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Luers + Dyer
CERTIFIED PUBLIC ACCOUNTANTS

Your monthly tax news & updates

Dear Clients and Friends:

Tax season is upon us! Keep an eye out for important tax documents in the mail. You will need them soon as we begin preparing your 2020 tax returns. Missing documents is one of the most common reasons for delay in tax preparation. Remember, you can upload your tax organizer and documents to the portal instead of mailing them.

Have you made your tax appointment yet? If you prefer to meet with us rather than send us your information, make sure to get your appointment on the calendar.

We look forward to seeing you soon.

Regards,
Rebecca Luers, CPA and Jan Dyer, CPA

If you any questions about the information in this newsletter, contact us. We appreciate you forwarding this newsletter to associates and friends who would benefit from the monthly news we provide and are looking for tax preparation and planning resources from a CPA firm.

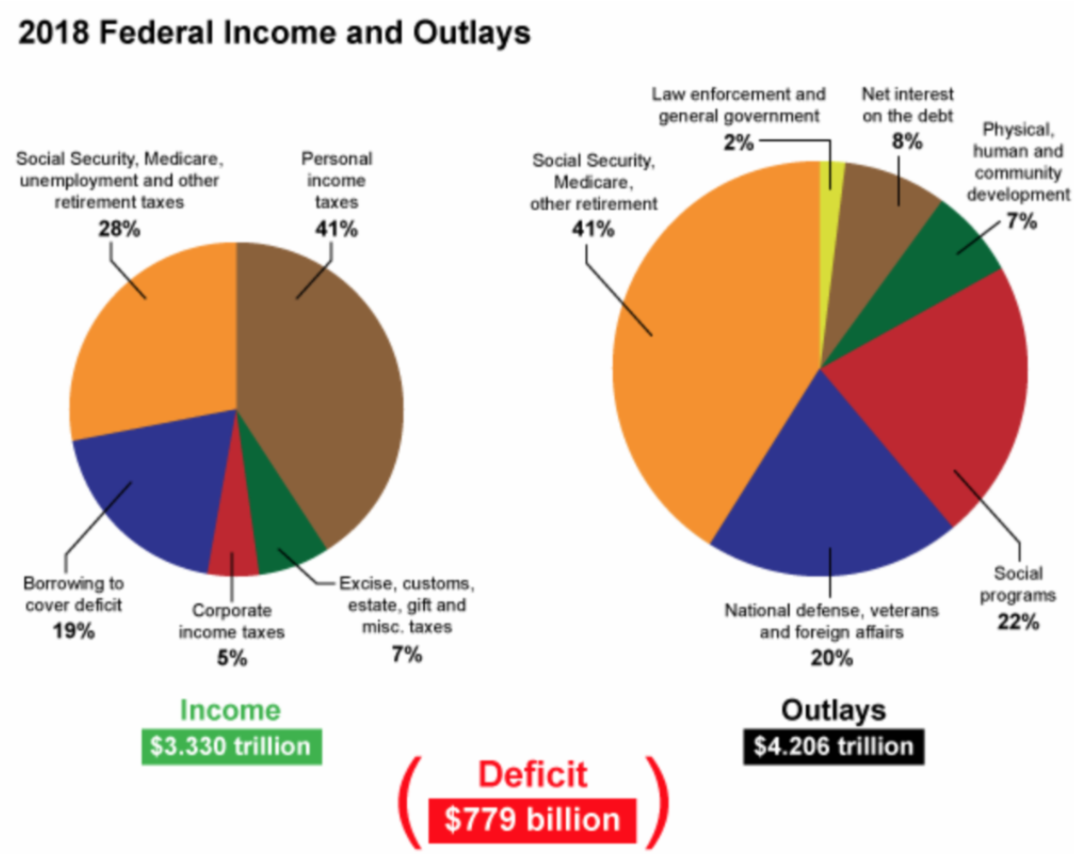
Tax Filing Reminders:

February 28
- Payers must file all Forms 1099 (including Form 1099-MISC Copy A)

March 15
- Calendar-year S corporation income tax returns are due (or file for extension)

March 15
- Calendar-year partnership returns are due (or file for extension).

March 15
- Deadline for calendar-year corporations to elect S corporation status for 2021.



Finding the Balance of Income vs. Spending
The IRS primer every voter should know

Every year the IRS publishes instructions to prepare your Form 1040, individual tax return. The publication for 2019 is a whopping 108 pages! On page 103 of the IRS booklet is a summary of collections (income) and spending (outlays) by the federal government. Given the election year, here is a summary of this recap and some general observations.*

Observations

- 23%: The amount of annual spending with no income to cover it.
- 63%: The amount of spending for social programs, Social Security and Medicare.
- 20%: National defense (15%), veterans benefits (4%), foreign aid (1%)
- 8%: Amount of annual budget required to pay interest on prior year deficits.

