

## 2020 Tax Law Changes Newsletter

*This is a long letter with important information. Please read all three pages.*

There were 7 major Tax Acts that were passed that affect 2020 and future taxes.

- Taxpayer Certainty and Disaster Tax Relief Act of 2019 (Extenders Package)
- Setting Every Community Up for Retirement Enhancement Act (SECURE Act)
- Families First Coronavirus Response Act (FFCR Act)
- Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
- COVID-Related Tax Relief Act of 2020 (COVIDTRA)
- Additional Coronavirus Response and Relief (ACRR)
- Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTR)

**Extenders Package from Taxpayer Certainty and Disaster Relief Act of 2019** – these are provisions that were originally set to expire in 2018, but in 2019 they were extended through tax year 2020. In a later tax bill, most were extended again or made permanent.

- Mortgage Insurance Premiums are deductible, if Adjusted Gross Income (AGI) < \$100k
- Tuition and Fees Deduction
- Nonbusiness Energy Credit (windows, doors, AC, heater for personal residence)
- Medical Expense Deduction for expenses that exceed 7.5% of AGI, rather than 10% of AGI

### SECURE Act

- Tax rate on investments for dependent children is restored to being taxed at parent's rate, rather than higher Estate Tax rate.
- The age for Required Minimum Distributions (RMDs) is raised to 72 for anyone turning 70 ½ after 31 Dec 2019.
  - First distributions must be taken by 1 Apr of the year following the year turning 72
  - Qualified Charitable Distributions (QCDs) are allowed in the year turning 70 ½
  - For 2020 only, any IRA distributions received and returned by 31 Aug are treated as never received.
- IRA/Retirement Plan Distributions due to COVID
  - Anyone impacted by COVID – defined as contracting COVID, member of the household contracting COVID, or having reduced/eliminated hours or wages due to COVID – can pull money from IRA and/or Retirement Plan and not be subject to the 10% early withdrawal penalty
  - Income will be spread out over three years on tax returns
  - Any money returned within 3 years will be deemed a Rollover and therefore not taxable income. (This may require an amended return if the distribution was already included in income)
- Maximum age for making contributions to a Traditional IRA is removed. As long as the taxpayer has qualifying earned income, they may continue to contribute. This does not apply to the Roth IRA. This contribution will reduce the allowable QCD.
- Births and adoptions – up to \$5000 may be withdrawn penalty free from retirement plans in the year of a birth or of a finalized adoption.

**FFCR Act** – This act gave provisions to help small businesses and their employees affected by COVID. The first two provisions are mandatory for businesses with less than 500 employees. A waiver is available for businesses with less than 50 employees.

- Paid sick leave for employees with COVID, family members with COVID, self-quarantine due to COVID, lost childcare due to COVID
- Extended paid Family and Medical Leave (FMLA) for employees who have to care for children whose school/childcare closed due to COVID
- Federal Tax Credit for the employers of the above employees.
- Employer Retention Credit for businesses with a 50% reduction in Gross Receipts for any quarter in 2020 when compared to the same quarter in 2019

### **CARES Act**

- Economic Impact Payments (EIP) AKA Stimulus Payments – This is not taxable income but is used to calculate the Recovery Rebate Credit on your 2020 tax return.
  - Notice 1444 was mailed reporting the amount paid.
  - Taxpayers who did not receive the full EIP entitlement (due to birth of child or reduction in income) will be able to recoup the balance owed them as a refundable credit on the 2020 tax return.
  - Anyone who received more than their eligible amount is not required to pay it back.
- Paycheck Protection Program Loans
  - Loan proceeds are NOT taxable income
  - Forgiven loan amounts are NOT taxable income, and the bank is not supposed to report the forgiven amount, nor issue Form 1099—C for Cancellation of Debt.
- New Form 1099-NEC – This will replace Form 1099MISC for reporting Independent Contractor (self-employment) income. If you receive one, please upload to me. If your business needs to issue any, please contact our office by 22 Jan. We offer this document preparation service.
- Charitable Donations
  - For anyone who does NOT itemize, the first \$300 of cash contributions (not “stuff”) is now deductible on the tax return
  - For those who do itemize, deductions for cash donations are not limited to 60% of AGI

