

KRS Tax & Financial Services, Inc

2020 and 2021 Tax News Letter - affect every CLIENT

KRS would like to wish all a prosperous and healthy 2021. **Thank you for allowing KRS to guide you thru the tax maze and to prepare your tax returns.** The following information will help in gathering your info to prepare your 2020 tax returns.

Tax Law changes for 2020 & 2021:

- There is **no change to income**, all income remains the same for declaring on your tax return, except for Self employed, Sub S corporations and partnerships. Twenty percent of your income is not subject to income tax.

| | | <u>2020</u> | <u>2021</u> | <u>65 & Over 2020</u> |
|---------------------------------------|------------------------|-------------|-------------|---------------------------|
| - The standard deductions are: | Single..... | \$12,400 | \$12,550 | \$14,050 |
| | MFJ | 24,900 | 25,100 | \$27,500 |
| | MFS..... | 12,400 | 12,550 | \$13,700 |
| | Head of Household..... | 18,650 | 18,800 | \$20,300 |

Additional deduction for age 65 (single) \$1,650; (married filing joint) \$1,300 per person

- **No personal exemption:** but you still must list your dependents on your return. Each dependent is worth \$500.

Itemized deductions on schedule A:

MEDICAL - All medical expenses paid in 2020 over 7 1/2% of your Adjusted Gross Income will be allowed.

TAXES: - The max allowed is now \$10,000. This includes: State Income tax, Real Estate taxes, Sales Tax and Personal Property taxes.

INTEREST: - Mortgage interest on your first and second homes are allowed (RVs can be a second home). Home equity loans are allowed for existing loans, Home equity loan interest on new loans taken out in 2018 and thereafter, are not allowed unless the loan money was used for your main home. **Buying an auto or paying off credit card debt with home equity loan money is no longer an option.**

CHARITY: - There is no change on money or goods given to charity. However, the law allows up to 60% contribution of your adjusted gross income. **Suggestion: take pictures for goods given**
NEW....Contributions up to \$300 are now deductible without itemizing

CASUALTY: - Casualty or theft losses are no longer allowed unless the President declares your area a DISASTER AREA. (Hurricanes, wild fires, earth quakes, etc.) Nasty break if robbed, have frozen water pipes or your home burns down.

MISCELLANEOUS: - There is **no longer any miscellaneous deductions.** No more auto use or expenses for your employer, no home office, no financial fees or broker fees, no safety box, tax preparation fees, ***nothing is deductible!***



- **Income Tax Brackets: After Standard Deduction**

| <u>Tax Rate</u> | <u>Single</u> | <u>Married Filing Jointly</u> | <u>Head of Household</u> | <u>Married Filing Separate</u> |
|-----------------|---------------------|-------------------------------|--------------------------|--------------------------------|
| 10% | \$ 0 - 9,875 | \$ 0 - 19,750 | \$ 0 - 14,100 | \$ 0 - 9,875 |
| 12% | \$ 9,876 - 40,125 | \$ 19,751 - 80,250 | \$ 14,101 - 53,700 | \$ 9,876 - 40,125 |
| 22% | \$ 40,126 - 85,525 | \$ 80,125 - 171,050 | \$ 53,701 - 85,500 | \$ 40,126 - 85,525 |
| 24% | \$ 85,601 - 163,300 | \$171,051 - 326,600 | \$ 85,501 - 163,300 | \$ 85,526 - 163,300 |
| 32% | \$163,301 - 207,350 | \$326,601 - 414,700 | \$ 163,301 - 207,350 | \$163,301 - 207,350 |
| 35% | \$207,351 - 518,400 | \$417,701 - 622,050 | \$ 207,351 - 518,400 | \$207,351 - 311,025 |
| 37% | Over \$518,400 | Over \$622,051 | Over 518,401 | Over 311,026 |

- **The top 1% of individual filers pay 38.4% of all Federal Income taxes**
- **The highest 5% paid 59.14% of all Federal Income taxes**
- **The top 10%, those with AGIs of at least \$145,135 paid 70.08% of all Federal Income taxes**
- **The bottom 50% of all filers paid 3.11% of all Federal income taxes**

- **Tax credits now allowed:**
 1. Children age 16 and under, \$2,000 per dependent
 2. All other Qualifying dependents, \$500
 3. Earned income credit (No change)
 4. Education credit (No change) still need form 1098T

(Comment Education Credit) We file many Amended returns because the Children file their own tax return and claim themselves, they should check the box: **claimed on another return**

- **Capital Gains Taxes:** Short term gains (assets held less than 12 months) are still taxed as ordinary income. (Also, many states tax all capital gains as ordinary income) Assets held for more than 12 months are treated as long term capital gains.
- **Estate Tax Exemption:** Single Individual.....\$11.58 million lifetime exclusion
Married Couples.....\$23.16 million lifetime exclusion
- **Gift Tax:** The law allows a \$15,000 per person gift, \$30,000 if married, per person; **however** there is never a tax to the **recipient of the gift** and the **giver may never pay any tax**. The gift amount over \$15,000 is subtracted from the estate exclusion shown above. As an example: If you gifted someone \$115,000, the \$15,000 does not count. The remaining \$100,000 is subtracted from your estate exclusion of \$11.58 million lifetime exclusion. IRS form 709 is suppose to be filed in the year of the gift if over the allowable gift.
- **Alimony:** For tax years 2019 and thereafter, alimony paid is **no longer income** to the recipient and is **no longer deductible** by the payer. If the alimony agreement was made prior to 2019, then alimony is income and deductible.

EVERY ONE WILL DIE – EVERY INDIVIDUAL SHOULD HAVE A WILL, FLORIDA HAS YOUR WILL

For any client wanting to know how to avoid probate and high attorney fees upon your death, please schedule an appointment with Bill Sylvester. Fifty years of preparing tax returns and dealing with estates, he will discuss the various options and guide you and your beneficiaries to a smooth distribution of assets upon your death. My promise to you.....we all die! Just tell me when you will die and the day before is when you need to prepare the documents. *Two most notable legal documents:*

Should you have a WILL or a Revocable Trust?

We are mailing our yearend tax letter early this year to allow our clients to do yearend tax planning.

We can help before December 31st, after this date we just report the facts!

There are no RMD's (required minimum distributions) from your retirement accounts for 2020. New law – RMD is required at age 72.

The IRS has added a new layer of security. In order to E File a tax return we need a copy of your driver's license for the following states:

- Alabama - California - Kansas - Illinois - Louisiana - New York
- New Jersey - New York - Pennsylvania - Virginia - Wisconsin