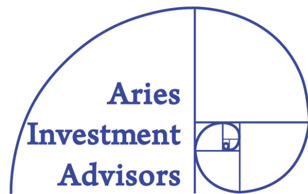

Due to the coronavirus pandemic, several changes to tax rules have been made.

Tax Return and Payment Deadlines Moved

In response to the coronavirus pandemic, the Internal Revenue Service (IRS) revised its deadlines for 2019 and first-quarter 2020 tax payments.

The date for filing 2019 tax returns has been pushed back from April 15, 2020, to July 15, 2020. Likewise, the payment deadline for 2019 taxes is now July 15. This change only applies to federal taxes, not state taxes or local taxes. Check with your state (and local, if applicable,) government to determine if their deadlines have changed.

Those who file an extension for their 2019 taxes are still required to file a return by October 15, 2020. As of early April, this deadline has not changed. An extension is not required if you file by July 15.

The deadline for paying first-quarter 2020 estimated taxes has also been pushed back by three months. Estimated taxes can be paid on July 15 instead of April 15. Second-quarter estimated taxes can also now be paid as late as July 15 (instead of June 15).

No penalties or interest will be charged for those who choose to delay payments until July 15. The deferment applies to all taxpayers, including individuals, trusts and estates, corporations, and other non-corporate tax filers as well as those who pay self-employment tax.

More Time to Make 2019 IRA Contributions

In conjunction with the revised deadline for filing 2019 taxes, the deadline for making 2019 IRA contributions has been pushed back. Taxpayers can now make contributions as late as July 15, 2020. The IRS states, “Because the due date for filing federal income tax returns has been postponed to July 15, the deadline for making contributions to your IRA for 2019 is also extended to July 15, 2020.”

If you have already filed your 2019 tax return but have not contributed the maximum allowed amount to your IRA ($6,000 plus an additional $1,000 for those ages 50 or older), you may have to file an amended return. Because qualified contributions to a

traditional IRA reduce your adjusted gross income, an amended return needs to be filed. Contributions to a Roth IRA do not alter your adjusted income since they are made with after tax dollars. However, an amended tax return would still be needed for a Roth IRA contribution made if the retirement savings contributions credit is claimed, as always, contact your CPA for further clarification.

If you made contributions during the 2019 and 2020 calendar years, be sure you calculate the total contributions made for the 2019 tax year to ensure you do not go over the limits.

Age Limit on Making Traditional IRA Contributions Removed

Those over age 70½ can now continue to make contributions to traditional IRAs if they have earned income. Prior to the start of 2020, such contributions were not allowed by those over age 70½; the age limit has been removed by the IRS. Roth IRA contributions did not have an age limit.

Changes in the Tax Treatment of Charitable Donations

The CARES Act allows for $300 of charitable donations to be deducted above the line for the 2020 tax year. This means the deduction can be claimed regardless of whether you take the standard deduction or choose to itemize. The cap on deducting cash charitable donations has also been removed. Previously, individuals have been limited to deducting cash contributions equivalent to 60% of their contribution base (typically adjusted gross income). Now they can deduct up to their contribution base for 2020. The CARES Act states, "Any qualified contribution shall be allowed as a deduction only to the extent that the aggregate of such contributions does not exceed the excess of the taxpayer's contribution base." We suggested reading IRS Publication 526 to learn more about the rules for charitable giving.

Qualified charitable donations (QCDs) are still allowed for those who are 70½ and older. (A QCD is a donation made to a qualified charity directly from an IRA.) Because there are no required minimum distributions (RMDs), QCDs made in 2020 will not have a tax impact. They will, however, affect future years' taxes by reducing the size of the IRA and thereby future RMDs. The limit on QCDs is $100,000 per year.

New Rules for RMDs

A combination of actions effect required minimum distributions. The impact on any individual depends on their age and wealth. First, as noted above, RMDs have been waived for 2020. No RMDs have to be taken from a traditional IRA, 401(k), Roth 401(k), SEP IRA or similar type of account. (Roth IRAs were previously and will continue to be exempt from the required distribution rules.) The IRS has yet to address the treatment of inherited IRAs as of press time. The Schwab Center for Financial Research has said that inherited IRAs are exempt from the RMDs this year as well. It would still be prudent to watch for official guidance from the IRS.

