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A Professional Corporation

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Dear Client:

As a year-end holiday gift, Congress included a number of individual and business friendly tax provisions in its year-end spending package that was signed into law by President Trump on December 20, 2019. The "Further Consolidated Appropriations Act, 2020" (2020 Act) brought back to life many deductions and credits that had expired at the end of 2017, as well as a few others that had either expired at the end of 2018 or were scheduled to expire at the end of 2019. In addition, substantial changes were made to retirement-related tax provisions and new disaster-related tax provisions have been added. Some of the funding for these changes will come from increases made to various penalty provisions - notably increases in the penalties for failing to timely file a tax return or timely pay the tax due.

To the extent that you could have benefited from any of the resurrected 2017 tax provisions on your 2018 tax return, we should file an amended return to claim any refunds you may be due. The 2020 Act changes may also affect your 2019 tax liability.

The following is a recap of the provisions that have been extended that may require the filing of an amended tax return for 2018.

## **Deduction for Qualified Tuition and Related Expenses**

The deduction for qualified tuition and related expenses is now available for 2018, 2019, and 2020 and applies to qualified education expenses paid during the year for yourself, your spouse, or a dependent. The maximum deduction is \$4,000 of expenses if your modified adjusted gross income does not exceed \$65,000 (\$130,000 in the case of a joint return). If your income is more than that, you can still deduct \$2,000, as long as your adjusted gross income does not exceed \$80,000 (\$160,000 in the case of a joint return).

## **Expansion of Section 529 Plans**

Several changes were made to the rules involving Section 529 plans - tax-advantaged savings plans designed to accumulate funds for future educational needs. First, tax-free distributions for higher education expenses now to apply to expenses for fees, books, supplies, and equipment required for the participation of a designated beneficiary in an apprenticeship program. The apprenticeship program must be registered and certified with the Secretary of Labor under Section 1 of the National Apprenticeship Act. Second, tax-free treatment applies to distributions of certain amounts used to make payments on principal or interest of a qualified education loan. No individual may receive more than \$10,000 of such distributions, in aggregate, over the course of the individual's lifetime. Third, a special rule allows tax-free distributions to a sibling of a designated beneficiary (i.e., a brother, sister, stepbrother, or stepsister). This rule allows a 529 account holder to make a student loan distribution to a sibling of the designated beneficiary without changing the designated beneficiary of the account.

## **Treatment of Mortgage Insurance Premiums as Qualified Residence Interest**

For 2018, 2019, and 2020, you can treat amounts paid during the year for qualified mortgage insurance as qualified residence interest. The insurance must be in connection with acquisition debt for a qualified residence.

## **Exclusion from Gross Income of Discharge of Qualified Principal Residence Indebtedness**

For 2018, 2019, and 2020, gross income does not include the discharge of indebtedness of a taxpayer if the debt discharged is qualified principal residence indebtedness which is discharged before January 1, 2021.

## **Elimination of Certain Kiddie Tax Provisions**

If you have a child that was subject to the new kiddie tax rules that went into effect in 2018, those rules have now been repealed retroactive to the date they were adopted. As a result, the onerous trust and estate tax rates that applied to the child's unearned income in 2018 no longer apply. Similarly, the reduced AMT exemption amount for such children has been eliminated.

## **Nonbusiness Energy Property Credit**

The nonbusiness energy property credit is extended to property placed in service in 2018, 2019, and 2020. The nonbusiness energy property credit is available for (1) 10 percent of the amounts paid or incurred for qualified energy efficiency improvements installed during the tax year, and (2) the amount of residential energy property expenditures paid or incurred during the tax year.

## **Alternative Fuel Refueling Property Credit**

The credit for alternative fuel refueling property has been extended to property placed in service in 2018, 2019, and 2020. The credit is equal to 30 percent of the cost of any qualified alternative fuel vehicle refueling property placed in service by the taxpayer during the tax year.

## **Two-Wheeled Plug-In Electric Vehicle Credit**

The credit available for the purchase of a qualified two-wheeled plug-in electric drive motor vehicle is extended to vehicles acquired in 2018, 2019, and 2020.

