Four Positive Tax Changes for 2020

A new year means a whole new set of tax laws to follow. Tax updates are not always bad news. There are four changes that are all positive ones that can put more money in your pocket in the course of 2020.

1. Higher standard deduction

Tax filers have two choices when filling out their yearly returns: They can take the standard deduction as dictated by the IRS, or they can itemize their deductions in an attempt to obtain more tax savings. However, for the majority of taxpayers, itemizing doesn't make sense, especially since the Tax Cuts and Jobs Act of 2017 (TCJA) virtually doubled the standard deduction.

In 2020, the standard deduction increased per the TCJA. Currently, the standard deduction is at $12,400 for single tax filers, $24,800 for married couples filing jointly, and $18,650 for heads of household. Unless there is a lot of mortgage interest, have high state and local taxes, and give a lot to charity, it generally beneficial to utilize to the standard deduction. This allows the tax-filing process to be less complicated… the goal of the TCJA.

2. Higher 401(k) contribution limits

Each year, the IRS sets limits for retirement plan contributions. Those who save in a 401(k) get an even greater opportunity to build wealth for their later years. The current annual 401(k) limits are $19,500 for workers under 50 and $26,000 for those 50 or older. This represents a $500 jump for younger workers compared with last year, and a $1,000 boost for those 50 or older.

3. Higher HSA limits

Funding a health savings account (HSA) is a great way to set aside money for medical bills and reap some tax benefits in the process. HSA contributions go in tax-free, and unused HSA funds can be carried forward indefinitely and invested for added tax-free growth. Withdrawals are tax-free as well, provided they're used for qualified medical expenses.

In 2020, you can contribute up to $3,550 to an HSA if you have individual health coverage. For family health coverage, that limit doubles to $7,100. And if you're 55 or older, you get a $1,000 catch-up, similar to the catch-up you get in an IRA.

Good news for retirees however in that this year the required minimum distributions (RMDs) age has been changed from 70 ½ to 72 years.

4. Higher income limits for Roth IRAs

Roth IRAs offer a number of key benefits: Investment *growth* in these accounts is tax-free, withdrawals in retirement are tax-free, and there are no required minimum distributions. The only catch with Roth IRAs is that higher earners are barred from contributing to them directly. However, if you are hoping to fund a Roth IRA, you may be allowed. The income thresholds at which contributions phase out have increased from 2019.

Currently, contributions do not begin to phase out for single tax filers until their income reaches $124,000, and contributions are only barred completely for incomes of $139,000 and over. Married couples, meanwhile, can earn up to $196,000 before contributions start to phase out, and they're only barred completely past $206,000 of joint income.

Tax changes do not always work out in taxpayers favor. But these updates of the TCJA can help save money in one way or another. And that's something to be thankful for.