Important Changes for 2020

Due Date of Return

The due date for filing a 2020 return is Thursday, April 15, 2021.

Tax Form Changes

- New Form 1099-NEC, Nonemployee Compensation, The PATH Act accelerated the due date for submission of Forms 1099 that include nonemployee compensation (NEC). To alleviate taxpayer burden and eliminate confusion regarding due dates, new Form 1099-NEC was created. As a result, nonemployee compensation (formerly Box 7) has been deleted from Form 1099-MISC and will now be reported on the new Form 1099-NEC. The remaining boxes have been renumbered and repositioned accordingly.
- New Form 7202, Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals, can be used by certain self-employed individuals to claim refundable credits for sick and family leave needed as a result of the coronavirus.
- New Form 1040 SCH LEP, Request for Alternative Language Products by Taxpayers With Limited English Proficiency (LEP), can be used by taxpayers to state a preference to receive written communication from the IRS in a language other than English. Schedule LEP is not mandatory, but may be attached to Form 1040, Form 1040-SR, Form 1040-NR, Form 1040-PR, or Form 1040-SS.
- New Form 9000, Request for Alternative Format or Language, can be used by taxpayers with disabilities to elect to receive notices from the IRS in an accessible format and, when available, in a language other than English. Attach Form 9000 to Form 1040, Form 1040-SR, Form 1040-NR, Form 1040-PR, or Form 1040-SS.
- New Form 1040 (SP), Declaracion de Impuestos de los Estados Unidos Sobre los Ingresos Personales, a Spanish translation of Form 1040, will be available for tax year 2020. The following will also be translated to Spanish for tax year 2020: Form 1040-SR, Instructions for Form 1040 and Form 1040-SR, Schedules 1, 2 and 3 of Form 1040, Schedule LEP, Form 9000, Schedule 8812 and Instructions, Schedule EIC, Publication 972, and Form 1040-X and Instructions.
- Form 1040, U.S. Individual Income Tax Return, has additional lines to accommodate charitable contributions, federal income tax withholding from Form W-2, Form 1099, and other forms, and the recovery rebate credit.
- Form 1040-SR, U.S. Tax Return for Seniors, is expanded to four pages to accommodate necessary new lines and maintain the increased font size and vertical entry spacing that makes the 1040-SR easier to read. The Standard Deduction Chart is moved to page 4 of the form.
- Form 1040, Schedule SE, Self-Employment Tax will no longer contain the “short” version (Section A). All filers of Schedule SE will use the method of calculating self-employment tax found in Section B. As a result, Schedule SE will also no longer allow joint return filers to use a single Schedule SE (one using Section A and one using Section B). Each taxpayer with taxable net self-employment earnings will use a separate Schedule SE.
- Form 1040-NR, U.S. Nonresident Alien Income Tax Return, is being restructured to look like the redesigned Form 1040. This redesigned form will use Schedules 1, 2 and 3 (Form 1040). Schedule A, Itemized Deductions, Schedule NEC, Tax on Income Not Effectively Connected With a U.S. Trade or Business, and Schedule OI, Other Information, had been pages 3, 4, and 5 of the 2019 Form 1040-NR.

With the redesign of Form 1040-NR for 2020, Schedules A, NEC and OI are being removed from Form 1040-NR and being issued as separate products.

- Form 1040-NR-EZ, U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents, is obsolete.
- Form 1040-X, Amended U.S Individual Income Tax Return, may be filed electronically. At this time, only tax year 2019 Forms 1040 and 1040-SR returns can be amended electronically. Taxpayers will still have the option to submit a paper version of Form 1040-X and should follow the instructions for preparing and submitting the paper form. Additional enhancements are planned for the future.

