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December 1, 2020

# 2020 Year-End Tax Planning for Individuals

Dear Client:

As year 2020 comes to an end, we can all agree that this year was unlike any other year. The coronavirus pandemic, natural disasters, and presidential election issues, have all had a significant impact on the tax situations for many taxpayers. If we can summarize 2020 in a few words, we could say "social distancing", "isolation", "self-quarantine", "anxious" and "panic", all have played major roles in how we are now living. As much of the economy reopens, the "new normal" demands continued social distancing in many areas of life. Children are learning through virtual schools, and adults are conducting more of their business transactions using virtual meetings, and online shopping.

In response to the health and economic impacts of the coronavirus pandemic, Congress passed several major pieces of legislation in 2020 - The Further Consolidated Appropriations Act of 2020 (FCAA), The Coronavirus Preparedness and Response Supplement Appropriation Act of 2020, The Families First Coronavirus Response Act (FFCRA), and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Now that the elections are over, we can expect that there will be future tax law changes, but no new laws have been passed so far.

In addition, the Tax Cuts and Jobs Act (TCJA) and The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE) Act, passed in prior years, have tax law changes that effect the 2020 tax return.

Some of the major provisions of all of these pieces of legislation, are as follows:

**<u>The Further Consolidated Appropriations Act of 2020 (FCAA)</u>** –

Here are some of the most widely relevant breaks that have been extended through 2020:

- The reduction of the medical expense itemized deduction floor to 7.5% of adjusted gross income (AGI). Previously the floor was 10% of AGI.

- The above-the-line deduction for qualified tuition and related expenses allows a maximum deduction for qualified tuition and fees in the amount of $4,000 for taxpayer's with AGI that does not exceed $65,000 for single individuals, and $130,000 for married filing joint. Taxpayers with AGI that does not exceed $80,000, for single individuals, and $160,000 for married filing joint individuals, will get a deduction of $2,000.

- The exclusion from gross income on the discharge of qualified principal residence indebtedness.

- The treatment of mortgage insurance premiums as qualified residence interest for itemized deduction purposes.

- Extended the credits allowed for energy improvements to a taxpayer's home (insulation, windows, doors, etc.). The credit is 10% of eligible expenses, capped at $500. In the past if the taxpayer used up the $500 credit, then no credit will be allowed on the 2020 tax return. There also is a 26% solar energy credit.

**The Coronavirus Preparedness and Response Supplement Appropriation Act of 2020 –**

This legislation provided funds for:

- developing, manufacturing, and procuring vaccines and other medical supplies;
- grants for state, local, and tribal public health agencies and organizations;
- loans for affected small businesses;
- evacuations and emergency preparedness activities at U.S. embassies and other State Department facilities; and
- humanitarian assistance and support for health system.

**The Coronavirus Preparedness and Response Supplement Appropriation Act of 2020 (FFCRA) –**

This legislation provided paid sick leave, expanded nutrition assistance, and free corona virus testing. It also required employers to provide additional protections for their workers.

The FFCRA also extended unemployment benefits and some individuals who were not entitled to unemployment benefits were now allowed to collect unemployment insurance.

**Coronavirus Aid, Relief and Economic Security (CARES) Act** –

- Any individual who was required to take a RMD in 2020 could waive the RMD requirement this year.

- The CARES Act included a $1,200 credit, per individual ($2,400 credit for a married couple filing joint return), plus a $500 credit for a qualifying child under the age of 17. This money was paid to individuals in advance starting in the spring of 2020 as an economic income payment. The payments were meant to stimulate the economy during the early stages of the COVID-19 crisis. The amount of the credit was subject to a phase-out based upon an individual's AGI and was based on either the AGI on either the 2019 or 2018 tax returns. The 2018 AGI was used for those taxpayers that had not yet filed their returns for 2019. The credit was also available to individuals who were not required to file tax returns. If a person didn't qualify for the stimulus payment in 2018, or 2019, but does qualify for the stimulus payment in 2020, they will receive a credit on their 2020 income tax return for the amount due them. If an individual received less than what they were entitled to, based on their AGI on their 2020 return, they, too, will receive the additional money as a credit on their 2020 tax return. The credit is phased out by 5% of the taxpayer's AGI in excess of:

    - $150,000 for a joint return;
    - $112,500 for a head of household return, and

- $75,000 for a single individual or married filing separately return.