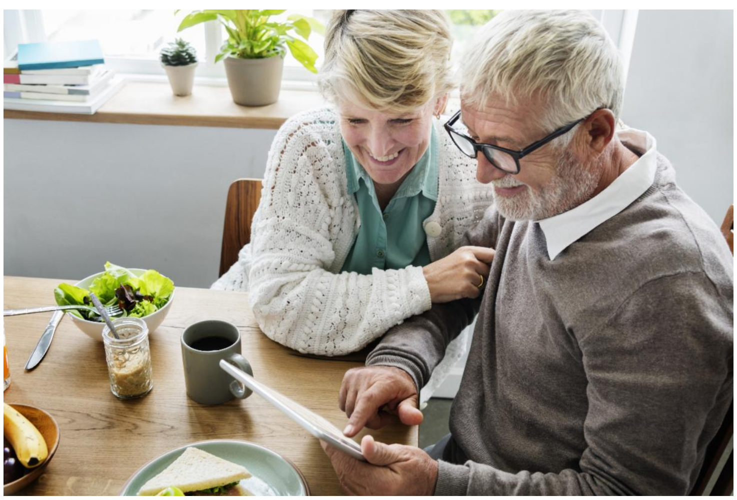
Why care?

- **Get rid of the noise.** Political rhetoric is often high during election season, and it is nice to have some facts as to how our taxes are actually spent.

- **Ah ha…this is a key reason interest rates are low.** Wondering why your bank savings interest rate is so low? In part it is because they are related to federally set interest rates. Imagine if the federal interest rates doubled. The amount of our government's spending on interest payments would double to 16 percent!
- **Very little is optional.** Debt payments, veteran obligations, Social Security, Medicare - all these payments plus many others are mandatory. These amounts alone, are over 75% of spending.
- **Start the conversation.** Currently, very little of the national conversation is centered around fiscal responsibility (the act of balancing income and outlays). No matter the side of your political leaning, perhaps this should be a starting point for everyone.
- **Learning for all of us.** Take a lesson here and see how your household income and spending stack up. Then create a plan to balance your income and outlays. Use tax planning as one of the key tools to do this.

Want to learn more?
The website **www.usafacts.org** is a great resource for an objective review of the numbers. This nonprofit is committed to providing the figures and letting you decide what they mean to you.

**for fiscal year 2018 ending September 30, 2018.*



New Rules Mean Saving More for Retirement

The Setting Every Community Up for Retirement Enhancement Act, also known as the SECURE Act, was passed by Congress in late December 2019. Here are some of the features in the new legislation that will help you save more for retirement:

Money can continue to grow tax deferred
If you turn 70½ in 2020 or later, you can keep money in a tax-deferred IRA or 401(k) for another 18 months to help the account continue growing before starting to withdraw funds. This retirement benefit is now available thanks to

the required minimum distribution age being raised from age 70½ to age 72.

Action: *Review your retirement account distribution needs and use this extra time to help make your distributions more tax efficient. For example, if you must earn an additional $10,000 before you hit the next highest tax bracket, consider pulling more taxable income out of your retirement account to take advantage of this lower rate. Or use the extra time to consider converting some funds to a Roth IRA.*

Contribute to a traditional IRA at any age
While taxpayers have always been able to contribute to a Roth IRA at any age, age 70½ was the cut-off for making contributions to a traditional IRA. You can now contribute to a traditional IRA at any age provided you have earned income.

Action: *This is a great opportunity for retirees working part time to consider building their retirement nest egg and lower Social Security taxable income.*

Certain part-time workers can now contribute to 401(k) plans
Most part-time workers have never been eligible to participate in an employer's 401(k) plan. The law now mandates employers who maintain a 401(k) plan to offer their plan to employees who work more than 1,000 hours in one year, or 500 hours over 3 consecutive years.

Action: *If interested in participating, contact your employer to determine if and when this option might be added to your company's retirement savings plan.*

Use retirement funds to offset the costs of a new birth or adoption
Each parent can withdraw $5,000 out of their retirement account without the 10% penalty. The distribution, however, must still be reported as taxable income. The distribution can be repaid as a rollover contribution to an eligible defined contribution plan or IRA.

