

Deadlines & Misc.

First Quarter Estimated Tax Payments are not due until Wednesday, July 15, 2020.

DEADLINES

The deadline for Individual tax returns has been pushed back to July 15.

PERSONAL PROPERTY TAX

Many counties have delayed the due date for first half 2020 property tax payments to June 1. See Page 3. Personal property affidavits are still due April 30, 2019

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. Online interactive meetings are available.

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

CONTACT US

5808 Lake Washington Blvd NE
Suite 101
Kirkland, WA 98033
425.216.1612 | 425.216.1613 fax
mail@cpa4dds.com
www.dentalgroupllc.com



Helping Dentists Make Smart Decisions about Money

COVID-19 RESPONSES YOU MAY HAVE MISSED

With April 15th around the corner, we would normally be finalizing your returns and reminding you about your first quarter 2020 estimated payments coming due. Obviously, things are a bit different this year. With the tax deadline being moved back to July 15th that brings with it some other changes to note. Many of you have likely been focused on the small business loans and assistance programs, so you might have missed some of these other updates. (Be sure to visit our website at <https://dentalgroupllc.com> for the latest updates and resources regarding federal assistance programs and other strategies for your business).

2019 Tax Liability

If you still owe an amount on your 2019 individual return, that payment does not need to be made until July 15th, and no penalties or interest will accrue until then. This is true even if your return was filed before the due date was changed. However, if you had an automatic payment scheduled to come from your bank account, that will not automatically be changed. You will need to cancel that payment and setup a new one to be paid on or before July 15th.

2020 Estimated Payments and Withholding

The due date change also pushed back the first quarter 2020 estimated payment to July 15th. It did not change the second quarter, so as it currently stands, the second quarter payment (June 15th) is due before the first quarter (July 15th). If things have not improved as we get closer to June, there may be another delay for the second quarter payment, but plan on making that payment for now. Of course if you are a practice owner, your 2020 taxable income is very much in question for now, so you likely do not owe a second quarter payment and you may wish to take the approach of saving all possible cash and making estimated payments later once you are back to work and profitable.

Most of our dentists have reduced their salary to zero or minimal if still making 401(k) payments. This also should not change until you are back to work and profitable except in the case you are working under the 8-week loan forgiveness period of the PPP loan; in which case you should be paying yourself at least \$8,333.33 per month (consult us on this).

We expect to be working with all of our clients on tax payment and withholding strategies based on projections for the balance of 2020 once you are back to work and settled in.

No Required Minimum Distributions

Owners of traditional IRAs are required to take a minimum distribution (RMD) once they reach age 70 ½ (or 72 for years 2020 and beyond). That has been suspended for 2020, so no one is required to take a distribution this year. Come 2021, your required amount will be based on the account's value as of December 31, 2020 (i.e. the 2020 RMD is "skipped" not doubled up in 2021).

IRA and 401(k) Withdrawals

While the RMDs have been suspended, you are still free to take a distribution from your IRA or 401(k) if you so choose. Normally, those under age 59 ½ would be subject to a penalty of 10% of the withdrawal amount (unless you use the amounts for a narrow set of exceptions). Those affected by COVID-19 (either with a positive diagnosis, or those who suffer financial consequences like lost wages or reduced hours) can withdraw up to \$100,000 and avoid the 10% penalty.

You will still be taxed on the withdrawal at regular tax rates, but you will avoid the 10% penalty for 2020 and you have the same three year option to spread the tax out and/or to recapture the tax by paying back part or all of the distribution. See 401(k) Plan Distributions below.

Keep in mind; however, that taking money out now means there will be less in the account to grow for future withdrawals. Your investments are likely quite deflated at the moment, so selling now could cause you to miss out on the expected gains once the economy and financial markets recover.

401(k) Loans

Some 401(k)s allow participants to take a loan out against their own balance, paying back the amount plus interest over a certain time period. The maximum amount allowed to be loaned has traditionally been the lesser of \$50,000 or 50% of the account's balance. Those amounts have been increased to \$100,000 and 100%, respectively.

Again, taking money out of your 401(k), even temporarily, may cause you to miss out on future gains. Use this option with caution, and be sure to "authorize" any loan or distribution with your Retirement Plan Administrator to see if loans are even an option for your plan.

401(k) Plan Distributions

Qualified distributions of up to \$100,000 can also be made in 2020 under stimulus legislation. For income tax purposes, you can choose to recognize the income from a distribution all in 2020 or evenly spread over tax years 2020, 2021, and 2022. If you repay a partial or full amount back into your account during that three-year period, you can claim a refund for any taxes paid on the distribution. Payback amounts will be treated as rollover contributions and will not affect your ability to make ordinary contributions under the annual limits.

If you choose to instead take out a loan, you are not taxed up front, but you must pay the entire amount back, typically within five years. Employees who leave the company are required to pay back any outstanding balance (generally by the due date of their next tax return). Failure to follow the payback rules will result in the outstanding balance being treated as a taxable distribution, and it will also be subject to the 10% penalty if you are under 59 ½ at the time of default.

Distributions or loans from 401(k) plans should be an absolute last resort for accessing cash. To do so may lengthen the time period to achieve your long-term financial goals – or even put those goals out of reach altogether.

Property Taxes

Some counties are extending the due dates for property tax payments. King, Pierce, and Snohomish Counties have all moved the first half 2020 payments from April 30th to June 1st. However, this only applies to homeowners who pay their property taxes directly to the county. If your taxes are included in escrow with your mortgage, you have essentially already paid your property taxes, and you will not get any relief at this time.

If you live outside of these counties, check your county's website to see if they are offering similar deferrals.

Mortgage Relief

Homeowners with mortgages backed by the federal government may be able get partial relief, such as deferred payments or a moratorium on foreclosure. This includes mortgages through HUD, FHA, Fannie Mae, Freddie Mac, and others. It will not reduce the amount owed, however, and any amounts deferred will still need to be paid back.

For mortgages that are not backed by the federal government, other options may still be available by reaching out to your mortgage servicer.

Above the Line Charitable Deduction

With the major changes coming from tax reform in 2018, one of the biggest changes was the reduction in the number of people itemizing their deductions. The standard deduction was greatly increased, and many people who had made charitable donations were no longer getting a tax benefit; they would take the larger standard deduction regardless of how much they donated to charities. For tax year 2020, the IRS has authorized taxpayers to take a \$300 deduction for charitable donations in addition to the standard deduction. This “above-the-line” deduction reduces your adjusted gross income, which is used to determine your eligibility for other deductions and credits.

Student Loan Interest

Any student loans that are federally owned will have all payments and interest deferred until September 30th.

