**5 Ways the Coronavirus Will Change Your Next Tax Return**

Maryalene LaPonsie
07/13/2020

Money Talks News

The coronavirus seems to be changing every aspect of life, even taxes.

The pandemic prompted the IRS to push back the filing deadline for 2019 tax returns to July 15, and tax changes will continue into next year. The Coronavirus Aid, Relief, and Economic Security Act, more commonly known as the CARES Act, makes the following changes which could impact the 2020 tax return you file next spring.

1. Stimulus tax credit for eligible taxpayers

Millions of people have received stimulus payments of up to $1,200 per taxpayer and $500 per eligible child, depending on their income.

The amounts were based on taxpayers’ 2019 incomes, but the payments are actually an advance on a tax credit that recipients will claim on their 2020 tax return.

That means if you didn’t get a stimulus payment at all or didn’t get the full amount because your 2019 income was too high, but your 2020 income ends up being lower, you could still receive a stimulus tax credit on your 2020 tax return. What happens if you received a stimulus already and your income is higher in 2020? Don’t worry. The Senate Finance Committee says you won’t have to pay back any of the credit so long as you qualified based on your 2019 income.

### No penalty for some early retirement withdrawals

If you have a 401(k), individual retirement account or similar retirement plan, there is generally a 10% tax penalty for withdrawing money before age 59½. However, the CARES Act waives that penalty in 2020 for people who have been negatively affected by the coronavirus pandemic.

Up to $100,000 in coronavirus-related distributions can be withdrawn penalty-free from Jan. 1, 2020, until Dec. 31, 2020.

The criteria for who is eligible for the penalty waiver is broad.

It generally covers anyone who has experienced a financial hardship because of the pandemic or who has been diagnosed with COVID-19, the disease caused by the coronavirus, or has had a spouse or dependent diagnosed with it, according to the Senate Finance Committee.

While the penalty is waived, regular income taxes will still be assessed on the early distribution. The CARES Act allows people to spread those tax payments out over three years.

If people want to recontribute the funds — meaning to put the early withdrawal back into their retirement account — they generally can. They have three years to do that as well. The recontributed funds won’t count toward the annual contribution limits for retirement accounts.

### More unemployment income

The CARES Act boosted benefits for unemployed workers by adding a $600-per-week federal payment to existing state unemployment benefits temporarily.

As a result, maximum annual unemployment benefits can range from $43,000 to $74,000, depending on your state, as we reported in “The Most Unemployment You Can Get in Every State Since COVID-19.”

However, if you are among the many Americans who have received unemployment benefits this year, particularly if you received extra benefits under the CARES Act, you could be in for a shock at tax time next year since unemployment benefits generally are subject to federal tax.

To find out whether Uncle Sam considers your unemployment benefits taxable, check out the free IRS tool for this purpose. To avoid a big tax bill next spring, you can opt in to having federal income tax withheld from your payments. If you’ve already been receiving benefits for months without federal taxes being withheld, start putting a portion of your money in savings now so you’ll be prepared to pay your 2020 tax bill next year.

### Non-itemized charitable deduction

Normally, you need to itemize your tax deductions, as opposed to taking the standard deduction, to be able to deduct charitable donations from your income.

The CARES Act changes that by giving taxpayers the opportunity to deduct up to $300 in charitable donations from their 2020 income even if they don’t itemize deductions. That makes this a great time to help your favorite nonprofit by sending a cash donation.

### Required minimum distribution waiver

Once seniors reach age 72, they must take required minimum distributions, known as RMDs, from most types of retirement accounts such as 401(k) plans and traditional IRAs. These distributions, mandated by Uncle Sam, are generally taxable.

The RMD requirement has been waived for 2020, thanks to the CARES Act.

If you don’t need the money, skipping an RMD can have multiple benefits.

Not only do you avoid paying taxes on the RMD itself, but you also don’t have to worry about the distribution pushing you into a higher tax bracket. Plus, if your portfolio hasn’t performed well this year, you won’t have to lock in those losses by making a withdrawal.