SECURE Act of 2019

The changes included in the SECURE Act of 2019 (Setting Every Community Up for Retirement Enhancement), which was part of the Further Consolidated Appropriations Act, 2020, are summarized below:

- **Certain taxable non-tuition fellowship and stipends –** For tax years beginning after December 31, 2019 certain taxable non-tuition fellowship and stipend payments are treated as compensation for the purpose of IRA contributions. Compensation will include any amount included in gross income and paid to aid in the individual's pursuit of graduate or postdoctoral study.
- **Repeal of maximum age for traditional IRA contributions** – Many older taxpayers can now choose to contribute some or all of their compensation to a traditional individual retirement arrangement (IRA). Starting in 2020, the new law eliminated the long-standing 70½ age limit for making contributions to traditional IRAs. There is no age limit for contributions to a Roth IRA. As a result, people over age 70½ who are still working or running a business can now choose to contribute to a traditional IRA beginning in 2020.

  A qualified charitable distribution (QCD) can be made by a taxpayer who is age 70 ½ or older (unchanged). However, the excludible portion of a QCD is reduced by IRA deductions once the taxpayer attains age 70½. This provision applies cumulatively for tax years beginning after 2019 as to both distributions and deductions.
- **Penalty-free withdrawals from retirement plans for individuals in case of birth of child or adoption** – Beginning in 2020, an IRA owner or a participant in a workplace defined contribution plan, such as a 401(k) or 403(b) plan, can withdraw up to $5,000 for the birth or adoption of a child without incurring the usual 10% additional tax on early distributions. The distribution must be made within one year after the child is born or the adoption is finalized and cannot be from a defined benefit plan. Any time after receiving the distribution, the IRA owner or plan participant may generally recontribute any portion of the distribution as a rollover contribution to an eligible retirement plan, including an IRA.
  - The term "eligible adoptee" means any individual (other than a child of the taxpayer's spouse) who has not attained age 18 or is physically or mentally incapable of self-support.
- **Required minimum distributions (RMDs)** – The required minimum distribution (RMD) age increased from 70 ½ to 72 for taxpayers turning 70 ½ after December 31, 2019. In other words, if a taxpayer's 70th birthday is July 1, 2019 or later, they do not have to take withdrawals until reaching age 72.
  - For those who were age 70½ or younger on Jan. 1, 2020, their first RMD is not due until April 1 of the year after they turn age 72. For example, for those who turn 72 on July 1, 2021, they must take their first RMD (for 2021) by April 1, 2022, and their second RMD (for 2022) by December 31, 2022.
  - **Modification of required distribution rules for designated beneficiaries.** There are new required minimum distribution rules for designated beneficiaries upon the death of the IRA owner after December 31, 2019. All distributions must be made by the end of the 10th year after death, except for distributions made to certain eligible designated beneficiaries.

- **Difficulty of care payments** – Beginning in 2019, taxpayers can elect to increase their compensation for difficulty of care payments that are excluded from gross income for the purpose of nondeductible IRA contributions.
- **Expansion of Section 529 plans** – More expenses now qualify for tax-free and penalty-free withdrawals from a qualified tuition program, also known as a 529 plan.
  - Amounts can be withdrawn to pay principal or interest on a designated beneficiary's or their sibling's student loan. The amount of distributions for loan repayments of any individual is limited to $10,000 lifetime. Interest paid with these funds does not qualify for the student loan interest deduction.
  - In addition, a 529 plan can now be used to pay qualifying expenses for a designated beneficiary to participate in an apprenticeship program that is registered and certified by the U.S. Department of Labor. Qualifying expenses are expenses for required fees, books, supplies and equipment.
  - Because these changes are retroactive to 2019, any distributions during 2019 that meet these guidelines also qualify for tax-free and penalty-free treatment.

Families First Coronavirus Response Act

The Families First Coronavirus Response Act creates two new credits:

- **Credit for sick leave for certain self-employed individuals.** Eligible self-employed individuals are allowed a credit for an amount equal to the qualified sick leave equivalent amount.
- **Credit for family leave for certain self-employed individuals.** Eligible self-employed individuals are allowed a credit for an amount equal to 100% of the qualified family leave equivalent amount.

