NORTHERN LANCASTER COUNTY CHAMBER OF COMMERCE

LUNCH & LEARN
2021 Tax Preview
November 19, 2020
11:30am – 1:00pm
Presented by:

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CPAs & Consultants, LLC

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The Agenda

- Individual Tax 2020 Updates
- SECURE Act Retirement Plan Changes
- Coronavirus Aid, Relief, and Economic Security (CARES) Act
  - CARES Act Overview
  - Provisions affecting Individuals
  - Provisions affecting Businesses
- Paycheck Protection Program (PPP)
  - Loan Details and Forgiveness Rules
  - Interim Guidance
- Economic Injury Disaster Loans (EIDL)
- Families First Coronavirus Relief Act (FFCRA)
  - Emergency Paid Sick Leave Act (EPSLA)
  - Emergency Family and Medical Leave Expansion Act (EFMLEA)
  - COVID-19 Business Tax Relief Tool

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Individual Tax 2020 Updates

2019 versus 2020 Tax Rates

2019

If taxable income is:

Over	But not >	The tax is	Of the amount >
Married filing jointly			
0	19,400	0 + 10%	$0
19,400	78,950	1,940 + 12%	19,400
78,950	168,400	9,086 + 22%	78,950
168,400	321,450	28,765 + 24%	168,400
321,450	408,200	65,497 + 32%	321,450
408,200	612,350	93,257 + 35%	408,200
612,350	—	164,710 + 37%	612,350
Single			
0	9,700	0 + 10%	$0
9,700	39,475	970 + 12%	9,700
39,475	84,200	4,543 + 22%	39,475
84,200	160,725	14,383 + 24%	84,200
160,725	204,100	32,749 + 32%	160,725
204,100	510,300	46,629 + 35%	204,100
510,300	—	153,799+ 37%	510,300
Estates and trusts			
$0	$2,600	$0 + 10%	$0
2,600	9,300	260 + 24%	2,600
9,300	12,750	1,868 + 35%	9,300
12,750	—	3,076 + 37%	12,750

2020

If taxable income is:

Over	But not >	The tax is	Of the amount >
Married filing jointly			
0	19,750	0 + 10%	$0
19,750	80,250	$1,975 + 12%	19,750
80,250	171,050	$9,235 + 22%	80,250
171,050	326,600	$29,211 + 24%	171,050
326,600	414,700	$66,543 + 32%	326,600
414,700	622,050	$94,735 + 35%	414,700
622,050	—	$167,308 + 37%	622,050
Single			
0	9,875	0 + 10%	0
9,875	40,125	$988 + 12%	9,875
40,125	85,525	$4,618 + 22%	40,125
85,525	163,300	$14,606 + 24%	85,525
163,300	207,350	$33,272 + 32%	163,300
207,350	518,400	$47,368 + 35%	207,350
518,400	—	$156,235 + 37%	518,400
Estates and trusts			
$0	$2,600	0 + 10%	$0
2,600	9,450	$260 + 24%	2,600
9,450	12,950	$1,904 + 35%	9,450
12,950	—	$3,129 + 37%	12,950

The "kiddie tax" resets for 2020

- Applies to children under age 19 and full-time students under age 24
  - Unless the student provides more than half of his or her support from earned income
- Any unearned income beyond $2,200 (for 2020) is now taxed at the parents' marginal rate
  - For 2018 and 2019, could choose to tax unearned income using trust and estate rates or the parents' marginal tax rate

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Capital gains tax and timing

Type of gain	Rate[1]
Short-term (assets held 12 months or less)	Taxpayer's ordinary-income tax rate
Long-term (assets held more than 12 months)	15%
Some key exceptions	
Long-term gain of certain higher-income taxpayers	20%[2]
Most long-term gain that would be taxed at 10% or 12% based on the taxpayer's ordinary-income rate	0%
Long-term gain on collectibles, such as artwork and antiques	28%
Long-term gain attributable to certain recapture of prior depreciation on real property	25%
Gain on qualified small business (QSB) stock held more than 5 years	
■ Acquired on or before Feb. 17, 2009	14%[3]
■ Acquired after Feb. 17, 2009, and before Sept. 28, 2010	7%[4]
■ Acquired on or after Sept. 28, 2010	0%

1. The 3.8% NIIT applies to net investment income to the extent modified adjusted gross income exceeds $200,000 (Single/HOH), $250,000 (MFJ) or $125,000 (MFS)
2. The 20% rate applies to taxpayers with taxable income exceeding $441,450 (Single), $469,050 (HOH), $496,600 (MFJ) or $248,300 (MFS)
3. Effective rate based on a 50% exclusion from a 28% rate.
4. Effective rate based on a 75% exclusion from a 28% rate.

