

# EMPYRION™

WEALTH MANAGEMENT



March 2021

## Monthly Digest

### It's That Time Again! Hints for Tax Season, 2021

Though the [IRS delayed the official beginning of the 2021 filing season](#) until February 12, the filing deadline for your 2020 return is still April 15, unlike last year, when the pandemic shutdown prompted the agency to defer the due date to July. For those who request an extension, that deadline is also the same as in previous years: October 15.

But the effects of the pandemic and especially of last year's CARES Act are still with us, even if the later filing deadline isn't. Many of the special tax and income provision put in place by the CARES Act have direct implications for the return you'll file next April. Here are some important things to keep in mind as you prepare your return this tax season.

**1. Higher standard deduction.** In 2019, the standard deduction for individual filers was \$12,200; for the current filing season, it's \$12,400. For married couples filing jointly, the 2019 limit of \$24,400 was raised to \$24,800. The higher deductions went in place with the 2018 Tax Cuts and Jobs Act (TCJA) and are reset at a higher level each year by the IRS. For many taxpayers, the standard deduction is more than the total of all charitable and other deductions to which they would otherwise be entitled. However, that doesn't mean that there aren't still ways to support the causes that are most meaningful to you. Some filers may choose to make a donation equivalent to several years' gifts in a single year, which can easily boost your charitable deduction for 2020 to the point that you can also benefit from itemizing, even with the higher standard deduction. And for another special charitable giving opportunity that is specific for this tax season, keep reading.

**2. 100% of AGI charitable deduction.** For those with the ability, the Coronavirus Aid, Relief, and Economic Security (CARES) Act created a [special deduction of up to 100% of adjusted gross income](#) (AGI) for qualified charitable contributions. With all the economic and employment turmoil caused by the shutdown last spring and the ongoing efforts at recovery, this incentive is a golden opportunity to "do well by doing good," if you have the means. And by the way, even if you don't itemize, there is an "above-the-line" deduction of up to \$300 available for qualified charitable contributions made in cash.

**3. Medical deductions.** Sadly, many Americans fell victim to the harsher effects of COVID-19 during 2020, not to mention the many other health challenges that led to hospitalization and other medical expenses. If your medical expenses for 2020 were more than 7.5% of your AGI, you can deduct the amount exceeding that percentage.

**4. Child tax credit.** Single filers earning up to \$200,000 (\$400,000 for married couples filing jointly) may be eligible to [claim a credit](#) of up to \$2,000 per eligible child, \$1,400 of which can be received as a refund. Children must be age 16 or younger at the end of calendar year 2020, and you can use either your 2019 or your 2020 income to calculate the credit, based on whichever method allows you to claim the greatest credit. The child also needs to have lived with you for at least half of the year, and you must have provided at least half of the child's support.

**5. Stimulus checks don't count.** If you received one of the checks of up to \$1,200 sent out as part of the CARES Act stimulus plan, it will [not be counted as taxable income](#) for 2020.

**6. Business expenses paid with PPP loan proceeds are deductible.** If you received a PPP loan for your business in 2020 and used the proceeds to pay expenses that would make your loan eligible for forgiveness under the program, you may still deduct those expenses, [according to a December 2020 ruling by the IRS](#). This welcome ruling cleared up a major uncertainty for business owners. It seems likely that a similar provision will be in effect with regard to the [new round of PPP funding](#), created by the stimulus and budget bill signed by President Trump last December. By the way, the application period for the latest round of PPP funding is February 24–March 9, 2021, and more details are available at [sba.gov](#) or from your Small Business Administration–approved lender.

**7. Three-year repayment for hardship distributions from qualified retirement plans.** For those who took advantage of the CARES Act provision to make a coronavirus-related hardship withdrawal of up to \$100,000 from a qualified retirement plan, remember that you are [not required to claim](#) the withdrawal as taxable income for 2020 and [you've got three years](#) to pay back the withdrawal and get a refund of taxes paid on the amount you withdrew. Withdrawals based on the CARES Act provision also do not incur the 10% penalty for early withdrawal, even if the money was taken prior to the owner reaching age 59 ½.

No one actually enjoys tax season—with the possible exception of our good friends at the IRS—but this year's return has some special opportunities built in, due to the extraordinary circumstances surrounding the pandemic and the government's efforts to restart the economy and dampen the effects of the COVID-19–induced recession. Taking advantage of the tips above will give you a head start on making sure that you claim every possible advantage on your 2020 tax return.

As a fiduciary financial advisor, I help business owners, thriving retirees, women in transition, and other investors to devise tax-efficient strategies for investment and income. You can learn more about how I'm working with clients to get ready for the potential changes in tax law by clicking [here](#) to read my article, "Coming into Focus: Biden's Tax Policy."

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