



MUHLENKAMP & ASSOCIATES LLC
MUHLENKAMP & GAGEL WEALTH ADVISORS LLC

December 2020 Individual Newsletter

TAX PLANNING

Should you take a look at your income figures before year end? Do you have lower income and want to consider a ROTH conversion? With many tax changes for 2020, there is still time to set up an appointment for year-end tax planning. Please call our office to set up an appointment.

WEBSITE – PORTAL-www.muhlcpa.com – electronically sending and receiving your information securely

- Ability to scan and send us your tax documents securely.
- Allows Muhlenkamp & Associates to send your copy of the tax return electronically to you.
- Ability to scan and send payroll documents, general ledger, or other documents.
- Ability to upload Quickbooks backup

QUICKBOOKS

We are available to assist with your Quickbooks with questions, data entry, and reports to be useful to your business.

ECONOMIC IMPACT STIMULUS PAYMENT

The CARES Act also introduced a new “Stimulus” credit for 2020 which was an advance refunded earlier in 2020. **The stimulus checks are not taxable** but will be reconciled on the 2020 return. You will need to provide us with the amount received for your stimulus payment to complete your 2020 tax return.

PAYCHECK PROTECTION PROGRAM FORGIVENESS – PPP

Have you filed your PPP loan forgiveness? If not, the banks are currently accepting forgiveness applications for PPP loans. Please contact us if you need assistance in preparing and submitting the forgiveness form to the bank. The bank will then submit this information to the SBA for final approval of forgiveness on your PPP loan.

UNEMPLOYMENT

During 2020, many people were on unemployment. If you are one of them, you will receive a 1099-G tax form in January for the amount received for unemployment payments. Please submit with your tax documents for preparation of your 2020 tax return.

OHIO DEDUCTION TO COLLEGE ADVANTAGE 529 PLAN

We can help you establish 529 accounts. In 2020, \$4,000 per beneficiary per year can be deducted on the Ohio return for contributions to Ohio/Blackrock 529 college savings plans. The state of Indiana allows a 20% credit up to \$1,000 on the first \$5,000 contributed to the 529 plan. To be deductible in the current year, these contributions must be made by December 31.

EDUCATION CREDITS

There are two popular education credits available to college students.

- American Opportunity Credit – available first four years of college with maximum credit of \$2,500 each year (100% credit on first \$2,000 of expenses and 25% credit on the next \$2,000 of expenses)
- Lifetime Learning Credit – 20% credit on the first \$10,000 of education expenses and no limit on number of years it can be claimed.

Both education credits **require receipts** and/or **transcripts** to justify the credit.

INDIANA PRIVATE SCHOOL OR HOMESCHOOL DEDUCTION

Any Indiana taxpayer who has a child already enrolled in private school or who is homeschooled is eligible to claim up to a \$1,000 tax deduction per child for approved educational expense including private school tuition, textbooks, fees, software, tutoring, and supplies.

GIFT TAX

The annual gift tax exclusion amount for 2020 is \$15,000. If you gave an individual more than \$15,000 in cash or property during 2020, a gift tax return may be necessary. The lifetime gift exclusion for estate tax is currently \$11.58 million for 2020.

NEW \$300 CHARITABLE DEDUCTION

There is a new deduction in 2020 for up to \$300 in charitable deductions that can be taken even if you do not itemize. Please provide receipts or records of your donations for your 2020 tax return.



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MILEAGE RATE

The business mileage rate for 2020 is 57.5 cents per mile for business, 17 cents per mile for medical, and 14 cents per mile for charitable purposes.

DIRECT IRA TO CHARITY

Taxpayers may make donations directly to a charity of choice from IRA accounts. The taxpayer must be 70 ½ or older, money must go directly to the charity, and it counts as your RMD (required minimum distribution) but does not count as income or taxable. This is limited to \$100,000 per year, per taxpayer.

NEW RETIREMENT RULES

- The CARES Act waived required minimum distributions during 2020 for IRAs and retirement plans, including beneficiaries with inherited accounts.
- If you reached 70 ½ in 2020, you must take your first RMD by April 1 of the year after you reach the age of 72.
- Contributions can be made to IRA until age 72
- Coronavirus-related distributions allowed up to \$100,000 from qualified retirement plans and traditional IRAs without a 10% tax penalty, but only under all of the following conditions.
 - Plan must permit such distributions.
 - You, your spouse, or one or more of your dependents must have been diagnosed with COVID-19.
 - You must personally have experienced negative financial consequences due to COVID-19.
 - You may elect to spread the distribution over three years for tax purposes, and you also have the chance to put 100% of it back in the plan within three years, without having the withdrawn amount characterized as taxable income.
- As in the past, any withdrawals from IRAs after 59 ½, are not subject to the 10% penalty.