Standard deduction versus Itemizing

- You can choose to either itemize certain deductions or take the standard deduction for your filing status
  - *Plus:* Itemizing deductions saves tax if your total itemized deductions will be larger than your standard deduction
  - *Minus:* Itemizing makes filing more complicated
- Standard deduction nearly doubled from pre-TCJA amounts
- 2020 standard deduction:
  - Singles & married filing separately: $12,400
  - Heads of households: $18,650
  - Married filing jointly: $24,800
  - Additional $1,300 if over age 65 or blind
  - If claimed as dependent by another taxpayer, greater of $1,100 or earned income plus $350 (limited to $12,400)

Gift tax

- Gift tax follows estate tax exemption and rate
- 2020 exemption also has increased to $11.58 million
  - Any gift tax exemption used during life reduces estate tax exemption available at death
  - Using up some of your exemption during life can be tax-smart, especially if estate tax could be a concern after 2025
- Exclude certain gifts of up to $15,000 per recipient each year
  - $30,000 per recipient if your spouse splits gift with you or you're giving community property
  - Doesn't deplete any of your gift and estate tax exemption

WARNING: You need to use your 2020 exclusion by Dec. 31. The exclusion doesn't carry over from year to year.

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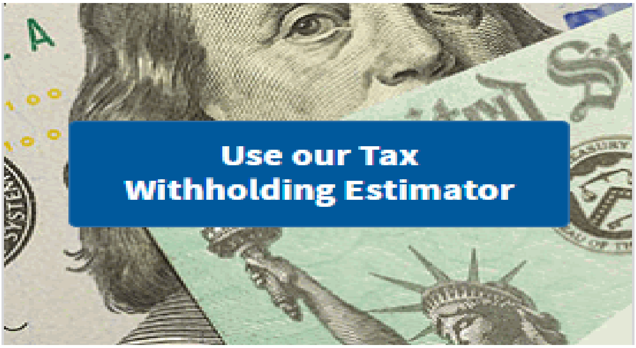
Paycheck Checkup

- IRS Tax Withholding Estimator Tool
  - Can assist you to see if you are withholding the ideal amount of tax from your paycheck.
  - Items you will need:
    - Most recent pay stubs
    - Most recent income tax return
  - You should check your withholding if you…
    - Are a two-income family or someone with multiple jobs
    - Work a seasonal jobs or only work part of the year
    - Claim the child tax credit
    - Received unemployment compensation
  - For more information
    - https://www.irs.gov/paycheck-checkup



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The SECURE Act – *Retirement Plan Changes*

Impact at the Individual Level

SECURE Act Overview / Key Changes

- The Setting Every Community Up for Retirement Enhancement (SECURE) Act, was signed into law on December 20, 2019.
- Many of these changes became effective January 1, 2020 including:
  - Required Minimum Distributions (RMDs) will start at age 72, <u>not</u> age 70 ½
    - Only those who will turn 70 ½ (born on or after July 1, 1949) in 2020 or later may wait until age 72 to begin taking required distributions
  - You can contribute to your Traditional IRA after age 70 ½
    - The new law allows you to contribute for the year you turn 70 ½ and beyond, provided you have earned income
  - Inherited IRA distributions must be made within 10 years
    - Upon the death of the account owner, distributions to non-spouse beneficiaries must be made within 10 years as opposed to the prior ruling where the beneficiary could "stretch" the inherited amount over their own lifetime

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SECURE Act Overview / Key Changes cont'd

