Strategies for Tax Filing & Planning in the COVID Era

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IT'S NO SECRET that last year's tax season was a challenge for everyone. IRS and state tax agencies were shut down, filing deadlines changed, and accounting firms had to quickly pivot in order to provide safe, secure, and convenient solutions to clients. Here are a few tips to make tax filing and tax planning more convenient and less stressful this year and beyond:

Tip #1: Go Digital! News stories and images of mailed tax returns and payments piled up outside closed IRS and state processing centers, not to mention lengthy delays with mail delivery, drove many to use digital options for the first time. Consider the following:

- **E-file your tax return.** I can't emphasize how important this is. The benefits are numerous: immediate email confirmation that the agency has received your return, refunds are processed faster, and e-Filing is more secure than mailing. By late January 2021, many paper returns for 2019 still had not been processed!
- **Use online payment options to pay balances due/estimated payments.** The COVID-19 shutdown delayed the processing of tax payments, which resulted in many taxpayers receiving tax notices indicating that there were balances due even though payments were mailed before the deadline. To compound matters, taxpayers were charged interest and penalties! There are free, secure online payment options at the federal and state levels, i.e., IRS Direct Pay and EFTPS, which you can use to ensure payments are received on time by the tax authorities.
- **Use digital file submission tools.** TaxCaddy, the file submission solution we offer to our clients, is like having your own secure digital file cabinet. You can scan/take photos of your tax documents anytime using your PC, smartphone or tablet from the comfort of your home and submit to your accountant.

There have been changes to the 2020 tax return.

Here are some tips regarding those changes, as well as some common questions asked by taxpayers this year:

Tip #2: "Above the line" deduction for charitable contributions. Those who don't itemize deductions on Schedule A may qualify to take a $300 deduction for donations.

Tip #3: IRA contributions for those older than 70 ½. Beginning in 2020, there no longer are age limits on contributions to IRAs. If you or your spouse has sufficient earned income you may be eligible to contribute up to $7,000.

Tip #4: Due to COVID-19, I worked from home. Can I claim the home office deduction? Unfortunately, if you are an employee, you are not eligible for the home office deduction.

Tip #5: Recovery Rebate Credit. This credit is available for taxpayers who may not have previously been eligible or received reduced amounts for the Economic Impact Payments, but based on income levels in 2020 are now eligible.

It is never too late to plan for your 2021 taxes

There are many strategies you can implement to reduce your future tax obligations. Here are some additional planning tips and general recommendations:

Tip #6: Bunching of your deductions. Many taxpayers are no longer eligible for itemizing deductions since the standard deduction levels increased to higher levels. By bunching your deductions (charitable donations, extra mortgage payment) in one year rather than spreading out over two years, you can take advantage of itemizing at a higher level in one year and using the standard deduction in another.

Tip #7: Contribute to a charity stock with low basis instead of cash. By contributing stock with low basis, you are able to take a charitable deduction for the fair market value and don't have to pay tax on the difference between your cost basis and fair market value.

Tip #8: Increase your retirement plan contributions. Contributing to a retirement account decreases your taxable income (as long as not a Roth type). You can save more for retirement, and possibly be eligible for a greater company match. Roth retirement contributions will not reduce your taxable income but will grow tax-free. Future withdrawals during retirement will not be subject to tax.

Tip #9: Review beneficiary designations. Tax time is a great time to review your beneficiary designations for life insurance policies and retirement plans. Make sure to add any new child born in 2020 or eliminate a spouse who you have divorced during the recent tax year to ensure that your assets go to those you intend to benefit in case of your death.

If you haven't consulted with a CPA or tax advisor before, now may be the time since tax laws are in a continual state of change. ■

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