The phaseout is increased by $10,000 for each qualified child.

- The CARES Act allows penalty free distributions made during the 2020 calendar year for distributions up to $100,000 for COVID-related expenses if the money was withdrawn from a retirement account due to a coronavirus-related matter. A qualified individual is an individual (or the spouse or dependent of the individual) diagnosed with COVID-19 by a test approved by the Center for Disease Control and Prevention.

  Other taxpayers who have experienced adverse financial consequences because of being quarantined or being laid off or having their working hours reduced due to the virus, or lacking childcare, are also entitled to penalty relief.

- The maximum loan from a retirement account was increased from the lesser of $50,000 or 50% of the vested balance, to the lesser of $100,000 or 100% of the vested balance for qualified individuals. This increase applied to loans made between March 27, 2020 and September 22, 2020.

- Any coronavirus-related distribution can be added back to income ratably over a three-year tax period. Any individual who receives a coronavirus-related distribution may, at any time during the three-year period, make one or more contributions back into the plan, before the three-year period is up.

- Repayment of outstanding loans from qualified retirements plans may be suspended for payments due on or after March 27, 2020 through December 31, 2020.

- Individuals who do not itemize, can take an above the line charitable deduction up to the amount of $300. The donation has to be made in cash.

- Individuals who make qualified charitable contributions and who deduct those donations when they itemize, can now deduct all cash contributions up to 100% of the individual's AGI.

- Under Code Section 127(c)(1)(B), an employee may exclude from gross income up to $5,250 of amounts paid by an employer pursuant to an educational assistance program. This CARES Act allows an employer to pay up to $5,250, before January 1, 2021 of an employee's student loans. The employee is denied a deduction for any student loan interest on the amount paid off by their employer.

**Tax Cuts and Jobs Act (TCJA) –**

As a reminder, the TCJA legislation passed in 2017 contained many pieces of legislation that affects individuals when they file their 2020 income tax returns. Some of the highlights of this legislation are:

- The state and local tax deduction is limited to a maximum of $10,00 for any combination of income, real, personal property or sales tax. Foreign real property taxes are no longer

deductible. If a taxpayer makes a charitable contribution and receives a state income tax offset, the taxpayer must reduce the charitable contribution by the state income tax offset.

- The deduction for mortgage interest is capped at $750,000 of acquisition debt for new debt acquired after 12/15/17. The TCJA also repealed the deduction for home equity interest if the home equity loan proceeds were not used to buy, build, or substantially improve a taxpayer's home. The mortgage interest deduction for old debt incurred before 12/16/17, is still capped at $1,000,000.

- Like-kind exchanges under Code Section 1031, are limited to real property exchanges. Exchanges of personal property no longer qualify as like-kind exchanges.

- The estate exemption amount in 2020 is $11,580,000, and the gift tax exclusion remains at $15,000. Portability also remains available.

- The section 179 deduction amount increased to $1.04 million and the phase-out threshold is now $2.59 million in 2020.

- An automobile is considered a luxury auto if it costs $50,400 or more. The passenger automobile depreciation limitation amounts have also increased, as well as the amounts allowed for bonus depreciation on automobiles.

- The TCJA reduced the class life of residential rental property from 40 years to 30 years for foreign residential rental property.

- The alternative minimum tax (AMT) has been eliminated for most individuals.

- Up to $10,000 can be taken out of a 529 plan for elementary and high school education and will not be taxable for federal purposes. However, many states are not allowing this change, so before you do this, make sure your state will not tax you on the distribution.

- The TCJA repealed the deduction of miscellaneous itemized deduction for expenses relating to investment advice, tax preparation and job-related expenses. Previously, these expenses were allowed if they were more than 2% of AGI.

