Coleman & Associates
Fully Integrated Tax, Accounting & Financial Services

Monthly Newsletter

February 2020

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Join us in welcoming Karla Prado!

Karla graduated from Lake Forest College in 2012 with a Bachelor of Arts degree in Economics and International Relations. She received her MBA with a focus in Project Management from Kellstadt Graduate School of Business in 2019.

Karla currently lives in the Logan Square neighborhood in Chicago. Karla enjoys travelling, cooking, watching new movies and going to Chicago Bulls games. Along with her boyfriend Juan, she loves to try new cuisines, host dinner parties and dive into the Chicago restaurant world.

Organizers Have Been Created and Mailed

Your 1040 Organizer was sent to your Coleman Portal.

Coleman Portal users received an email on February 1st informing you that the Organizer was available. The email was from info@colemancpas.com.

Paper Organizers were mailed on February 4th.

Engagement Letters Have Been Mailed

All 1040 engagement letters were mailed on February 6th, 2020. Portal users, the engagement letters are not on your portal.

Please be sure to read the 2019 Requirements to begin processing your tax return, included with your engagement letter and your organizer.

New Rules Mean Saving More for Retirement

The Setting Every Community Up for Retirement Enhancement Act, also known as the SECURE Act, was passed by Congress in late December 2019. Here are some of the features in the new legislation that will help you save more for retirement:

- **Money can continue to grow tax deferred**
  If you turn 70½ in 2020 or later, you can keep money in a tax-deferred IRA or 401(k) for another 18 months to help the account continue growing before starting to withdraw funds. This retirement benefit is now available thanks to the required minimum distribution age being raised from 70½ to 72.

  Action: *Review your retirement account distribution needs and use this extra time to help make your distributions more tax efficient. For example, if you have $10,000 before you hit the next highest tax bracket, consider pulling more out of your retirement account. Or use the extra time to consider converting some funds to a Roth IRA.*

- **Contribute to a traditional IRA at any age**
  While taxpayers have always been able to contribute to a Roth IRA at any age, 70½ was the cut-off for making contributions to a traditional IRA. You can now contribute to a traditional IRA at any age provided you have earned income.

  Action: *This is a great opportunity for retirees working part time to consider building their retirement nest egg.*

- **Certain part-time workers can now contribute to 401(k) plans**
  Most part-time workers have never been eligible to participate in an employer's 401(k) plan. The law now mandates employers which maintain a 401(k) plan to offer one to employees who worked more than 1,000 hours in one year, or 500 hours over 3 consecutive years.

  Action: *If interested in participating, contact your employer to determine if and when this option might be added to your company's retirement savings plan.*

- **Use retirement funds to offset the costs of a new birth or adoption**
  Each parent can withdraw $5,000 out of their retirement account without the 10% penalty. The distribution, however, must still be reported as taxable income. The distribution can be repaid as a rollover contribution to an eligible defined contribution plan or IRA.

  Action: *If considering this alternative, make sure the withdrawal is within one year of the birth or adoption. Also retain records to prove the withdrawal is for a qualified event as how this is going to be administered is still up in the air.*

New W-4 Creates Questions for Employers

With the major Form W-4 overhaul for 2020, you may field questions from your employees. While it's not your responsibility to provide tax advice to your employees, it's good to be prepared to help answer common questions about the new IRS form.

Here's the link to the form and instructions: https://www.irs.gov/pub/irs-pdf/fw4.pdf Here is a summary of the W-4 changes and answers to some common questions you might encounter:

The change

Form W-4 was changed by the IRS in an attempt to make payroll withholdings more accurate and easier for employees to understand following the implementation of the Tax Cuts and Jobs Act. The new Form W-4 eliminates the sometimes-confusing allowance system, replacing it with targeted questions, worksheets and fields for dependents, other income and anticipated deductions.

Gone are days of simply increasing or decreasing allowances to get the proper withholding — making a change now requires some tax forecasting.

5 common questions about the new Form W-4

1. **Do I have to submit a new form?**
   No. The allowances an employee has on a previous Form W-4 will continue to calculate appropriately in 2020. If changing jobs or an employee wishes to adjust withholdings, completing the new W-4 is required.

2. **Are ALL steps on the new W-4 required to be filled?**
   No. Step 1 (personal information) and step 5 (your signature) are the only required sections to complete. If your employee only completes steps 1 and 5, a withholding will be calculated under the assumption that he/she is only taking the standard deduction. If your employee has dependents or wishes to make other withholding adjustments they will need to fill out other steps in the form.

3. **Do employees have to complete all the worksheets?**
   No. However, the worksheets are intended to provide a more accurate withholding amount. If an employee has multiple jobs or itemizes deductions, the worksheets will help the payroll department withhold the proper amount from a paycheck while accounting for these other factors.

4. **Will completing the new W-4 affect refunds?**
   If an employee has the exact same tax situation (income, deductions and credits) in 2020 as they did in 2019, the tax calculation should have minimal impact on the tax refunded or owed. If there is a need to adjust withholdings at any time during 2020, however, the anticipated refund might look a lot different if an employee does not take the time to carefully complete the new Form W-4.

5. **Should an employee adjust their withholdings?**
   This, of course, is up to the employee. It is best to coach them to speak to their tax advisor. But let them know that it really depends on them. If they want to maximize monthly cash flow or wish to receive a larger refund, then they need to go through the W-4 exercise. While more complicated, per the IRS this new form allows for less guessing when it comes to forecasting their April tax bill. A simple tax forecast that

factors in last year’s tax situation and accounts for changes in the current year will provide clarity to the amount that needs to be withheld.

Remember, to avoid an underpayment tax penalty an employee must withhold 100% of last years tax bill or 90% of this year's tax bill. This moves to 110% of last year's bill if income is over $150,000 ($75,000 if married filing separate). Finally, coach your employees to double check their paycheck after any change, it is never fun to be surprised by a big tax bill because withholdings are too low.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.