If you already took an RMD this year and want to avoid paying taxes on it, you have 60 days to roll it over to a new IRA. In doing so, understand that only one rollover per 12-

month period is allowed. In cases where taxes were withheld from the distribution being rolled over, the IRS requires taxpayers to "use other funds to make up for the amount withheld." If more than 60 days have passed, you will owe taxes on the distribution from non-Roth retirement accounts. According to Fidelity, the IRS has since clarified that the extension on tax deadlines applies to rollover contributions for which, as Fidelity explains, "the 60-day deadline fell between April 1 and July 14. [Individual investors] can make an eligible rollover contribution on or before July 15, 2020."

RMDs for 2021 will be determined by the balance of an eligible account [e.g., traditional IRAs, 401(k)s, etc.] at the end of 2020 and your age. To the extent that money is not withdrawn from your tax-deferred retirement accounts this year, the dollar amount for determining your 2021 RMD will increase. Fluctuations in the value of your investments will also have an impact—potentially a bigger one depending on your account balance.

Also impacting your RMDs for 2021 and beyond will be revised life expectancy tables. The proposed tables released in late 2019 assumed a 29.1-year life expectancy for a 70-year-old IRA owner versus the previous expectancy of 27.4 years. Additionally, the proposed uniform life table will be extended to 120 years, up from the current table's 115 years. Combined, the proposed changes would lead to a 70-year-old retiree's RMD decreasing from 3.65% of their retirement account's balance to 3.44% of the account's balance. These numbers may change once the 2021 tables are released.

The SECURE Act of 2019 raised the starting age for RMDs to 72 from 70½. The change in age applies to those who turned 70½ on or after January 1, 2020. Those who turned/will turn 70½ in 2020 or later have until April 1 following the year in which they turned 72 to take their first RMD. (If you turned 70½ in 2019, you were required to take a distribution by April 1, 2020. Due to the coronavirus, you are not required to take a second RMD for the 2020 tax year.)

A new 10-year limit on withdrawals for inherited IRAs was instituted by the SECURE Act. IRAs inherited on or after January 1, 2020, must be liquidated by the end of the 10th calendar year following the account owner's year of death. This provision eliminates stretch IRAs, which previously allowed heirs to stretch withdrawals over the course of their lifetime. For IRAs inherited this calendar year, 2021 counts as year 1 of the 10-year maximum period for taking withdrawals.

Waiver of Early Withdrawal Penalty for Coronavirus

A 10% penalty is typically assessed on withdrawals from retirement accounts made prior to age 59½. The CARES Act waives this penalty for 2020 if a person, their spouse or dependent is diagnosed with the coronavirus or if they experience "adverse financial consequences" as a result of the pandemic. Such events include but are not limited to being quarantined, furloughed, laid off, working reduced hours and being unable to work due to a lack of child care.

The withdrawals are taxable if not repaid (only the early withdrawal penalty is being waived). The tax on such withdrawals can be spread out over a period of three years. The maximum amount eligible for withdrawal is $100,000.

Tax Rebates Are Not Taxable

The rebates were specifically described as a "credit" in the CARES Act and will not count as taxable income. They were based on the adjusted gross income (AGI) listed on your 2019 tax return. If you hadn't filed your 2019 return, then the AGI from your 2018 tax return was used.

There could be a reconciliation to make on the 2020 tax return because this is an advance credit. Should the reconciliation show a taxpayer's eligible rebate to be higher than what they received, the difference will be claimed on the return. Taxpayers who received more than they should have are not expected by tax practitioners to have to pay the difference back. Such situations would occur if a taxpayer's income fell or rose, respectively, in 2020 relative to 2019.

Kiddie Tax Changed Back to Parent's Tax Rate

The Tax Cuts and Job Act (TCJA) changed the tax rates assessed on unearned income for children under age 18 (and students up to age 24) to the same as trusts and estates. The SECURE Act contains a provision revoking this change. Consequently, minors' unearned income will go back to being taxed at their or their parent's tax rate, whichever is higher.

For the latest updates on coronavirus tax relief, see the IRS' special website section at www.irs.gov/coronavirus.

Aries Investment Advisors, LLC is an Investment Adviser registered with the State of New York. Advisory services are only offered to clients or prospective clients where Aries Investment Advisors, LLC and its representatives are properly licensed or exempt from licensure. This (website/brochure/newsletter) is solely for informational purposes. No advice may be rendered by Aries Investment Advisors, LLC unless a client service agreement is in place.