



Taxes and COVID: Things to Know Before Filing Your 2020 Return

The coronavirus relief packages also offer relief to those filing their 2020 taxes. Make sure to take advantage of these one-time features as you prepare your return.

Taxpayers stand to benefit from a host of features contained in relief packages passed over the last year.

As if the pandemic hasn't already affected every other aspect of people's lives, now there's taxes. But in this case, the effect is positive. The different relief packages offer a host of features that can help taxpayers lower their 2020 tax bill. So, as you sit down to prepare your tax return, keep in mind the following.

Stimulus checks aren't taxable. The millions of Americans who received stimulus checks in 2020 will not have to report it or pay taxes on it. If, for some reason, you were owed one but didn't get it, or you did not receive the full amount that you were entitled to, you can get it in the form of a Recovery Rebate Credit when you file.

Unemployment benefits may not be taxable. The latest relief package, the American Rescue Plan Act of 2021 (ARPA), passed in March, made the first \$10,200 of unemployment benefits received by an individual taxpayer (or in the case of a joint return, received by each spouse) in 2020 tax-free if your annual household income is under \$150,000. For those who already filed their taxes and reported unemployment benefits before passage of the ARPA, the IRS will be issuing guidance as to how to claim a refund.

Paycheck Protection Program (PPP) loan proceeds may be tax deductible. For those businesses that received loans under the PPP, eligible expenses that were paid with loan proceeds may be deducted from taxable income. Keep in mind, however, that under the program, any loan forgiveness is subject to the approval of the Small Business Administration.

Those claiming the standard deduction still may be able to deduct \$300 for charitable contributions. In an effort to help charities hard-hit by the pandemic, the CARES Act allows taxpayers who take the standard deduction to deduct up to \$300 in donations. Usually, only those who itemize can write off donations to charity. Note that this deduction is available only for the 2020 tax year, and only applies to cash donations made before December 31, 2020.

No penalties for early withdrawals from your retirement plan. Normally, if you are under age 59½ and withdraw money from your qualified retirement plan -- such as a 401(k) or IRA -- you must pay a 10% early withdrawal tax and ordinary income tax on taxable portions of the distribution. But the CARES Act waived the penalty for early withdrawals made during 2020, up to \$100,000, if you were impacted by

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coronavirus. What's more, you are allowed to spread out any taxes owed on such distributions over a three-year period rather than reporting it all in your 2020 taxes.

Filing deadline extended. Though technically not part of a relief package, the IRS moved the filing deadline out a month to May 17. That means you can wait until then to file, without penalties and interest, regardless of what you owe. Many states followed suit, but check with your state tax authority to make sure. Also, keep in mind that the extension does not apply to estimated quarterly tax payments, which are still due on April 15.

There are a number of other tax provisions contained in the different relief packages that could also potentially reduce your tax bite for the 2020 tax year. If you are not already working with a tax professional, now may be the year to do so, as they may be able to identify other one-time opportunities to lower your 2020 tax bill.