- Inherited IRA distributions must be made within 10 years (continued)
  - Exceptions for spouses, disabled individuals, individuals not more than 10 years younger than the account owner, and minor children do apply
  - However, grandfathering rules do apply if you have already inherited a "stretch" IRA before the end of 2019

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The CARES Act

CARES Act Overview

- The Coronavirus Aid, Relief, and Economic Security (CARES) Act, an over $2 trillion bipartisan economic stimulus package was signed into law on March 27, 2020 in response to the public health concerns and the economic impacts of COVID-19. Included in the Act are:
  - Provisions affecting Individuals
    - Through Economic Impact Payments and other means, the Treasury Department is ensuring Americans are seeing direct and fast relief in the wake of the coronavirus pandemic.
  - Provisions affecting Businesses
    - The Paycheck Protection Program is providing small businesses with the resources they need to maintain their payroll, hire back employees who may have been laid off, and cover applicable overhead.
- For more information:
    - https://home.treasury.gov/policy-issues/cares

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Provisions Affecting Individuals

CARES Act: Recovery Rebate Credit

- Economic Impact Payment (EIP), commonly referred to as "stimulus" payment
  - $1,200 (single) or $2,400 (married filing jointly), plus $500 per child under the age of 17.
  - AGI Limits:
    - $150,000, if married and filing a joint return
    - $112,500, if filing as head of household
    - $75,000, for eligible individuals using any other filing status
  - EIPs are not taxable income
  - Advance payment of a credit to be recomputed on the 2020 Form 1040
  - If recomputed credit is higher than EIP received, the taxpayer is eligible for an additional credit on the 2020 Form 1040
  - If recomputed credit is lower than EIP received, there is no provision for repayment of the excess amount on the 2020 Form 1040.

CARES Act: Recovery Rebate Credit

- Examples:
  - In April 2020, Scott, a single taxpayer, received an EIP in the amount of $700 based upon 2019 AGI amounting to $85,000. Scott's AGI for 2020 amounts to $75,000.
    - Credit calculated utilizing 2020 AGI $1,200
    - Amount of EIP received during 2020 700
    - Additional credit amount on 2020 Form 1040 $ 500
  - In April 2020, Sam received an EIP in the amount of $1,200 based upon AGI amounting to $75,000. Alex's AGI for 2020 amounts to $175,000.
    - Credit calculated utilizing 2020 AGI $ 0
    - Amount of EIP received during 2020 1,200
    - (Excess) EIP $(1,200)
    - There is no provision for repayment of an EIP
    - Additional credit amount on 2020 Form 1040 $ 0

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CARES Act: Recovery Rebate Credit

- Examples:
  - In April 2020, married filing jointly taxpayers Thomas and Sally received an EIP in the amount of $3,400 based upon 2019 AGI amounting to $130,000 and two qualifying children. Thomas and Sally's AGI for 2020 amounts to $145,000 and they welcome their third qualifying child during the year.

Credit calculated utilizing 2020 information	$3,900
Amount of EIP received during 2020	3,400
Additional credit amount on 2020 Form 1040	$ 500

  - In 2019, John is a college senior claimed as a dependent by his parents. John did not receive an EIP in 2020. In 2020, John's parents will not claim him as a dependent. John, a single taxpayer, has AGI in 2020 amounting to $75,000.

Credit calculated utilizing 2020 information	$ 1,200
Amount of EIP received during 2020	0
Additional credit amount on 2020 Form 1040	$ 1,200

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CARES Act: Recovery Rebate Credit

- Payments made to deceased taxpayers
  - An EIP made to someone who died before receipt of the payment should have been returned to the IRS. If payment was made to joint filers and one spouse had passed away prior to receipt, only the portion of the payment made to the decedent should have been returned.

