

CLIENT BRIEFING WEBINAR

TAX UPDATES FROM THE NEW COVID19 STIMULUS PACKAGE



KATE N. LEICHTY, CPA



STEPHEN VARNER, CPA

Agenda

1. CARES Act
2. New COVID19 Stimulus Bill (CAA 2021)
3. Biden Tax Proposals
4. Q&A

Stephen Varner

Kate Leichty

Stephen Varner



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Welcome

- Goals for the Next Hour
- Webinar Format for Today
 - Cameras and audio are off
- Submit Questions via Q&A



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Stephen Varner, CPA, MBA
Partner, Kruggel Lawton CPAs

CARES Act

Coronavirus Aid, Relief, and Economic Security Act (CARES)

- Targeted Impact for 2018, 2019, and 2020
- Key Features

QIP (Quality Improvement Property) CARES ACT

- Was 39 year life; now 15 year life and bonus eligible, retroactive to 1/1/2018
- Qualified Improvement Property:
 - Non-structural improvements to the interior of a building
 - Including installation and replacement of drywall, ceilings, interior doors, fire protection, mechanical, electrical and plumbing
 - Does not include internal structural framework, enlargements to the building, exterior HVAC, roofs, windows, stairs, elevators or escalators
- Not bonus eligible if:
 - Prior election out of bonus made
 - Taxpayer elected “Real Property Trade or Business” election

- Reinstatement of Five-Year NOL Carrybacks.
- Five year carry back for losses from 2018, 2019, and 2020.
- Losses carried to 2019 and 2020 can offset 100% of taxable income.

- Retroactive to 2018
- Under TCJA, net business loss was limited to \$500,000 for married filing jointly and \$250,000 for all other taxpayers (subject to annual inflation). Amounts in excess carried forward as a net operating loss
- CARES Act provision defers limitations until 2021

163(j) Interest Limitations Rules

CARES ACT

- With the exception of partnerships, and solely for taxable years beginning in 2019 and 2020, the CARES Act provision allows taxpayers to deduct business interest up to **50%** of ATI (was 30%)
- For any taxable year beginning in 2020, the taxpayer may elect to substitute the ATI for the last taxable year beginning in 2019 for the 2020 ATI
- Final regs issued in 2020 include depreciation for 263(a) (cost of goods sold) for ATI
- For partnerships
 - For taxable years beginning in 2019 the CARES Act provides adjustments and deductions for partners for tax years beginning in 2020
 - The Section 163(j) limit from 30% to 50% of ATI will apply to taxable years beginning in 2020

- EIP1
- Any underpayment from Spring 2020 payments will be refunded on 2020 tax return.
- Any overpayment due to AGI, dependents, etc. will not be required to be paid back on 2020 tax return.

- Eligible individuals may take a qualified charitable contribution deduction of up to \$300 (for 2020) even if they would otherwise take the standard deduction.
- CARES Act suspends AGI limit for qualifying cash contributions; was 60% limit for 2019.

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The Tax Cuts and Jobs Act (2017)

- Reminder of Temporary Providers
- Review of 2020 Rates

Individual Tax Rates for 2020 (Indexed)

TCJA

Single	Married Filing Joint
10%, up to \$9,875	10%, up to \$19,750
12%, \$9,876 to \$40,125	12%, \$19,751 to \$80,250
22%, \$40,126 to \$85,525	22%, \$80,251 to \$171,050
24%, \$85,526 to \$163,300	24%, \$171,051 to \$326,600
32%, \$163,301 to \$207,350	32%, \$326,601 to \$414,700
35%, \$207,351 to \$518,400	35%, \$414,701 to \$622,050
37%, \$518,401 or more	37%, \$622,051 or more



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Capital Gains Tax Rates for 2020 (Indexed) TCJA

Individuals

0%

Single < \$40,000

MFJ < \$80,000

15%

Single - \$40,001 to \$441,450

MFJ – \$80,001 – \$496,600

20%

Single > \$441,451

MFJ > \$496,601

Individuals

- Personal exemptions suspended to \$0 through 2025
- Increase in standard deduction
 - \$24,800 MJF
 - \$18,650 HOH
 - \$12,400 all other taxpayers

Individuals

- Itemized Deductions
- \$10,000 SALT cap for state and local taxes
- Home mortgage interest deduction limits

- Remote workers due to COVID
 - Income tax nexus exceptions
 - Payroll reporting exceptions
- Economic nexus based on Wayfair
 - Unexpected remote sellers
- Employee expenses related to working from home
 - Cannot deduct related expenses due to TCJA

Consolidated Appropriations Act, 2021 (CAA 2021)



Kate Leichty, CPA
Senior Manager, Kruggel Lawton CPAs



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- Signed into law on December 27th
- Related to tax provisions, two acts within CAA 2021:
 - COVID-19-Related Tax Relief Act
 - Taxpayer Certainty and Disaster Tax Relief Act

- CARES Act and 2020 Notices issued by the IRS
- Originally eligible business expenses would not be deductible for tax purposes.
- CAA 2021 Correction
- “No deduction is denied, no tax attribute is reduced and no basis increase is denied by reason... of the forgiveness of an eligible recipient’s covered loan”
- Effective retroactively to tax years ending after March 27, 2020 and same treatment applies to any PPP2 loans made and forgiven after December 27, 2020

