Squyres & Co. LLP Tax Update for 2021

INDIVIDUAL **BUSINESS**

The 2020 year has been a difficult year for most everyone. We hope you and your family have remained healthy throughout this unusual year. The year saw many tax law changes. The items listed below are not an all-inclusive list. We have selected several of the more pertinent changes for 2021 and noted some items that have changed for 2020. If you have additional questions, please be sure to contact us to discuss your situation.

INDIVIDUAL TAX CHANGES

Our tax updates for the previous two years, 2019 and 2020, discussed past tax legislation which is still largely in effect for 2021. These tax acts include The Tax Cuts and Jobs Act of 2017, or TCJA; this sweeping legislation is commonly referred to as the "Trump tax cuts." In addition, the Further Consolidated Appropriations Act, 2020, which became law January 1, 2020, includes the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), which includes provisions to increase access to tax-advantaged retirement accounts and preventing Americans from outliving their assets. Please refer to our updates for previous years for further discussion on the provisions in these acts.

Our annual tax update memorandum generally focuses on changes to tax laws taking place for the upcoming year, in this case, 2021. In response to the COVID-19 pandemic, several significant pieces of legislation were passed in 2020 after our update for that year was written. Many of the provisions of these acts addressed unemployment compensation, evictions, sick leave related to coronavirus, and other non-tax related matters. Of the tax provisions that were passed, many affect the 2020 tax year. We will address the most significant of those items below.

Coronavirus Aid, Relief and Economic Security (CARES) Act

A $2.2 trillion economic stimulus bill was signed into law by President Trump on March 27, 2020. It was aimed to help both individuals and businesses deal with the ongoing economic disruption caused by the pandemic.

Key tax considerations under the CARES act that relate to individuals include the following:

Economic impact payment (EIP)

Eligible individuals received a payment of $1,200 ($2,400 for joint filers) plus $500 for each qualifying child, with payments phased out based on adjusted gross income. The payments are treated as advance refunds of a 2020 tax credit. If a taxpayer was ineligible for a refund based on 2018 or 2019 income, but they are eligible based on 2020 income, they can claim the rebate as a credit on their 2020 tax return.

Charitable deductions

For tax year 2020, Individuals who do not itemize their deductions can take an above-the-line charitable deduction of up to $300. Such contributions must be made in cash and made to qualified organizations.

Retirement accounts

A taxpayer could take up to $100,000 in coronavirus-related distributions from retirement plans through the end of 2020 without being subject to the 10% additional tax for early distributions. A taxpayer who took a coronavirus-related distribution can either report the distribution as ordinary income ratably over a three-year period beginning in 2020 or can recontribute funds to a retirement plan within three years to avoid tax on the withdrawal altogether. Additionally, required minimum distributions (RMDs) were temporarily suspended for 2020.

Excess business losses

Temporary suspension of excess business loss rules. The TCJA limited individuals from using more than $250,000 ($500,000 for married filing jointly taxpayers) of business losses to offset nonbusiness income. This is repealed for years beginning before January 1, 2021.

Consolidated Appropriations Act, 2021

This $900 billion COVID-19 relief bill was signed by President Trump on December 27, 2020. For qualifying individuals, it provides for economic impact payments of $600, as well as $600 for each qualifying child dependent. These payments are again phased out based on adjusted gross income.

The $300 *charitable deduction* for nonitemizers is extended to 2021, and the maximum deduction is increased to $600 for married couples filing jointly.

Other Individual Tax Changes

Annual inflation adjustments for 2021:

The *standard deduction* will increase to $25,100 for married individuals filing jointly or surviving spouses, $18,800 for heads of households, and $12,550 for unmarried individuals and married individuals filing separately. An additional standard deduction for taxpayers who are blind or age 65 or older is $1,350 for married taxpayers, and $1,700 for unmarried.

The exemption amounts for the *alternative minimum tax* will be $114,600 for married individuals filing joint returns and surviving spouses, $73,600 for unmarried individuals, $57,300 for married individuals filing separately, and $25,700 for estates and trusts. All amounts are subject to phase outs at higher income levels.

The *qualified business income threshold* under Section 199A will increase to $329,800 for married individuals filing jointly; $164,925 for married individuals filing separate returns, and $164,900 for single individuals and heads of households.

The *foreign earned income exclusion* amount will increase to $108,700.

The exclusion amount for *estate tax* will be $11,700,000 for decedents dying in 2021; the annual *gift tax exclusion* amount remains at $15,000 per donee.

The *standard mileage rate* for the use of a vehicle for medical purposes will be 16 cents, 14 cents for charitable purposes, and 56 cents for business in 2021.

Extenders:

The Consolidated Appropriations Act, 2021 provided for the extension of several expiring tax provisions. Contrary to usual year end extender practice, a few of the provisions were made permanent. The now permanent provisions include:

Threshold for *qualifying medical expenses* set at 7.5% of adjusted gross income; the threshold was previously set to increase to 10% of AGI.

