

2020 - BROWN, BROWN AND ASSOCIATES, P.C. - 2020
Merry Christmas! Happy New Year!

The Year of COVID!

Thoughts and Prayers What a year 2020 has been! Political turmoil, health crisis, storms and so much more. Our firm wants to extend our thoughts and prayers to those who have been negatively affected financially or physically. We pray that 2021 will be a healthier and happier year!

We consider you to be more than clients, **you are our friends**. Thank you so much for trusting us with your business needs.

#1 Question From Clients When Biden becomes president in 2021 what will happen to businesses and taxes? As much as we like to have all the answers for our clients - we can't predict the future, but we can give you our thoughts about this. First, large tax law changes are difficult even when one party is in control of the both the House and Senate as well as the Presidency. Second, if the republicans keep at least one seat in the Senate in Georgia, then I do not think you will see any significant tax law changes because the republicans will still control the senate. We will see what happens very soon!

Filing Deadline Unless something significant happens, we are back to our filing deadlines for the 2020 tax year. Individual 1040 tax returns and C-Corporation 1120 tax returns need to be submitted by April 15th, 2021. Partnership 1065 tax returns, Limited Liability Company 1065 tax returns, and S-Corporation 1120-S tax returns need to be submitted by March 15th, 2021. Both individuals and businesses can get a six month extension if more time is needed, but the extension needs to be filed before the initial filing deadline. **Remember: We do not automatically get extensions for clients each year.** It is your responsibility to contact the specific office that services your account and make the appropriate request and/or arrangements to get an extension. We are more than happy to help you with an extension, but please call our offices if you need one!

Payroll Protection Program (PPP) and Loan Forgiveness

The President just signed into law that the PPP loan forgiveness will not be taxable and that you can deduct all business expenses that were used with PPP money!!!! In order to get forgiveness, you are required to submit a forgiveness application with related documentation through the bank or financial institution where the loan was generated. The financial institution will generally send you an email with a link to answer questions and attach needed documentation. We are recommending that you use the 24 week period instead of the 8 week period for payroll expenses. We are seeing success in the forgiveness of the PPP and we recommend filing for forgiveness as soon as possible. If you need help in this area, do not hesitate to call any of our offices.

Families First Coronavirus Response Act If you have employees and you paid them when they were out with COVID or out taking care of family - you can get a tax credit on your 941 payroll return in the 2nd, 3rd or 4th quarters of 2020 respectively.

- 1) *Two weeks (up to 80 hours) of paid sick leave at the employee's regular rate of pay where the employee is unable to work because the employee is quarantined.*
- 2) *Two weeks (up to 80 hours) of paid sick leave at two-thirds the employee's regular rate of pay because the employee is unable to work because of a bona fide need to care for an individual subject to quarantine.*
- 3) *Up to an additional 10 weeks of paid expanded family and medical leave at two-thirds the employee's regular rate of pay where an employee, who has been employed for at least 30 calendar days, is unable to work due to a bona fide need for leave to care for a child whose school or child care provider is closed or unavailable for reasons related to COVID-19.*

For more details regarding this act: <https://www.dol.gov/agencies/whd/pandemic/ffcrfa-employee-paid-leave>

Required Minimum Distributions (RMDs Suspended for 2020) Due to COVID-19—The Secure Act waives the distributions for all retirement accounts including inherited IRAs. Unfortunately, if you took your RMD - you cannot reverse it unless the full amount was paid back by August 31, 2020. There is some good news, the age requirements for beginning RMDs has increased from 70 1/2 to 72 years old.

Contributing to an Individual Retirement Account (IRA) The 70 year age limit has been removed. As long as you have qualifying earned income, starting in 2020 you can now make additional contributions to IRA accounts.

The 10% additional tax on early distributions (under age 59 1/2) does not apply to coronavirus-related distributions

Qualified Individuals reporting coronavirus-related distributions from retirement accounts

If, for example, you receive a coronavirus-related distribution in 2020, you may choose to include the distribution amount in income over a 3-year period (2020, 2021, and 2022) instead of all of it in the year 2020. You could choose to repay the entire amount in 2022 after claiming income in 2020 and 2021. If you do, we can amend the tax returns and claim refunds for the 2020 and 2021 tax years.

New rules for Inherited IRAs If you inherit an IRA after 2019 then you must take distributions of the entire IRA value within a ten year period.

Qualified Business Income Deduction Earned income from sole proprietorships, farms and pass-through entities (including S corporations, LLCs, partnerships, and trusts) may be entitled to a 20% income deduction. The 20% deduction is phased out if the taxpayer is a professional (examples: healthcare providers, lawyers, accountants, consultants and investment managers). The professional's phase-out range for married couples is \$315,000 to \$415,000 and for single filers is \$157,500 to \$207,500 based on their taxable income. Income above these thresholds may be limited by the amount of wages paid and/or depreciable assets owned in the business.

Partnership (PTR) and Limited Liability Company (LLC) Planning

If you are a partner/member that has guaranteed payments, you should consider changing the operating agreement of the company. Guaranteed payments do not qualify for the qualified business income deduction, thus you could be paying taxes on 20% of your income that could be "tax free". If you amend your operating agreement to reflect a share of profits instead of guaranteed payments then you should be able to claim the qualified business income deduction.