- Taxpayers can check on the status of their EIP:
  https://www.irs.gov/coronavirus/get-my-payment

- Non-filers who are eligible and did not receive an EIP can request payment by November 21, 2020 at 3:00 P.M. ET:
  https://www.irs.gov/coronavirus/non-filers-enter-payment-info-here

CARES Act: Retirement Distribution Changes

- The CARES Act waived the requirement to take required minimum distributions from IRAs and defined contribution plans for 2020.
  - The waiver includes distributions that would have been due by April 1, 2020 for account owners turning 70 ½ in 2019 and beneficiaries with inherited accounts.
- Special rules for Coronavirus-related distributions of up to $100,000 paid from eligible retirement plans to a <u>qualified individual</u> from January 1, 2020 through December 31, 2020.
  - Taxable income is reported ratably over a 3-year period (2020-2022) unless the taxpayer elects to include the entire amount in income for 2020.
  - The additional 10% tax on early distributions from IRAs and defined contribution plans is waived.
  - Recipients can repay all or a part of the qualified distribution within three years after the distribution was received.
    - Repayment of qualified distributions may be carried back or forward when reporting the distributions over a 3-year period.

CARES Act: Retirement Distribution Changes

- A <u>qualified individual</u> is a person:
  - who is diagnosed with Coronavirus by a test approved by the Centers for Disease Control and Prevention (or their spouse or dependent) or
  - who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off or having work hours reduced due to Coronavirus or
  - who experiences adverse financial consequences as a result of being unable to work or working reduced hours due to lack of child-care due to Coronavirus or
  - who experiences adverse financial consequences as a result of closing or reducing hours of a business that they own or operate due to Coronavirus

- Once you experience a qualifying event, you are considered a qualified individual for the remainder of 2020

CARES Act: Retirement Distribution Changes

- Example:
  - Bonnie, a qualified individual, receives a $30,000 distribution from her 401(k) plan on December 1, 2020. She also receives a $15,000 distribution from her IRA on December 15, 2020.
    - Bonnie is permitted to treat both as coronavirus-related distributions on her 2020 Form 1040.
    - Bonnie would report $15,000 in income on her federal income tax return for each of 2020, 2021 and 2022.
    - Bonnie has the option of reporting the entire distribution in income on her federal income tax return for 2020.
      - May be a good strategy if marginal tax rate is expected to be higher in 2021 and/or 2022.

CARES Act: Retirement Distribution Changes

- Example:
  - Tony received a coronavirus-related distribution of $75,000 in 2020, which he chose to include in income over a 3-year period. Subsequently Tony chose to repay the full amount to an eligible retirement plan in 2022.
  - Tony may file amended federal income tax returns for 2020 and 2021 to claim a refund of the tax attributable to the $25,000 that he included in income for those years.
  - Tony will not be required to include any amount in income for 2022.

CARES Act: Retirement Distribution Changes

- Example:
  - Max received a coronavirus-related distribution of $90,000 from his IRA on September 15, 2020. Max ratably includes the $90,000 over a 3-year period.
    - If no repayment, he will include $30,000 in income on his 2020, 2021 and 2022 federal income tax returns.
    - If $40,000 was repaid on November 10, 2021, Max could either:
      - Include $0 in income on the 2021 federal income tax return and carryforward the remaining $10,000 to offset the income to be included in income with respect to the Coronavirus distribution on his 2022 federal income tax return or
      - Include $0 in income on the 2021 federal income tax return and $30,000 in income on the 2022 federal income tax return. He can then file an amended federal income tax return for 2020 to reduce the amount included in income as a result of the coronavirus-related distribution to $20,000.

CARES Act: Charitable Contributions

- The CARES Act made the following changes to charitable deductions:
  - Individuals who do not itemize deductions may claim a $300 above-the-line deduction for cash contributions made to public charities in 2020.
  - Increased the AGI limitation for qualified cash donations to 100% of AGI

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CARES Act: Medical Expenses

- For amounts paid after December 31, 2019, the CARES Act allows amounts paid from Flexible Spending Arrangements, Health Reimbursement Arrangements, Health Savings Accounts and Archer Medical Savings Accounts to be used for nonprescription medical products.