See Publication 4491, Payments and Miscellaneous Refundable Credits lesson and Volunteer Resource Guide, Tab H, Other Taxes, Payments, and Refundable Credits, for details. This is in scope for volunteers with Advanced certification.

Coronavirus Aid, Relief, and Economic Security (CARES) Act changes

The CARES Act (Coronavirus Aid, Relief, and Economic Security) changes are summarized below:

- **Economic Impact Payments (EIPs) and Recovery Rebate Credits**

  Eligible individuals with adjusted gross income up to $75,000 for single filers, $112,500 for head of household filers and $150,000 for married filing jointly are eligible for the full $1,200 for individuals and $2,400 married filing jointly. In addition, they are eligible for an additional $500 per qualifying child.

  - Eligible taxpayers who received a smaller-than-expected EIP may qualify to receive an additional amount when they file their 2020 federal income tax return. EIPs are technically an advance payment of a new temporary tax credit (recovery rebate credit) that eligible taxpayers can claim on their 2020 return.
  - If eligible, taxpayers may claim an additional credit on their 2020 tax return, for example, if a child was born, adopted, or placed into foster care in 2020.
  - The EIP will not reduce a taxpayer's refund or increase the amount they owe when they file a tax return. It is also not taxable and therefore should not be included in income on a 2020 return.
  - An individual who may be claimed as a dependent on another taxpayer's tax return is not eligible for a payment.

CAUTION

Caution: At the time this publication was finalized, the Economic Impact Payment established by the CARES Act was in effect. If additional legislation becomes law, details will be included in Publication 4491X, VITA/TCE Training Supplement.

- **Paycheck Protection Plan (PPP) loan forgiveness**

  Taxpayers may exclude from gross income any covered loan forgiveness.

  IRS Notice 2020-32 clarifies that no deduction is allowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a covered loan pursuant to the CARES Act, and the income associated with the forgiveness is excluded from gross income pursuant to the CARES Act.

- **Special rules for use of retirement funds**

  Individuals eligible for coronavirus-related relief may be able to withdraw up to $100,000 from IRAs or workplace retirement plans before December 31, 2020. These coronavirus-related withdrawals:

  – May be included in taxable income either over a three-year period (out of scope) or in the year taken (in scope).

  – Are not subject to the 10% additional tax on early distributions that would otherwise apply to most withdrawals before age 59½,

  – Are not subject to mandatory tax withholding, and

  – May be repaid to an IRA or workplace retirement plan within three years. In scope if repayment is made before the due date of the 2020 return (Advanced). Otherwise, it is out of scope.

  As expanded under Notice 2020-50 a qualified individual is anyone who:

  – is diagnosed, or whose spouse or dependent is diagnosed, with the virus SARS-CoV-2 or the coronavirus disease 2019 (collectively, "COVID-19") by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act); or

  – experiences adverse financial consequences as a result of the individual, the individual's spouse, or a member of the individual's household (that is, someone who shares the individual's principal residence):

    - being quarantined, being furloughed or laid off, or
    - having work hours reduced due to COVID-19;
    - being unable to work due to lack of childcare due to COVID-19;
    - closing or reducing hours of a business that they own or operate due to COVID-19;
    - having pay or self-employment income reduced due to COVID-19; or
    - having a job offer rescinded or start date for a job delayed due to COVID-19.

  These benefits are claimed on new Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments.

- **Temporary waiver of required minimum distribution rules for certain retirement plans and accounts** – waives the required minimum distribution rules for certain defined contribution plans and IRAs for calendar year 2020.

- **Allowance of partial above-the-line deduction for charitable contributions** – permits taxpayers who do not itemize deductions to deduct up to $300 of cash contributions to charitable organizations per return. This provision applies to tax year 2020.

- **Modification of limitations on charitable contributions during 2020** – increases the limitations on deductions for charitable cash contributions by individuals who itemize. For individuals, the 60% of adjusted gross income limitation is suspended for 2020.

