

Consolidated Appropriations Act, 2021

■ Caveats

- IRS will issue additional guidance
- Form and form instruction revisions will happen
- Additional IRS and TaxSlayer updates will be communicated as we know them
- Be sure to check with your state tax agency as state rules for these federal changes may differ

■ Provisions for Tax-Aide in 2020

- More Recovery Rebate Credit
- Emergency Financial Aid Grants
- Educator Adjustment to Gross Income
- Sick and Family Leave Credits for Self-Employed
- Early Retirement Distributions
- Lookback for EIC/ACTC
- Tax Software

■ More Recovery Rebate Credit (RRC)

- Each individual must have valid SSN or ATIN on the return
 - Decedents dying before January 1, 2020 treated as not having a SSN
- \$600 for single, \$1,200 MFJ
 - \$600 if only one spouse has SSN
 - MFJ members of military get full \$1,200 if at least one spouse has SSN
- \$600 per dependent child (under age 17)
 - If can be claimed as a dependent, not eligible for RRC
- Same income phase-out levels as under CARES
- Notes:
 - This credit applies to 2020 return even if payment not received until 2021
 - Rules for mixed-SSN households different than for Economic Impact Payment #1

■ More Recovery Rebate Credit

- Treasury has until January 15, 2021 to issue advance payments of the additional recovery rebate
- IRS can base payments on 2019 tax return data
- Can claim more credit on 2020 return
- Still no provision to return an excess payment

■ Emergency Financial Aid Grants

- Some higher education institutions gave these grants to students under the CARES Act
- Excluded from gross income (no change)
- **New:** do not reduce qualified education expenses for purposes of American opportunity credit
 - Other education benefits not mentioned
- Effective as of CARES Act enactment
- School will not report on Form 1098-T

■ Educator Adjustment to Gross Income

- Qualified educators get a \$250 adjustment to gross income for out-of-pockets supplies/professional development expenses
 - **New:** supplies include PPE (personal protective equipment) costs
 - Paid or incurred after March 12, 2020

■ Sick and Family Leave Credits for Self-Employed

- **New:** can elect to use current or prior year's S-E net earnings
 - Applies as if part of the FFCRA (Families First act)
- Applies to the **individual**
 - Either or both taxpayer and spouse can make this election
- Note: credits are extended through 3/31/21 – assume any 2021 credits will be reported on 2021 tax return

■ Early Retirement Distributions

- Refer to the qualifying individual requirement on next slide
- Waiver of the addition to tax also applies to money purchase pension plan distributions
 - Appears this is a technical correction
 - Thus all early distributions will be eligible for penalty waiver
- Effective as if part of the CARES Act

■ Retirement Funds – Qualified Individual Review

- Notice 2020-50: a qualified individual is anyone who:
 - is diagnosed, or whose spouse or dependent is diagnosed, with the virus SARS-CoV-2 or the coronavirus disease 2019 (collectively, "COVID-19") by a test approved by the Centers for Disease Control and Prevention (including a test authorized under the Federal Food, Drug, and Cosmetic Act); or
 - experiences adverse financial consequences as a result of the individual, the individual's spouse, or a member of the individual's household (that is, someone who shares the individual's principal residence):
 - being quarantined, being furloughed or laid off, or
 - having work hours reduced due to COVID-19;
 - being unable to work due to lack of childcare due to COVID-19;
 - closing or reducing hours of a business that they own or operate due to COVID-19;
 - having pay or self-employment income reduced due to COVID-19; or
 - having a job offer rescinded or start date for a job delayed due to COVID-19.

■ Lookback for EIC / ACTC

- Taxpayer can elect to use 2019 earned income in lieu of 2020 earned income for
 - Earned income credit
 - Additional child tax credit
- Prior year earned income is the sum of the earned income of both spouses for MFJ returns

■ Tax Software

- Anticipate TaxSlayer will update programming
- We do not know what will change or when changes will be available
- Sign up for TaxSlayer blog to receive updates as they are posted
- If you see something that is not working correctly, check the blog to see if it's a known issue first
 - Please do not submit a ticket on the Portal – send the issue to TaxSlayer Support (support@vita.taxslayerpro.com)
 - Please be patient – will take time for IRS to provide directions and TaxSlayer to implement

Other Changes

■ Other Changes

- PPP Loans
- Provisions Made Permanent Starting 2021
- Provisions for 5 Years – 2021 Through 2025
- Provisions for 2 Years – 2021 and 2022
- Provisions for 2021

■ PPP Loans

- All expenses fully deductible, even if used to get PPP loan forgiveness
- For our taxpayers, would only be a grant to replace lost profit – expenses not an issue (deduct as per normal rules)
- PPP2 “loans” will go through March 31, 2021

■ Provisions Made Permanent Starting 2021

- 7.5% of AGI for itemized medical
- Tuition and fees deduction repealed after 2020
- Lifetime learning credit will have increased income limits (same as American Opportunity Credit)

■ Provisions for 5 Years – 2021 Through 2025

- Employer-provided educational assistance, including loan repayments
- Exclusion for discharge of main home debt
 - Maximum reduced to \$750,000 (down from \$2,000,000)
 - Applies to discharges after December 31, 2020

■ Provisions for 2 Years – 2021 and 2022

- Business meal deduction for self-employed is 100% deductible for 2021-2022
 - Must be provided by a restaurant
 - Reverts to 50% for 2023
- Residential energy credit

■ Provisions for 2021

- Cash contributions
 - 100%-of-AGI deduction limitation to apply through 2021
 - Deduction from AGI for 2021
 - For those not itemizing deductions
 - Up to \$300 or \$600 if MFJ
- PMI (private mortgage insurance) treated as interest