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ALL TAXPAYERS

What's the Deal with My Stimulus Check?

Most taxpayers have now received their stimulus checks – whether the amount seems correct or not. There remain a lot of questions about these payments and here are the questions (and answers) we are getting the most.

Do I have to pay taxes on the money I received?

No. Technically, the cash you've received is an advance payment of a new refundable tax credit for your 2020 Form 1040 tax return. (This is the return you will file in 2021.)

I received a check for a deceased taxpayer, or a duplicate check. Can I keep it?

Don't we wish! The IRS has instructed that these checks be mailed back to them. Find instructions at https://www.irs.gov/coronavirus/economic-impact-payment-information-center#more

The amount I received is incorrect; how do I get the rest of my money?

It is highly unlikely that a call to the IRS to discuss this will get you an answer. It may be worth a try or wait until you file next year's tax return. You'll "true up" your advance tax credit on your 2020 Form 1040 (which you will file in 2021):

- If the tax credit amount (the cash you received) is less than the credit you qualify for based on 2020 AGI, then you'll get the difference as a refundable tax credit in 2021 after you file your 2020 tax return.
- If the cash amount you receive this year is greater than the credit you qualify for based on 2020 AGI, you have a windfall. You don't have to pay the excess cash back to the IRS (according to current guidance).

Can the IRS apply my payment to other IRS debts I owe?

Your current tax debts will not interfere with receiving the payment. There are no offsets for outstanding tax debts. But there is an offset for past-due child support that is reported to the IRS by a state. In this case, the IRS will take the child support money from the advance tax credit before remitting any money to the taxpayer.

Our hours are changing!

Beginning the week of June 15 and through the end of the year, we will be open Monday through Thursday from 9am-5pm (Closed Fridays).

Idaho Tax Deadline is June 15

Even though the IRS delayed the Federal filing deadline to July 15, 2020, the State of Idaho extended the deadline for filing and payment only to June 15, 2020. Since the federal return must be completed in order to prepare the state return, both returns have an effective filing deadline of June 15. However, if money is owed on the Federal return, payment will not be late if paid by July 15. An automatic extension to October 15, 2020 is available if submitted by the filing deadline. This extends the amount of time to file, but any taxes owed should still be paid timely. Interest and penalty start on July 16 (Fed) or June 16 (state).

Please contact our office if an extension needs to be filed.

ALL TAXPAYERS

COVID-19: Related Distributions from IRAs Get Tax-Favored Treatment

Under this new law, you may be able to take money from your IRA and other retirement accounts, avoid early withdrawal penalties, and have generous options on repayment (or not). Additionally, you may not have to take the required minimum distribution from your IRA.

If you are an IRA owner who has been adversely affected by the COVID-19 pandemic, you may be eligible to take tax-favored distributions from your IRA(s).

For brevity, let's call these allowable COVID-19 distributions "CVDs." They can add up to as much as $100,000. Eligible individuals can recontribute (repay) CVD amounts back into an IRA within three years of the withdrawal date and can treat the withdrawals and later recontributions as federal-income-tax-free IRA rollover transactions.

In effect, the CVD privilege allows you to borrow up to $100,000 from your IRA(s) and recontribute the amount(s) at any time up to three years later with no federal income tax consequences. There are no income limits on the CVD privilege and there are no restrictions on how you can use CVD money during the three-year recontribution period.

If you're cash-strapped, use the money to pay bills and recontribute later when your financial situation has improved. Help your adult kids out. Pay down your HELOC. Use it to get through this difficult time.

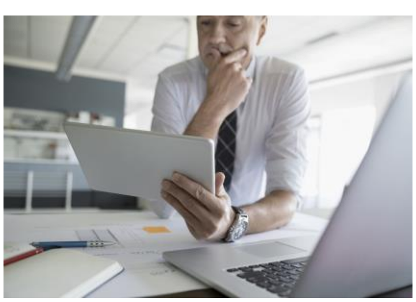
For more details on qualified withdrawals, see the full article on our website (veritastaxsolutions.com).

BUSINESS

COVID-19: Significant Payroll and Self-Employment Tax Relief

If you are in business for yourself—say, as a corporation or self-employed—payroll taxes and self-employment taxes are likely two of your biggest tax burdens.

Here's some possible good news: Congress decided to give you significant relief from these taxes due to the COVID-19 pandemic. Here are some relief options that are available and whether or not you qualify.



