

Tax Planning for the New Year



2020 has brought its fair share of economic and financial struggles across the globe due to the Covid-19 pandemic forcing many individuals and business owners alike to re-evaluate their financial situation and how they operate their businesses moving forward. “Year-end tax planning is more important than ever this year”, said Renato Zanichelli, National Managing Partner of Tax services at Grant Thornton, who was featured in an article on the Accounting Today website. Taxpayers and business owners should strive to have the right financial and tax strategies in place that could help navigate their future endeavors into a positive New Year. Here are some year-end tax planning tips that individuals and business owners can follow to ensure they start off the 2021 New Year with resilience.

2020 Year-End Tax Planning Tips for Individual Taxpayers



Charitable contributions - For those who take advantage of itemizing charitable contributions, be sure to document those as best you can. This is a great way to take advantage of a beneficial tax deduction. Furthermore, for those who regularly take the standard deduction when filing, according to the IRS “...for tax years beginning in 2020, eligible individuals may deduct up to \$300 in qualified charitable contributions made to qualified charitable organizations. Any amount that exceeds the \$300 limit may not be carried forward to future tax years or claimed as an itemized deduction.” Make sure that you are donating to a qualified organization recognized by the IRS and always keep documentation of those donations. Cash contributions are any contributions paid with “cash, check, electronic fund transfer, payroll deduction, etc. (IRS Publication 526, *Charitable Contributions*).

Understand how the Stimulus check can affect you -

It will not!! The stimulus check is not considered taxable income. It will not affect what you owe or decrease the possible refund you could receive. According to Experian, "if your income is lower in 2020 than it was in 2018 or 2019 and you did not claim a stimulus check, you could be eligible for a check based on your 2020 income. If your income increases in 2020, you will not be forced to pay back the stimulus money. The stimulus payment is considered a new federal tax credit for the 2020 tax year. It also should not affect any payments you receive through federal benefits such as social security."



Make up a tax shortfall with increased withholdings -

Covid-19 has certainly stirred up a lot of financial burden for many taxpayers throughout the year, making it difficult for them to keep up with their tax obligations. Taxpayers could take advantage of increasing their withholdings towards their year-end wages to make up for their shortfall. After all, something is better than nothing.

Make your last-minute estimated payments -

Making an estimated payment towards your next year's tax liability will always help decrease the amount you could owe. It will also help eliminate the penalties and interest that can accrue on top of that tax liability.



Contribute to your retirement plans & know your investment options - If applicable, be sure to contribute to your 401-K or IRA plans before April 15, 2021 to qualify for a tax deduction on your 2020 return. This could help decrease your 2020 tax liability. Also, the CARES Act states that individuals who do not need the funds may skip their 2020 required minimum distribution.

Retired individuals can withdraw up to \$100,000 from a 401(k) or IRA to pay for coronavirus expenses until Dec. 31, 2020, without having to pay the usual 10% early withdrawal penalty. These withdrawals are allowed for those who are diagnosed with COVID-19, have a spouse or dependent who tests positive or who have experienced financial problems as a result of being quarantined, laid off, working fewer hours or a lack of child care due to the pandemic.

2020 Year-End Tax Planning Tips for Businesses

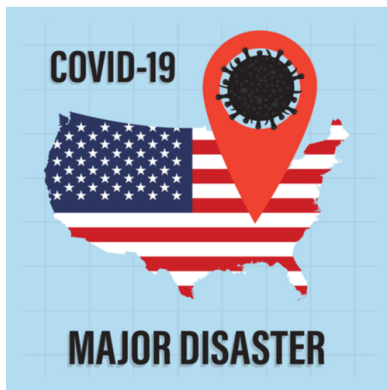
Accelerate AMT refunds - The CARES Act is allowing corporations to claim any unused AMT credits in the tax years beginning in 2018, 2019, 2020 & 2021. It also states that the credits can be fully claimed in tax years beginning in either 2018 or 2019. This provides a great opportunity to file for quick refunds. Corporations may use Form 1139 – Corporation Application for Tentative Refund to utilize the credit advantages.

Retroactive refund for bonus depreciation

- The CARES act is permitting businesses to deduct qualified improvements dating back to January 1, 2018, widening the possibilities for quick refunds. As stated in Accounting Today, “Taxpayers who filed 2018 and 2019 returns before the law changed can choose whether to reflect the additional retroactive deduction entirely in the 2020 year with an accounting method change or amend both 2018 and 2019 returns to apply bonus depreciation for QIP in each of those years.”



Use current losses - According to the CARES Act, “Businesses can utilize current losses against past income for immediate refunds. The losses can be carried back five years for refunds against prior taxes and may offset income at a higher tax rate before 2018.” Per the IRS website, “the fastest way to obtain a refund is by filing a tentative refund claim by December 31, 2020 for the 2019 calendar year. If losses will be in 2020, the business should start preparing to file early because they cannot claim an NOL carryback refund until they file their tax return for the year.”



Claim quick disaster loss refund - Per Donald Trump’s Covid-19 disaster declaration involving COVID-19 or any natural disaster, “every U.S. business in the covered disaster area may be eligible for refunds from certain types of losses; a business may claim a COVID-19 related disaster loss in 2020 on a 2019 amended return for a quicker refund affecting losses arising in a variety of circumstances including a loss of inventory, supplies, storage, or office closure.”

Payroll deductions - Businesses normally cannot deduct their share of payroll taxes until they are paid in. The CARES Act is allowing employers to defer paying their portion of Social Security taxes for the rest of the year. Half of the deferred amount is due December 31, 2021 and the other portion by December 31, 2020. Taxpayers are encouraged to consider the effects on deductions before the end of the year.

We at Griffing & Company, P.C. are willing and prepared to help you with your Year-End Planning needs. If you have any questions or would like to meet with us regarding your Year-end Planning, feel free to contact our office today to schedule an appointment. We are ready to help you start off the upcoming New Year with a bang!

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