THE ADVISER

WHITE & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

XLVI, No. 3
June 15, 2020

INSIDE.....

TWO LITTLE KNOWN TAX LAWS THAT CAN BE A BIG PROBLEM

1. People that have large cash business dealings can draw IRS attention. Banks, casinos, car dealers, pawn shops and all other businesses that take in cash in excess of $10,000 have to report details to the IRS about the transaction on Form 8300. A business can face fines up to $25,000 for not reporting this type of transaction. However, businesses can report cash transactions of less than $10,000 if there is suspicious activity or a series of cash payments.

2. Taxpayers who willfully fail to report foreign accounts can be subject to a stiff penalty. Canada and Mexico are foreign countries. The standard for willfulness includes knowing violations and reckless conduct and note, there is <u>no limit</u> to the amount of the fine. When you file your income tax return there are questions on Form 1040 Schedule B that need to be answered if you have a foreign account that at anytime during the year had a value exceeding $10,000, these questions should not be ignored unless you do not have to file a tax return.

IMPORTANT DUE DATES

Within 3 days of payroll	-Due dates of employer's Social Security and withholding tax deposits by EFTPS if the IRS has determined you pay semi-weekly
Extended to July 15, 2020	**-Due date of 2020 Estimated Tax Payments No. 1 and 2** **-Due date of federal income tax owed for 2019** **-Due dates of 2019 Form 1040 (Individual), Form 1041 (Trust or Estate), Form 1065 (Partnership), Form 1120 and 1120S (Corporation)**
June 15, 2020 July 15, 2020 Aug. 17, 2020 Sept. 15, 2020	-Due dates of employer's Social Security and withholding tax deposits by EFTPS if the IRS has determined you pay monthly
June 25, 2020 July 27, 2020 Aug. 25, 2020	-Due dates of monthly state excise tax reports
July 31, 2020	-Due date of Retirement Plan Form 5500 -Due date of Form 940 deposit for 2nd quarter 2020 -Due date of employer's payroll tax reports, Form 941, State Unemployment, State L & I and State Paid Family and Medical Leave reports -Due date of 2nd quarter 2020 state excise tax reports
Aug. 31, 2020	-Due date of Annual Heavy Vehicle Use Tax Form 2290
Sept. 15, 2020	**-Due date of 2020 Estimated Tax Payment No. 3**

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TIDBITS

- Per Rooster Money's annual "Kids Allowance Report" for the year 2018 kids' allowances averaged $471, which is an increase of 3.7% compared to 2017. Kids also saved 42% of their weekly allowance compared to the 2.4% that the average adult saves.
- Plastic surgeries on baby boomers reached nearly 50,000 procedures for 2017. Hair transplants were up 18%, lip augmentations were up 5%, liposuction and breast augmentations were up 4%.
- Employers' 401(k) match percentage is at an all time average high. In 2019, the average employer match percentage reached 4.7%. Experts recommend saving about 15% of annual income for retirement but around 25% of U.S. adults have no retirement savings at all!
- One easy way to spot a phone scam: Any phone sales pitch that tells you to act now or lose out is a red flag. "You must decide today" is a scammer's invitation for you to hang up!
- First time homebuyer records have been kept since 1981. In 2019, first time homebuyers were the oldest ever. The median age was 33, the reasons: shortage of affordable housing, lower mortgage rates lead to higher home prices, high debt levels and tight lending standards that reduced mortgage availability.
- Advertising is biased against people over age 50! More than one-third of the U.S. population is over 50 but over-50 people are shown in only 15% of media images. And 69% of people ages 55 to 73 own smart phones, but less than 5% of media images show older people handling technology.
- A DNA testing kit is an eligible use of HSA and/or FSA funds. In 2019, the IRS ruled that the cost that was paid for the test that related to health could be paid for from your HSA or FSA funds.

GRANDPARENTS, HELP FUND COLLEGE THE RIGHT WAY

Many grandparents want to help their grandchildren pay for college by funding some of their tuition but this generosity could backfire if the student is eligible for financial aid.

