What You Need to Know About Your 2020 Personal Taxes

As Americans deal with the COVID-19 pandemic and the year closes to an end, it's a good idea to start taking a look at the 2020 tax year filing season, including the impact of existing and recent legislation on how you will file in 2021.

In addition to several changes brought on by coronavirus-related legislation, other changes for the 2020 tax year were set to happen anyway. These include new standard deduction amounts, income thresholds for tax brackets, certain tax credits, and an increase in retirement savings limits. Others, including deductions for medical and dental expenses, and state and local sales taxes have remained the same.[1]

KEY TAKEAWAYS

- Recently passed coronavirus legislation has added to tax law changes already set to take place for the 2020 tax year.
- Although stimulus payments are tied to your 2020 taxes, built-in safeguards minimize the impact on your taxes.
- The standard deduction for those married filing jointly rose to $24,800 for the tax year 2020, up $400 from 2019.
- Income ranges for determining eligibility to make deductible contributions to traditional IRAs and to contribute to Roth IRAs have all increased for 2020.
- An important CARES Act provision lets you deduct $300 in charitable contributions "above-the-line."
- Changes relaxing retirement account withdrawals and RMDs are designed to help.
- Estates of decedents who die during 2020 have a basic exclusion amount of $11.58 million, up from $11.4 million from the year prior.

Stimulus Payments

Your $1,200 ($2,400 for couples) stimulus payment, officially known as a "Recovery Rebate," is an advance refundable tax credit on 2020 taxes. This means no matter how much you owe (or don't owe) in taxes for the 2020 tax year, you get to keep all the money with no taxes due on it.

The rebate phases out at an adjusted gross income (AGI) of $75,000 to $99,000 for singles (or $150,000 to $198,000 for joint taxpayers), at a rate of 5% per dollar. Since the stimulus payment will either be based on your AGI for 2018 or

2019, but technically applies to your 2020 AGI, there may be some discrepancy.[5] Don't worry. The news there is good as well.

- If it turns out your AGI for 2018 or 2019 (whichever one the IRS bases your stimulus payment on), is lower than 2020, resulting in a higher payment, you can keep the overage.
- If your AGI for 2018/19 is higher than your AGI in 2020, you can claim the additional amount owed when you file your 2020 taxes in 2021.
- This applies to dependents under 17 as well. If someone else claims a child now, based on 2018/19 returns, but you legitimately claim that child on your 2020 return, you will get a $500 tax credit when you file in 2021 and the person who got it based on 2018/19 returns will not have to pay it back.
- If you have a child in 2020 you can claim the child when you file in 2021 and receive the $500 credit then.

Finally, your recovery rebate is not taxable. It will not add to your taxable income in 2020 (or any other year).[2] All of this is based on the fact that the Coronavirus Aid, Relief, and Economic Security (CARES) Act contains no "clawback" mechanism by which the government can reclaim funds that were legitimately extended.

Brackets and Rates

For tax years 2020 and 2021, the top tax rate remains 37%. This rate is in effect for individual taxpayers filing as single with income greater than $518,400 in 2020 and $523,600 in 2021. The income threshold for this rate will be $622,050 for married couples filing jointly (MFJ) and $311,025 for married individuals filing separately (MFS) in 2020; the thresholds are $628,300 and $314,150 for MFJ and MFS, respectively in 2021.

Income ranges of other rates up to the next-highest threshold are as follows:

- 35% for single and MFS income exceeding $207,350 in 2020 and $209,425 in 2021 ($414,700 for MFJ in 2020 and $418,850 in 2021)
- 32% for single and MFS income exceeding $163,300 in 2020 and $164,925 in 2021 ($326,600 for MFJ in 2020 and $329,850 in 2021)
- 24% for single and MFS income exceeding $85,525 in 2020 and $86,375 in 2021 ($171,050 for MFJ in 2020 and $172,750 in 2021)
- 22% for single and MFS income exceeding $40,125 in 2020 and $40,525 in 2021 ($80,250 for MFJ in 2020 and $81,050 in 2021)
- 12% for single and MFS income exceeding $9,875 in 2020 and $9,950 in 2021 ($19,750 for MFJ in 2020 and $19,900 in 2021)[9]

The lowest rate is 10% for single individuals and married couples filing separately, whose income is $9,875 or less in 2020 ($9,950 or less in 2021). For married individuals filing jointly, the combined income may not exceed $19,750 in 2020 ($19,900 or less in 2021).

