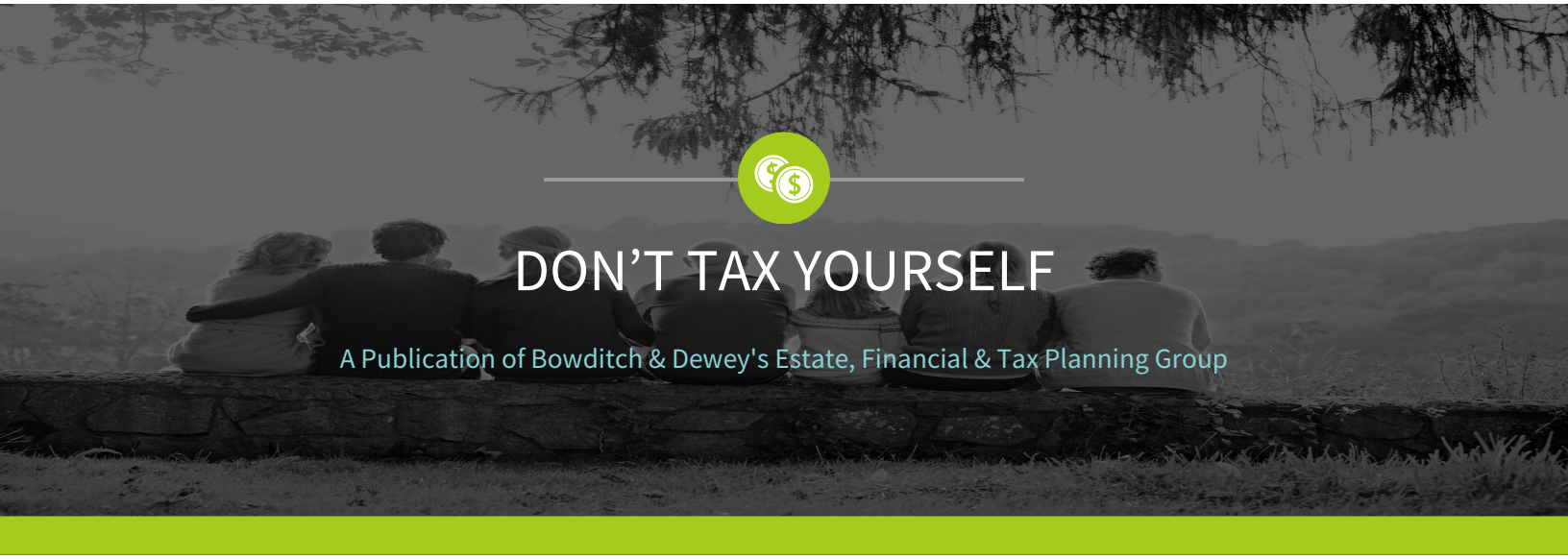


DON'T TAX YOURSELF

A Publication of Bowditch & Dewey's Estate, Financial & Tax Planning Group

2020 End of Year Tax Planning for Individuals

BY BOWDITCH & DEWEY • OCTOBER 29, 2020

As the 2020 year draws to a close, families should review with their tax advisers the CARES Act tax-related provisions in their tax and financial planning. Tax provisions that apply to individuals include the following:

TEMPORARY WAIVER OF REQUIRED MINIMUM DISTRIBUTIONS FROM RETIREMENT FUNDS

Required minimum distributions for 2020 are waived for individual retirement plans (IRAs) and certain defined contribution plans.

CORONAVIRUS-RELATED DISTRIBUTIONS FROM RETIREMENT ACCOUNTS

The CARES Act eliminated the 10% early distribution penalty for participants under age 59½ for certain coronavirus-related distributions. An individual may take an aggregate amount of up to $100,000 without being subject to the 10% tax penalty, if a person:

1. Has been diagnosed with COVID-19
2. Has a spouse or dependent diagnosed with COVID-19 or
3. Experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to COVID-19, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual, or other factors as determined by the Secretary of the Treasury.

The coronavirus-related distribution must be taken after January 1, 2020 and before December 31, 2020. In addition to the penalty waiver, no 20% default income-tax withholding will apply to the coronavirus-related distribution. In addition, if an individual repays the coronavirus-related distribution within 3 years, income taxation is avoided entirely and the distribution is treated like a roll-over distribution. Finally, if the distribution is not repaid, the individual can elect to spread the income inclusion (and related tax) associated with the distribution over a 3-year period (including 2020).

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EXTENDED DUE DATES FOR LOANS FROM RETIREMENT ACCOUNTS

The CARES Act extends the time to pay back outstanding loans from retirement accounts by one year, if the due date for the loan falls between the March 27, 2020 and December 31, 2020.

INCREASED CHARITABLE CONTRIBUTION DEDUCTIONS

For individuals that take the standard deduction, the CARES Act allows them to take a deduction for up to $300 of cash contributions to 501(c)(3) organizations made in 2020. For individuals that itemize their deductions, the Act also suspends the adjusted gross income limitation for charitable contributions made in 2020.

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