

# Norwalk Business Service, Inc.

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## \*\*\*\*Tax Season Update\*\*\*\*

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Dear Client:

Earl Salter, the founder of Norwalk Business Service had a medical setback last October and he hasn't been cleared by his doctors to work. Although he is doing well and continuing treatment, he will not be preparing taxes this tax season. Earl is asking his partners Brenan Cavish, EA and Donald Cavish to take care of his clients this year. We encourage our clients to call and make their appointments as soon as possible in order to make sure we can accommodate all of our clients into our schedule. For those of you that wish, we can prepare your return remotely without the need for a physical visit, if you send us your documents electronically or by mail.

Congress passed the Secure Act at the end of the year which includes changes that may affect you.

**New Required Minimum Distribution Rules** – Congress has changed the age that retirees must begin taking distributions from their IRAs to 72. This goes into effect on January 1<sup>st</sup> of 2020. That means if you turned 70 on July 1<sup>st</sup>, 2019 or later, you do not need to take a RMD until you turn 72.

**Private Mortgage Insurance Deduction** – Congress has retroactively reinstated the deduction for private mortgage insurance on your personal residence through 2020. If you pay PMI and qualify for the deduction, we can amend your 2018 return for a fee.

**Health Insurance Deduction** – The 7.5% threshold for claiming medical expenses is extended for the 2019 and 2020 tax years. In 2021, the threshold will return to 10% unless extended.

**Paid Family Leave** – If you received California Paid Family leave in 2016, 2017, 2018 or 2019, you may be eligible for a deduction on an amended return. There have been recent court cases that show that taxpayers have a basis in State Disability if they have paid into the fund, which reduces PFL taxability. If you have received this benefit and wish to amend your return, you will need to provide your tax preparer with W-2s that show how much SDI has been deducted throughout the years.

**California's AB5**- California is providing more clarity on the rules for Independent Contractors. Starting for tax year 2020, if you normally issue 1099s for outside services, it is likely that most of your Independent Contractors should be employees. The penalty for misclassifying starts at \$5,000.00 and is also assessed to tax preparers. In 2021, we will ask for letters from your labor attorney for general 1099 labor or a copy of a contractor's license before including outside service deductions on any return.

**Residential Energy Efficient Credit** – The one time, \$500.00 credit for qualifying energy efficiency improvements has been extended for 2018, 2019, and 2020. This means that if you have not maxed out this credit in the past you can receive a 10% credit on energy efficient improvements like insulation, doors, windows, air conditioners, etc.

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