600
12%	\$9,876 to \$40,125	\$14,101 to \$53,700	\$19,751 to \$80,250	\$9,876 to \$40,125	—
22%	\$40,126 to \$85,525	\$53,701 to \$85,500	\$80,251 to \$171,050	\$40,126 to \$85,525	—
24%	\$85,526 to \$163,300	\$85,501 to \$163,300	\$171,051 to \$326,600	\$85,526 to \$163,300	\$2,601 to \$9,450
32%	\$163,301 to \$207,350	\$163,301 to \$207,350	\$326,601 to \$414,700	\$163,301 to \$207,350	—
35%	\$207,351 to \$518,400	\$207,351 to \$518,400	\$414,701 to \$622,050	\$207,351 to \$311,025	\$9,451 to \$12,950
37%	More than \$518,400	More than \$518,400	More than \$622,050	More than \$311,025	More than \$12,950

2021 FEDERAL INDIVIDUAL INCOME TAX RATES

RATE	SINGLE	HEAD OF HOUSEHOLD	FILING JOINTLY/ SURVIVING SPOUSE	MARRIED, FILING SEPARATELY	ESTATE & TRUSTS
10%	\$0 to \$9,950	\$0 to \$14,200	\$0 to \$19,900	\$0 to \$9,950	\$0 to \$2,650
12%	\$9,951 to \$40,525	\$14,201 to \$54,200	\$19,901 to \$81,050	\$9,951 to \$40,525	—
22%	\$40,526 to \$86,375	\$54,201 to \$86,350	\$81,051 to \$172,750	\$40,526 to \$86,375	—
24%	\$86,376 to \$164,925	\$86,351 to \$164,900	\$172,751 to \$329,850	\$86,376 to \$164,925	\$2,651 to \$9,550
32%	\$164,926 to \$209,425	\$164,901 to \$209,400	\$329,851 to \$418,850	\$164,925 to \$209,425	—
35%	\$209,426 to \$523,600	\$209,401 to \$523,600	\$418,851 to \$628,300	\$209,426 to \$314,150	\$9,551 to \$13,050
37%	More than \$523,600	More than \$523,600	More than \$628,300	More than \$314,150	More than \$13,050

Capital Gain and Qualified Dividend Tax Rates

The long-term capital gain and qualified dividend tax rates remain unchanged, however, the income limits for each bracket have changed. The brackets remain at zero percent, 15 percent, and 20 percent. As in previous years, short-term capital gains are taxed at regular ordinary income rates.



2020 CAPITAL GAINS TAX RATES

FILING STATUS	0%	15% min. income	20% min. income
Single	\$0 to \$40,000	\$40,001 to \$441,450	More than \$441,450
Married Filing Jointly	\$0 to \$80,000	\$80,001 to \$496,600	More than \$496,600
Head of Household	\$0 to \$53,600	\$53,601 to \$469,050	More than \$469,050

2021 CAPITAL GAINS TAX RATES

FILING STATUS	0%	15% min. income	20% min. income
Single	\$0 to \$40,400	\$40,401 to \$445,850	More than \$445,850
Married Filing Jointly	\$0 to \$80,800	\$80,801 to \$501,600	More than \$501,600
Head of Household	\$0 to \$54,100	\$54,101 to \$473,750	More than \$473,750

A time-tested planning technique to reduce both short-term and long-term capital gains by offsetting them with long-term and short-term losses remains a valuable opportunity that requires strategic tax planning.

Deductions

Due to the increased standard deduction, many taxpayers may no longer need to itemize their deductions. Knowing what deductions are still available will help a taxpayer analyze whether itemizing their deductions is beneficial. We are happy to help with this analysis.