- **Health care spending**
  - Allows a high-deductible health plan (HDHP) with a health savings account (HSA) to cover telehealth services prior to a patient reaching the deductible, increasing access for patients who may have the COVID-19 virus and protecting other patients from potential exposure.
  - The CARES Act also modifies the rules that apply to various tax-advantaged accounts (HSAs, Archer MSAs, Health FSAs, and HRAs) so that additional items are "qualified medical expenses" that may be reimbursed from those accounts. Specifically, the cost of menstrual care products is now reimbursable. In addition, over-the-counter products and medications are now reimbursable without a prescription. The new rules apply to amounts paid after Dec. 31, 2019. Taxpayers should save receipts of their purchases for their records.
- **Deferred payment of the employer share of the Social Security tax –** allows self-employed individuals to defer payment of the employer share of Social Security tax. Half of the deferred amount is due by December 31, 2021 and the other half by December 31, 2022.
- **Exclusion for certain employer payments of student loans** – enables employers to provide a student loan repayment benefit to employees on a tax-free basis. Under the provision, an employer may contribute up to $5,250 annually toward an employee's student loans, and such payment would be excluded from the employee's income. The $5,250 cap applies to both the new student loan repayment benefit as well as other educational assistance (e.g., tuition, fees, books) provided by the employer. This provision applies to any student loan payments made by an employer on behalf of an employee after March 27, 2020 and before January 1, 2021.
- **Higher education emergency financial aid grants** – Emergency financial aid grants under the CARES Act for unexpected expenses, unmet financial need, or expenses related to the disruption of campus operations due to the COVID-19 pandemic, such as unexpected expenses for food, housing, course materials, technology, health care, or childcare, are qualified disaster relief payments under section 139 of the Internal Revenue Code. This grant is not includible in gross income.

  Because the emergency financial aid grant is not includible in gross income, taxpayers cannot claim any deduction or credit for expenses paid with the grant including the tuition and fees deduction, the American opportunity credit, or the lifetime learning credit.

Individual Taxpayer Identification Numbers (ITINs)

ITINs not used in the last three consecutive tax years: If an ITIN was not included on a U.S. federal tax return at least once for tax years 2017, 2018, or 2019, the ITIN will expire on December 31, 2020. Affected taxpayers need to take action to renew if it will be included on a U.S. federal tax return.

ITINs with the middle digits 88 will expire. ITINs with middle digits (the fourth and fifth positions) "88" will expire December 31, 2020. ITINs with middle digits "90", "91", "92", "94", "95", "96", "97", "98", or "99" that were assigned before 2013 and have not already been renewed, will also expire at the end of the year. Taxpayers with these ITINs need to take action to renew it if it will be included on a U.S. federal tax return filed in 2021.

Estimated Tax Payments

Estimated tax payments for 2020 normally due on April 15, 2020 and June 15, 2020 are treated as timely if made by July 15, 2020.

Personal Exemption Amount

The deduction for all personal exemptions is suspended (reduced to zero), effective for tax years 2018 through 2025.

For 2020, the gross income limitation for a qualifying relative is $4,300.

Certain Expenses of Elementary and Secondary School Teachers

The amount of the deduction allowed that consists of expenses paid or incurred by an eligible educator in connection with books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment (including related software and services) and other equipment, and supplementary materials used by the eligible educator in the classroom is $250 (no change).

Standard Deduction

The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) has increased. The standard deduction amounts for 2020 are:

- $24,800 – Married Filing Jointly or Qualifying Widow(er) (increase of $400)
- $18,650 – Head of Household (increase of $300)
- $12,400 – Single or Married Filing Separately (increase of $200)

Taxpayers who are 65 and Older or are Blind

For 2020, the additional standard deduction amounts for taxpayers who are 65 and older or blind are:

- $1,650 for Single or Head of Household (no change)
- $1,300 for married taxpayers or Qualifying Widow(er) (no change)

Standard Mileage Rate

For 2020, the following rates are in effect:

- 57.5 cents per mile for business miles driven
- 17 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations (no change)

The standard mileage rate for business cannot be used to claim an itemized deduction for unreimbursed employee travel expenses during the suspension of miscellaneous itemized deductions that are subject to the 2% of AGI floor.