CARES Act

Provisions Affecting Businesses

CARES Act: Depreciation

- The CARES Act provided a technical correction to the Tax Cuts and Jobs Act (TCJA) assigning a 15-year life to qualified improvement property (QIP), making it eligible for 100% bonus depreciation.
  - QIP is defined as improvements to the interior of a commercial building placed in service after the date the building was first placed in service. It does not include:
    - improvements that result in the enlargement of the building
    - any elevator or escalator
    - improvements related to the internal structural framework of the building

CARES Act: Depreciation

- Effective for property placed in service after 12/31/17
- In order to take advantage of 100% bonus depreciation on QIP placed in service after 12/31/17, there are 2 options available:
  - File amended return for the year the property was placed in service
    - Results in deduction in the same year property was placed in service
  - File Form 3115, Application for Change in Accounting Method, with subsequent year return
    - Results in deduction in the year Form 3115 is filed

CARES Act: Net Operating Losses (NOLs)

- The CARES Act temporarily suspended the 80% of taxable income limitation on the use of NOLs for tax years beginning before 1/1/2021 for corporate taxpayers.
- The CARES Act also provides that NOLs arising in a tax year beginning after 12/31/2017 and before 1/1/2021 (calendar years 2018, 2019, and 2020) can be carried back to each of the 5 years preceding the tax year of such loss.
  - Planning opportunity for corporations to carry back the NOL to tax years with a higher tax rate

CARES Act: Employee Retention Tax Credit

- The CARES Act provides an employee retention tax credit (ERTC) for employers subject to closure due to COVID-19
  - Employers are eligible to receive a payroll tax credit for 50% of wages paid by employers to employees during the COVID-19 crisis
  - Limited to the first $10,000 of compensation, including health benefits, paid to an eligible employee
  - Maximum employer credit is $5,000 per employee
- Eligible employers include those who either:
  - Had full or partial shutdown of operations due to a COVID-19-related shutdown; or
  - Had gross receipts decline by more than 50% when compared to the same quarter in the prior year

CARES Act: Employee Retention Tax Credit

- The ERTC is based on qualified wages paid to the employee
  - For employers with more than 100 full-time employees, “qualified wages” are considered wages paid to employees when they are not providing services due to a COVID-19 circumstance
  - For employers with 100 or less employees, all employee wages qualify for the refundable payroll tax credit, even if the business remained open for business during the COVID-19 crisis and was not subject to a shutdown order
- The ERTC is provided for wages paid or incurred after March 12, 2020 and before January 1, 2021
- The ERTC is not available to employers receiving a Payroll Protection Program Loan through the SBA (discussed later)

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CARES Act: Deferral of Social Security Taxes

- The CARES Act allows employers and self-employed individuals to defer payment of the employer share of the payroll tax that they are otherwise responsible for paying to the federal government with respect to their employees
- The employer share of the Social Security tax is 6.2% of employee wages. Payroll taxes that can be deferred include the employer portion of FICA taxes, the employer and employee representative portion of Railroad Retirement taxes (that are attributable to the employer FICA rate), and half of self-employment FICA tax liability

Paycheck Protection Program (PPP)

PPP Loan Overview

- The Paycheck Protection Program (PPP), is an over $650 billion business relief program established under the CARES Act
- This loan program is administered through the Small Business Administration (SBA)
- The primary purpose of this loan program is to assist businesses, self-employed workers, sole proprietors, and certain nonprofit organizations keep their workforce employed during the pandemic and economic downturn
- All or a portion of the loan may be forgiven provided certain criteria is met

PPP Loan: Forgiveness "basics"

- The SBA will forgive loans if funds are used for eligible payroll costs, business mortgage interest payments, rent, or utilities during an 8-week or 24-week "covered period"
  - 8-week or 24-week period starts on the date the lender makes a disbursement to the borrower
    - 24-week period applies to all borrowers
    - Borrowers that received a loan before June 5th, have the option to use an 8-week period
  - Loans issued <u>before</u> June 5th → 2-year maturity
  - Loans issued <u>on or after</u> June 5th → 5-year maturity
  - Loans have an interest rate of 1%

PPP Loan: Forgiveness "basics"

