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BEHOLD, THE TAX MAN COMETH!

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The 2020 calendar now has us all squarely in the middle of tax season. Most of you have already received a variety of 1099 and W-2 forms for the 2019 tax year. Some may have already begun the tax planning and tax preparation process. Others may be preparing now. Still others may be dreading it.

In order to help calm your worries and provide suggestions for discussions with your tax professionals, WT Wealth Management asked me to share a few tax tidbits that may help you as you file your 2019 taxes and make plans for your 2020 tax and retirement investment strategy.

Retirement Plan Contribution Limits

As is often the case, contribution limits for the various retirement plans have been updated for 2020. The table below, summarizing information available on www.irs.gov, highlights some of the most common. If one of your limits has changed, be sure to update your contribution schedule with your financial advisor to take full advantage of these great retirement savings options. And if you are aged 50+ remember to take advantage of the catch up provisions wherever they are allowed.

RETIREMENT PLAN CONTRIBUTION LIMITS[1]	2020	2019
Traditional IRA Plans	**$6,000**	**$6,000**
Catch up provision (age 50+)	$1,000	$1,000
Roth IRA Plans (subject to phase out limitations)	**$6,000**	**$6,000**
Catch up provision (age 50+)	$1,000	$1,000
SIMPLE Plans (elective deferral limit)	**$13,500**	**$13,000**
Catch up provision (age 50+)	$3,000	$3,000
401(k) / 403(b) / 457(b) / Roth 401(k) Plans (elective deferral limit)	**$19,500**	**$19,000**
Catch up provision (age 50+)	$6,500	$6,000
Defined-Contribution / SEP IRA Plans (basic limit)	**$57,000**	**$56,000**
Catch up provision (age 50+)	None	None
Defined-Benefit Plans (basic limit)	**$230,000**	**$225,000**
Catch up provision (age 50+)	None	None

Please also remember that contributions to Traditional and Roth IRA plans for the 2019 tax year can still be made through April 15, 2020.

The Standard Deduction

One important question when filing your tax return is to determine whether to itemize deductions or take the standard deduction. With the Tax Cuts and Jobs Act of 2017, the standard deduction was increased significantly, leading fewer tax payers than ever to itemize deductions. Many simply couldn't beat the new, higher standard deduction. If you can reach a higher deduction amount by itemizing, then by all means, itemize.

The table below provides information about the standard deduction.

STANDARD DEDUCTION[2]	2020		2019	
	Under 65	Over 65	Under 65	Over 65
Single	$12,400	$14,050	$12,200	$13,850
Married Filing Jointly or Qualifying Widow(er)	$24,800	$26,100	$24,400	$25,700
Head of Household	$18,650	$20,300	$18,350	$20,000
Married Filing Separately	$12,400	$13,700	$12,200	$13,500

Note:
The standard deduction is $1,300 higher for those over 65 or blind / $1,650 if also unmarried and not a surviving spouse.

Retirement Savings in the December 2019 SECURE Act

Congress passed significant changes to retirement savings law through the SECURE Act that was signed into law on December 20, 2019. Some highlights include[3]:

- Change to RMD Age: The age at which individuals must begin taking Required Minimum Distributions ("RMDs") from their retirement accounts was raised from 70½ to 72. The change really only affects those few people who turn 70½ after December 31, 2019. They will not be required to begin taking RMDs until their 72nd birthday. If a person already turned 70½ on December 31, 2019 or any time before (and thus became subject to RMDs under the old law), they would remain subject to RMD requirements and continue to take them going forward.

- Contributions to traditional IRAs after age 70½: The prohibition on contributing to an individual retirement account (IRA) after 70 ½ is ended. Individuals may now continue contributing to an IRA at any age, as long as they have earned income.

- Part-time workers can participate in a 401(k) plan: Employees must have worked at least 500 hours a year for three consecutive years in order to be eligible. Check with your employer if this circumstance might apply to you.

- Change to 529 plans: Assets in these college-savings plans can now be used to repay up to $10,000 in student loans.

"Extenders" in the December 2019 SECURE Act

In the same SECURE Act, Congress also addressed certain deductions and credits that had been eliminated or modified with the Tax Cuts and Jobs Act of 2017. These "extenders," which previously existed for many years, were extended retroactively to January 1, 2018 (in other words, it is as though they were never eliminated or modified) and have a new expiration date of December 31, 2020. Really, the only change is to make these "extenders" available once again for a longer period of time. A few of the more familiar highlights include[4]:

- The medical deduction base remains at 7.5% rather than moving to 10.0%.
- The deduction for mortgage insurance premiums as qualified residence interest is reinstated.
- Tuition and related expenses are once again deductible.
- The Energy Property Credit (i.e., upgrades to make your home more energy efficient) is now available again.