- In 2020, the top tax rate is 37.5 beginning at $518,400 for single filers and $622,050 for joint filers. Previously, the tax rates went as high as 39.6%.

- The TCJA eliminated the deduction for personal exemptions. If a qualifying relative's gross income is $4,300 or less, and they meet the other dependency tests, you can claim the qualifying relative as a dependent on your tax return. A $500 nonrefundable credit is allowed for each dependent of the taxpayer who is not a qualifying child under the age of 17.

- The standard deduction amounts increased substantially. In 2020 the standard deduction is $24,800 for married filing joint, $18,650 for heads of household and $12,400 for single filers. Additional standard deductions are allowed if you are over 65 years old and/or blind. The additional amounts are: $1,300 MFJ and $1,650 single.

- The child tax credit allows a credit of $2,000 for a qualifying child under the age of 17, with an eligible social security number. The credit phases out for couples with an AGI over $400,000 (MFJ) and $200,000 (single).

- The CARES Act increased the charitable contribution deduction up to 100% of AGI for most charities.

- Casualty losses that occur in a presidentially-declared disaster area are allowed, but other casualty losses are no longer deductible.

- The TCJA eliminated the deduction for alimony by the payor spouse and the inclusion of alimony in the income of the payee spouse for divorce or separation agreements executed after January 1, 2019.

- There no longer is a deduction for entertainment expenses.

- The moving expense deduction, except for members of the Armed Forces, has been eliminated.

- If a student is totally disabled, or dies, any income resulting from the discharge of the student debt on account of death, or disability, will be excluded from taxable income.

**The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) –**

The SECURE Act was passed by the House on May 23, 2019. The Act's primary purpose was intended to encourage individuals to save for retirement. Most provisions took effect on January 1, 2020. Below are some of the most significant provisions.

- The major change increased the age at which required minimum distributions must begin to 72 (from age 70 ½). This change applies to distributions beginning after December 31, 2019, with respect to an individual who attains age 70 ½ after such date.

- After you have given birth to a child, or have adopted a child, a $5,000 distribution from your qualified retirement plan is allowed, penalty-free. Also, the distribution can be repaid within 60 months of the date received, or the distribution will become taxable income.

- The elimination of the age 70 ½ limit for making traditional IRA contributions so that anyone can contribute as long as they are working. Individuals who are owners of a business may continue to make SEP IRA contributions after the individuals become age 70 ½.

- The "stretch" RMD provisions that have permitted beneficiaries of inherited retirement accounts to spread the distributions over their life expectancies have been eliminated. The new law requires that money from inherited accounts must be withdrawn within 10 years, unless the beneficiary is a spouse, a disabled person, or a child who has not yet reached the age of majority, or an individual who is not more than 10 years younger than the deceased person. The exception allows distributions to be taken out over the life of the eligible beneficiaries. When a minor child reaches the age of majority, the ten-year rule then applies.

- Non-tuition fellowships and stipend payments are now considered compensation for IRA purposes.

- An individual age 70 1/2 or older can contribute directly $100,000, per year, from their IRA account to a qualified charitable organization described in Code Section 170(b)(1)(A).

- The SECURE Act contains a provision that increases penalties for failure to file federal tax returns in a timely manner. The change applies to returns that are due beginning in 2020, which means the enhanced penalty amounts apply to 2019 returns. Under prior law, the penalty for filing a late federal tax return was the lesser of 5% of the unpaid taxes or $330 for each month the tax return was late, subject to a total cap of 25% of the unpaid taxes. With Section 402 of the SECURE Act, the minimum monthly penalty increases to the lesser of 5% of the unpaid taxes or $435. The change impacts only the minimum penalty for not filing a return and not the aggregate cap of 25% of the unpaid taxes.

- You no longer are allowed to recharacterize an IRA to a ROTH IRA and then back to a regular IRA again.