Itemizing deductions may still make sense for taxpayers who have a home mortgage and high medical expenses, or if they donate significant amounts to charities and/or they are single taxpayers and have high property or state income taxes. The most common available itemized deductions typically relate to:

- Qualifying mortgage interest
- State and local taxes (subject to the \$10,000 limitation)
- Qualifying medical expenses

Charitable Contributions

The CARES Act made some changes to charitable deductions, adding a permanent above-the-line deduction of up to \$300 for cash contributions from taxpayers who do not itemize their deductions. Contributions must be made to a qualifying 501(c)(3) organization in order to qualify for the above-the-line deduction.



In addition, the CARES Act temporarily increased the AGI limitation to 100 percent for cash contributions to qualifying 501(c)(3) organizations, meaning that these contributions will be fully deductible.

LIFE CHANGES THAT IMPACT YEAR-END TAX PLANNING

- | | |
|---|-------------------------------|
| • Change in filing status: marriage, divorce, death or head of household status | • College or other tuition |
| • Birth of a child | • Changes to employment |
| • Child that has outgrown the “kiddie” tax | • Retirement |
| • Child who has outgrown the child credit | • Personal bankruptcy |
| • Casualty losses | • Inheritance |
| • Changes in medical expenses | • Business success or failure |
| • Moving/relocating | |

Child Tax Credit

The Child Tax Credit remains at \$2,000 for children under 17. It is also made available to high earners because the income threshold under which filers may claim the full credit has been raised to \$200,000 for single filers, or married filers filing separately and to \$400,000 for married couples. Since this is a tax credit and not a deduction, it can reduce your tax bill dollar for dollar. If this credit causes a taxpayer to receive a refund, only \$1,400 of the tax credit is refundable. This means that a low- or middle-income family will be able to get the money refunded up to \$1,400 if their federal income tax liability nets out at zero.

IRA Contributions

The traditional IRA contribution phase-out ranges for taxpayers has been updated for the upcoming 2021 calendar year. For single taxpayers covered by a workplace retirement plan, the phase-out range is \$66,000 to \$76,000 of taxable income, up from \$65,000 to \$75,000. For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is \$105,000 to \$125,000 of taxable income, up from \$104,000 to \$124,000.

The income phase-out range for taxpayers making contributions to a Roth IRA is \$125,000 to \$140,000 for singles and heads of household, up from \$124,000 to \$139,000. For married couples filing jointly, the income phase-out range is \$198,000 to \$208,000, up from \$196,000 to \$206,000.

SECURE Act Changes

The SECURE Act was passed at the end of 2019 and made significant changes to retirement planning that may impact you. One of the most significant changes is the elimination of stretch-IRAs. Under prior law, when a retirement plan owner died, the

designated beneficiary had the option to stretch out payments from the plan over the beneficiary's lifetime. The SECURE Act has changed this for retirement plan owners who pass away after December 31, 2019, and now imposes a 10-year payout, with limited exceptions.

The SECURE Act also made changes to the required beginning date for required minimum distributions. Retirement plan owners may now wait until they are age 72 to take their first required minimum distribution (RMD) instead of age 70-1/2.

We encourage you to reach out to your HBK tax advisor to discuss the changes made by the SECURE Act and how they may impact you.

Temporary Suspension of Excess Business Loss Limitation

Under the TCJA individual taxpayers were not permitted to take business losses of more than \$250,000 (\$500,000 for taxpayers filing jointly) to offset nonbusiness income. The CARES Act repeals this limitation for years beginning before January 1, 2021. Taxpayers that have an excess business loss in 2018 or 2019 may be able to amend their return to claim these losses.

BUSINESSES

Along with the various changes that businesses faced under the TCJA, the COVID-19 pandemic and the subsequent CARES Act has created various shifts in the tax code that could have a significant impact on taxpayers. The following are notable tax considerations currently facing business taxpayers following the CARES Act.

NOL Carryback Modification

Under the TCJA, net operating losses (NOLs) generated in tax years beginning in 2018 and later years could not be carried back and were only able to offset up to 80 percent of taxable income if carried forward. The CARES Act made changes to this rule, and now permits NOLs from the 2018, 2019 and 2020 tax years to be carried back to the previous five tax years. The CARES Act also suspended the 80 percent limitation.