The moving expense deduction is not allowed through 2025 and the exclusion from income of moving expense reimbursements from an employer is also suspended. The only exception is for active military service members who move pursuant to a military order to a new permanent duty station.

Deduction for Qualified Business Income

For 2020, the threshold amount is $163,300 ($326,600 for Married Filing Jointly).

Retirement Savings Contribution Credit

To claim this credit, the taxpayer's modified adjusted gross income (MAGI) must not be more than $32,500 for Single, Married Filing Separately, or Qualifying Widower (increase of $500). MAGI must not be more than $48,750 (increase of $750) for Head of Household, and $65,000 (increase of $1,000) for Married Filing Jointly.

Child Tax Credit

The refundable amount of the credit is limited to $1,400 per qualifying child (no change).

Earned Income Credit (EIC)

For 2020, the maximum credit increased to:

- $6,660 with three or more children
- $5,920 with two children
- $3,584 with one child
- $538 with no children

Earned Income Amount Increased

To be eligible for a full or partial credit, the taxpayer must have earned income of at least $1 but less than:

- $50,954 ($56,844 if Married Filing Jointly) with three or more qualifying children
- $47,440 ($53,330 if Married Filing Jointly) with two qualifying children
- $41,756 ($47,646 if Married Filing Jointly) with one qualifying child
- $15,820 ($21,710 if Married Filing Jointly) with no qualifying child

Investment Income

Taxpayers whose investment income is more than $3,650 cannot claim the EIC.

Education Benefits

American opportunity credit for 2020 is gradually reduced (phased out) if taxpayers' MAGI is between $80,000 and $90,000 ($160,000 and $180,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is $90,000 or more ($180,000 or more if Married Filing Jointly).

Lifetime learning credit for 2020 is gradually reduced (phased out) if taxpayers' MAGI is between $59,000 and $69,000 ($118,000 and $138,000 if Married Filing Jointly). Taxpayers cannot claim a credit if their MAGI is $69,000 or more ($138,000 or more if Married Filing Jointly).

Student loan interest deduction begins to phase out for taxpayers with MAGI in excess of $70,000 ($140,000 for joint returns) and is completely phased out for taxpayers with MAGI of $85,000 or more ($170,000 or more for joint returns).

Eligible Long-Term Care Premium Limits

For 2020, the maximum amount of qualified long-term care premiums includible as medical expenses has increased. Qualified long-term care premiums up to the amounts shown below can be included as medical expenses on Schedule A (Form 1040), Itemized Deductions, or in calculating the self-employed health insurance deduction.

- Age 40 or under: $430
- Age 41 to 50: $810
- Age 51 to 60: $1,630
- Age 61 to 70: $4,350
- Age 71 and over: $5,430

TIP The limit on premiums is for each person.

Foreign Earned Income Exclusion

For 2020, the maximum foreign earned income exclusion is $107,600.

The COVID-19 virus has caused a global health emergency that has prompted the Department of the Treasury and the Internal Revenue Service to provide a waiver of the time requirements related to the foreign earned income exclusion.

If, due to the COVID-19 emergency, the taxpayer was required to leave:

- The People's Republic of China (excluding the Special Administrative regions of Hong Kong and Macau) on or after December 1, 2019, but on or before July 15, 2020; or
- Another foreign country on or after February 1, 2020, but on or before July 15, 2020;

the taxpayer may still be able to meet requirements of the bona fide residence or physical presence test for 2019 or 2020 for purposes of determining the foreign earned income exclusion. For more information and examples see **Revenue Procedure 2020-27**. This topic is in scope for volunteers with International certification only.