- Kiddie Tax – One significant change in family income tax planning in the SECURE Act was the reversal of the kiddie tax rules. The kiddie tax applies to a child under the age of 18 or a full-time student who is under the age of 24, or a child who has reached the age of 18 and whose earned income is not more than one-half of the individual's support. The rules only apply if the child has unearned income in excess of $2,200, and is claimed as a dependent on his/her parent's tax return. Since its enactment, the kiddie tax rules traditionally tied the tax on a child's unearned income to the tax rates of the child's parents. However, a law change made by the 2017 Tax Cuts and Jobs Act uncoupled the kiddie tax from the parents' rates. Instead, effective for tax years beginning after 2017 and before 2026, the law change provides that the tax on a child's unearned income was to be figured using the tax brackets for estates and trusts. The SECURE Act now taxes the children's income at the parent's tax rate again, instead of the estates and trusts' tax rates.

Planning for income and deductions can be challenging. There are two ways you can take deductions on your federal income tax return – (1) you can itemize deductions or (2) you can use the standard deduction. Deductions reduce the amount of your taxable income. You want to use the method that gives you the lowest tax.

Due to the many changes in the tax laws mentioned above, whereas in the past you might have itemized, now with increased standard deductions, you may no longer be able to itemize. The higher standard deduction and the reduction or elimination of many itemized deductions means that more taxpayers will find that the standard deduction exceeds their itemized deductions. This could have a significant impact on timing strategies. Smart timing of income and expenses can reduce your tax liability and bad timing can unnecessarily increase your tax liability.

A taxpayer may benefit by itemizing deductions for things that include:

- Unreimbursed medical and dental expenses that exceed 7.5% of adjusted gross income.

- State and local income or sales taxes.
- Real estate and personal property taxes.
- Mortgage interest.
- Mortgage insurance premiums.
- Personal casualty and theft losses from a federally declared disaster.
- Charitable donations to a qualified charity.

If you can bunch expenses into one year that normally would be spread over two years, you might be able to save tax. You might be able to itemize one year, and not the next year. Some expenses you might be able to control are elective medical procedures that won't have a negative impact on you or your family's health, or dental procedures. You might plan the procedures in a year where you have other high medical expenses and possibly a lower adjusted gross income. You cannot deduct medical expenses until they are more than 7 ½% of your adjusted gross income.

Also, if one spouse has large medical expenses, and a lower adjusted gross income, it might be more beneficial for you that year to file married filing separate returns.

Another thing that you can control, is the amount you contribute to charitable organizations. If you can itemize one year, and not the next year, you might want to double your contributions in the year you can itemize, and in the year that you are taking the standard deduction, you would give less to charity in that year.

**<u>Other Information</u>:**

In 2020 the FICA wage base is $137,700. The maximum defined benefit contribution will be $57,000 and the maximum amount allowed to be put into a 401K plan will be $19,500, with a catch-up amount of $6,500 for individuals over the age of 50. The Simple IRA maximum amount allowed is $13,500, with a $3,000 catch-up and the maximum IRA amount is $6,000 with a $1,000 catch-up. The standard business travel mileage rate is 57.5 cents, a mile. The medical and moving rate is 17 cents a mile, and the charity deduction rate for travel is 14 cents a mile.

Besides all of the changes in the tax laws, there probably will also be changes in the Estate tax laws. The federal estate, gift and generation-skipping transfer tax exemption amounts are currently set at $11.58 million, per individual, or $23.16 million, per married couple. This means that there is no federal estate tax if the fair market value of a decedent's assets falls below the amounts mentioned above. These current high exemption amounts are set to expire in 2026.

The coronavirus and economic crisis stimulus payments have triggered trillions of dollars of debt for the government. Significantly lower estate and gift tax exemption amounts could be enacted even as soon as next year. If your estate will be a sizeable amount, you might want to make gifts now, to use the higher estate tax exemption amount that is allowed today, as the estate and gift tax exemption could become a use it or lose it scenario sooner rather than later. Gifts can be made directly to individuals, or trusts can be set up, as well.

