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THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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THERE STILL MIGHT BE TIME TO CUT YOUR TAX BILL WITH IRAS

If you are getting ready to file your 2019 tax return, and your tax bill is higher than you would like, there may still be an opportunity to lower it. If you qualify, you can make a deductible contribution to a traditional IRA right up until the Wednesday, April 15, 2020, filing date and benefit from the resulting tax savings on your 2019 return.

Do you qualify?

You can make a deductible contribution to a traditional IRA if:

- You (and your spouse) aren't an active participant in an employer-sponsored retirement plan, or
- You (or your spouse) are an active participant in an employer plan, and your modified adjusted gross income (AGI) does not exceed certain levels that vary from year-to-year by filing status.

For 2019, if you are a joint tax return filer covered by an employer plan, your deductible IRA contribution phases out over $103,000 to $123,000 of modified AGI. If you are single or a head of household, the phase-out range is $64,000 to $74,000 for 2019. For married filing separately, the phase-out range is $0 to $10,000. For 2019, if you are not an active participant in an employer-sponsored retirement plan, but your spouse is, your deductible IRA contribution phases out with modified AGI of between $193,000 and $203,000.

Deductible IRA contributions reduce your current tax bill, and earnings within the IRA are tax deferred. However, every dollar you take out is taxed in full (and subject to a 10% penalty before age 59 1/2, unless one of several exceptions apply).

IRAs often are referred to as "traditional IRAs" to distinguish them from Roth IRAs. You also have until April 15 to make a Roth IRA contribution. But while contributions to a traditional IRA are deductible, contributions to a Roth IRA are not. However, withdrawals from a Roth IRA are tax-free as long as the account has been open at least five years and you are age 59 1/2 or older.

Here are a couple other IRA strategies that might help you save tax:

- Turn a nondeductible Roth IRA contribution into a deductible IRA contribution. Did you make a Roth IRA contribution in 2019? That may help you years down the road when you take tax-free payouts from the account. However, the contribution is not deductible. If you realize you need the deduction that a traditional IRA contribution provides, you can change your mind and turn that Roth IRA contribution into a traditional IRA contribution via the "re-characterization" mechanism. The traditional IRA deduction is then yours if you meet the requirements described above.

- Make a deductible IRA contribution, even if you do not work. In general, you cannot make a deductible traditional IRA contribution unless you have wages or other earned income. However, an exception applies if your spouse is the breadwinner and you manage the home front. In this case, you may be able to take advantage of a spousal IRA.

How much can you contribute?

For 2019 if you're qualified, you can make a deductible traditional IRA contribution of up to $6,000 ($7,000 if you're 50 or over).

In addition, small business owners can set up and contribute to a Simplified Employee Pension (SEP) plan up until the due date for their returns, including extensions. For 2019, the maximum contribution you can make to a SEP account is $56,000.

If you would like more information about whether you can contribute to an IRA or SEP, contact us or ask about it when we're preparing your return. We would be happy to explain the rules and help you save the maximum tax-advantaged amount for retirement.

ANSWERS TO YOUR QUESTIONS ABOUT 2020 INDIVIDUAL TAX LIMITS

Right now, you may be more concerned about your 2019 tax bill than you are about your 2020 tax situation. That is understandable because your 2019 individual tax return is due to be filed in less than three months.

However, it is a good idea to familiarize yourself with tax-related amounts that may have changed for 2020. For example, the amount of money you can put into a 401(k) plan has increased and you may want to start making contributions as early in the year as possible because retirement plan contributions will lower your taxable income.

Note: Not all tax figures are adjusted for inflation and even if they are, they may be unchanged or change only slightly each year due to low inflation. In addition, some tax amounts can only change with new tax legislation.

So below are some Q&A's about tax-related figures for this year.

How much can I contribute to an IRA for 2020?

If you are eligible, you can contribute $6,000 a year into a traditional or Roth IRA, up to 100% of your earned income. If you are age 50 or older, you can make another $1,000 "catch up" contribution. (These amounts are the same as they were for 2019.)

I have a 401(k) plan through my job. How much can I contribute to it?

