

## **2020/2021 INCOME TAX UPDATE**

**Chicago Volunteer Legal Services Foundation**

**Chicago, Illinois**

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The logo for WIPFLI, consisting of the word "WIPFLI" in white, bold, uppercase letters centered within a solid blue rectangular background.

**WIPFLI**

**LAWRENCE R. KRUPP, C.P.A., J.D.**

Lawrence R. Krupp is a Director at Wipfli, LLP. He has extensive experience in tax consulting for employee benefit plans, private foundations, associations and charitable not-for-profit organizations. He has been engaged in many consulting assignments in the areas of securing and maintaining tax-exempt status and minimizing the tax on unrelated business income. Accomplishments include the merger of two business associations; securing exempt status for a private school, a foreign-supported religious school and a performing arts organization for the hearing impaired; and the merger of two community service charitable organizations. In addition, he has successfully negotiated settlements with the Internal Revenue Service and Department of Labor regarding defective retirement plans. He is actively involved in sales tax and employment tax audits.

Larry earned a B.S. degree in Accounting from the University of Illinois-Urbana/Champaign and a law degree from Loyola University of Chicago. He is both a licensed CPA and attorney and a member of the American Institute of Certified Public Accountants, the Illinois CPA Society, the Illinois State Bar Association and the Decalogue Society of Lawyers. He is admitted to practice before the U.S. Tax Court.

Larry serves on the University of Illinois Foundation Library Board of Advocates and is a Trustee and Treasurer of The Decalogue Foundation. He is the past Chairman of the Federal Tax Section Council and current chair of the Employee Benefits Section Council of the Illinois State Bar Association. He also is the Chair of the First Folio Theatre Board of Directors. Larry frequently speaks on tax and related topics for professional, charitable and business organizations including the annual tax updates for the Decalogue Society of Lawyers and the Chicago Volunteer Legal Services Foundation.

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## **Chicago Volunteer Legal Services Foundation**

### **Lawrence R. Krupp, J.D., C.P.A. – Wipfli LLP**

#### **I. Coronavirus Aid, Relief, and Economic Security Act – “CARES Act” (PL 116-136, March 27, 2020)**

##### **A. Retirement Provisions**

1. No 10% penalty for COVID related distribution
  - a. Taxpayer, spouse or dependent tests positive
  - b. Experience adverse financial consequences
  - c. Up to \$100,000 distribution
  - d. Contribute back within 3 years from distribution date
  - e. Include income over 3 years starting with year of distribution
2. Plan Loans
  - a. Payments suspended for one year
  - b. 100% of vested value, up to \$100,000
3. RMD suspended for 2020

##### **B. Charitable Provisions**

1. \$300 above line deduction for non-itemizers
  - a. Cash
  - b. Public Charity
  - c. Not to Donor Advised Fund
2. 100% of AGI for cash contribution to public charity
3. 25% of net income for corporations

### C. Miscellaneous Provisions

1. Student loan payments qualify for education assistance plan for 2020
2. Health Savings Account
  - a. Non-prescription drugs qualify for reimbursement
  - b. Menstrual products qualify for reimbursement
3. Rebates
  - a. Non-taxable
  - b. Current information [www.irs.gov/coronavirus](http://www.irs.gov/coronavirus)

### II. Consolidated Appropriation Act (December 27, 2020)

- A. 100% meals deduction for 2021 and 2022
- B. \$600 above the line charity deduction for MFJ in 2021
- C. 7½% limit on medical expense made permanent
- D. Mortgage forgiveness up to \$750,000
- E. Educators can deduct COVID supplies

### III. Appropriation Act of 2020 (PL116-94, December 20, 2019)

#### A. Individual Provisions

1. IRA Contributions allowed after 70 ½
2. RMD Raised to age 72
  - a. After December 31, 2019
  - b. If age 70 ½ before January 1, 2020 old rules apply
3. Non-spouse inherited IRA must be withdrawn by end of 10<sup>th</sup> calendar year after death
  - a. Exception for minor child and
  - b. Beneficiary not more than 10 years younger than decedent

4. 529 Plans

- a. Apprenticeship program applies
- b. \$10,000 lifetime to pay student loan

5. Kiddie Tax

- a. Investment and unearned income
- b. Form 8815

6. \$5,000 penalty free IRA withdrawal for adoption purposes (\$10,000 for married couples)

B. Retirement Provisions

1. 401(K) eligibility

- a. 500 hours for 3 consecutive years
- b. Elective deferrals only, not employer contributions
- c. Effective for plan years after December 31, 2020