**Consolidated Appropriations Act of 2021** (signed at the very end of the year) – This 5593 page Appropriations Act gave us three more Tax Related provisions

- **COVIDTRA**

- Includes a second round of Economic Impact Payments (AKA Stimulus Payments)
  - The payments are \$600 for eligible taxpayer, spouse, and dependent children under 17
  - Direct Deposit Payments began 4 Jan 2021 based on 2019 filed tax return.
  - Paper checks/Debit card were mailed mid-late Jan.
  - If any eligible payments are not received, they will be reconciled on the 2020 tax return. Notice 1444-B will be mailed out to report the payment amount.
- Business Expenses paid with forgiven Paycheck Protection Program (PPP) loans are allowed as a deduction on the business tax return. This was always Congress' Intent, but they failed to include it in the law when writing the CARES Act. Now it is fixed.
- Receipt of EIDL Grant funds does not reduce the eligible forgiveness of the PPP loans. If you have already had your PPP loan forgiven, and the EIDL funds were used to reduce the forgiveness, the SBA will be processing those refunds in the near future.

- Personal Protection Equipment/Supplies are eligible for Educator Expense Deduction
- Emergency Financial Aid Grants are no longer taxable income and are not used in the calculation of AGI for determining eligibility for Education Credits.
- **ACRR**
  - PPP2 – a second draw of PPP funds is available for businesses (with less than 300 employees) that can show at least a 25% reduction in Gross Receipts in any 2020 quarter, compared to the same quarter in 2019. Eligible expense categories are expanded.
  - Unemployment Benefits were expanded. They are all still taxable income.
  - Extends the FFCRA Tax Credits for employers to include wages through 31 Mar 2021
  - Extends the FFCRA Tax Credit to self-employed affected by COVID. Can use either 2019 or 2020 income to calculate the credit
  - Employee Retention Credit is extended through 30 Jun, with more generous terms.
- **TCDTR**
  - There is a simplified process for applying for PPP forgiveness if your loan was < \$150k. It will be a single page and SBA must make it available by 21 Jan 2021.
  - Business meals that are purchased from a restaurant are 100% deductible for 2021 and 2022, as opposed to the previous 50% limitation. This does not apply to claiming per diem, so it will be beneficial to diligently maintain meal receipts in 2021 and 2022 to compare the tax benefits
  - Early withdrawal from Retirement Funds for 2020 **non-COVID Disasters** is not subject to 10% penalty, is eligible to be spread over three years, and recontribution within 3 years will be treated as a rollover. Distributions must take place before 26 Jun 2021.
  - An above-the-line deduction for cash charitable donations is extended to 2021 and is expanded to \$600 for married filing jointly for 2021. There is a 50% penalty for overstatement of this deduction for 2020 and 2021, so I will be requiring proper documentation before entering this on the tax return.
  - The removal of the 60% limitation for cash charitable donations is expanded to 2021
  - Employer paid student loan payments as a business deduction and non-taxable fringe benefit is extended through 31 Dec 2025
  - The voluntary deferral of employee payroll taxes from the Presidential Memorandum dated 8 Aug 2020 was to be repaid by 30 Apr 2021. It has now been expanded to allow a full calendar year to repay the deferred payroll taxes.
  - Taxpayers have the option to use their 2019 or 2020 income to determine eligibility for and amount of Earned Income Tax Credit (EITC) and/or Child tax Credit (CTC)
  - For 2020 and 2021, any unused FSA funds can be rolled over to the next plan year
  - Some Extender Provisions (for things that were going to expire)
    - Deduction for unreimbursed medical expenses over 7 ½% of AGI is made permanent. It was supposed to reset to 10% in 2021.
    - Lifetime Learning Credit phase out limits are increased to match American Opportunity Credit income limits beginning in 2021 and are made permanent. The Tuition and Fees Deduction is eliminated after 2020.
    - The deduction for Mortgage Insurance Premiums for qualified individuals is extended through 2021
    - Nonbusiness energy property credit for qualified energy improvements is extended through 2021