KRAMER & JENSEN LLC
CERTIFIED PUBLIC ACCOUNTANTS

Contact Us:

Kramer & Jensen LLC
7430 E. Caley Ave. Suite 300E
Centennial, CO 80111
T 303-741-2253
F 855-330-4215
sjensen@kramerjensen.com

Newsletter March 2020

March 2020 Due Dates

March 16 - Partnerships

File a 2019 calendar year return (Form 1065). Provide each partner with a copy of Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., To request an automatic 6-month extension of time to file the return, please contact our office and we will be glad to do this for you.

March 16 - S-Corporations

File a 2019 calendar year income tax return (Form 1120-S). Provide each shareholder with a copy of Schedule K-1 (Form 1120-S), Shareholder's Share of Income, Deductions, Credits, etc. To request an automatic 6-month extension of time to file the return, please contact our office and we will be glad to do this for you.

New Twist Added to the IRA-to-Charity Provision

Ever since 2006, individuals age 70½ or older have been able to transfer up to $100,000 annually from their IRAs to qualified charities. These transfers are referred to as qualified charitable distributions (QCDs), and here is how this provision, if utilized, plays out on a tax return:

1. The IRA distribution is excluded from income;
2. The distribution counts toward the taxpayer's required minimum distribution (RMD) for the year; and
3. The distribution does NOT count as a charitable contribution.

At first glance, this may not appear to provide a tax benefit. However, by excluding the distribution, a taxpayer with itemized deductions lowers his or her adjusted gross income (AGI), which helps with other tax breaks (or punishments) that are pegged at AGI levels, such as for medical expenses, passive losses, and taxable Social Security income. In addition, non-itemizers essentially receive the benefit of a charitable contribution to offset the IRA distribution.

If you think that this tax provision may affect you and you have questions, please call this office.

Congress Removes IRA Contribution Age Restriction

On December 20, 2019, President Trump signed into law the Appropriations Act of 2020,

which included a number of tax law changes, including retroactively extending certain tax provisions that expired after 2017 or were about to expire, a number of retirement and IRA plan modifications, and other changes that will impact a large portion of U.S. taxpayers as a whole. This article deals with one area of those changes and how they may affect you.

In the past, unlike Roth IRAs, which have no age restriction associated with making a contribution, taxpayers were unable to make a traditional IRA contribution in and after the year they reached the age of 70½. This is primarily because a Roth IRA contribution is not tax deductible, while a traditional IRA is, unless it is phased out for higher income taxpayers.

This created a hardship for older individuals who continued work after reaching the age of 70½ and who wanted to continue to contribute to their retirement by making traditional IRA contributions.

Now as part of the SECURE Act that was included in the Appropriations Act of 2020, and effective for tax years beginning in 2020, individuals who otherwise qualify can make traditional IRA contributions at any age.

Contribution Limits: The maximum that can be contributed to a traditional IRA in 2020 is the **lesser** of the taxpayer's "compensation" or:
Taxpayer Under Age 50: $6,000
Taxpayer Age 50 or Over: $7,000

Compensation: In order to make contributions to an IRA, an individual must receive "compensation." Compensation includes:

- Wages, tips, bonuses, professional fees, commissions;
- Alimony received (but only if taxable);
- Net income from self-employment (reduced by the sole proprietor's own contribution to a Keogh retirement plan and the above-the-line deduction allowed for part of self-employment tax); and
- Non-taxable combat pay.

NOTE: Do not net self-employment losses against wages to determine total compensation.

Compensation does not include rents, interest, dividends, nontaxable alimony, pensions, deferred compensation, or disability payments.

Contribution Deduction Limits for Higher Income Taxpayers – One of the main benefits of a traditional IRA is its tax deductibility. However, the deductibility of the traditional IRA is limited for higher income taxpayers who are active participants in qualified plans, in which case the deductibility of the traditional IRA begins to phase out once the individual's adjusted gross income (AGI) reaches a threshold, and no deduction is allowed once the AGI exceeds the upper amount in the threshold range. The phase-out ranges are:

HIGH INCOME IRA DEDUCTION PHASEOUT	
Filing Status	**2020**
Single, HH	$65,000 to $74,999
Joint, SS	$104,000 to $123,999
Married Separate	$0 to $9,999
Spousal Contribution (see below)	$196,000-$205,999

Spousal IRA Contributions **-** Spousal IRAs are available for married taxpayers who file jointly. Where one spouse has no compensation, the deduction is limited to the smaller of 100% of the employed spouse's compensation or the combined annual limits. Thus, a nonworking spouse can contribute based on his or her working spouse's compensation.

A married couple with unequal compensation that files a joint return is limited on the deductible contributions to the IRA of the spouse with less compensation. The limit is the smaller of:

1. The annual contribution limit, or
2. The total compensation of both spouses, reduced by any deduction allowed for contributions to IRAs of the spouse with more compensation.

Contributions to spousal IRAs do not need to be divided equally between spouses, but neither

spouse may make a contribution of more than the annual contribution limit.
The deduction for contributions to both spouses' IRAs may be further limited if either spouse is covered by an employer's retirement plan.

Example - Spousal IRA Deduction - Bill and Bonnie, both age 72, file a joint return in 2020. Bill has $20,000 in wages, and Bonnie earned $225. Neither spouse participates in another retirement plan. The couple can deduct $14,000 in IRA contributions.

Assume instead that Bill and Bonnie have an AGI of $114,000 ($10,000 above the phase-out threshold), and Bill is an active participant in an employer plan. His deductible IRA contribution for 2020 is $3,500 ([20,000 - $10,000]/$20,000 x $7,000). Bonnie's spousal IRA deduction limit for 2020 is $7,000—she is not an active participant, and the couple's combined AGI is below the $196,000 threshold, thus allowing her a full deduction of $7,000. Thus, the couple's deductible IRA contribution for 2020 is $10,500 ($3,500 + $7,000).

Contribution Timing - A Traditional IRA contribution must be made by the due date (without extensions) of the tax return for the year of the deduction. Thus for 2020 the contribution must be made by April 15, 2021. The contribution can be made after a return is filed, but only if the contribution is made by the return due date.

If you have questions about making IRA contributions or the consequences of the repeal of the age limit for making contributions on your particular circumstances, please give this office a call.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

Scott Jensen
Kramer & Jensen, LLC

The contents of this newsletter are intended to convey general information only and not to provide accounting or tax advice or opinions. The content should not be construed as, and should not be relied upon for, accounting or tax advice in any particular circumstance or fact situation. We recommend you contact us to discuss the application to any specific situation.

VISIT OUR WEBSITE

Kramer & Jensen, LLC
sjensen@kramerjensen.com

Share This Email as Webpage