For those filing as head of household (HOH), the income thresholds are the same as for singles in the 37%, 35%, and 32% brackets in 2020. In 2021, only the 37% threshold is the same for both singles and HOH, while the lower brackets are very slightly different.

In other HOH brackets, the income thresholds for 2020 are $85,501 to $163,300 in the 24% bracket; $53,701 to $85,500 in the 22% bracket; $14,101 to $53,700 in the 12% bracket; and up to $14,100 in the 10% bracket.

The HOH income thresholds for 2021 are $209,401 to $523,600 in the 35% bracket, $164,901 to $209,400 in the 32% bracket, $86,351 to $164,900 in the 24% bracket, $54,201 to $86,350 in the 22% bracket, $14,201 to $54,200 in the 12% bracket, and up to $14,200 in the 10% bracket.

Capital Gains

Income thresholds for long-term capital gains rates also increased to the following levels for 2020:

- 0% for single and MFS income up to $40,000, up to $80,000 for MFJ, and up to $53,600 for HOH
- 15% for single income from $40,001 to $441,450, $80,001 to $496,600 for MFJ, $40,001 to $248,300 for MFS, and $53,601 to $469,050 for HOH
- 20% for single income exceeding $441,450, exceeding $496,600 for MFJ, exceeding $248,300 for MFS, and exceeding $469,050 for HOH[9]

In 2021, the levels will be:

- 0% for single and MFS income up to $40,400, up to $80,800 for MFJ, and up to $54,100 for HOH
- 15% for single income from $40,401 to $445,850, $80,001 to $501,600 for MFJ, $40,401 to $250,800 for MFS, and $54,101 to $473,750 for HOH
- 20% for single income exceeding $445,850, exceeding $501,600 for MFJ, exceeding $250,800 for MFS, and exceeding $473,750 for HOH

Deductions

The standard deduction for married filing jointly rises to $24,800 for tax year 2020 ($25,100 in 2021). For single taxpayers and married individuals filing separately, the standard deduction rises to $12,400 for 2020 ($12,550 in 2021). For heads of

households, the standard deduction will be $18,650 for tax year 2020 ($18,800 in 2021).

The alternative minimum tax (AMT) exemption amount for single filers for tax year 2020 is $72,900 and begins phasing out at $518,400 (in 2021, it is $73,600 phasing out at $523,600). For married couples filing jointly, the AMT exemption amount is $113,400, which begins phasing out at $1,036,800 (in 2021, it is $114,600 phasing out at $1,047,200).

The CARES Act allows a $300 "above-the-line" deduction for cash contributions to charity if you take the standard deduction when you file in 2021. Additionally, for those who itemize, the law lifts the 60% of adjusted gross income (AGI) limitation on cash contributions. Individuals can elect to deduct donations up to 100% of their 2020 AGI. Note: Donations to donor-advised funds and supporting organizations do not qualify.

Retirement Plans

The contribution limit for employees who participate in employer retirement plans such as 401(k)s, 403(b)s, most 457 plans, and the federal government's Thrift Savings Plan (TSP) has been increased to $19,500 for 2020 and 2021, up from $19,000 in 2019. The catch-up contribution limit for employees age 50 and older increased to $6,500 for 2020 and 2021, up from $6,000 in 2019. The contribution limit for SIMPLE retirement accounts has been raised to $13,500 for 2020 and 2021, up from $13,000 for 2019.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. During the year, if either the taxpayer or their spouse was covered by a retirement plan at work, the deduction may be reduced or phased out. If neither the taxpayer nor their spouse is covered by an employer-sponsored retirement plan, the phase-outs of the deduction do not apply. Phase-out ranges for 2020 are as follows:

- For single taxpayers covered by a workplace retirement plan, the phase-out range is $65,000 to $75,000 in 2020 ($66,000 to $76,000 in 2021).
- For MFJ, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is $104,000 to $124,000 in 2020 ($105,000 to $125,000 in 2021).[13]
- For an IRA contributor who is not covered by a workplace retirement plan, but who is married to someone who is covered, the deduction is phased out if the couple's income is between $196,000 and $206,000 in 2020 ($198,000 to $208,000 in 2021).
- For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual

cost-of-living adjustment and remains $0 to $10,000 in both 2020 and 2021.