Payroll Tax Deferral

If you have employees (including yourself), then you can postpone payment of the employer share of payroll taxes incurred from the date of enactment of the CARES Act (March 27, 2020) through December 31, 2020.

You'll need to pay 50 percent of your 2020 postponed employer taxes no later than December 31, 2021, and the remaining 50 percent no later than December 31, 2022.

Note. This provision doesn't apply if you use the small business loan forgiveness provision under the CARES Act.

Self-Employment Tax Deferral

If you owe self-employment tax in tax year 2020, you'll pay it as follows:

- 50 percent on your 2020 Form 1040 return (which you file in 2021),
- 25 percent no later than December 31, 2021, and
- 25 percent no later than December 31, 2022.

For an example, visit our website at veritastaxsolutions.com.

PREPARING FOR RETIREMENT

Roth IRAs Have Two Big Tax Advantages

Tax-Free Withdrawals

Unlike withdrawals from a traditional IRA, qualified Roth IRA withdrawals are federal-income-tax-free and usually state-income-tax-free, too. (Qualified means you had at least one Roth IRA open for over five years, and you've reached age 59 ½, became disabled, or the account owner has died.)

Exemption from RMD Rules

Unlike with the traditional IRA, you as the original owner of the Roth account don't have to take annual required minimum distributions (RMDs) from the Roth account after reaching age 72.

Why convert now?

A Roth conversion is treated as a taxable distribution from your traditional IRA because you're deemed to receive a payout from the traditional account. Putting the money into a Roth account ensures that future earnings will be tax free.

So, doing a conversion will trigger a bigger federal income tax bill for the conversion year, and maybe a bigger state income tax bill, too. That said, right now might be the best time ever to convert a traditional IRA into a Roth IRA. Here are three reasons why:

1. **Current tax rates are low thanks to the TCJA.** Today's federal income tax rates might be the lowest you'll see for the rest of your life. Thanks to the Tax Cuts and Jobs Act (TCJA), rates for 2018-2025 were reduced. The top rate was reduced from 39.6 percent in 2017 to 37 percent for 2018-2025. But the rates that were in effect before the TCJA are scheduled to come back into play for 2026 and beyond – or possibly sooner, due to COVID-19.

2. **Your tax rate this year might be lower due to your COVID-19 fallout.** You won't be alone if your 2020 income takes a hit from the COVID-19 crisis. If that happens, your marginal federal income tax rate for this year might be lower than what you expected just a short time ago—maybe way lower.

3. **A lower IRA balance due to the stock market decline means a lower conversion tax bill.** Just a short time ago, the U.S. stock market averages were at all-time highs. Then the COVID-19 crisis happened, and the averages dropped big-time.

   Depending on how the money in your traditional IRA was invested, your account might have taken a substantial hit. Nobody likes seeing their IRA balance go south, but a lower balance means a lower tax bill when (if) you convert your traditional IRA to a Roth account.

When the investments in your Roth account recover, you can eventually withdraw the increased account value in the form of federal-income-tax-free qualified Roth IRA withdrawals.

Be sure to discuss your plans with your tax and/or financial advisor before taking action; there are things to consider not covered in this brief article.

RETIREES

Retirement Account Required Minimum Distribution Rules Are Suspended for 2020

In normal times, after reaching the magic age, you must start taking annual required minimum distributions (RMDs) from traditional IRAs set up in your name (including SEP-IRA and SIMPLE-IRA accounts) and from tax-favored company retirement plan accounts. The magic age is 70 1/2 if you attained that age *before 2020* or 72 if you attain age 70 1/2 *after 2019*.

And you must pay income tax on the taxable portion of your RMDs. Thankfully, the CARES Act suspends all RMDs that you would otherwise have to take in 2020. We are awaiting further guidance on whether you can “put your RMD back” if you have already taken it this year.

Credit Card Payments

When paying us by credit card, the payment will show up on your credit card statement under Veritas Business Solutions. This is the new parent company of both Ada Tax Professionals and Comprehensive Tax Service. There has been some confusion around this, and we want to make sure you know it is not fraud!

ALL TAXPAYERS

2020 Charitable Contributions

All taxpayers will be able to deduct up to $300 of qualified charitable contributions on their 2020 tax return – even without itemizing! Those who do itemize are free from the usual 60% of AGI limitations. Search at https://apps.irs.gov/app/eos/ to see if your organization qualifies.

Converting Expertise Into Solutions

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