



Tax Matters

January 2021

Tax Time

Hello:

We are hoping this message finds your family, friends, and you safe and well. The year 2020 was very challenging for so many of us. We're praying that this new year brings us closer to our normal.

BYB is hoping to provide tax preparation services to you again this year. Because of COVID-19 and the necessity to social distance, we have four alternatives for submitting your tax documents.

1. Postal mail to our corporate address at 333 Westchester Ave, S201 White Plains, NY 10604
2. Email documents in PDF format to Ressy@thebyb.com
3. Drop off to office or security desk in our lobby in sealed envelope. Please let us know when you leave it.
4. Make an appointment with our receptionist at 914-761-7380

When the returns are complete, we will schedule a ZOOM or telephone call to review the returns together or, if you prefer, make an in office appointment by calling and scheduling.

We are hoping to see you again this year. Call us at 914.761.7380 or email Myra@TheBYB.com to schedule an appointment.

Sincerely,

The BYB Team

What you need to know about your 2020 Tax Returns?

- **The IRS tax** will begin accepting tax returns in February 12th this year because the IRS is also experiencing staff shortages and backlogs created by the pandemic.
- **Withdrawals from your 401K or IRA during 2020.** If you withdrew funds from your 401K or IRA and you were not 59 ½ years of age at the time of withdrawal, you will not be penalized the 10% penalty normally assessed. This waiver applies for withdrawals of \$100,000 and under. You can elect to pay the regular tax over the next 3 years.
- **Charitable Contributions.** This year you can deduct up to \$300 in charitable contributions even if you don't itemized deductions. \$600 for couples filing Married Jointly.
- **Unemployment Benefits** received during the pandemic from the state and federal government are taxable. Hopefully, you had taxes withheld.
- **The stimulus checks** most of us received are not taxable. If you did not receive a stimulus check or you didn't receive the correct amount, filing your 2020 return will correct that. Please include the amount you received (if any) with your tax documents

1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return
For the year Jan. 1-Dec. 31, 2010, or other tax year
Your first name and initial
If a joint return, spouse's first name and initial
Home address (number and street, if you have one)
City, town or post office, state, and ZIP code
Check here if you, or your spouse, are a resident alien
Status 1 ☐ Single 2 ☐ Married (file jointly) 3 ☐ Married (separate) 4 ☐ Head of household 5 ☐ Qualifying widow(er)

Saving For Retirement

If you are eligible to participate in your employer's 401(k) or similar plans, you can agree each year to contribute a portion of your salary to the plan. You can change your contribution from year to year. The contribution reduces your taxable income. The funds earn interest, dividends and capital gains. Totally not taxable until funds are withdrawn.

The maximum contribution to a 401(k) plan for 2021 is \$19,500 (plus an additional \$6,500 if you're over the age of 50).

If you don't participate in an employer-sponsored retirement plan, such as a 401(k) plan, or **if you do participate but your income is below a set amount**, you can deduct contributions made to an individual retirement account (IRA) to offset taxable income. The maximum contribution is \$6,000 (\$7,000 if you are over 50 years of age). The contribution must be made by April 15, 2021.

If you have a spouse who does not work for compensation, you can contribute to an IRA for your spouse based on your earnings. The same dollar amount limit of \$6,000 applies to a spousal IRA. This means that if you have sufficient earnings and both you and your spouse are under age 50, you can contribute up to \$12,000 (\$6,000 for yourself and \$6,000 for your spouse) for 2021.



2020

Personal Exemptions

Personal exemptions are no longer valid. Instead the IRS provides a direct credit for each dependent child under 17 years of age. See Child Credit below.

Child Credit

In addition to claiming your child as a dependent, you may also qualify for the child tax credit. The child tax credit is worth \$2,000 for each child you claim as a dependent who is under age 17 at the end of the year. Remember, a credit offsets your tax bill dollar for dollar. This credit is subject to AGI limitations. You will receive a credit of \$500 for dependents over 17 years of age.

Child Care Credit

You may be entitled to a credit for what you paid someone to look after your child under (13 years of age), while you worked or looked for work during 2020. The credit is a percentage based on your adjusted gross income and can range from 20 percent to 35 percent of your qualifying expenses (up to \$3,000 per child with a maximum of two), depending on your income level. The max credit is \$600 per child up to two children.

Standard Deduction

The standard deductions for 2020 are:

- \$12,400 (single or married filing separately),
- \$18,650 (head of household),
- \$24,800 (married filing jointly or qualifying widow(er)
- Add \$1,300 (\$1,650 if single or head of household) for each taxpayer who is 65 or older or blind.

Frequently Asked Questions

Can I deduct business trips and other miscellaneous business deductions?

The 2018 new tax law took away the deductions for miscellaneous employee expenses. They are still deductible at the NYS level. However, NYS is very aggressive with auditing these deductions.

Can I deduct my student loan interest payments?

You can deduct up to \$2,500 interest you pay on a student loan. The deduction is claimed as an adjustment to income so it is allowed even if you don't itemize. However, you cannot deduct the interest if you are a dependent of another taxpayer or use the married filing separately filing status. This deduction is also subject to a AGI limit.

I own a home but am considering purchasing a condo in Florida as a second residence. What can I deduct for the condo?

The mortgage interest and real estate taxes are deductible on a second home, just as they are on your main home. However the rules are different if you are planning to rent out the condo. Also, remember that you are still subject to the \$10,000 limit for state and local taxes.

During 2020 I started a small business to supplement my income. Do I need to include on my returns?

Many of us worked side businesses in 2020. Some drove for Uber. I have talked to a few clients that made and sold masks. Whether you made a profit or loss, it should be included in your returns. Summarize the income and list the expenses. If you drove Uber, how many miles did you drive? They are worth 57 1/2 cents per mile as a business deduction against the income.

Are home repairs deductible?

Generally, home repairs are not deductible. Major repairs could add to your basis in your home. New carpet and a new roof are examples of major repairs. These will come into play if and when you sell the home.

I was under the impression that a Dependent Care Benefit Plan would benefit me, not penalize me with an increase in taxes. How can my employer say they provided a benefit in the total amount of \$3,000 in W-2, Block 10 when I had \$3,000 in wages set aside for dependent care benefits?

The actual mechanism for this type of plan is an agreement to voluntarily reduce your salary in return for an employer-provided fringe benefit. These plans must be set up this way because you have a choice of whether to receive the cash wages or the benefits, which would make the benefit taxable to you. Therefore, the benefits are actually employer provided or funded. You are receiving a tax benefit because you are not paying taxes on the money that is set aside. But you must use the dollars in childcare and reflect on your tax returns the expenditure.

Can I make IRA contributions for my child?

You can help your child jump-start his or her retirement savings by providing the funds for an IRA contribution. As long as your child has earned income (e.g., from a part-time or summer job), you can make a gift of the contribution amount to your child.