

## 2020 TAX CHANGES: WHAT YOU NEED TO KNOW

### Overview

In November 2019, the Internal Revenue Service announced inflation adjustments for more than 60 provisions for the 2020 tax year. The following is a guide for changes that will affect the greatest number of taxpayers.

***“While it’s been more than a year since the Tax Cuts and Jobs Act went into full effect, many Americans are still relatively uncertain of how these changes impact them. The 2020 tax season could be the season that we see old problems resurface and a set of new issues emerge.”***

### Income Brackets<sup>2</sup>

In 2020, the top income tax rate remains 37%. Here are 2020 income brackets:

Tax Rate	Single	Married Filing Jointly	Head of Household
10%	\$0 to \$9,875	\$0 to \$19,750	\$0 to \$14,100
12%	\$9,876 to \$40,125	\$19,751 to \$80,250	\$14,101 to \$53,700
22%	\$40,126 to \$85,525	\$80,251 to \$171,050	\$53,701 to \$85,500
24%	\$85,526 to \$163,300	\$171,051 to \$326,600	\$85,501 to \$163,300
32%	\$163,301 to \$207,350	\$326,601 to \$414,700	\$163,301 to \$207,350
35%	\$207,351 to \$518,400	\$414,701 to \$622,050	\$207,351 to \$518,400
37%	\$518,401 and up	\$622,051 and up	\$518,401 and up

### Alternative Minimum Tax<sup>3</sup>

The Alternative Minimum Tax (AMT) was created to ensure that high-income taxpayers couldn’t use too many loopholes to avoid paying taxes altogether. However, a certain amount of income is exempted from the AMT, which phases out for higher-income taxpayers. Here are the amounts for 2020:

Filing Status	Exempted Amount	Phase-Out Threshold
Single	\$72,900	\$518,400
Married Filing Jointly	\$113,400	\$1,036,800

As you file your tax return for 2019, it’s worth reviewing what changes are on the docket for 2020 so you can fine-tune your tax plan for the year and make beneficial adjustments now.



## Capital Gains Income Threshold<sup>4</sup>

The 2020 income thresholds for long-term capital gains rates increased:

Tax Status	Single	Married Filing Separately	Married Filing Jointly	Head of Household
0%	\$0 to \$40,000	\$0 to \$40,000	\$0 to 80,000	\$0 to \$53,600
15%	\$40,001 to \$441,450	\$40,001 to \$248,300	\$80,001 to \$496,600	\$53,601 to \$469,050
20%	\$441,451 and up	\$248,301 and up	\$496,601 and up	\$469,051 and up

## Deductions<sup>5</sup>

The standard deduction for single taxpayers and married individuals filing separately in 2020 is \$12,400, a \$200 increase. The married filing jointly deduction is \$24,800 — up by \$400, while heads of household enjoy a \$300 increase at \$18,650.

You may be better off itemizing your deductions if their sum total is more than the standard deduction for your filing status. While eligible deductions are not changing in 2020, be sure to consider the wide range of options available, from student loan interest to medical expenses to charitable donations. Speak with your tax advisor to explore the itemized deduction option more fully.

## Credits<sup>6</sup>

For 2020, the maximum earned income credit (EIC) is \$6,660 (a \$103 increase). The threshold for claiming the Lifetime Learning Credit has increased in 2020 to \$118,000 and phases out at \$138,000 (a \$2,000 increase on both ends) for married taxpayers filing jointly. For single filers and heads of household, the modified adjusted income range is \$59,000 to \$69,000, up \$1,000 for each amount. Married individuals who file separately may not claim the credit.

## Retirement Plans<sup>7</sup>

The contribution limit for employer-sponsored retirement plans has increased to \$19,500. The catch-up contribution for employees age 50 and older increased by another \$500 to \$6,500, which means they may contribute a total of \$26,000 per year.

While contribution limits for traditional and Roth IRAs remain the same as last year (\$6,000; \$7,000 for age 50 and older), the limit for SIMPLE retirement accounts increased to \$13,500 (a \$500 increase). The phase-out ranges for IRA contributions by people covered by a workplace retirement plan also increased for 2020:



- Single taxpayers: \$65,000 to \$75,000
- Married filing jointly: \$104,000 to \$124,000
- IRA contributor not covered by a workplace retirement plan but married to someone who is: The deduction is phased out if the couple's combined income is between \$196,000 and \$206,000
- Married individual filing separately: Remains \$0 to \$10,000

The income phase-out ranges for Roth IRA contributions increased and are now:

- Single and head of household: \$124,000 to \$139,000
- Married couples filing jointly: \$196,000 to \$206,000

The 2020 income limit for the saver's credit (also called the retirement savings contributions credit) is \$65,000 for married couples filing jointly; \$48,750 for heads of household; and \$32,500 for singles and married individuals filing separately.

## SECURE Act<sup>8</sup>

The Setting Every Community Up for Retirement Enhancement (SECURE) Act went into effect on Jan. 1. The bill's provisions that impact individual retirement plans include the following:

- Eliminates the age limit for traditional IRA contributions
- Delays required minimum distributions (RMD) until age 72; applies only to people who turn 70½ in 2020 and beyond

The SECURE Act also limited to 10 years the amount of time a non-spouse IRA beneficiary can spread out distributions following the death of the account owner.

## Estate Plans<sup>9</sup>

The estate exemption in 2020 increases to \$11.58 million, up from \$11.4 million. The exclusion for gifts remains the same at \$15,000 per year per person.

## Final Thoughts

There are also 2020 tax law changes in 35 states, so it's important to work with a local tax advisor to find out what may affect your state tax return. For example:<sup>10</sup>

- Individual income tax rates are reduced in Arkansas, Tennessee and Massachusetts.
- There are notable changes to individual income tax bases in Iowa, Kansas, Maine, North Carolina and Ohio.
- Connecticut, Minnesota, Vermont and New York have increased their estate tax exemptions, while Hawaii's estate tax will become more burdensome.



Despite the fact that no major tax bill passed last year, clearly there are quite a number of changes that can create complications in filing returns. It's a good idea to meet with a professional advisor early in the year so you can position your finances to minimize the impact on your 2020 tax obligations.

<sup>1</sup> Ralph Carnicer. Accounting Today. 2019. "The most common tax problems for 2020." <https://www.accountingtoday.com/list/the-most-common-tax-problems-for-2020>. Accessed Jan. 21, 2020.

<sup>2</sup> Libby Wells. Bankrate. Jan. 6, 2020. "2019-2020 federal income tax brackets." <https://www.bankrate.com/finance/taxes/tax-brackets.aspx>. Accessed Jan. 29, 2019.

<sup>3</sup> Jeff Stimpson. Investopedia. Jan. 28, 2020. "What You Need to Know About Your 2020 Taxes." <https://www.investopedia.com/everything-to-know-about-individual-2020-taxes-4775907>. Accessed Jan. 29, 2020.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Stephen Miller. Society for Human Resource Management. Jan. 7, 2020. "SECURE Act Alters 401(k) Compliance Landscape." <https://www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/SECURE-Act-alters-401k-compliance-landscape.aspx>. Accessed Jan. 21, 2020.

<sup>9</sup> IRS. Nov. 6, 2019. "IRS provides tax inflation adjustments for tax year 2020." <https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2020>. Accessed Jan. 21, 2020.

<sup>10</sup> Katherine Loughead. Tax Foundation. Dec. 20, 2019. "State Tax Changes as of January 1, 2020." <https://taxfoundation.org/2020-state-tax-changes-january-1/>. Accessed Jan. 21, 2020.

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