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Economic Injury Disaster Loans (EIDLs) CAA 2021

- Advances/grants up to \$10,000 received in 2020 automatically forgiven
- CAA 2021 clarifies this loan forgiveness is also excluded from gross income and the exclusion does not prevent a taxpayer from claiming eligible business deductions
- Any exclusion from gross income is treated as tax-exempt income for basis purposes

Economic Impact Payments (Round 2) CAA 2021

- True-up for both 1st and 2nd round of EIPs included on 2020 Form 1040
- Refundable tax credit if either did not receive 1st / 2nd round or EIP was lower
- If EIPs already paid out and 2020 computed a lower amount, no repayment of the overpayment required

d	Add lines 25a through 25c		25d	
26	2020 estimated tax payments and amount applied from 2019 return		26	
27	Earned income credit (EIC)	27		
28	Additional child tax credit. Attach Schedule 8812	28		
29	American opportunity credit from Form 8863, line 8	29		
30	Recovery rebate credit. See instructions	30		
31	Amount from Schedule 3, line 13	31		
32	Add lines 27 through 31. These are your total other payments and refundable credits ▶		32	
33	Add lines 25d, 26, and 32. These are your total payments ▶		33	



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- Full cost of food & beverages provided by a restaurant as a business meal is 100% deductible, rather than 50% deductible
- Applies for 2021 and 2022 tax years, so no change for 2020
- Still no entertainment deduction
- Ordinary & necessary business rules still apply

Charitable Contributions for Non-Itemizers CAA 2021

- Previously had to claim itemized deductions rather than take standard deduction in order to deduct charitable contributions on Form 1040
- For 2020, taxpayers who do not itemize can deduct up to \$300 above the line
- For 2021, extended this deduction and expanded to be \$300 single/\$600 MFJ
- Extension of suspension of 60% AGI limitation through 2021

Paid sick and family leave credit

- Extended through 3/31/2021 now
- Voluntary if employers elect this leave
- Credit equal to 6.2% of qualified sick or family leave wages

Employee retention tax credit

- Employers receiving PPP can now claim
- Extended through 6/30/2021 now
- Now max credit is \$7,000 per employee per quarter
- Only a 20% reduction in gross receipts test

CARES Act

- Allowed for employers to defer payment of the employer's share of employment taxes from March 27, 2020 through December 31, 2020
- Paid over two years (2021 – 2022)

August 2020 Memo

- Allowed for the deferral of the employee's share of payroll taxes from September 1, 2020 through December 31, 2020
- Originally paid first four months of 2021
- CAA 2021 extended repayment period for all of 2021



Following tax provisions were extended through 2025:

- Work Opportunity Credit
- New Markets Tax Credit
- Exclusion from gross income of discharge of qualified principal residence indebtedness
- Empowerment zone tax incentives
- Exclusion from gross income of certain employer payments of student loans

- 7.5% AGI threshold for medical expense deduction
- Energy efficient commercial buildings deduction
- Tuition & Fees Deduction eliminated after 2020, income thresholds increased for Lifetime Learning Credit
- Reminder that under the TCJA most corporate provisions (including tax rate reduction) are permanent but individual tax code provisions set to expire in 2025

President Biden's Tax Proposals

- Subject to Change and Not Comprehensive
- Based on Speculation
- Timing of Increases and Effective Dates

- Income > \$400,000 tax rate increased to pre-TCJA rates of 39.6%
- Capital Gains taxed at 39.6% ordinary rate if income > \$1 million
- Social Security tax (Employee and Employer share of 12.4%)
- Wage base limits end for wages beyond \$400,000 from the current wage base of \$137,700, would create a “doughnut hole”
- Child tax credit and other individual credits expanded
- Itemized deductions phaseout – phaseout begins if income > \$400,000
- Affordable Care Act (individual mandate was repealed) but will expand based on income cap, cost of coverage, expanded credits

- Qualified Business Income (QBI) Deduction – phaseout if income > \$400,000
- Corporate tax rate increased to a flat rate of 28% (was 21%)
- Adds 15% minimum tax on book income above \$100 million
- Doubles tax rate on Global Intangible Low Tax Income (GILTI) from 10.5% to 21%; also eliminate GILTI deduction for 10% of qualified business asset investment (QBAI)
- New and expanded tax credits

- Reduce lifetime exemption in gift, estate, and GST exclusion (currently \$11,700,000) to as low as \$3,000,000
- Increase in estate, gift, and GST transfer tax rate
- Currently at 40%, could increase up to 45%
- Elimination of the step-up in basis
- Under current law the basis for all assets of a deceased individual gets 'stepped up' to fair market value at date of death

Proposed \$1.9 Trillion COVID Relief Plan

BIDEN

- Direct payments to individuals
- Increase per-week unemployment benefit
- Increase federal minimum wage of \$15 per hour
- Rent relief and eviction and foreclosure moratoriums
- State and local government aid
- K-12 schools and higher education
- Covid-19 testing and national vaccine program
- Child Tax Credit fully refundable



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QUESTIONS