



# MARTIN·SMITH

& COMPANY CPAs

January 2021

Dear Client,

One year ago at this time we had no idea of the difficulties that we would face in 2020—both individually and as a nation. With everything happening tax returns were just an “inconvenience” that had to be done. Now we face another tax season, and the financial effects of 2020 will play out in another challenging tax year for tax preparers. Two massive tax bills were passed in response to COVID-19. The CARES Act alone was over 300 pages that involved not just IRS, but also the Department of Labor and the Small Business Administration. At the taxpayer level, both individual and business, most tax returns will in some way be affected by this past year.

**Economic Impact (Stimulus) Payments (EIP)** - Most importantly, the EIP amounts are not taxable. These payments are actually “advanced credits” against your 2020 taxes. As a basis to determine who qualified for the payments and how much each taxpayer was to receive, the IRS calculated the first payment using either the 2018 or 2019 tax return and the second payment was based on the 2019 tax return. View the calculation of these two payments as temporary. Now, for the 2020 tax return the actual EIP amounts that you are eligible to receive will be calculated based on your 2020 income and compared to the combined first and second payments that you received. If you are eligible for an additional amount, it will appear on line 30 of Form 1040 as a “Recovery Rebate Credit.” If you received more than you are eligible to receive, you are not required to repay the excess. So, the 2020 tax return reconciles the actual EIP amounts to the allowed amount based on the 2020 tax return. If you did not receive an EIP and should have, you can claim the credit on your 2020 return based on your 2020 income. If a child was your dependent in 2018 and/or 2019, is not your dependent in 2020, and did not receive a payment, your child should file a tax return to receive the credit on their 2020 return. If your 2020 income decreased and you did not receive that maximum EIP, then you could be eligible for additional EIP in the form a Recovery Rebate Credit on your 2020 return. **We must have the exact amount of each EIP that you received to properly calculate your potential credit.** Incorrect amounts could delay the processing of your federal tax return. If you do not know the exact amount of each payment, you can verify dates and payment methods at <https://www.irs.gov/coronavirus/get-my-payment>. When that information is displayed, there is a link to set up an account to obtain the amounts of each Stimulus payments. **We do not have access to this information.**

**Charitable Contributions** – New for 2020 and 2021, there is an “above the line” deduction for qualified charitable contributions if you do not itemize your deductions on Schedule A. The deduction is \$150 for a single filer and \$300 for a jointly filed return..

**Unemployment Benefits** - During 2020 and continuing in 2021, many taxpayers received unemployment benefits (compensation). As a reminder, these amounts are fully taxable. You might want to consider having federal and state taxes withheld from these benefits. You should receive a Form 1099-G for unemployment benefits paid to you in 2020, and please include that form with your documentation that you give us.

**Required Minimum Distributions (RMD)** - The CARES Act suspended RMDs for 2020 only. As is stands today, the RMD is required for 2021. As we all know, this could change. We recommend that you delay taking your RMD early in 2021 if you do not need the funds just in case legislation this year again waives the RMD requirement.

**South Carolina Fuel Tax Credit** - For South Carolina residents, the State continues to offer a Refundable Motor Fuel Income Tax Credit. The credit for 2020 will be 7 cents per gallon and will increase each year by 2 cents through 2022. For example, in 2020 the credit for 1,000 gallons will be \$70 per vehicle. You must have records for gallons purchased and vehicle maintenance expenses separately stated for each vehicle. Each taxpayer can claim the credit for up to two vehicles. Due to the amount of information needed, please go to our website at [www.martinsmithcpas.com/newsletters.html](http://www.martinsmithcpas.com/newsletters.html) and download one of the versions of Form I-385 and then fill it out completely and provide it to us with your other tax documents. **Please do not give us your receipts.** If you want to claim the credit for 2021, continue saving your gas and car maintenance receipts during 2021.

**Office Procedures and COVID-19** - As with most businesses, we want to be mindful of the potential effect of COVID-19 on you and our staff. We will continue our protocol of requesting you to drop of your tax information by putting your documents in an envelope (we will provide one if you do not have one) and then place the envelope in a box in the office lobby. Please be sure someone at the front desk sees you so we can promptly retrieve the envelope from the box and begin the check-in process. If you prefer not to come into the office, please call us and we will meet you in the parking lot. If you want to electronically send your documents to us, please contact your preparer to securely send them. If sending digital documents, please scan in black and white (not color or grey scale) since the file sizes are much smaller. Also, we prefer not to have cell phone pictures of documents.

We look forward to a challenging tax season serving you this year!

Sincerely yours,

MARTIN SMITH & COMPANY CPAs, PA