

Deadlines & Misc.

Fourth Quarter 2020 Estimated Tax Payments are due by Friday, January 15, 2021. See Page 4.

INCOME TAX RETURNS

Partnership and S-Corporation tax returns are due Monday, March 15, 2021. Individual and C-Corporation tax returns are due Thursday, April 15, 2021.

PAYROLL REPORTING

Forms 1099-NEC, W-2, and W-3 are due Monday, February 1, 2021. Forms 1099-MISC are due Monday, March 1, 2021 (paper-filed) or Wednesday, March 31, 2021 (e-filed).

STUDY CLUBS

If you would be interested in having us speak at one of your upcoming Study Club events, we would be happy to do so. We can cover a variety of topics including long-term financial planning, transition planning and most popular the new Tax Act – and how it is impacting dentists.

Contact our office for more details. 425.216.1612 or mail@cpa4dds.com

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DG Advisors LLC
Proactive Tax & Profitability Solutions™
A DENTAL GROUP COMPANY



Helping Dentists Make Smart Decisions about Money

COVID RELIEF IMPACT ON TAXES

Filing your taxes this year will likely be impacted by many of the various COVID relief efforts. We have been sending out updates throughout the year as they became available, but here are a few reminders.

STIMULUS PAYMENTS: The federal government payments (up to \$1,200 last spring and up to \$600 currently being processed) were based on your most recently filed tax return. However, your ultimate benefit may be greater if your 2019 return had not been filed at the time of the first payment, or if you had a “life event” such as the birth of a child in the interim. Your 2020 Form 1040 will have a reconciliation on it that could entitle you to additional benefits. Thus, we will likely need to know how much you received from each round of stimulus payments (even though the payments themselves are not taxable income).

RMDs SUSPENDED: The requirement that a minimum distribution (RMD) must be taken from IRAs was suspended for 2020 but is back for 2021. Also, the age at which the RMD begins was changed from 70 ½ to 72 for those that were under 70 ½ as of December 31, 2020.

NON-ITEMIZED DONATIONS: Charitable donations have typically been claimed on Schedule A as an itemized deduction. If you instead took the standard deduction, your donations would not have any tax benefit. For tax year 2020 only, all taxpayers (whether they itemize or not) are allowed to deduct up to \$300 of charitable donations “above-the-line,” meaning they reduce your adjusted gross income. Standard rules of maintaining documentation and donating only to valid 501(c)(3) charities still apply.

UNEMPLOYMENT BENEFITS: If you received unemployment benefits during an office closure, those payments are taxable income and must be reported on your 1040. Be sure to obtain and send us the form that shows that unemployment income and any associated federal withholding. When you signed up for unemployment, you had the option of having a portion withheld for taxes, but this was generally only 10%, likely below your effective tax rate.

ESTIMATED PAYMENTS FOR 2021: There are two options for meeting the required minimum tax payment rule. Your withholding and/or estimated payments must meet either (1) 100% of the prior year’s tax (110% for higher incomes), or (2) 90% of the current year’s tax. Generally, we use the prior year’s number, as it is not subject to future predictions.

As your 2020 income was likely lower than normal, this means you can rely on the lower 2020 tax and not pay in as much during 2021. Of course, if 2021 returns to your normal income level, you will owe the difference when your 2021 return is filed in 2022, but you would not be subject to underpayment penalties and interest. Discuss with your account manager whether you want to use this option or instead pay in the higher 2021 projected tax throughout the year and avoid a potentially large payment come filing time.

2021 LIMITS AND UPDATES

Several amounts indexed to inflation have changed for tax year 2020, although some remain unchanged.

| Amount | 2020 | 2021 |
|------------------------------------|-----------------|---------------|
| 401(k) deferral max | 19,500 | 19,500 |
| 401(k) catch-up if 50+ | 6,500 | 6,500 |
| SIMPLE deferral max | 13,500 | 13,500 |
| SIMPLE catch-up if 50+ | 3,000 | 3,000 |
| FICA wage base | 137,700 | 142,800 |
| Business mileage rate | 57.5 cents/mile | 56 cents/mile |
| Standard deduction (single) | 12,400 | 12,550 |
| Standard deduction (married joint) | 24,800 | 25,100 |

While the individual tax rates remain the same ranging from 10% to 37%, the brackets within which each rate begins have been adjusted slightly upward.