Business Asset Purchases - 100% Bonus Depreciation

100% of the cost of qualified business assets purchased can be deducted. Bonus depreciation will remain at 100% through 2022 before being phased out. A second technique known as Section 179 depreciation allows expensing of up to \$1,020,000 and expands the types of assets that qualify to include roofs, HVAC systems, fire/alarm systems, and furnishings for lodging establishments.

AS OF 12/15/2020

2020 - 2021

May God bless and keep you during the holiday season and all through the year.

| | 2020 | 2021 |
|---|------------------|------------------|
| Maximum wages subject to social security tax | \$ 137,700.00 | \$ 142,800.00 |
| Tax rate for social security - employer | 6.20% | 6.20% |
| Tax rate for social security - employee | 6.20% | 6.20% |
| Maximum social security withholdings | \$ 8,537.40 | \$ 8,853.60 |
| Tax rate for Medicare (no maximum) | 1.45% | 1.45% |
| Additional tax rate for Medicare (over \$200,000 individual or \$250,000 married filing joint) ((\$125,000 married filing separately) (to include investment income) | 0.90% | 0.90% |
| Self employed tax rate | 15.30% | 15.30% |
| Maximum yearly earnings for social security for recipients before benefits are reduced: | | |
| Under 66 | \$ 18,240.00 | \$ 18,960.00 |
| Full Retirement (66 if born 1943-1954) (67 is born 1955-1960) (67 if born after 1960) | No limit | No limit |
| Federal unemployment tax rate | 0.60% | 0.60% |
| Wage base on which an employer must pay federal and TN unemployment tax | \$ 7,000.00 | \$ 7,000.00 |
| Standard mileage rate for charitable use - cents per mile | \$ 0.14 | \$ 0.14 |
| Standard mileage rate for business use - cents per mile | \$ 0.575 | \$ 0.56 |
| Standard mileage rate for medical use - cents per mile | \$ 0.170 | \$ 0.16 |
| Earned income credit - Maximum 1 child | \$ 3,584.00 | \$ 3,618.00 |
| Earned income credit - Maximum 2 children | \$ 5,920.00 | \$ 5,980.00 |
| Earned income credit - 3 or more children | \$ 6,660.00 | \$ 6,728.00 |
| Earned income credit - Childless worker age 25-64 | \$ 538.00 | \$ 543.00 |
| Minimum wage | \$ 7.25 | \$ 7.25 |
| Section 179 deduction | \$ 1,040,000.00 | \$ 1,050,000.00 |
| Standard deduction: Single | \$ 12,400.00 | \$ 12,550.00 |
| Married | \$ 24,800.00 | \$ 25,100.00 |
| Head of Household | \$ 18,650.00 | \$ 12,550.00 |
| Married filing separately | \$ 12,400.00 | \$ 18,800.00 |
| Child tax credit | \$ 2,000.00 | \$ 2,000.00 |
| Estate and Gift Tax Exemption - Federal | \$ 11,580,000.00 | \$ 11,700,000.00 |
| Lifetime Gift Tax Exemption - Federal | \$ 11,580,000.00 | \$ 11,700,000.00 |
| Annual Gift Tax Exemption | \$ 15,000.00 | \$ 15,000.00 |
| Allowable retirement contributions - IRA | \$ 6,000.00 | \$ 6,000.00 |
| Additional contribution if 50 or older (each) | \$ 1,000.00 | \$ 1,000.00 |
| Allowable retirement contributions - Simple | \$ 13,500.00 | \$ 13,500.00 |
| Additional contribution if 50 or older (each) | \$ 3,000.00 | \$ 3,000.00 |
| Allowable retirement contributions - 401k | \$ 19,500.00 | \$ 19,500.00 |
| Additional contribution if 50 or older (each) | \$ 6,500.00 | \$ 6,500.00 |
| Dependent care expense limit per child - 1 child | \$ 3,000.00 | \$ 3,000.00 |
| - 2 or more | \$ 6,000.00 | \$ 6,000.00 |
| Maximum Long-Term: | | |
| Single, Taxable income above \$40,000 and below \$441,451 | 15.00% | |
| Single, Taxable income above \$40,400 and below \$445,850 | | 15.00% |
| Married, Taxable income above \$80,000 and below \$496,600 | 15.00% | |
| Married, Taxable income above \$80,800 and below \$501,600 | | 15.00% |
| Single, Taxable income above \$441,451 | 20.00% | |
| Single, Taxable income above \$445,850 | | 20.00% |
| Married, Taxable income above \$496,600 | 20.00% | |
| Married, Taxable income above \$501,600 | | 20.00% |
| Capital Gains Tax rate - if dividends/gains fall in 39.6% bracket | 20.00% | 20.00% |
| Capital Gains Tax rate - 10% to 15% bracket | 0.00% | 0.00% |
| Per diem meals and incidentals - truckers 10/1/2019 - 09/30/2021 | \$ 66.00 | \$ 66.00 |
| - others 10/1/2019 - 09/30/2021 | \$ 55.00 | \$ 55.00 |
| Maximum Annual Lifetime Learning Credit | \$ 2,000.00 | \$ 2,000.00 |
| Maximum Annual American Opportunity Credit | \$ 2,500.00 | \$ 2,500.00 |
| Foreign Income Exclusion | \$ 107,600.00 | \$ 108,700.00 |