# 2020 Year-End Tax Planning for Businesses

Although Congress passed major pieces of legislation in 2020, in response to the health and economic impact of the coronavirus, it remains unclear if additional relief is forthcoming, or not, in 2020. The legislation was passed to help stimulate the economy. Many businesses have lost substantial revenues this year, and are facing unique challenges to keep their businesses from closing down. Running a profitable business these days is not easy. Some of the tax law changes that were passed to help give financial support to our business clients and their employees, are summarized below:

**<u>COVID Relief:</u>**

- **<u>The Families First Coronavirus Response Act (FFCRA) –</u>** This act required employers with fewer than 500 employees to provide both paid and unpaid health emergency leave to certain employees through December 31, 2020. Private employers with fewer than 500 employees and public employers, of any size, must provide 80 hours of paid sick time to full time employees who are unable to work or telework for specified virus-related reasons. The FFCRA provided tax credits to employers to cover wages paid to employees while they were taking time off.
  - A payroll tax credit for required paid sick leave.
  - A credit for sick leave for certain self-employed individuals.
  - A payroll credit for required paid family leave.
  - A credit for family leave for certain self-employed individuals.

- **<u>The Paycheck Protection Program (PPP) –</u>** This program was intended to provide direct help to small businesses to keep workers on payroll. Under the program the SBA will forgive loans where employee retention criteria are satisfied and loans funds are used for specific purposes. The loans have an interest rate of 1%, and a maturity date of either 2 or 5 years depending on when the loans proceeds were received. Under the Coronavirus Aid, Relief, and Economic Security (CARES Act), which was signed by the President on March 27, 2020, a recipient of a covered loan can receive forgiveness of indebtedness on a PPP loan in an amount equal to the sum of payments made for qualified expenses. At the current time, the business expenses related to the forgivable PPP loan are not deductible. On November 18, 2020, the IRS issued Revenue Ruling 2020-27 which states that for a calendar year taxpayer the expenses are non-deductible for year end 2020 if there is a reasonable expectation of forgiveness, regardless of whether the borrower files a forgiveness application in 2020 or 2021. This means that if the PPP borrower has a reasonable expectation of reimbursement, the deduction in 2020 is disallowed. It should be noted that members of Congress disagree with the conclusion that costs are non-deducible, but the Treasury has not reversed its decision, so far. The rules of what expenses qualify for loan forgiveness have changed several times over the past few months. Currently 60% of the loan money has to be used for payroll costs and no more than 40% of the money has to be used for covered rent, interest, and utilities. On October 8th, 2020, the SBA issued Form 3508S to simplify the loan forgiveness review process for PPP loans of $50,000 of less. A borrower using form 3508S is exempt from the reduction of loan forgiveness on account of a reduction in the number of full-time employees or a reduction in the employee's wages or salaries.

- **The Paycheck Protection Program Flexibility Act –** The legislation was signed by the President on June 5, 2020, and this legislation extended the PPP loan maturity from 2 years to 5 years. It also extended the covered period of gathering deductible expenses from 8 weeks to 24 weeks from the date of the loan disbursements. For the loans that were disbursed prior to the date of enactment, the recipient may elect to use the original 8-week covered period, or the 24-week covered period. In addition, the full-time employee reduction will not apply if the loan recipient has a documented inability to hire or rehire employees by December 31, 2020.

- **Employee Retention Credits for Employers Subject to Closure Due to COVID-19 –** The Employee retention credit is designed to encourage businesses to keep employees on their payroll and is available for qualified wages paid through the end of 2020. Employers can reduce their required deposits of payroll taxes withheld from employees' wages by the amount of the credit or request an advance of the employee retention credit. The provision provides for a refundable payroll tax credit of 50% of wages paid by employers to employees during the COVID-19 crisis. The credit is available to employers whose operations were fully or partially suspended, or whose gross receipts declined by more than 50%, when compared to the same quarter in the prior year. The maximum wages that qualify for the retention credit is $10,000. If an employer received a PPP loan, they are not eligible for the retention credit. There are different rules depending on if employers have less than or more than 100 employees.

