

2020 Tax Law and Scope Changes

NTTC – December 31, 2020

■ 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

■ Topics

- SECURE Act
- Families First Act*
- CARES Act*
- Consolidated Appropriations Act, 2021 (CAA 2021)
- Other tax changes
- Inflation adjustments
- Scope changes

* CAA 2021 changes highlighted in blue

Setting Every Community Up For Retirement Enhancement (SECURE Act)

■ SECURE Act

- IRA Contributions
 - Difficulty of care payments
- Qualified Charitable Distributions
- Required Minimum Distribution Age
- Inherited IRAs
- Taxable Non-tuition Fellowship and Stipends
- Penalty-free Distribution for Birth or Adoption
- Expansion of Section 529 Plans
- Kiddie Tax Reverted

■ IRA Contributions

- Repeals maximum age (previously 70½) for making contributions to traditional IRA
 - Must have taxable compensation during the year
 - Taxable alimony counts as compensation
- Cannot offset RMD with IRA contribution
 - Two separate events
- Tax years beginning after December 31, 2019

■ IRA Contributions

- Can use excluded difficulty of care payments to increase **nondeductible** contribution limitation for IRA and employer plans
 - Use if there is not enough taxable compensation
 - Difficulty of care payment must be from same employer
- Effective contributions after 12/20/19
- **IRA guidance to come**

■ Qualified Charitable Distributions (QCD)

- Minimum age for Qualified Charitable Distributions from individual retirement plans **remains at 70½**
- Excludible portion of QCD distribution is reduced by IRA deductions (Schedule 1 Line 19)
- A cumulative adjustment

■ QCD and IRA Contribution Example

- Deducted \$5,000 IRA contributions in each 2020 and 2021, no contribution 2022
- No QCD in 2020, \$6,000 QCD in 2021, \$6,500 QCD in 2022
- 2021 QCD is reduced by \$10,000 prior IRA contributions so no QCD
- 2022 QCD is reduced by remaining prior deducted IRA contributions ($\$10,000 - \$6,000 = \$4,000$)
 - QCD is $\$6,500 - \$4,000 = \$2,500$

■ Required Minimum Distribution Age

- Age for beginning required minimum distributions (RMD) from defined contribution plan or IRA increased to 72 from 70½ for individuals who reach age 70½ after December 31, 2019
- Some or all of first distribution may be delayed until **April 1 of following calendar year** (no change)
 - If delayed, will have two distributions in that year

■ Inherited IRAs

- Stretch IRAs curtailed – decedents dying 2020 or later
- General 10-year distribution requirement
- Except eligible designated beneficiaries
 - Spouse
 - Not more than 10 years younger than the decedent
 - Chronically ill minor children
- Also applies to 401(k) and Roth accounts

■ Taxable Non-tuition Fellowship and Stipends

- Paid to aid in the individual's pursuit of graduate or postdoctoral study
- Treated as compensation for the purpose of IRA contributions
- Must be included in gross income

■ Penalty-free Distribution for Birth or Adoption

- Can withdraw up to \$5,000 for the birth or adoption of a child
 - Distribution within one year after birth or adoption finalized
 - “Eligible adoptee:” any individual under age 18 or physically or mentally incapable of self-support*
 - Not a child of the taxpayer’s spouse
 - Must list child’s TIN on tax return for the year
 - Each spouse can use this exception to the penalty
 - Can claim more than once (e.g., twins born or adopted)

* Notice 20-68 says same as disability definition

■ Recontribute Distribution for Birth or Adoption

- Can recontribute any portion of the distribution as a rollover contribution to an eligible retirement plan
 - Recontribution can be to any plan to which a rollover can be made
 - Treated as a rollover made timely
- IRAs, 401(k), 403(b), etc. (but not from a defined benefit plan)

■ Expansion of Section 529 Plans

- Distributions permitted for:
 - Principal or interest on a student loan
 - Designated beneficiary's or their sibling's
 - Up to \$10,000 lifetime
 - Interest paid with these funds does not qualify for the student loan interest deduction
 - Participation in an apprenticeship program that is registered and certified by the U.S. Department of Labor.
 - Qualifying expenses are required fees, books, supplies and equipment
- Retroactive to 2019

■ Kiddie Tax Reverted

- Back to the old method using parents' tax brackets
- No election to use estate/trust rates
- Effective 1/1/2020
- Kiddie tax kicks in at \$2,200 of unearned income (after the filing threshold is met)
- **Out of scope**

Families First Coronavirus Response Act (Families First Act)

■ Families First Act

- Sick leave credit for self-employed
- Family leave credit for self-employed



SICK LEAVE Credit for Self-employed Individuals – Part I

- If self-employed individual unable to work because:
 - Was subject to a COVID-19 quarantine or isolation order
 - Was advised to self-quarantine because of COVID-19
 - Had COVID-19 symptoms and sought medical diagnosis
- Profit for the year divided by 260*
 - CAA 2021 allows use of 2020 or 2019 self-employment profit – whichever is more beneficial
 - Max \$511 per day (total max \$5,110)

