Tax News and Updates

IRS Revises Publication 15 Employer's Tax Guide and 15-A Employer's Supplemental Tax Guide for 2020

The IRS has issued the 2020 versions of Publication 15 [(Circular E) Employer's Tax Guide] and Publication 15-A [Employer's Supplemental Tax Guide (Supplement to Publication 15, Employer's Tax Guide)]. Publication 15 addresses the redesign of Form W-4 (Employee's Withholding Certificate), which must be used by all new employees in 2020 and all employees who make withholding changes beginning in 2020. Publication 15 no longer includes the percentage method and wage bracket method withholding tables. This information is now found in new Publication 15-T (Federal Income Tax Withholding Methods). Publication 15-T will allow employers to figure withholding based on a Form W-4 for an earlier year, as well as the redesigned 2020 W-4. Both publications address the new 2020 Form 1099-NEC (Nonemployee Compensation), which will be used to report nonemployee compensation paid in 2020. The publications also note that the 2020 Social Security and Medicare tax rates for employers and employees will remain at 6.2% and 1.45%, respectively.

Tax Filing Season for Individuals Starts January 27

The IRS has announced it will begin accepting and processing individual income tax returns for the 2019 tax year on Monday, 1/27/20. According to the agency, that date was chosen to ensure the security and readiness of key tax processing systems and to address the potential impact of recent tax legislation on 2019 tax returns. The IRS expects to receive more than 150 million individual tax returns this year, with the vast majority of them coming before the 4/15/20 deadline. Taxpayers are encouraged to e-file their returns so common errors can be flagged and missing information can be avoided. Taxpayers can get free help preparing and filing taxes through IRS Free File online or free tax help from trained volunteers at community sites around the country.

IRS Standard Mileage Rates for 2020

The IRS has issued the 2020 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes. The IRS has also announced: a) the 2020 depreciation component of the mileage rate; and (b) the maximum standard automobile cost that a taxpayer may use in computing the allowance under a fixed and variable rate (FAVR) plan.

Background - Tax Cuts and Jobs Act

From 2018 through 2025, the Tax Cuts and Jobs Act (TCJA) suspended all miscellaneous itemized deductions subject to the 2%-of-adjusted gross income (AGI) floor, including unreimbursed employee travel expenses.

Accordingly, the business standard mileage rate for 2020 cannot be used to claim an itemized deduction for unreimbursed employee travel expenses. However, deductions for expenses that are deductible in determining AGI are not suspended.

The TCJA also generally suspended the deduction for moving expenses from 2018 through 2025, but this suspension doesn't apply to members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of station.

Background - Standard Mileage, etc.

The mileage allowance deduction (subject to current limitations described above) replaces separate deductions for lease payments (or depreciation if the car is purchased), maintenance, repairs, tires, gas, oil, insurance and license and registration fees. The taxpayer may, however, still claim separate deductions for parking fees and tolls connected to business driving.

Employers that require employees to supply their own autos may reimburse them at a rate that doesn't exceed the business mileage allowance for employment-connected business mileage, whether the autos are owned or leased. The reimbursement is treated as a tax-free accountable-plan reimbursement if the employee substantiates the time, place, business purpose, and mileage of each trip. Additionally, an employee's personal use of lower-priced company autos may be valued at the optional mileage allowance if the conditions are met.

The IRS provides that an employer with a fleet of 20 or more automobiles may use a fleet-average value for purposes of calculating the Annual Lease Values of the automobiles in the employer's fleet. The fleet-average value is the average of the fair market values of all the automobiles in the fleet. The reg also provides that the value of an employee's personal use of an automobile may not be determined under the fleet-average valuation rule for a calendar year if the fair market value of the automobile on the first date the automobile is made available to an employee exceeds the base value of $16,500, as adjusted annually for inflation.

A separate rate applies for using a car to get medical care or in connection with a move that qualifies for the moving expense deduction (see above).

The mileage rate for driving an auto for charitable use (14¢ per mile) is a statutory rate that's not adjusted for inflation.

The IRS generally adjusts the standard mileage rate annually, based on a yearly study of the fixed and variable costs of operating an auto. However, the IRS has made mid-year adjustments in certain years when necessary to better reflect the real cost of operating an auto in light of rapidly rising gas prices.

Standard mileage rates for 2020. Notice 2020-5 provides that the 2020 standard mileage rate for transportation or travel expenses is 57.5¢ (down from 58¢ per mile in 2019) for all miles of business use (business standard mileage rate).

The 2020 standard mileage rate is 17¢ per mile (down 3¢ from 2019) for use of an auto (1) for medical care described in Code Sec. 213; or (2) as part of a move for which expenses are deductible under Code Sec. 217(g) (see Background—TCJA). The standard mileage rate is 14¢ per mile for use of an auto in rendering gratuitous services to a charitable organization.

Taxpayers using the standard mileage rates must comply.

Depreciation

For 2020, the IRS provides that the depreciation component of the mileage rate for autos used by the taxpayer for business purposes is 27¢ per mile. (It was 26¢ per mile for 2019.) The depreciation component reduces the basis of the auto for gain or loss purposes.

FAVR Plans

A taxpayer may use the mileage allowance method for a leased auto only if he or she uses that method (or a fixed and variable rate (FAVR) allowance method) for the entire lease period. Employers may use a FAVR allowance method to reimburse employees who supply their own cars for business (whether the cars are leased or owned).

For 2020, the standard auto cost (including trucks and vans) used to compute the FAVR allowance cannot exceed $50,400 (the same as 2019). For purposes of the fleet-average valuation rule and the vehicle cents-per-mile valuation rule, the maximum FMV of automobiles (including trucks and vans) first made available to employees in calendar year 2020 is $50,400.

When the New Rates are Effective

The change is effective for: (1) deductible transportation expenses paid or incurred on or after January 1, 2020; (2) mileage allowances or reimbursements paid to a charitable volunteer or a member of the Armed Forces to whom Code Sec. 217(g) applies: (a) on or after January 1, 2020, and (b) for transportation expenses the charitable volunteer or such member of the Armed Forces pays or incurs on or after January 1, 2020; and (3) for purposes of the maximum FMV of employer-provided automobiles for which employers may use the fleet-average valuation rule or the vehicle cents-per-mile rule, automobiles first made available to employees for personal use on or after January 1, 2020.