- **Deferred Payroll Tax Payments –** The employer's share of the social security tax, due for the period beginning on March 27, 2020 and ending on December 31, 2020, can be deferred. The total payroll taxes incurred by employers and 50% of the payroll taxes incurred by self-employed persons qualify for the deferral. Half of the deferred payroll taxes are due on December 31, 2021, with the remainder due on December 31, 2022.

- **Executive Memorandum on withholding –** President Trump has authorized employers to defer the withholding of the employee's share of social security taxes through the end of 2020. However, unless Congress forgives the repayment of these taxes, they will have to be paid in the first quarter of 2021. It is unclear as to how the deferred tax would be collected from individuals who are no longer employed when the taxes come due. Many employers are continuing to withhold the payroll taxes due to this uncertainty of how the employee would pay back their share of the social security tax in the future.

- **Modification of Limitations on Business Interest –** For businesses with average annual gross receipts for the three years immediately preceding the taxable year of more than $26 million in 2019, Section Code 163(j) generally limited the amount of business interest expense allowed as a deduction to 30% of adjusted taxable income. The law changed and for taxable years beginning in 2019 and 2020, the amount of business interest that is deductible on 2019 and 2020 tax returns is limited to 50% of adjusted taxable income, rather than 30% of adjusted taxable income.

- **Electing Out of Rules for Partnerships** – Unless a partner elects out for a taxable year beginning with 2019, a partnership may only deduct its business interest expense to the extent of 30% of its adjusted taxable income. For 2020, the interest expense deduction is 50% of its taxable income. If a partner elects out in 2019, any excess business interest expense of the partnership

for any tax year beginning in 2019 will be treated as follows: 50% of the excess business interest expense found on form 1065, Sch K-1, line 13K, for 2019 is deducted in 2020.

- **Qualified Improvement Property –** A 15-year recovery period has been retroactively assigned to qualified improvement property placed in service after December 31, 2017. Qualified improvement property is defined as any improvement made by the taxpayer to the interior portion of a building which is nonresidential real property as long as the improvement is placed in service after the date the building was first placed in service. Previously, there was a 39-year life assigned to this property. QIP now qualifies for 100% bonus depreciation.

- **Charitable Contributions –** The CARES Act increased the limitation on corporation's deductions for charitable contributions from 10 percent of taxable income to 25 percent of taxable income. This increase, right now, only applies to the 2020 tax year.

**Other Business Information –**

- **SECURE Act -** The Secure Act allows for the adoption of a qualified retirement plan up to the due date of the return, plus extensions. Before the SECURE Act became law, employers had until the last day of their tax year to adopt a retirement plan for that year. In addition, if an employer set up a new retirement plan for their employees, the employer was allowed a credit on their tax return up to 50% of the ordinary and necessary eligible startup costs, up to a maximum $500 credit. Now the credit is limited to the greater of (1) $500, or (2) the lesser of (a) $250 multiplied by the number of non-highly compensated employees eligible for plan participation or (b) $5,000.

- **199A Deduction –** Qualified trades or businesses, other than C corporations, may be entitled to a deduction of up to 20% of their qualified business income. Rental activities, can be treated as qualified trades or businesses if they meet certain safe harbor rules. Lessors have to keep separate books and records to reflect the income and expenses for each rental real estate property. They also must make sure that at least 250 hours of rental service are performed each year by themselves, their employees, or outside independent contractors/consultants. They must also keep sufficient contemporaneous records to back up every person's time spent on the rental activities. Triple net leases do not qualify. The amount of the deduction is based on a person's filing status and their taxable income. The deduction also could be limited, based on whether the taxpayer is engaged in a service type trade or business, such as law, accounting, health, or consulting, or another type of business. The rules are quite complex, so deferring income, or accelerating expenses may help you increase a business's 199A deduction. In addition, a company's W2 wage base and basis of assets also have to be factored in for some individuals with higher taxable incomes.