- Forgiveness applications should be submitted within 10 months
  - Loan payments begin 10 months after the covered period, even if forgiveness application was submitted
- For loans to be fully forgiven, <u>at least</u> 60% of the loan proceeds must have been spent on payroll costs (Note: Under 60% is eligible for partial forgiveness)
- Loan forgiveness reductions may result if:
  - The average number of full-time equivalent (FTE) employees is reduced during the covered period (exclude employees who rejected rehire offer)
  - Salaries and wages are cut by more than 25% for any employee who made less than $100,000
  - If either reduction is restored by 12/31/2020, full forgiveness can still be achieved

PPP Loan: Forgiveness "basics"

- SBA released several versions of Form 3508, loan forgiveness application
  - Form 3508-S
    - Streamlined form for PPP loans of $50,000 or less
  - Form 3508-EZ
    - Can be used if employer meets salary and FTE requirements or was unable to operate at normal levels due to Covid restrictions
    - More involved than Form 3508-S but less involved than Form 3508
  - Form 3508
    - Must be used if PPP loan recipient does not qualify for Form 3508-S or Form 3508-EZ
  - Additional questionnaire for loans exceeding $2,000,000 that must be returned to the bank within 10 days of receipt

PPP Loan: Interim Guidance

- For more information:
  - https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program
  - https://www.sba.gov/document/support--faq-lenders-borrowers
  - https://www.sba.gov/document/support-frequently-asked-questions-ppp-loan-forgiveness

Economic Injury Disaster Loan (EIDL)

EIDL Loan Overview

- The Economic Injury Disaster Loan (EIDL), is another business loan program administered by the SBA
- The primary purpose of this loan program is to provide economic relief to small business owners, agricultural businesses, and certain nonprofit organizations that are experiencing temporary loss of revenue due to the pandemic
- The CARES Act created a grant option in conjunction with the loan program
- Grant received under EIDL reduces PPP forgiveness
  - For more information
    - https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/economic-injury-disaster-loans

Families First Coronavirus Response Act (FFCRA)

Families First Coronavirus Response Act

- The Families First Coronavirus Response (FFCRA) Act, was signed into law on March 18, 2020 in response to the pandemic.
- Effective April 1, 2020 through the end of the year, FFCRA would require employers with less than 500 employees to provide their employees with paid sick leave for specified reasons related to COVID-19. FFCRA contains within it two key provisions for employers:
  - Emergency Paid Sick Leave Act
  - Emergency Family and Medical Leave Expansion Act
- The Department of Labor's Wage and Hour Division (WHD) administers and enforces this new law's paid leave requirements

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Families First Coronavirus Response Act

- Employers are reimbursed dollar-for dollar for the cost of providing paid sick and family leave wages to their employees for leave related to COVID-19 by a refundable payroll tax credit
    - Self-employed individuals are also eligible for tax credits for similar circumstances in which the individual is unable to work.

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Emergency Paid Sick Leave Act

- The Emergency Paid Sick Leave Act (EPSLA), mandates that covered employers provide up to 10 days of paid sick leave time to any employee unable to work due to specific circumstances related to COVID-19
- Paid sick leave at the employee's regular rate if the employee is quarantined and experiencing COVID-19 symptoms ($511 per day cap)
- Paid sick leave at two-thirds the employee's regular rate if employee is caring for a child (under 18 years of age) whose school or childcare provider is closed due to reasons related to COVID-19 ($200 per day cap)

Emergency Family and Medical Leave Expansion Act

- The Emergency Family and Medical Leave Expansion Act (EFMLEA), mandates that covered employers provide up to an additional 10 weeks of paid expanded family and medical leave time to employees that have been employed for at least 30 days who are caring for a child whose school or childcare provider is closed due to specific circumstances related to COVID-19
- Applies after EPSLA has been utilized
- Paid family and medical leave is at two-thirds the employee's regular rate ($200 cap per day)
  - For more information
    - https://www.dol.gov/agencies/whd/pandemic/ffcra-employer-paid-leave

COVID-19 Business Tax Relief Tool

- The Taxpayer Advocate Service (TAS), an independent organization within the IRS, offers a virtual questionnaire in response to the pandemic that will help you to determine if you qualify for any available federal tax relief options as well as offer further assistance in order to take advantage of those options
  - For more information
    - https://taxpayeradvocate.irs.gov/BizTaxReliefTool

Questions?

Please contact us for assistance:

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