ClientLine®

May 2020

BUSINESS SECURITY

In last month's *ClientLine,* we highlighted some of the Setting Every Community Up for Retirement Enhancement (SECURE) Act's new headlines for business owners. This month, we share some of the details for you:

GREATER ACCESS

For the first time, small businesses can join a pooled employer retirement plan with two or more unrelated employers. Part-time employees will have more access, too: those who worked at least 500 hours in three consecutive years are newly eligible for qualified plan participation, but they don't factor into existing top-heavy requirements.

ENHANCEMENTS

Employers will see other reasons to start a plan. The startup tax credit for newly established plans increased significantly, from the former cap of $500 up to $5,000. Eligible 401(k), SIMPLE IRA and other qualified plans can take another $500 credit for three years for auto-enrolling new employees. The safe harbor for the automatic enrollment escalation cap rises from 10% to 15% of pay, while certain penalties for failing to file plan returns increase.

ANNUITY SAFE HARBOR

Plan sponsors will find more streamlined administrative and compliance requirements, while they also have a new annuity safe harbor, which will protect employers from liability if the annuity provider they choose meets certain standards involving state insurance licenses, audited financial statements and adequate reserves.

Employers should also be aware of a change that benefits individual participants: an increase in the age when required minimum distributions must begin, from 70½ to 72. This change applies only to people who reach age 70½ in 2020 or later. Employees older than age 72 may continue contributing to employer plans.

Talk to your tax professional to learn how these changes might affect your company's tax situation.

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Mind the RMD Gap

The SECURE Act pushes required minimum distributions (RMDs) from an IRA, SIMPLE IRA, SEP IRA or retirement plan account to age 72, up from age 70½. However, you're out of luck if you are younger than 72 but were 70½ in 2019. You'll have to begin taking withdrawals by the former age limit of 70½ limit.

Understanding RMDs

Calculate your RMDs by dividing your life expectancy, as determined by the IRS's Uniform Lifetime Table, into your account balance as of the end of the immediately preceding calendar year. Different rules may apply if your account's sole beneficiary is at least 10 years younger than you or if you continue working past age 72.

Plan for Withdrawals

When planning your withdrawal strategy, know that you may withdraw more than your RMD each year, but you can't take less. You can also begin distributions earlier than required.

Talk to your tax and plan professionals to learn more.

THEY'RE BACK!

A basketful of tax breaks that either expired last year or were scheduled to end before 2020 have been brought back to life, courtesy of Congress. Lawmakers packed end-of-year appropriation bills with these extenders.

MORTGAGE INSURANCE

If you qualify by income, you may be able to deduct mortgage insurance premiums for your principal residence on your tax return.

DEBT TREATMENT

Homeowners who met eligibility requirements were allowed to exclude mortgage debt cancellation from income on their tax returns from 2007-2017, and Congress now allows this type of debt cancellation to remain tax-free from 2018 through 2020.

DISASTER RELIEF

Congress gave some taxpayers who experienced federally declared disasters as far back as 2018 the ability to take penalty-free withdrawals from their retirement plans. Employers who continue paying employees during a disaster will also receive favored tax treatment on the amount of wages paid during this period.

COLLEGE DEDUCTION

Remember when Congress ditched the tax deduction for qualified college expenses? Never mind, it's back at least through tax year 2020, with the repeal retroactive to 2018.
To qualify, your adjusted gross income needs to fall under certain thresholds.

HEALTH COSTS

Scheduled to rise from 7.5% of adjusted gross income to 10% in 2020, Congress moved to keep the itemized medical expense deduction threshold at the lower percentage for costs that were not reimbursed. Most medical costs that are not cosmetic, including prescription drugs, dental work and vision, qualify for the deduction.

FOR THE ENVIRONMENT

Energy-efficient taxpayers are winners with a handful of extensions giving them continued favorable tax treatment. Alternative fuel refueling equipment, fuel cell vehicles and electric motorcycles will have their tax credits extended through 2020, retroactive to 2018 for some of them. Also, take a tax credit up to $500 for making energy-saving improvements to a principal residence through 2020, retroactive to 2018.

Client PROFILE....

Henry's mother died of pancreatic cancer, and he is looking into starting a foundation named in her honor to fight this terrible disease. He hopes that compliance and tax filing won't become a burden. Is there a simpler solution?

What a wonderful gesture on Henry's part. First, he should consult an attorney and a tax professional. Both should be experienced working with not-for-profit groups. They can help him set up the foundation, file for tax-exempt status and complete the paperwork necessary to become an IRS non-profit entity.

If he wants to start on his own, he could apply online for Section 501(c)(3) tax-exempt status with the IRS's revised Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code. This year is the first year he can apply online, which the IRS says will help with application processing time. He may also enjoy a newly reduced excise tax, depending on the setup.

If Henry qualifies, he could fill out Form 1023-EZ to save time. Ultimately, the size and scope of Henry's foundation will determine the level of compliance needed.

Client Profile is based on a hypothetical situation.
The solutions we discuss may or may not be appropriate for you.

