

## 2020 Federal Income Tax Update

### A. Consolidated Appropriations Act, 2021

1. The Consolidated Appropriations Act, 2021 was signed by President Trump on December 27, 2020. The Act extended and expanded on many provisions of the CARES Act.
2. Business Expense Deduction
  - a. The Act clarifies that businesses with forgiven PPP loans may deduct regular business expenses paid with the loan proceeds. Tax basis and other attributes are not to be reduced as a result of the exclusion of those amounts from gross income.
3. EIDL Advances
  - a. Repeals the requirement that PPP borrowers deduct the amount of any EIDL advance from their PPP forgiveness amount.
4. Lifetime Learning Credit
  - a. Increased the phaseout amounts to \$80,000 to \$90,000 for single individuals and \$160,000 to \$180,000 for married filing jointly.
  - b. Begins after 2020.
5. PPP Forgiveness Application
  - a. Simplified forgiveness application of one page for loans under \$150,000
6. Charitable Contributions
  - a. Extension of the special charitable contribution provisions enacted for 2020 through 2021.
    - 1) 100% cash charitable contributions extended through 2021.
    - 2) Above-the-line \$600 deduction for married filing jointly and \$300 for single for 2021.
    - 3) The Sec. 6662 penalty is increased from 20% to 50% of the underpayment for taxpayers who overstate this deduction.
  - b. Modifies the CARES Act's modification of the charitable contribution limits for 2020 to allow corporations to make qualified disaster relief contributions of up to 100% of their taxable income.
7. Child Tax Credit and Earned Income Tax Credit
  - a. Allows taxpayers to refer to earned income from the immediately preceding tax year for purposes of determining the Child Tax Credit and the Earned Income Tax Credit for the tax year 2020.
8. Qualified Disaster-Related Personal Casualty Losses
  - a. Permits individuals who have a net disaster loss to increase their standard deduction amount by the amount of net disaster loss.

9. Meals Deduction

- a. Restoration of the 100% business meals deduction for 2021 and 2022 as long as the expense is for food or beverages provided by a restaurant.

10. COVID-19 Expenses

- a. Allowing COVID-19-related expenses to qualify for the above-the-line educator expense deduction retroactive to March 12, 2020.

11. College Student Financial Aid

- a. Clarification that certain financial aid received by college students and forgiveness of Economic Injury Disaster Loans to small businesses are excluded from income.

12. Paid Sick and Family Leave

- a. Extension of the credit for paid sick and family leave enacted as part of the Families First Coronavirus Response Act through March 31, 2021.
- b. Individuals can elect to use their average daily self-employment income from 2019 rather than 2020 to compute the credit.

13. Employee Retention Credit

- a. Extension of the employee retention credit through June 30, 2021.
- b. Increase in the credit rate from 50% to 70% of qualified wages.
- c. Increases the limit per employee creditable wages from \$10,000 for the year to \$10,000 for each quarter.
- d. Reduction in the required year-over-year receipts decline from 50% to 20%.
- e. A safe harbor allowing employers to use prior-quarter gross receipts to determine eligibility.
- f. An increase from 100 to 500 in the number of employees counted when determining the relevant qualified wage base.
- g. Rules allowing new employers who were not in existence for all or part of 2019 to be able to claim the credit.
- h. These amendments apply to calendar quarters beginning after December 31, 2020.

14. Deferred Social Security Taxes

- a. Extension of the time allotted for repayment of employee Social Security taxes deferred under a presidential memorandum through the end of 2021.

15. The Consolidated Appropriations Act, 2021 provides \$166 billion for a second round of direct payment for individuals -- \$600 for individuals making up to \$75,000 per year, \$1,200 for couples making up to \$150,000 per year, and a \$600 payment for each dependent child under age 17. The payments are based on 2019 tax returns. Under the CARES Act where one of the married persons was a nonresident alien, they were ineligible for an economic impact payment. The Consolidated Appropriations Act, 2021 makes such taxpayers eligible for the payment and makes them retroactively eligible for payments under the CARES Act.

a. To View Your Account Information

<https://www.irs.gov/payments/view-your-tax-account>

16. Extenders

a. Makes Permanent the Following Provisions:

- 1) Sec. 213(f) reduction in medical expense deduction floor at 7.5%.
- 2) Sec. 179D deduction for energy-efficient commercial buildings.
- 3) Sec. 139B gross income exclusion for certain benefits provided to volunteer firefighters and emergency medical responders.
- 4) Sec. 45G railroad track maintenance credit but reduced from 50% to 40%.

b. Extended Through 2025

- 1) Sec. 45D New Markets Credit
- 2) Sec. 51 Work Opportunity Credit
- 3) Sec. 108(a)(1)(E) Gross Income Exclusion for Discharge of Indebtedness on a Principal Residence
- 4) Sec. 1391(D) Empowerment Zone Designation
- 5) Sec. 45S Employer Credit for Sick and Family Leave
- 6) Sec. 127(c)(1)(E) Exclusion for Certain Employer Payments of Student Loans

c. Two-Year Extensions

- 1) Sec. 25D Residential Energy-Efficient Property Credit
- 2) Sec. 48 Energy Investment Tax Credit for Solar and Residential Energy-Efficient Property

d. One-Year Extensions

- 1) Sec. 25C 10% Credit for Qualified Nonbusiness Energy Property
- 2) Sec. 30B Credit for the Cost of Alternative Fuel Vehicle Refueling Property
- 3) Sec. 30 D 10% Credit for Plug-In Electric Motorcycles and Two-Wheeled Vehicles
- 4) Sec. 35 Health Coverage Tax Credit

- 5) Sec. 45L Energy-Efficient Home Credit
  - 6) Sec. 163(h) Treatment of Qualified Mortgage Insurance Premiums as Qualified Residence Interest
  - e. Not Renewed
    - 1) Above- the-line Tuition and Related Expense Deduction
    - 2) Repealed after 2020.
17. Direct Aid Outside of the Tax Laws
- a. Extended unemployment benefits
  - b. Additional Funding for the PPP for small businesses
  - c. Aid for schools
  - d. Aid for airlines
  - e. Funding for vaccine distributions and virus testing