Roth IRA contributions are not deductible; in addition, there are income limitations on the amount you can contribute to a Roth IRA. The income phase-out range for taxpayers making contributions to a Roth IRA is $124,000 to $139,000 for singles and heads of household in 2020 ($125,000 to $140,000 in 2021). For married couples filing jointly, the income phase-out range is $196,000 to $206,000 in 2020 ($198,000 to $2018,000 in 2021).

Tax year 2020 quarterly estimated tax payment due on or after April 1, 2020, and before July 15, 2020, could be delayed until July 15 without penalty.
The income limit for the saver's credit (also referred to as the retirement savings contributions credit) for low- and moderate-income workers is $65,000 for married couples filing jointly in 2020 ($66,000 in 2021), $48,750 for heads of household in 2020 ($49,500 in 2021), and $32,500 for singles and married individuals filing separately in 2020 ($33,000 in 2021).

Retirement Fund Withdrawals and Loans

If you qualify for a coronavirus-related distribution (CRD) from your qualified retirement fund in 2020, it will not be subject to a 10% early-withdrawal penalty. The distribution will be taxable but taxes can be spread over three years instead of being due entirely in the year of the withdrawal. If you pay the funds back to the plan within three years, it will be considered a rollover and non-taxable.

New rules also allowed you to take out a loan of up to $100,000 or the amount in your employer-sponsored retirement plan (whichever is smaller). Additionally, if you already have an outstanding loan, you can delay payments on the loan for up to one year. (Interest will accrue.)

Required Minimum Distributions (RMDs)

Required minimum distributions (RMDs) for IRAs and defined contribution plans, such as profit sharing and 401(k) plans, are waived for 2020. This includes your first RMD if you reached age 70½ during 2019. You do not have to qualify for a CRD in order to get this exception. If you have already received an RMD in 2020, you can roll it back into the plan within 60 days and defer paying taxes on the amount.

Credits

The tax year 2020 maximum earned income credit (EIC) is $6,660 for qualifying taxpayers who have three or more qualifying children ($6,728 in 2021).

For the tax year 2020, the modified adjusted gross income (MAGI) amount used by married joint filers to determine the reduction in the lifetime learning credit is $118,000 and phases out at $138,000 ($119,000 to $139,000 in 2021). For single filers and heads of households, the MAGI phase-out range is $59,000 to $69,000 for both 2020 and 2021. You can't claim the credit if you are a married individual filing separately.

Health Spending

For the tax years 2020 and 2021, the dollar limit for employee salary reductions for contributions to a health flexible spending account (FSA) is $2,750, up $50 from the limit for 2019.

For tax year 2020, participants who have self-only coverage in a medical savings account (MSA), the plan must have an annual deductible that is not less than $2,350 but not more than $3,550 ($2,400 to $3,600 in 2021). For self-only coverage, the maximum out-of-pocket expense amount is $4,750 ($4,800 in 2021). For participants with family coverage, the floor for the annual deductible is $4,750, and the deductible cannot exceed $7,100 ($4,800 to $7,150 in 2021). For family coverage, the out-of-pocket expense limit is $8,650 for the tax year 2020 ($8,750 in 2021).

Estates and Gifts

Estates of decedents who die during 2020 have a basic exclusion amount of $11.58 million, up from $11.4 million for estates of decedents who died in 2019. In 2021, the exclusion amount will rise to $11.7 million.

The annual exclusion for gifts is $15,000 for the calendar years 2020 and 2021, the same as it was for the calendar year 2019.

If you have any further questions, please feel free to reach out to us.