2. Cannot use credit/debit card for plan loans

3. Can adopt plan by due date of tax return

C. Extenders

1. Mortgage Insurance Premium deduction

2. \$4,000 tuition expense

3. 3-year depreciation on racehorses two years old and younger

4. 7-year depreciation on motor sport facilities

5. Credit for home energy improvements

D. Tax Exempt Provisions

1. Repeal UBIT on parking/transportation benefit

2. Private Foundation

- a. 1.39% Excise tax

- b. Years beginning after December 31, 2019

#### IV. Tax Cuts and Job Act (PL 115-197, December 22, 2017)

##### A. Individual Provisions

1. Standard Deductions 2020
  - a. \$24,800 Married Filing Jointly
  - b. \$12,400 Single, Married Filing Separately
  - c. \$18,650 Head of Household
  - d. Indexed for Inflation
  - e. No change to additional amounts for elderly and blind taxpayers
2. Personal Exemptions
  - a. Zero
  - b. Nothing
  - c. Eliminated
3. Alternative Minimum Tax
  - a. Retained
  - b. Exemption and phase out level increased
  - c. Index for inflation
4. State and Local Taxes
  - a. \$10,000 limit for MFJ, Single, H of H
  - b. \$5,000 limit for MFS
5. Mortgage Interest
  - a. Limited to interest on \$750,000 beginning December 15, 2017
  - b. \$100,000 home equity loans eliminated unless for improvements, additions, etc.
6. Alimony – Agreements executed after December 31, 2018
  - a. Not deductible by payee
  - b. Not taxable by recipient

7. Miscellaneous Itemized Deductions no longer allowed
  - a. Investment fees
  - b. Tax preparation and planning
  - c. Unreimbursed employee expenses
  - d. Applies to trusts/estate returns
8. Moving Expenses
  - a. Taxable if employer reimburses employee
  - b. Not deductible if paid by taxpayer
  - c. Exception for active duty military.
9. Casualty and Theft Losses only for Federally declared disaster areas
10. Section 529 Plan withdrawals for elementary and secondary school
  - d. Private, Public, Religious school
  - e. \$10,000 limit per year

B. Estate and Gift Tax Provisions

1. \$11,580,000 for 2020 and \$11,700,000 for 2021
2. \$15,000 gift exclusion for 2020 and 2021

C. Recharacterization from Roth to Traditional repealed

D. Exempt Organization Provisions

1. 21% excise tax on compensation over \$1,000,000
2. 1.4% excise tax on certain private college endowments
3. Unrelated business income/losses no longer netted against each other

V. Rates, Deductions, and Other

A. Individual Tax Rates for 2020

1. 10%, 12%, 22%, 24%, 32%, 35%, and 37%
2. 2020 Qualified Dividends and Long-Term Capital Gains

- a. 0% if income below \$80,000 (MFJ)/\$40,000 (S)
- b. 15% if income below \$496,600 (MFJ)/\$441,450 (S)
- c. 20% if income above \$496,600 (MFJ)/\$441,450 (S)

## B. Individual Deductions

- 1. Personal Exemptions are gone
- 2. Itemized Deductions
  - a. Income or Sales Tax election has been made permanent
  - b. Standard deduction
    - i. See IV.A.1
    - ii. Elderly/Blind – (married) \$1,300; (unmarried) \$1,650

## C. Child/Dependent Care

- 1. \$3,000 per child/dependent; maximum \$6,000
- 2. Reduced for Dependent Care Plan amounts

## D. Education

- 1. American Opportunity Tax Credit made permanent
  - a. 100% of first \$2,000 and 25% of next \$2,000
  - b. First four years of post high school education
  - c. Tuition, fees, course materials qualify
  - d. Phase-out \$180,000 (MFJ)/\$90,000 (S)
  - e. Up to \$1,000 refundable
- 2. Lifetime Learning Credit
  - a. 20% of first \$10,000
  - b. Any post high school education
  - c. Tuition, fees, course materials qualify



d. Phase-out at \$132,000 (MFJ)/\$66,000 (S)

e. Limited \$2,000 per return

3. Coverdell/Education IRA Accounts

a. \$2,000 per year per beneficiary

b. Elementary/Secondary School expense qualify

c. Can be used with credits

VI. Additional Medicare Tax

A. .9% on Excess Wages and Self-Employment income

1. Employee, not employer, subject to tax

2. \$250,000 (MFJ)/\$200,000 (S)

3. Combined earnings of couples

4. Withholding requirement for salary over \$200,000

B. 3.8% on Net Investment Income

1. Excess over Modified Adjusted Gross Income

2. \$250,000 (MFJ)/\$200,000 (S)