RETIREMENT PLAN LIMITS

Contact our office to set up your retirement plans (401k, Simple IRA, etc.) for employees and owners (partners, shareholders, and self-employed), as well as your personal retirement and investment accounts. The deadline for current year Traditional, ROTH and SEP IRA contributions is up to the extended due date of the return.

The 2020 contribution limits (subject to income limits)

Traditional & ROTH IRAs	\$6,000 plus a \$1,000 “catch up” if age 50 or over
SIMPLE IRAs	\$13,500 plus a \$3,000 “catch up” if age 50 or over
401k	\$19,500 plus a \$6,500 “catch up” if age 50 or over
SEP IRA	\$57,000 plus a \$6,500 “catch up” if age 50 or over

HSA (Health Savings Account) CONTRIBUTIONS

The 2020 HSA contribution limits are \$7,100 for family and \$3,550 for single taxpayers. If you are age 55 or older, you are eligible to contribute an extra \$1,000. Current year contributions can be made until April 15.

BUSINESS USE OF HOME

Must meet three guidelines to qualify for business use of home deduction

- Self Employed/sole proprietor
- Office space exclusively use for business
- Primary place of business.

*If you are a W-2 employee and/or were working from home during COVID-19, this deduction will NOT qualify for you.

RESIDENTIAL ENERGY CREDITS

- 22% of the cost of qualified solar and geothermal improvements; includes labor expense to install
- 10% of the cost of qualified energy efficiency improvements; does not include labor (subject to the overall credit limit of \$500)
- Qualified energy efficiency improvements include Energy-efficient exterior windows, doors, skylights, metal roofs, insulation, qualified HVAC systems, water heaters, biomass stoves.
- The State of Indiana also allows additional tax credits on the state return for these improvements.



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ADDITIONAL TAX INFORMATION

UPDATES

TEXTING – Do we have your cell number? We can text notifications for appointments and tax return completion.

DRIVER'S LICENSE – Provide a copy if updated issue and expiration dates since last tax season.

OTHER RECORD CHANGES - New dependents? Move? Bank account information?

“BACKDOOR ROTH”

Taxpayers should consider utilizing a “Back Door Roth” when AGI thresholds prohibit you from making a Roth contribution. You make a non-deductible IRA contribution, wait a few days to avoid the “step doctrine” and then convert it to a Roth IRA. Reach out to your financial advisor for additional information. Roth IRA thresholds for 2020 are: \$139,000 if you are single; \$206,000 if you are married filing jointly

DEPRECIATION

The Section 179 expensing of new or used equipment is set to \$1,040,000 for the first \$2,590,000 of acquisitions, at which point the deduction begins to be phased out. The bonus depreciation deduction for both new and used property is 100% for 2019-2022 tax years. Ohio & Indiana still limit first year expensing to \$25,000.

LIKE KIND EXCHANGE

Like kind exchanges are only allowed for real property. All trades of equipment and vehicles will be treated as a sale and corresponding purchase. *We will need trade-in values for any equipment or vehicles traded in 2020*

OHIO CAT TAX – Commercial Activity Tax

Taxpayers with Ohio gross receipts greater than \$150,000 are subject to the annual Ohio CAT tax. In addition, all taxpayers with gross receipts over \$1 million must file their returns quarterly.

OHIO SMALL BUSINESS TAX DEDUCTION

Ohio small businesses (and farms) will be entitled to take a 100% tax deduction on the first \$250,000 of business income. This deduction is also available to owners/investors of all companies structured as pass-through entities.

DPD-199A – QUALIFIED BUSINESS INCOME DEDUCTION (QBI)

A 20% deduction will be available to most businesses and farms with a profit. There are limitations due to income (\$163,300 for single taxpayers/\$326,600 for married taxpayers) or specified service businesses.

PAYING CHILDREN BY SELF EMPLOYED

Did you know you can deduct wages paid to your children who work on your family farm or self-employed business? The children generally pay very little, if any, income tax. You need to pay with a physical paycheck regularly with reasonable wages, file payroll forms and year end W-2s, and BWC (workers compensation) coverage. It is more paperwork, but it may be a worthwhile deduction for your business.

INDIANA RENTER'S DEDUCTION

You may be able to deduct up to \$3,000 of the rent paid on your Indiana home.

You may be able to take this deduction if:

- You paid rent on your principal place of residence, **AND**
- The place you rented was subject to Indiana property tax.