- **Bonus depreciation –** 100% bonus depreciation is available for qualified assets, with a recovery period of 20 years or less (such as machinery, equipment, office furniture, off the shelf computer software). The current law allows, 100% bonus depreciation in 2020, 2021 and 2022. Then the bonus depreciation gradually decreases each year. In 2023 it is 80%, in 2024 it is 60%, in 2025, it is 40% and in 2026 it is 20%. New and used property is eligible for bonus depreciation. In addition, you must use bonus depreciation on all property purchased in 2020 in the same

class life. Upon sale of the property recapture 1245 and 1250 rules apply. The property cannot be purchased from a related party.

- **Section 179 Expensing Election** - This allows you to deduct rather than depreciate, the cost of eligible new or used assets, such as furniture, machinery, equipment and qualified improvement property. The 179 deduction can only be taken to offset net income. It cannot create a net operating loss. Also, certain qualified real property, such as roofs, HVAC property, fire protection alarms and security systems, now qualify for a 179 deduction. Code Section 179 expensing has an investment cap of $2,590,000 for 2020 with a dollar limitation of $1,040,000.

- **Cost Segregation** – If you recently purchased a new building, or if you are doing major renovations in a building that you own, you might want to consider a cost segregation study to identify property that can be depreciated much faster.

- **Method of Accounting** – TCJA allows taxpayers, including corporations, with average gross receipts of $26 million or less, to use the cash method of accounting, even if inventories are required.

- **Safe Harbors** – Distinguishing between repairs and costs that have to be capitalized, is quite difficult. The IRS is still allowing you to elect to use the de minimis safe harbor method, the routing maintenance safe harbor method, as well as the small business safe harbor method.

- **Business Automobiles** – Vehicles weighing 6,000 pound or less are subject to passenger vehicle depreciation limits. For 2020, you can deduct $10,100 regular depreciation and $8,000 bonus depreciation, for which the Code Section 168(k) depreciation rules apply. For automobiles placed in service during the calendar year 2020, which no Code Section 168(k) applies, the depreciation deduction is $10,100. For cars weighing more than 6,000 pounds, there is no Section 280 (F) limitation. However, there is a Code Section 179 limitation of $25,900. For trucks and vans weighing more than 6,000 gross vehicle weight, there are no limitations for deducting depreciation.

- **Entertainment** – These expenses are no longer deductible.

- **Qualified Transportation Fringe Benefits** – No deduction will be allowed for any expense paid to an employee for a transit pass, paid parking, or for transportation to commute to work.

- **Meals** – A 50% deduction is allowed for both business meals, and for meals on an employer's premises for the convenience of the employer.

- **Exit Planning** – Everyone should have a plan for passing on the responsibility for running the company to another individual. If a business has more than one owner, a buy-sell agreement can be a powerful tool, as it will spell out what should happen, when an owner wants to retire, dies, or has a disability. It will allow the business to continue and prevent disagreements that could happen amongst owners when one of the owners has to leave the business.

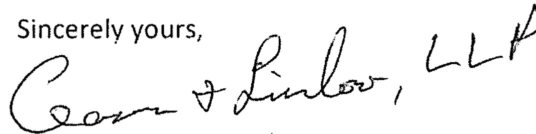
  Another thing that a lot of business owners do, is they pass their business on to other family members by gifting them interests, or by selling them interests, or doing a little bit of both. This

can cause gift and estate tax consequences and sometimes the other family members aren't interested in, or capable of taking over the business. Another choice is to sell the business to an outsider. The tax consequences of all of these scenarios are different, and if you do decide to transfer the ownership of your business, please contact us, so we can help you and guide you in making your decision on what to do.

Traditional methods for postponing income and accelerating deductions may not always be the best option if tax rates rise after this election year. There is no one model to fit all tax planning. Everyone has different tax needs. Our commitment to providing superior services to our clients is our top priority. Please contact us if you need any help or have any questions about your tax situation.

At this time, we wish you all a happy and healthy holiday season.

Sincerely yours,



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