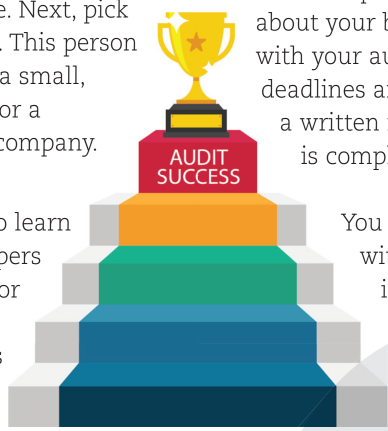
STEPS TO A SUCCESSFUL COMPANY AUDIT

While few companies will experience tax audits, all public and some closely held companies should undergo periodic company audits to stay on top of their businesses. This is an exercise that can fray nerves without preparation. But there are steps you can take to ensure audit success.

GROUNDWORK

Start by selecting your auditor. If your tax professional doesn't offer this service, ask for a referral experienced with your business type and size. Next, pick your company liaison. This person could be an owner of a small, closely held business or a controller in a larger company.

Talk to your auditor to learn which documents, papers and files you'll need for the review, and then compare any previous audit's findings with actions taken. Learn where efficiencies increased and where they didn't. Remember, an audit is only as good as the actions you undertake to correct identifiable deficiencies.



COMMUNICATION

An audit needs accurate information, so take your emotions out of the auditor relationship and be open and honest about your business. Communicate with your auditor each week to ensure deadlines are met, and expect a written report when the audit is completed.

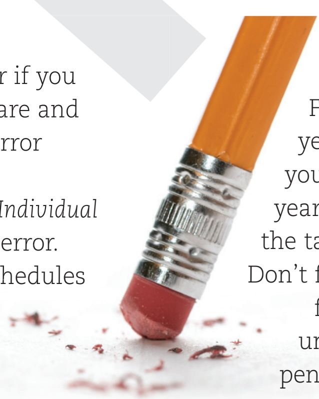
You have a right to disagree with the audit in writing if you run a public company, and the freedom to take it or leave it if you own a privately held business. Ultimately, a properly conducted audit should help you limit risk, create efficiencies and even increase profits.

HOW TO CORRECT TAX FILING MISTAKES

The last thing most taxpayers want to think about so soon after the tax-filing deadline is filing another tax return. Yet, that's something you'll have to do if you made an error and a task you'll want to perform if you shorted yourself. Here's what you need to know if you have to file an amended return due to a mistake on your tax return.

WHAT TO DO

First, contact your tax preparer if you had that person's help to prepare and file forms. Next, whether the error was in the IRS's favor or yours, file *Form 1040-X, Amended U.S. Individual Income Tax Return* to report the error. Include copies of forms and schedules with the errors or forms that you didn't include with your original return.



Generally, for a credit or refund, you must file Form 1040-X within three years of the date you filed your original return or two years after the date you paid the tax, whichever is later. Don't forget to include a check for any amount underpaid, plus potential penalties and interest.

.... Q&A

Q **My company is facing a retirement plan audit. How do I best prepare?**

A First, understand that besides talking to your tax professional, there are few similarities between an overall company audit (see accompanying article) and a retirement plan audit. You may want to consult a plan consultant to gather necessary documents and begin a series of tests. This includes doing compliance testing to ensure your highly compensated employees don't contribute more than allowed to your company plan. You'll also want to check that all eligible employees know they can contribute, you follow IRS and other government rules when offering automatic plan tools, and the plan is fulfilling other fiduciary responsibilities.

Q **I'm a self-employed delivery driver who volunteers to deliver meals to seniors and the disadvantaged. Can I deduct the cost of my time?**

A No, you can't deduct your time, but you can deduct your mileage. In 2020, the IRS allows taxpayers to deduct the standard mileage rate of 14 cents per mile their vehicles were used for eligible charitable work. Incidentally, the business standard mileage rate is 57.5 cents and the mileage rate for driving to and from medical care is 17 cents in 2020. Talk to your tax professional for more information, including whether you'll need to itemize on your return to get these tax breaks.

ClientLine SHORT BITS....

> EMPLOYER COSTS

Compensation costs for private industry workers increased 2.7% in 2019 compared to an increase of 3% the year before, according to the Department of Labor. Wages and salaries increased 3% in 2019, a tick under the 3.1% rise in 2018. Benefit costs rose 1.9%, with health insurance benefits rising 2.2%. That was also lower than 2018, when benefit costs increased 2.6%.

> BOOMERS UNPREPARED

The Insured Retirement Institute (IRI) reports that about 45% of Baby Boomers have saved nothing for retirement. So it's not surprising one-third of baby boomers plan to retire at age 70 or older or not at all, and another third of employed boomers ages 67 to 72 postponed retirement, according to IRI.

> JOB HAPPY

Looking for your first job or to advance your career? Follow the jobs. According to the Bureau of Labor Statistics, Texas, California and Florida created more than 800,000 new jobs from December 2018 to December 2019. Texas registered the highest number of new jobs at 342,800, but 25 other states also saw an increase in jobs. Utah, Idaho and Arizona led the way in percentage increases.

> INCOME UP

The median weekly income of fulltime workers rose a healthy 4.0% in 2019, increasing from $900 in 2018 to $936 last year. Women saw their weekly median earnings rise to $843, which was 82.5% of the $1,022 median for men. While men saw their income rise 2.9%, women had a 6.2% increase last year, making up a little lost ground. Inflation, as measured by the Consumer Price Index for All Urban Consumers (CPI-U) over the same period, rose just 2.0%.