SICK LEAVE Credit for Self-employed Individuals – Part II

- If self-employed individual unable to work because:
 - Cared for someone who was subject to COVID-19 quarantine or isolation order or was advised to self-quarantine because of COVID-19
 - Cared for a child (son or daughter) whose school or place of care was closed due to COVID-19
 - Cared for a child (son or daughter) whose child care provider was unavailable due to COVID-19
 - Any other similar condition specified by Secretary of Health and Human Services

- Profit for the year divided by 260 x 67%*
 - CAA 2021 allows use of 2020 or 2019 profit – whichever is more beneficial
 - Max \$200 per day (max \$2,000)

■ Sick Leave Credit

- Up to 10 lost workdays between 4/1/2020 and 12/31/2020*
- Combined Part I or Part II

* CCA 2021 extended period through 3/31/2021 – assume any 2021 credits will be reported on 2021 tax return

■ Sick Leave Credit Limit

- Scaled down if individual also got sick leave from an employer as reported on W-2 or separate statement
- Example:
 - \$1,500 of Part II S-E sick leave equivalent
 - \$900 of \$200-limit sick leave wages as employee
 - Reduce Part II S-E sick leave credit limit (\$2,000) by \$900 leaving \$1,100 available limit for \$1,100 credit

FAMILY LEAVE Credit for Self-employed Individuals

- If self-employed individual was unable to work or telework because
 - Cared for a child (son or daughter) under age 18 whose school or place of care was closed due to COVID-19
 - Cared for a child (son or daughter) under age 18 whose child care provider was unavailable due to COVID-19

FAMILY LEAVE Credit for Self-employed Individuals

- Can claim family leave credit for up to 50 lost workdays between 4/1/2020 and 12/31/2020*
- Profit for the year divided by 260 times 67%
 - CAA 2021 allows use of 2020 or 2019 profit – whichever is more beneficial
 - Max \$200 per day (total max \$10,000)
- * CCA 2021 extended period through 3/31/2021 – assume any 2021 credits will be reported on 2021 tax return

■ Family Leave Credit Limit

- Scaled down if individual also got family leave from an employer as reported on W-2 or separate statement
- Example:
 - \$5,000 family leave equivalent
 - \$9,000 family leave wages
 - Family leave credit limit (\$10,000) reduced by \$9,000 leaving \$1,000 available limit for \$1,000 credit

■ Sick Leave AND Family Leave Credits

- Self-employed individual can receive both sick leave credit and family leave credit for up to combined 60 lost workdays of credits
- Each spouse can claim the credit(s) if they have a business
- These are refundable credits
- IRS to prescribe required eligibility documentation
- New Form 7202 – more than one may be needed

■ Sick Leave AND Family Leave Credits

- Definition of “child” (from Dept of Labor site):
 - A “son or daughter” is your own child
 - biological, adopted, or foster child, your stepchild, a legal ward, or a child for whom you are standing in loco parentis—someone with day-to-day responsibilities to care for or financially support a child
 - A “son or daughter” is also an adult son or daughter (i.e., one who is 18 years of age or older), who (1) has a mental or physical disability, and (2) is incapable of self-care because of that disability

■ Sick Leave AND Family Leave Credits

- Note overlap of caring for child in both sick leave Part II and family leave credit
- Form instructions do not prohibit using the **same** lost workdays for both credits – future IRS guidance may change this

For each business owner: Another special provision provides for a sick leave or family leave credit in certain circumstances.

Sick leave Part 1

A. Were you unable to work in your business because you were:

- subject to a COVID-19 quarantine or isolation order yes no
- advised to self-quarantine because of COVID-19 yes no
- had COVID-19 symptoms and sought a medical diagnosis yes no

As a result, how many days were you unable to work in your business from 4/1 to 12/31/20?

Sick leave Part 2

B. Were you unable to work in your business because you:

- cared for someone who was subject to a COVID-19 quarantine or isolation order yes no
- cared for someone who was advised to self-quarantine because of COVID-19 yes no
- cared for a child* whose school or place of care was closed due to COVID-19 yes no
- cared for a child* whose child care provider was unavailable due to COVID-19 yes no

As a result, how many days were you unable to work in your business from 4/1 to 12/31/20?

Family leave

C. Were you unable to work in your business because you:

- cared for a child* whose school or place of care was closed due to COVID-19 yes no
- cared for a child* whose child care provider was unavailable due to COVID-19 yes no

As a result, how many days were you unable to work in your business from 4/1 to 12/31/20?