Deduction Amount and Modified AGI Limit for Traditional IRA Contributions

For 2020, the maximum IRA deduction is $6,000 ($7,000 if age 50 or older). For taxpayers who are covered by a retirement plan at work, the deduction for contributions to a traditional IRA is reduced (phased out) if the modified AGI is:

- More than $104,000 but less than $124,000 for a married couple filing a joint return or a qualifying widow(er) if both spouses are covered by a retirement plan,
- More than $65,000 but less than $75,000 for a single individual or head of household, or
- Less than $10,000 for a married individual filing a separate return

For an IRA contributor who is **not** covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $196,000 and $206,000.

2020 Repayment Caps for APTC

Income (as % of federal poverty line)	Taxpayers filing as Single	Taxpayers using other filing statuses
Under 200%	$325	$650
200%-299%	$800	$1,600
300%-399%	$1,350	$2,700
400% and above	No cap (full repayment)	No cap (full repayment)

- Filing thresholds and federal poverty line tables have been adjusted for inflation.
- The individual Shared Responsibility Payment (SRP) is reduced to zero. Taxpayers who do not have health insurance coverage during 2019 or later do not require an exemption to avoid the SRP.
- Details about these and other updates can be found in the Premium Tax Credit lesson and in the Volunteer Resource Guide, Tab H, Other Taxes, Payments, and Premium Tax Credit.

Health Savings Account (HSA) Deduction

For 2020, the annual contribution limits on deductions for HSAs for individuals with self-only coverage is $3,550 (increase of $50) and $7,100 for family coverage (increase of $100). There is an additional contribution amount of $1,000 for taxpayers who are age 55 or older.

Scope Changes

The following has been removed from scope:

- Form 8615, Tax for Certain Children Who Have Unearned Income – The Further Consolidated Appropriations Act, 2020 reverts the “kiddie tax” to pre-2018 law with a child’s unearned income taxed at the parents’ top marginal rates. Previously, this was in scope when the unearned income for certain children was taxed using the brackets and rates for estates and trusts, which was a simpler calculation. The change is effective for taxable years beginning after December 31, 2019, with the option to use the estates and trusts rates for 2019 and 2018.

Added to scope:

- Schedule C with expenses up to $35,000. In scope for Advanced certification.
- HSA is now included in Advanced certification and will not be a separate certification.
- Waiver of the 10% early withdrawal penalty for distributions up to $100,000 from qualified retirement accounts for coronavirus-related purposes made on or after January 1, 2020, and before December 31, 2020. Limitation: In scope if taxpayer elects NOT to spread the taxable amount over three years (Advanced).
- Repayment of coronavirus-related distributions if made by the due date of the 2020 tax return (Advanced).
- Above the line deduction for charitable contributions (Basic or Advanced).
- Deferred payment of the employer share of the Social Security tax for self-employed individuals (Advanced).
- Credit for sick leave for certain self-employed individuals and Credit for family leave for certain self-employed individuals (Advanced).
- Penalty-free withdrawals from retirement plans for individuals in case of birth of child or adoption (Advanced).
- Economic Impact Payment/Recovery Rebate Credit.

Other Changes

- A new optional certification test is available. The Qualified Experienced Volunteer test is an optional path to allow returning volunteers to certify at the advanced level. Check with your Site Coordinator or sponsoring organization for additional qualifications before taking this test.

Extended and Expired Legislation

The Taxpayer Certainty and Disaster Tax Relief Act of 2019 extended the following provisions through December 31, 2020.

- Exclusion from gross income of qualified principal residence indebtedness
- Mortgage insurance premiums deductible as qualified residence interest

- Deduction for qualified tuition & fees
- Credit for nonbusiness energy property (residential energy credit)
- Reduction in the medical expense deduction floor to 7.5%

CAUTION Congress may enact additional legislation that will affect taxpayers after this publication goes to print. Any changes will be reflected in Publication 4491-X, VITA/TCE Training Supplement, available in mid-January on **https://www.irs.gov**.

Notes