If the student will not qualify for need-based aid, you can pay the child's tuition directly to the school. Or you can contribute to a state-sponsored 529 college savings plan when the child is young and the money has time to grow. Contributions are after-tax, but the principal and earnings can be withdrawn tax-free for qualified education expenses.

If the student is likely to qualify for need-based aid, grandparents should consider different strategies. Withdrawals from a grandparent's 529 account are considered untaxed income to the student, which can significantly reduce aid in subsequent years. And if a grandparent pays tuition directly to the school, the money will be viewed either as untaxed student income or as a funding resource that will reduce aid eligibility. An easy way to avoid this problem is for grandparents to contribute to the parent's 529 account because those withdrawals will have less impact on aid. Also, they can wait until the student graduates and help repay any education loans.

Another way to avoid impacting financial aid is to loan the funds for college to the student and then after graduation forgive all loaned amounts as a graduation gift.

MORE FROM THE SECURE ACT PASSED IN DECEMBER 2019

A little known provision tucked into the Secure Act allows parents to use money from their 529 college savings plans to help their children pay off their student loans. The law allows owners of 529 plans to withdraw up to $10,000 tax free to be paid on the plan beneficiary's student loans. An additional $10,000 can be withdrawn tax free to repay student loans of each of the beneficiary's siblings.

In the past, families who had a balance in a child's 529 account had to change the beneficiary or pay taxes and penalties to withdraw the money.

ANOTHER SECURE ACT CHANGE

The Secure Act created a penalty-free exception for new parents.

The law now lets a taxpayer take out up to $5,000 following the birth or adoption of a child without paying the 10% early-withdrawal penalty from a 401(k), IRA or other retirement account. Income tax is still owed on the distribution unless the funds are repaid. For married couples, each spouse can withdraw $5,000 from his or her own account penalty free. This 10% penalty would normally apply if your age is under 59-1/2.

The account owner has one year from the date the child is born or the adoption is finalized to withdraw the funds from a retirement account without paying the 10% penalty. The money can also be put back into the retirement account at a later date. Recontributed amounts are treated as a rollover and not included in taxable income.

For adoptions, penalty-free withdrawals are generally allowed if the adoptee is younger than 18 years old or is physically or mentally incapable of self-support. However, the penalty still applies if the adoption is of a spouse's child.

A REMINDER FOR SOLE PROPRIETORS

Hiring your family can lower your payroll tax bill. No Social Security or Medicare tax is due if sole proprietors or husband-wife partnerships hire their kids who are under age 18. Ditto if the child works for a parent's one-person LLC that is disregarded for tax purposes. Also, federal unemployment tax is not owed on their salaries until they reach age 21. If employing your spouse or your parent, then the working spouse's or parent's wages escape federal unemployment tax, but are subject to income tax withholding and Social Security and Medicare taxes.

RETIRED AT RMD AGE AND MAKING ESTIMATED PAYMENTS?

Starting at age 72, retirees must take required minimum distributions from their traditional IRAs, based on the balance in the accounts on the previous December 31st divided by a factor provided by the IRS. ***(Note: RMDs have been waived by the CARES Act for 2020).***

If you do not need the money to live on, wait until December to take your RMD and ask the sponsor to withhold a big chunk for the IRS, enough to cover your estimated tax on the IRA payout and all of your other taxable income for the year.

Although estimated tax payments are considered made when you send in the checks, and must be paid as you receive your income during the year, amounts withheld from IRA distributions are considered paid evenly throughout the year, even if made in a lump sum payment at year-end.

So, if your RMD is large enough to cover your entire tax bill, you can keep your cash in your IRA most of the year, avoid withholding on other sources of retirement income, skip quarterly estimated payments and still avoid the underpayment penalty.

CAR COST FACTS

In 2019, the average price of a new vehicle was more than $36,000, the highest ever. In 1965, the cost of a Chevy Impala was $2,063—talk about inflation! The average car loan is for 69 months, close to 6 years, with an average monthly payment of $557. The loan terms, cost of the vehicle and monthly payments are 10% higher than they were three years ago.