There are a multitude of other, more obscure deductions and credits that were extended. Consult your tax professional to see if any of them apply to your situation (and whether it might be worth the effort and cost to file an amended 2018 return to recover the retroactive tax benefit).

Marginal Tax Rates

For tax year 2020, the top tax rate remains 37% for individual single taxpayers with incomes greater than $518,400 ($622,050 for married couples filing jointly).[5] The IRS increased 2020 tax rates by an approximate 1.6% inflation adjustment over 2019 rates.

One helpful thing to remember about US tax rates is that they are marginal – meaning that your effective tax rate is a combination of all of the tax rates below your taxable income level. So, as above, a single filer with income over $518,400 doesn't pay a 37% rate on all of their taxable income, but only on that portion of their income above $518,400. They would pay 10% on the first income tier, 12% on the next, 22% on the third and so on until the final tier at 37%. So effective tax rates are generally lower than the marginal tax rates found in tax tables. For your reference, we have provided links to the 2020 and 2019 tax rate schedules, which provide sample calculations showing the difference between marginal tax rates and effective tax rates.

2019 Tax Rate Schedule **2020 Tax Rate Schedule**

Understanding Audit Risk

How does the IRS decide which tax returns to audit? Is it entirely random? How likely is it to happen to you? Are there certain things that increase the risk of an audit? The IRS has limited resources and funding, so "only 0.59% of all individual tax returns in 2018 were audited. That's about 1 in 170 returns. So the odds are pretty low that your return will be singled out for review."[6]

But yes, there are certain things that increase the risk of an audit, including the size of your income, the complexity of your return, the types and amounts of deductions or other tax breaks you claim, the business you're engaged in, whether you take an early distribution from a retirement account, and whether you work or own assets abroad. Although there's no sure way to avoid an IRS audit, it's important to recognize your risk, properly understand and apply the tax breaks you claim, thoroughly document your situation, and have open discussions with your tax professional. While an audit can be inconvenient, if you are prepared to show that you have properly filed your return, it is a manageable process.

A Few Tips for Arizona Filers

Arizona tax laws provide for a number of tax credits and deductions, including: charitable donations to the working poor, foster care, contributions made or fees paid to public and charter schools, contributions to private school tuition organizations (for scholarships to private schools), donations to the Arizona military relief fund, energy credits, and certain contributions to a 529 College Savings Plan. For more information please see: https://azdor.gov/tax-credits or discuss with your tax professional.

Your Advisor and Your Tax Professional

I know that your advisor is well connected professionally with multiple accountants and tax preparers. The closer the relationship between these two important advisors in your financial life, the better they will be able to properly advise you in your important financial decisions. I would encourage you to reach out to your advisor as you work through the tax filing process so that your tax preparer has the best information to help you this year and into the future. If WT Tax Accounting can be of help, your advisor would be happy to make the introduction.

Marina Karpoukhina is the Tax Manager for WT Tax Accounting – a sister-company to WT Wealth Management – that provides tax planning, tax preparation and basic accounting services based out of our Scottsdale, AZ office. Marina was born in Ukraine, where she was educated and trained as a doctor of Neurophysiology. Following one year as a visiting research scientist at the Barrow Neurological Institute and St. Joseph's Hospital and Medical Center in Phoenix, AZ, Marina decided to retrain herself in taxation, accounting and bookkeeping. She has worked in that field since 1997 (23 years now) and has been an IRS Enrolled Agent since 2001. As an IRS Enrolled Agent, Marina is unrestricted as to which taxpayers she can represent, what types of tax matters she can handle, and which IRS offices she can work with on behalf of clients. While most of WT Tax Accounting's work is with Arizona-based clients, they also service clients from all over the country.

SOURCES

[1] *https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-contributions*

[2] *https://www.irs.gov/publications/p501 & https://www.nerdwallet.com/blog/taxes/standard-deduction*

[3] *https://www.schwab.com/resource-center/insights/content/significant-retirement-savings-law-changes-are-coming-2020*

[4] *http://ataxprof.com/files/Tax-Changes-2019-Extenders.pdf*

[5] *https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2020*

[6] *https://www.kiplinger.com/slideshow/taxes/T056-S001-20-irs-tax-audit-red-flags/index.html*

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