Depending on a taxpayer's situation, it may be beneficial to pursue planning measures to accelerate deductions and defer income to increase the NOL available to be carried back when taking into consideration a taxpayer's profits over the 2018, 2019 and 2020 tax years. Your HBK tax advisor can help with this analysis to determine the best course of action for your tax situation.

Business Interest Limitation

The business interest limitation was added by the TCJA and generally limits the deduction for business interest expense to the sum of (1) business interest income; (2) 30 percent of adjusted taxable income (ATI); and (3) floor plan financing interest. Certain small taxpayers are exempt from the limit.

The CARES Act changed this provision of the TCJA by adjusting the limit to 50 percent of ATI for 2019 and 2020 for most taxpayers, potentially increasing interest expense





deductions and thereby reducing taxable income (or creating an NOL that can be carried back). Taxpayers can elect to use their 2019 ATI in computing the 2020 limit, providing relief to those whose income declined in 2020. Taxpayers can elect to apply the more restrictive 30 percent-of-ATI limit if desired.

A special rule applies to partnerships in 2019. Instead of increasing the limit from 30 percent of ATI to 50 percent of ATI, half of the excess business interest of a partnership allocated to a partner is treated as business interest of the partner in 2020 and is not subject to the business interest limit at the partner level. The other half of the excess business interest expense is subject to the normal rules for excess business interest. Partners can elect out of this relief provision if desired. The 50 percent-of-ATI limit applies to partnerships in 2020.

Meals & Entertainment

A major change under the TCJA was the elimination of the deductibility of all entertainment expenses, with some exceptions. This change resulted in new substantiation and documentation practices in order to categorize expenses between entertainment and meals. While the deductibility of business meals that take place at an entertainment facility was originally in question, the IRS has released guidance indicating that a deduction will be allowed so long as the costs of the meal are separately stated and can be identified separately from the entertainment expenses. These meals remain 50 percent deductible.

EXPENSE	PRIOR LAW	CURRENT LAW
Business meals with clients, prospects, referral sources	50%	50%
Events/meals at social or golf clubs	50%	50%
Membership dues for social clubs	50%	No deduction
Event tickets (sporting, theater, etc.)	50%	No deduction
Business gifts	\$25/person	\$25/person

Qualified Opportunity Zones

Qualified Opportunity Zones (QOZ) allow taxpayers to invest in a Qualified Opportunity Fund (QOF) as a mechanism for capital gain deferral. Taxpayers are permitted to invest capital gains in QOFs allowing for capital gain deferral until 2026 so long as those gains are invested in a QOF within 180 days of gain recognition and the QOF invests 90 percent of its capital in a QOZ property. Taxpayers who hold investments in a QOF for at least five years may exclude 10 percent of the originally deferred gain, and investments held for more than seven years qualify for an additional five percent exclusion of their originally deferred gain. All qualifying zones have been certified, and Treasury has released several rounds of regulations regarding the mechanics of how QOF works. Taxpayers also can take advantage of similar tax benefits at the state level depending on the state and where and how the investments are made. The rules surrounding QOZ's are complex and if you are thinking about investing in an opportunity zone please contact your HBK Tax Advisor.



1031 Like-Kind Exchanges

Prior to the TCJA, §1031 exchanges were permitted for various real property and personal property so long as the exchange of property was for a similar type. Under the TCJA, like-kind exchange treatment is now limited to real property exchanges. A qualifying like-kind exchange requires that a taxpayer identify both the relinquished property that is exchanged as well as the replacement property acquired in the exchange. The rules for like-kind exchanges have specific timing requirements to ensure all aspects of the exchange have been carried out within the prescribed timeline. Final regulations have been released, which re-define what property is considered “real property” in order to qualify for like-kind exchange treatment.” If you are interested in taking advantage of the benefits available under the like-kind exchange provisions please reach out to your HBK Tax Advisor.