LOOKING FORWARD TO MEDICARE AT 65? YOU MAY BE SURPRISED AT ITS COST!

If you have never heard of IRMAA, you will want to know all about it before you retire. It is the Medicare income-related monthly adjustment amount surcharge and it refers to the extra premiums for Part B and Part D that higher-income beneficiaries pay for Medicare coverage.

In some cases, even a tiny increase in your income can put you in a higher income bracket and trigger the surcharge, meaning a married couple, for example, could suddenly be paying as much as $1,000 a month more than planned. And if you convert a traditional IRA into a Roth account, thinking it is a smart strategy for avoiding higher taxes later in retirement, your additional income could put you in surcharge territory and wipe out some of your expected savings.

For 2020, the surcharge is triggered when your modified adjusted gross income, that is your adjusted gross income plus tax-exempt interest income, exceeds $174,000 for taxpayers who are married and file jointly or $87,000 for individual taxpayers. Part B premiums combined with premium surcharges for Part B and Part D range from a total of $214.60 to $568.00 per month, per person in 2020.

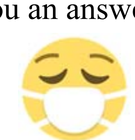
Not only are many pre-retirees unaware of the surcharge they also do not understand how it works.

NEW FORM TO BE USED FOR 2020

Form 1099-NEC will add to the already long list of Forms 1099. This form will need to be issued by those that pay nonemployee compensation in excess of $600 for 2020 and years following. Form 1099-NEC is to be used instead of Form 1099-MISC. This new form will remove one of the 18 items currently reported on Form 1099-MISC.

STIMULUS PAYMENTS

If you have not yet received your stimulus payment, there is still hope. Taxpayers that have received tax refunds in the past two years and had them deposited directly should have received their payment by now. If you do not get tax refunds, you will receive a check if you qualify. It takes the IRS a lot more work to issue checks. They plan to issue five million checks per month, so it may take several months until your check arrives at the address on your last tax return filed. Good news, the amount that you receive will not be taxable. The payment is actually considered an advance payment of a special 2020 tax credit. Give us a call if you have questions and we will try to get you an answer.



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RETURN SERVICE REQUESTED

June 2020

IRS AUDIT RED FLAGS

Here are six items that mean you are waving a red flag to the IRS for an audit:

1. **Failing to report income or reporting the wrong amount:** Use the exact numbers that are on every W-2, 1099 or other forms.
2. **Unusually high deductions:** Abnormal charity, business or medical deductions can lead to an audit-you should always claim all legitimate deductions, but be prepared with extensive backup if your return is audited.
3. **Forgetting to take a Required Minimum Distribution:** Neglecting to take an RMD from your retirement account leads to a 50% penalty on the amount you should have withdrawn. *Note: The CARES Act allows you to skip RMDs for 2020.*
4. **Taking retirement money early:** Withdrawals from retirement accounts before age 59-1/2 incur regular taxes and a 10% penalty, although there are some exceptions.
5. **Taking big losses:** If you gamble or run a business, losses are legitimate deductions-but you also must report winnings and profits and have documentation for everything.
6. **Having a foreign bank account:** It must be reported if it holds more than $10,000 at any point during the year.

THE AGGREGATION OF IRAS AND RETIREMENT PLANS

If you have multiple IRAs, it is possible to take your required minimum distribution (RMD) for all IRAs out of a single IRA. Some taxpayers may own multiple 401(k)s or other employer retirement accounts at the time they become subject to required minimum distributions. But the aggregation rule does not apply to RMDs from current employer or past employer retirement plans. If you mistakenly assume it does, you are at risk of withdrawing too little to satisfy each account's RMD, leaving you subject to a 50% penalty on the shortfall.

If you have three 401(k)s from which you must take RMDs, you will need to figure out the RMD for each one. But instead of mixing and matching the withdrawals, you must separately withdraw an RMD from each account. The RMDs from employer retirement accounts are also completely separate from the RMDs for IRAs and vice versa.

Keep in mind that it is normally applicable that you can rollover your 401(k) plans to IRAs along with other retirement plans when you retire or before you reach the age for RMDs, now 72 years of age (can be skipped for 2020).