Another change made by the 2020 Act which may affect your 2019 tax return and future tax returns includes the following:

## **Reduction in Medical Expense Deduction Floor**

The floor for deducting medical expenses for 2019 and 2020 has been reduced from 10 percent of adjusted gross income to 7.5 percent of adjusted gross income. In addition, there is no adjustment to the medical expense deduction when computing the alternative minimum tax for 2019 and 2020.

Some of the retirement-related provisions which may be of interest to you include the following:

## **Repeal of Maximum Age for Traditional IRA Contributions**

The prohibition on contributions to a traditional IRA by an individual who has attained age 70½ has been repealed.

## **Increase in Age for Required Beginning Date for Mandatory Distributions**

The required beginning date for required minimum distributions has been increased to 72 years old from 70 ½ years old. The former rules continue to apply to employees and IRA owners who attain age 70½ prior to January 1, 2020. The new provision is effective for distributions required to be made after December 31, 2019, with respect to individuals who attain age 70½ after December 31, 2019.

## **Penalty-Free Withdrawals from Retirement Plans for Individuals in Case of Birth of Child or Adoption**

A new exception to the 10-percent early withdrawal tax applies in the case of a qualified birth or adoption distribution of up to \$5,000 from an applicable eligible retirement plan. A qualified birth or adoption distribution is a distribution from an applicable eligible retirement plan to an individual if made during the one-year period beginning on the date on which a child of the individual is born or on which the legal adoption by the individual of an eligible adoptee is finalized. An eligible adoptee means any individual (other than a child of the taxpayer's spouse) who has not attained age 18 or is physically or mentally incapable of self-support.

## **Certain Taxable Non-Tuition Fellowship and Stipend Payments Treated As Compensation for IRA Purposes**

For tax years after 2019, an amount includible in an individual's income and paid to the individual to aid the individual in the pursuit of graduate or postdoctoral study or research (such as a fellowship, stipend, or similar amount) is treated as compensation for purposes of IRA contributions.

Disaster-related provisions in the 2020 Act include the following:

## **Exception to Penalty for Using Retirement Funds**

An exception to the 10-percent early withdrawal tax on a retirement-related distribution applies in the case of "qualified disaster distributions" from a qualified retirement plan, a Code Sec. 403(b) plan, or an individual retirement account (IRA). In addition, income attributable to a qualified disaster distribution may be included in income ratably over three years, and the amount of a qualified disaster distribution may be recontributed to an eligible retirement plan within three years. A "qualified disaster distribution" is any distribution from an eligible retirement plan made on or after the first day of the incident period of a qualified disaster and before June 18, 2020, to an individual whose principal place of abode at any time during the incident period is located in the qualified disaster area and who has sustained an economic loss by reason of such disaster, regardless of whether a distribution otherwise would be permissible.

## **Special Rules for Qualified Disaster-Related Personal Casualty Losses**

Under a new provision, in the case of a qualified disaster-related personal casualty loss which arose as the result of a net disaster loss, such loss is deductible without regard to whether aggregate net losses exceed 10 percent of your adjusted gross income. In order to be deductible, however, such losses must exceed \$500 per casualty. Such losses may be claimed in addition to the standard deduction and may be claimed even if you are subject to the alternative minimum tax.

## **Special Rule for Determining Earned Income**

If you qualify, you may elect to calculate your earned income tax credit and additional child tax credit for an applicable tax year using your earned income from the prior tax year. Qualified individuals are permitted to make the election with respect to an applicable tax year only if their earned income for such tax year is less than their earned income for the preceding tax year. You are a qualified individual if (1) at any time during the incident period of a qualified disaster, you had your principal residence in the applicable qualified disaster zone, or (2) during any portion of such incident period, you were not in the applicable qualified disaster zone but your principal residence was in the applicable qualified disaster area and you were displaced from such principal place of abode by reason of the qualified disaster.

## **Automatic Extension of Filing Deadlines in the Case of Federally Declared Disasters**

In the case of a federally declared disaster, qualified taxpayers get a mandatory 60-day extension period for filing and paying taxes.

As you can see, the provisions in the 2020 Act are quite extensive. Please call me at your earliest convenience so we can discuss how these changes will impact your tax situation.

Sincerely,

*Reilly, Creppage & Co., Inc.*