STATE AND LOCAL TAX PLANNING

South Dakota v. Wayfair and Income Tax Changes

One of the most significant changes in state tax planning for many taxpayers has been the decision in *South Dakota v. Wayfair*, which was decided in June of 2018. This decision enabled states to enact economic nexus standards for purposes of sales tax registration, collection and remittance in addition to the long-standing rule requiring physical presence. As expected, the states responded to the *Wayfair* decision quickly by enacting economic nexus legislation, with more than 40 states enacting their own unique legislation regarding economic nexus. The majority of states adopted the same \$100,000 of sales and 200 transactions thresholds used by South Dakota, but many have thresholds between \$200,000 and \$500,000. Following this ruling, more states have been pushing the boundaries of economic nexus and some states have enacted economic nexus for corporate income tax purposes. States like Pennsylvania and Hawaii have enacted economic nexus thresholds that would avail an out-of-state business to corporate income tax obligations within the state-based solely on gross sales. This is a change we expect to see in many more states as we head into 2021, considering the large budget deficits many states face due to the COVID-19 pandemic. Please reach out to your HBK Tax Advisor for a comprehensive nexus review if you believe these provisions are impacting your business.

Remote Workers and COVID-19

One of the most difficult areas of state planning that many businesses face this year is the impact of remote workers on income tax nexus, sales tax nexus and unemployment and payroll obligations. With more employers allowing their employees to work remotely due to COVID-19, employers need to carefully track the states where their physical employees are sitting. This could create a new income tax obligation, sales tax obligation and impact the employer's payroll. Any taxpayer who has increased their out-of-state remote worker presence should consult with their HBK Tax Advisor on how the location of these employees could impact their 2020 and 2021 taxes.

CARES Act Conformity

As mentioned above, the CARES Act created various temporary and permanent tax provisions that could significantly impact a taxpayer's federal tax positions. The impact of the CARES Act becomes even more complex when looking at it from a state tax perspective. Each state has the ability to adopt all, part or none of the CARES Act. As such, there are several states that have specifically decoupled from many of the aforementioned CARES Act provisions. These states include but are not limited to: California, New York, North Carolina, and Michigan.

In addition to modifying their CARES Act provisions, the state of California has completely suspended business net operating losses from tax years 2020-2022.

ADDITIONAL RESOURCES

At HBK, we can determine how best to maximize your tax savings for 2020 and beyond. We are available to assist you through each step of this process and we will keep you apprised of any legislative changes impacting your tax circumstance in real-time. Please don't hesitate to contact us with questions, concerns or ideas you have about how to reduce your taxes.

Our affiliated financial services firm, HBKS® Wealth Advisors, works closely with its clients to help create investment portfolios that incorporate many aspects of a tax-sensitive investment management structure. This season, we are pleased to invite you, as a client of HBK CPAs & Consultants, to a complimentary consultation with an HBKS® Financial Advisor to develop financial plans that address client-specific problems and design solutions specific to clients' financial needs and goals. Contact us to schedule a time to talk. We look forward to meeting with you.

ABOUT HBK®

Established in 1949, HBK CPAs and Consultants (HBK) offers the collective intelligence of professionals in a wide range of tax, accounting, audit, business advisory, financial planning, and other business operational and support services from offices in four states.

HBK professionals deliver industry-specific expertise in manufacturing; healthcare, including long-term care; real estate and construction; automotive dealerships and not-for-profit organizations.

HBK combines the technical resources and expertise of a large national accounting and professional consulting firm with the personalized attention of a local company.

The firm is ranked in both Accounting Today and Inside Public Accounting magazines' Top 100, and supports clients globally as a member of BDO Alliance USA. HBK maintains locations in Alliance, Columbus and Youngstown in Ohio; Blue Bell, Erie, Hermitage, Meadville and Pittsburgh in Pennsylvania; Cherry Hill, Clark and Princeton in New Jersey; and Fort Myers, Naples, Stuart, Sarasota and West Palm Beach in Florida.

To learn more about HBK, call 800.733.8613 or visit us at www.hbkcpa.com