For 2020, you can contribute up to $19,500 (up from $19,000) to a 401(k) or 403(b) plan. You can make an additional $6,500 catch-up contribution if you are age 50 or older.

I sometimes hire a babysitter and a cleaning person. Do I have to withhold and pay FICA tax on the amounts I pay them?

In 2020, the threshold when a domestic employer must withhold and pay FICA for babysitters, house cleaners, etc. is $2,200 (up from $2,100 in 2019).

How much do I have to earn in 2020 before I can stop paying Social Security on my salary?

The Social Security tax wage base is $137,700 for this year (up from $132,900 last year). That means that you do not owe Social Security tax on amounts earned above that. (You must pay Medicare tax on all amounts that you earn.)

I did not qualify to itemize deductions on my last tax return. Will I qualify for 2020?

The Tax Cuts and Jobs Act eliminated the tax benefit of itemizing deductions for many people by increasing the standard deduction and reducing or eliminating various deductions. For 2020, the standard deduction amount is $24,800 for married couples filing jointly (up from $24,400). For single filers, the amount is $12,400 (up from $12,200) and for heads of households, it is $18,650 (up from $18,350). So if the amount of your itemized deductions (such as charitable gifts and mortgage interest) are less than the applicable standard deduction amount, you will not itemize for 2020.

How much can I give to one person without triggering a gift tax return in 2020?

The annual gift exclusion for 2020 is $15,000 and is unchanged from last year. This amount is only adjusted in $1,000 increments, so it typically only increases every few years.

Your tax picture

These are only some of the tax figures that may apply to you. For more information about your tax picture, or if you have questions, do not hesitate to contact us.

NUMEROUS TAX LIMITS AFFECTING BUSINESSES HAVE INCREASED FOR 2020

An array of tax-related limits that affect businesses are annually indexed for inflation, and many have increased for 2020. Here are some that may be important to you and your business.

Social Security tax

The amount of employees' earnings that are subject to Social Security tax is capped for 2020 at $137,700 (up from $132,900 for 2019).

Deductions

- Section 179 expensing:
  Limit: $1.04 million (up from $1.02 million for 2019)
  Phase-out: $2.59 million (up from $2.55 million)

Please see *Numerous Tax Limits Affecting Businesses Have Increased for 2020* on page 3

Numerous Tax Limits Affecting Businesses Have Increased for 2020
from page 2

- Income-based phase-out for certain limits on the Sec. 199A qualified business income deduction begins at:
    - Married filing jointly: $326,600 (up from $321,400)
    - Married filing separately: $163,300 (up from $160,725)
    - Other filers: $163,300 (up from $160,700)

- Retirement plans
    - Employee contributions to 401(k) plans: $19,500 (up from $19,000)
    - Catch-up contributions to 401(k) plans: $6,500 (up from $6,000)
    - Employee contributions to SIMPLEs: $13,500 (up from $13,000)
    - Catch-up contributions to SIMPLEs: $3,000 (no change)
    - Combined employer/employee contributions to defined contribution plans (not including catch-ups): $57,000 (up from $56,000)
    - Maximum compensation used to determine contributions: $285,000 (up from $280,000)
    - Annual benefit for defined benefit plans: $230,000 (up from $225,000)
    - Compensation defining a highly compensated employee: $130,000 (up from $125,000)
    - Compensation defining a "key" employee: $185,000 (up from $180,000)

- Other employee benefits
    - Qualified transportation fringe-benefits employee income exclusion: $270 per month (up from $265)
    - Health Savings Account contributions:
        - Individual coverage: $3,550 (up from $3,500)
        - Family coverage: $7,100 (up from $7,000)
    - Catch-up contribution: $1,000 (no change)
    - Flexible Spending Account contributions:
        - Health care: $2,750 (up from $2,700)
        - Dependent care: $5,000 (no change)

These are only some of the tax limits that may affect your business and additional rules may apply. If you have questions, please contact us.