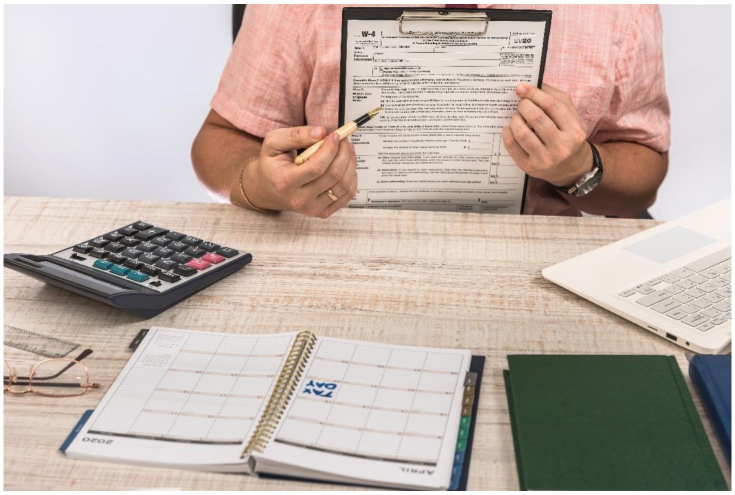
Action: *If considering this alternative, make sure the withdrawal is within one year of the birth or adoption. Also retain records to prove the withdrawal is for a qualified event. This is important because how this new rule is going to be administered is still up in the air.*

Watch out for auto enrollment
The government thinks you should be saving more for retirement. So the new law allows businesses to automatically transfer a greater portion of your paycheck into their retirement plan. The maximum contribution that can now be automatically deferred into your employer's 401(k) plan increases from 10% to 15%.

Action: *While saving more for retirement is a great idea, this automatic participation does not account for your particular situation. Be aware of this law and independently determine what you can afford to put towards retirement.*

Make any adjustments if necessary. Remember, you also need to build an emergency fund and pay your bills!

Retirement planning is often put off by most of us. If nothing else, these rule changes are a reminder that now is a great time to look at how you plan for retirement, all while making the best use of tax benefits along the way.



New W-4 Creates Questions for Human Resources

With the major Form W-4 overhaul for 2020, you may field questions from your employees concerning their federal paycheck tax withholdings. While it's not your responsibility to provide tax advice to your employees, it's good to be prepared to help answer common questions about the new IRS form. Here is a summary of the W-4 changes and answers to some common questions you might encounter:

The change
Form W-4 was changed by the IRS in an attempt to make payroll withholdings more accurate and easier for employees to understand following the implementation of the Tax Cuts and Jobs Act. The new Form W-4 eliminates the sometimes confusing allowance system, replacing it with targeted questions, worksheets and fields for dependents, other income and anticipated deductions.

Gone are days of simply increasing or decreasing allowances to get the proper withholding — making a change now requires some tax forecasting.

5 common questions about the new Form W-4

Do I have to submit a new form?
No. The allowances an employee has on a previous Form W-4 will continue to calculate appropriately in 2020. If changing jobs or if an employee wishes to adjust withholdings, completing the new W-4 is required.

Are ALL steps on the new W-4 required to be filled?
No. Step 1 (personal information) and step 5 (your signature) are the only required sections to complete. If your employee only completes steps 1 and 5, a withholding will be calculated under the assumption that he/she is only taking the standard deduction. If your employee has dependents or wishes to make other withholding adjustments they will need to fill out other steps in the form.

Do employees have to complete all the worksheets?
No. The worksheets are intended to provide a more accurate withholding amount. If an employee has multiple jobs or itemizes deductions, the worksheets will help the payroll department withhold the proper amount from a paycheck while accounting for these other factors. Remember, the IRS made many mistakes in trying to estimate the proper withholding under new tax rules, so the worksheets were added to reduce this problem.

Will completing the new W-4 affect refunds?
Perhaps. If an employee has the exact same tax situation (income, deductions and credits) in 2020 as they did in 2019, the tax calculation should have minimal impact on the tax refunded or owed. If there is a need to adjust withholdings at any time during 2020, however, the anticipated refund might look a lot different if an employee does not take the time to carefully complete the new Form W-4.

Should an employee adjust their withholdings?
Perhaps. This, of course, is up to the employee. It is best to coach them to speak to their tax advisor. But let them know that it really depends on them. If they want to maximize monthly cash flow or wish to receive a larger refund, then they need to go through the W-4 exercise. While more complicated, per the IRS this new form allows for less guessing when it comes to forecasting their April tax bill. A simple tax forecast that factors in last year's tax situation and accounts for changes in the current year will provide clarity to the amount that needs to be withheld.

Remember, to avoid an underpayment tax penalty an employee must withhold 100% of last years tax bill or 90% of this year's tax bill. This moves to 110% of last year's bill if income is over $150,000 ($75,000 if married filing separate). Finally, coach your employees to double check their paycheck after any change, it is never fun to be surprised by a big tax bill because withholdings are too low.

application to your specific situation. For further details on any article, please **contact us.**