Exclusion from income of some benefits provided to *qualified firefighters and emergency medical responders.*

An increase in income limitations for phaseout of the lifetime learning credit and the elimination of the deduction for *qualified tuition* and related expenses.

The following provisions were extended but not permanently:

The exclusion from gross income for the discharge of *qualified principal residence indebtedness*; the amount of forgiven debt that can be excluded is up to $750,000 for joint returns and $375,000 for married filing separate. This provision is extended through 2025.

There is a one-year extension for taxpayers who itemize their deductions and make significant *charitable deductions*. The allowance of charitable deductions remains at 100% of adjusted gross income.

A two-year extension was given for the *residential energy-efficient property credit* and the *energy investment tax credit* for solar and residential energy-efficient property. A one-year extension was given for certain *other credits*, including credits for qualified nonbusiness energy property, qualified fuel cell motor vehicles, plug-in electric motorcycles and two-wheeled vehicles, and energy-efficient homes credit.

The treatment of *qualified mortgage insurance premiums* as qualified residence interest was also extended for one year.

State tax obligations related to teleworking arrangements for employees

As the COVID-19 outbreak continues, many employers are encouraging or requiring their employees to work from home (i.e., telework). Such *remote working arrangements* could potentially have tax implications that should be considered. If your remote office is based in a different state than the employer's office where you previously worked, please let us know.

BUSINESS TAX CHANGES

Coronavirus Aid, Relief and Economic Security (CARES) Act

Net operating losses from the 2018, 2019, and 2020 tax years can now be carried back to offset taxable income in the five preceding years unless an election has been made to forgo the carryback. Additionally, the 80% of taxable income NOL limitation for the 2018, 2019, and 2020 tax years is eliminated.

The limitation on *business interest* has been modified to allow more business interest to be deducted. The adjusted taxable income limit of 30% for the limitation is raised to 50% for 2019 & 2020.

Qualified improvement property is now eligible for 100% bonus depreciation, retroactive to property acquired and placed in service after 2017.

A refundable payroll tax credit known as the *"Employee Retention Credit*" is available to certain eligible employers equal to 50% of qualified wages and qualified health plan expenses paid from March 13, 2020 to December 31, 2020. An eligible employer is one whose operations were fully or partially suspended due to a COVID-19 related shutdown order, or gross receipts declined by more than 50% when compared to the same quarter in a prior year.

The TCJA repealed *corporate alternative minimum tax* and provided an opportunity for corporations to claim unused AMT credits as refundable credits over four years: 2018, 2019, 2020, and 2021. The CARES Act provides that the credits can be fully claimed in tax years beginning in 2018 and 2019. The maximum amount was $5,000 per employee. The credit is increased to 70% for qualified wages for January 1, 2021 to June 30, 2021. The maximum credit has increased to $14,000 per qualified employee.

Consolidated Appropriations Act, 2021

The bill specifies that business expenses paid with forgiven *PPP loan*s are tax-deductible. This supersedes IRS guidance that such expenses would not be deductible.

Farmers who elected a two-year NOL carryback prior to the CARES Act may retain the two-year carryback rather than claim the five-year carryback provided for in the CARES Act. Farmers who previously waived an election to carry back an NOL may now revoke the waiver.

The Families First Coronavirus Response Act previously required certain employers to provide employees with *paid sick leave or expanded family and medical leave* for specified reasons related to COVID-19. The provisions applied through December 31, 2020. This act extends the paid leave, and applicable credits, through March 31, 2021.

Business meal expense is 100% deductible when purchased from a restaurant for expenses incurred between December 31, 2020 and December 31, 2022. Previously, business meals were 50% deductible. Entertainment expenses continue to be non-deductible.

Annual inflation adjustments:

The section 179 depreciation limitation will be $1,050,000 with a phaseout threshold for property placed in service of $2,620,000.

The standard mileage rate for the business use of a vehicle is 56 cents for 2021.

Extenders:

The section 179D deduction for energy-efficient commercial buildings was made permanent.

A five-year extension was made for certain credits, including Section 45D new markets credit, Section 45S employer credit for paid family and medical leave, and Section 51 work opportunity credit.

A one-year credit was granted for the Section 35 health coverage tax credit through 2022.

Payroll Protection Program (PPP) Loans

The CARES Act provided for Small Business Administration loans, the objective of which is to help business keep their workforce employed during the COVID-19 crisis. These loans are eligible for forgiveness if the proceeds are used to pay for certain expenses, including payroll costs, interest on mortgage obligations, rent, and utilities during a specified covered period. Additionally, the Consolidated Appropriations Act, 2021 provided for a second round of PPP loans. The second round can be made to businesses that did not receive a loan in the first round, or in some cases a second draw to businesses who previously received a loan. If the loan is forgiven, the receipt of the loan is not taxable income, and expenses paid are deductible. If the loan is not forgiven, it must be repaid.

Conclusion

We hope that we have provided you with some useful information. The information provided above are only highlights that we believed affected the largest cross section of our clientele. This letter is not a substitute for professional advice regarding your individual tax situation. Please call us for more information about any of these issues and how they apply to you.