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CENTS PER MILE RATE FOR BUSINESS MILES DECREASES SLIGHTLY FOR 2020

This year, the optional standard mileage rate used to calculate the deductible costs of operating an automobile for business decreased by one-half cent, to 57.5 cents per mile. As a result, you might claim a lower deduction for vehicle-related expense for 2020 than you can for 2019.

Calculating your deduction

Businesses can generally deduct the actual expenses attributable to business use of vehicles. This includes gas, oil, tires, insurance, repairs, licenses and vehicle registration fees. In addition, you can claim a depreciation allowance for the vehicle. However, in many cases depreciation write-offs on vehicles are subject to certain limits that do not apply to other types of business assets.

The cents-per-mile rate comes into play if you do not want to keep track of actual vehicle-related expenses. With this approach, you do not have to account for all your actual expenses, although you still must record certain information, such as the mileage for each business trip, the date and the destination.

Using the mileage rate is also popular with businesses that reimburse employees for business use of their personal vehicles. Such reimbursements can help attract and retain employees who drive their personal vehicles extensively for business purposes. Why? Under the Tax Cuts and Jobs Act, employees can no longer deduct unreimbursed employee business expenses, such as business mileage, on their own income tax returns.

If you do use the cents-per-mile rate, be aware that you must comply with various rules. If you do not, the reimbursements could be considered taxable wages to the employees.

The rate for 2020

Beginning on January 1, 2020, the standard mileage rate for the business use of a car (van, pickup or panel truck) is 57.5 cents per mile. It was 58 cents for 2019 and 54.5 cents for 2018.

Please see Cents per Mile Rate for Business Miles Decreases Slightly for 2020 on page 4

Cents per Mile Rate for Business Miles Decreases Slightly for 2020
from page 3

The business cents-per-mile rate is adjusted annually. It is based on an annual study commissioned by the IRS about the fixed and variable costs of operating a vehicle, such as gas, maintenance, repair and depreciation. Occasionally, if there is a substantial change in average gas prices, the IRS will change the mileage rate midyear.

Factors to consider

There are some situations when you cannot use the cents-per-mile rate. In some cases, it partly depends on how you have claimed deductions for the same vehicle in the past. In other cases, it depends on if the vehicle is new to your business this year or whether you want to take advantage of certain first-year depreciation tax breaks on it.

As you can see, there are many factors to consider in deciding whether to use the mileage rate to deduct vehicle expenses. We can help if you have questions about tracking and claiming such expenses in 2020 — or claiming them on your 2019 income tax return.

~ *I R S Corner*

IRS Advises on Filing an Amended Return

What if you file your federal tax return and then realize you made a mistake? According to the IRS, the answer depends on the mistake. If the error is mathematical, there's a good chance it will be caught during the processing and corrected by the IRS. But if you chose the wrong filing status, need to change your income, or forgot deductions or credits, you should file an amended return, using Form 1040X (Amended U.S. Individual Income Tax Return). Allow up to 16 weeks for processing an amended return. Contact us for help preparing the return.

IRS Launches Identity Theft Central

It's tax season and with it comes the risk of identity theft. As taxpayers focus on filing their returns, cybercriminals are focused on stealing their personal identifying information. That's why the IRS just launched Identity Theft Central, with online access to information about identity theft and data security for taxpayers, tax pros, and businesses. This resource helps you to spot identity theft and protect against phishing and other scams. It also provides specific information about what to do if you're a victim and how businesses can recognize the signs of identity theft. Visit Identity Theft Central here: https://bit.ly/2RSCS8M or contact us with questions.

IRS Urges Taxpayers to Check if they Qualify for Earned Income Tax Credit (EITC)

Might someone you know qualify for the Earned Income Tax Credit (EITC)? It benefits certain lower income taxpayers. The IRS is urging taxpayers to see if they qualify. According to the IRS, one in five eligible taxpayers doesn't claim the EITC. Workers at risk for overlooking the credit can include taxpayers without children; armed forces members; the disabled; those who provide care for a disabled dependent; those living in nontraditional families, such as a grandparent raising a grandchild; those whose earnings declined or whose marital or parental status changed; those with limited English language skills; and those living in rural areas. In 2019, the average EITC was $2,504. Contact us for more information.