3. Net Investment Income

i. Interest, Dividends, Royalties, Rents

ii. Passive Activity

iii. Capital transactions

iv. Not IRA, Pension, Social Security

VII. Employee Benefits

A. Transit, Van Pooling and Parking Exclusions for 2021

1. \$270 per month for parking

2. \$270 per month for transit and van pooling

3. Can receive both parking and transit benefit

4. Not deductible by employer

B. Flexible Spending Arrangements

1. \$2,750 for 2020 and 2021

2. 2020 must be used by March 15, 2021

VIII. Health Savings Accounts

A. Contributions not linked to deductible

1. Family Coverage

- a. \$7,200 for 2021

- b. \$7,100 for 2020

2. Individual Coverage

- a. \$3,600 for 2021

- b. \$3,550 for 2020

B. Catch-up Contributions

1. 55 years old by year-end

2. \$1,000 for 2021 and 2020

C. Contribute up to April 15, 2021 for 2020

IX. Standard Mileage Deduction

A. Business

1. 56¢ for 2021

2. 57.5¢ for 2020

B. Charity - 14¢ for 2021 and 2020

C. Medical and Moving

1. 16¢ for 2021

2. 17¢ for 2020

## X. Retirement Savings

### A. Individual Retirement Accounts

1. Contribution Level
  - a. \$6,000 for 2020 and 2021
  - b. \$1,000 catchup if age 50 at year end
2. Non-active spouse can deduct if joint AGI
  - a. Less than \$198,000 (Phase-out \$208,000) – 2021
  - b. Less than \$196,000 (Phase-out \$206,000) – 2020
3. Penalty-free withdrawal
  - a. Qualified higher education expenses
  - b. First-time home buyers
  - c. Adoption expenses
4. Phase-out for contributions (see G below)
5. No age restriction on contribution

### B. Roth IRA's

1. Same limits as Regular IRA
  - a. Non-deductible
  - b. Reduced by other IRA contribution
2. No tax on earnings
3. Tax-free withdrawals
  - a. Held at least 5 years
  - b. Over age 59 ½, death, disability
4. Phase-out for contributions (See F below)
5. No income limit on conversion from traditional IRA
6. No age restriction on contribution

C. Qualified Retirement Plans

1. 25% of compensation
2. Maximum compensation
  - a. \$290,000 for 2021
  - b. \$285,000 for 2020
3. Maximum contribution
  - a. \$58,000 for 2021
  - b. \$57,000 for 2020

D. 401(k) Plans

1. \$19,500 for 2020 and 2021
2. \$6,500 catch up for those over 50 by year end for 2020 and 2021
3. Up to 100% of compensation

E. Social Security Wage Base –

- a. \$142,800 for 2021
- b. \$137,700 for 2020

F. Roth IRA Phase-out

1. Single
  - a. \$125,000 to \$140,000 for 2021
  - b. \$124,000 to \$139,000 for 2020
2. Married Filing Jointly
  - a. \$198,000 to \$208,000 for 2021
  - b. \$196,000 to \$205,000 for 2020

G. Traditional IRA Phase-out

1. Single
  - a. \$66,000 to \$76,000 for 2021

b. \$65,000 to \$75,000 for 2020

2. Married Filing

a. \$105,000 to \$125,000 for 2021

b. \$104,000 to \$124,000 for 2020

XI. Illinois Matters

A. Individual Rate is 4.95%

B. Replacement Tax remains at 1.5% for Trusts, Partnerships and S Corporations

C. Corporation Rate (including 2.5% Replacement Tax) is 9.5%

D. Safe Harbor Estimates for Individuals

1. 100% of prior year liability

2. 90% of current year liability

E. Estate Tax

1. \$4 million Exclusion

2. Rate

a. Starts at .8% for \$90,000

b. Maximum at 16% for \$10,040,000

F. Tax Credits

1. Education Credit for Private or Public School

a. 25% of qualified expenses

i. Amount over \$250

ii. Tuition/fees

i. Regular school year

b. Qualified Student

i. Illinois resident

ii. Under age 21 at end of school year

- i. Kindergarten through 12<sup>th</sup> grade
    - c. Maximum credit is \$750
    - d. Non-Refundable
  - 2. Real Estate Tax
    - a. 5% of tax paid
    - b. Primary residence only
    - c. Not allowed if AGI above \$500,000 (MFJ) or \$250,000 (for other returns)
  - 3. Taxes Paid to Other States
    - a. Limited to Illinois tax on income
    - b. Not gambling winnings
  - 4. Educator - \$250 for supplies

G. Exemption

- 1. \$2,325 for 2020
- 2. \$1,000 for age 65 or blind
- 3. Not allowed if AGI above \$500,000 (MFJ) or \$250,000 (for other returns)

H. Deduct payments to Illinois College Saving Programs

- 1. Bright Start or College Illinois or Bright Directions
- 2. \$20,000 (MFJ)/\$10,000 (S)

XII. Interesting Cases

- A. *Conrad v. Commissioner* (154 TC No. 6) held that assessing 10% early withdrawal penalty on retirement plan distributions for taxpayers under age 59 ½ was not unconstitutional as age discrimination.
- B. *Near v. Commissioner* (TC Memo 2020-10) held that taxpayer, attorney for California Department of Transportation, could not claim unreimbursed employee business expenses on Schedule C for his side law practice.

C. Rivas v. Commissioner (TC Memo 2020-124) held that a Tax Court petition due on August 19, 2019, dropped into United States Post Office box on the evening of August 19, 2019 and postmarked August 20, 2019 was not timely filed.