OTHER PLANNING OPPORTUNITIES

Bonus Depreciation: Part of the tax reform changes of 2018 greatly enhanced the opportunities for businesses to write off the entire cost of fixed assets in the year of acquisition. Absent this provision, the deductions would come in the form of depreciation over the life of the asset. This 100% bonus depreciation remains in place for the next few years before gradually being reduced. As we have seen, the further out we project, there is always a chance that tax laws could change. But as it stands now, here is a reminder of the amount of bonus depreciation you can claim:

| Asset placed in service through | Bonus Depreciation |
|---------------------------------|--------------------|
| December 31, 2022 | 100% |
| December 31, 2023 | 80% |
| December 31, 2024 | 60% |
| December 31, 2025 | 40% |
| December 31, 2026 | 20% |

Section 179: Similar to bonus depreciation is Section 179, which allows the full cost of an asset to be written off in the year of purchase. For years where bonus depreciation is at 100%, there is practically little difference whether one takes a deduction under either bonus or 179 with certain planning exceptions.

However, there are limits to how much can be claimed under Section 179, and a business must have positive income to get any 179 benefits. Certain types of assets, such as real estate, may qualify under one but not the other. Furthermore, you can pick and choose which assets to apply Section 179 to, but bonus depreciation must be applied to all assets within a given class (or none, if you opt out). Once bonus depreciation falls below 100%, it will become more important to know the distinctions between the two provisions.

QuickBooks: If you are utilizing a version of QuickBooks older than the 2020 version, it is time to update to 2021 (i.e., you should now be running either the 2020 or 2021 version). Or consider migrating to QuickBooks Online. Despite an initial learning curve, **QBO has many advantages**. Three significant ones are: you do not have to worry about updating; you can give your accountant online access (avoiding the sometimes-cumbersome process of uploading and downloading files) and you can access and work on QBO from any location.

You can acquire QuickBooks Pro 2021 at local or online retailers or at www.intuit.com. (\$179.99 to \$199.99 plus tax and shipping at Amazon). You may find certain retailers with a slightly lower price.

FOURTH QUARTER 2020 ESTIMATED PAYMENTS

*****THIS IS ONLY FOR THOSE THAT PAY BY QUARTERLY INSTALLMENTS*****

INSTRUCTIONS:

If you do not have pre-printed vouchers and envelopes: (If we have prepared your 2019 return, you will find pre-printed estimated tax payment vouchers in your online secure portal or in your folder if we mailed your tax return to you)

1. Detach or photocopy the voucher below.
2. Complete the name, address and social security number sections.
3. Fill in amount (call us at 425.216.1612 if you have questions regarding the amount).
4. Address your envelope to:

**Internal Revenue Service
PO Box 510000
San Francisco, CA 94151-5100**

5. Follow the instructions below for pre-printed vouchers.

If you are using pre-printed vouchers:

1. Make your check payable to the **United States Treasury**.
 2. Note your social security number and "2020 1040-ES" on the memo line of your check.
 3. Enclose the voucher and check in your envelope addressed to the Internal Revenue Service (see above).
 4. Mail on or before Friday, January 15, 2021.
- **Want to make future estimated payments on line? Sign up at [EFTPS.gov](https://www.irs.gov/efps) – This very convenient site allows you to enter multiple payments and dates in advance. Call us if you need help!**

Tear off here

Form **1040-ES**
Department of the Treasury
Internal Revenue Service

2020 Estimated Tax

Payment
Voucher **4**

OMB No. 1545-0074

File only if you are making a payment of estimated tax by check or money order. Mail this voucher with your check or money order payable to "United States Treasury." Write your social security number and "2020 Form 1040-ES" on your check or money order. Do not send cash. Enclose, but do not staple or attach, your payment with this voucher.

Calendar year—Due Jan. 15, 2021

Amount of estimated tax you are paying
by check or money order.

| | |
|---------|-------|
| Dollars | Cents |
|---------|-------|

Pay online at
www.irs.gov/efpay

**Simple.
Fast.
Secure.**

| | | | |
|----------------------|--|-------------------------|---------------------------------|
| Print or type | Your first name and middle initial | Your last name | Your social security number |
| | If joint payment, complete for spouse | | |
| | Spouse's first name and middle initial | Spouse's last name | Spouse's social security number |
| | Address (number, street, and apt. no.) | | |
| | City, state, and ZIP code, (If a foreign address, enter city, also complete spaces below.) | | |
| | Foreign country name | Foreign province/county | Foreign postal code |

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Form 1040-ES (2020)