* A child includes an individual who is under age 18 and is: your biological, adopted, or foster child; your stepchild; a legal ward; a child for whom you have day-to-day responsibilities for care or financial support. It also includes an adult son or daughter (18 years of age or older), who (1) has a mental or physical disability, and (2) is incapable of self-care because of that disability.

Please retain any documentation you have to support your lost workdays with your tax records.

Amount of employer sick leave pay (\$511-per-day limit) \$ (\$200-per-day limit) \$

For volunteer use:

Amount of employer family leave pay \$

■ New Line on Tax Return Schedule 3

■ Payments or refundable credits section

11 Credit for federal tax on taxes: Attach Form 1065			
12	Other payments or refundable credits:		
a	Form 2439	12a	
b	Qualified sick and family leave credits from Schedule(s) H and Form(s) 7202	12b	
c	Health coverage tax credit from Form 8885	12c	
d	Other: _____	12d	

■ SECURE or Families First Acts

Questions



Comments



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

■ CARES Act

- EIP and Recovery Rebate Credit
- Paycheck Protection Program loan
- Payroll tax deferral for self-employed individuals
- Retirement funds – special uses
- Temporary waiver of required minimum distributions (RMD)
- Above the line deduction for charitable contributions
- Limit on cash donations
- Tax-free employer education benefits
- Qualified medical for HSA
- Tax-free higher education emergency grants

■ Economic Impact Payments (EIP)*

- EIP sent to eligible taxpayers during 2020
 - \$1,200 (\$2,400 MFJ)
 - \$500 per dependent under age 17 as of 12/31/2019 (or 12/31/2018 if that return was used)

- Income phaseout
 - MFJ \$150,000 – \$198,000
 - HoH \$112,500 – \$136,500
 - S, MFS, QW \$75,000 – \$99,000

* See CCA 2021 section for additional payments

■ Recovery Rebate Credit (RRC)

- Can claim a credit on 2020 tax return if entitled to more EIP
 - **Refundable** credit
 - Will need to know how much EIP was received
- Examples generating RRC
 - Qualified taxpayer received no EIP in 2020
 - Additional qualifying dependent on 2020 return
 - 2019 income above phaseout, 2020 income below phaseout

■ EIP and RRC

- EIP and RRC are not taxable income
- Taxpayers **eligible** to be claimed on another's return are not eligible for EIP or RRC
- Taxpayer and dependent child must have valid Social Security number (or ATIN for the child)
- EIP and RRC may be offset for past-due child support
 - Does not apply to other Federal offsets

■ 2020 Recovery Rebate Credit

- Excessive EIP does not have to be paid back
 - Possible exception for deceased recipients' estates
- No form – worksheet in the 1040 instructions and entry on Personal Information page in TaxSlayer
- IRS will not reissue White House letter (Notice 1444)
- IRS may have a look-up tool (???)

■ RRC New Line on 1040

■ Payments section (includes refundable credits)

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

■ EIP and RRC

- Individuals that used the Non-Filer tool and need to file a real 2019 tax return
 - If try to e-file, will reject
 - Must file a paper Form 1040/1040SR return
 - Page one should have “Amended EIP return” at the top

■ Paycheck Protection Plan (PPP) Loan

- A self-employed person was eligible for a PPP loan
- Max 2.5 month's worth of their 2019 Schedule C profit (2.5/12)
- It is forgiven but not taxable income*
- Funds are “used” to pay self-employed person for lost profit – no reduction of expenses needed**

* State laws may differ

** CAA 2021 specifies all expenses remain deductible

■ Partial Self-Employed Tax Deferral

- Can defer the employer portion of Social Security tax
- Income attributed to 3/27/20 – 12/31/20
 - Computed by the taxpayer
 - Use example IRS rate of 77.5% or any reasonable estimate
- 50% will be due December 31, 2021
- Balance will be due December 31, 2022
- Taxpayer can choose to defer less than the maximum

■ New SE Tax Deferral Worksheet

Self-Employed COVID Worksheet (type-in fillable)

To be completed only if you or your spouse had a business during 2020.

Name of the business owner:

For each business you own: A special provision for 2020 allows you to defer payment of the employer portion of the Social Security tax that is included in your self-employment tax. The amount involved is about 5.7% of your self-employment profit from 3/27/20 to 12/31/20. You need to estimate your profit for that time span or use the IRS example allocation ratio of 77.5% of your full-year profit. If elected, one-half of the deferred tax would be due in 2021 and the second half would be due in 2022. Your estimated payments, if any, need to include the repayment.

- Do you want to defer payment of part of your self-employment tax? yes no
 - If yes, enter your profit for 3/27/20 to 12/31/20: \$ or check to use 77.5% (✓)
 - If yes, how much do you want to defer? % of my tax or check to use the maximum (✓)
-

■ Partial SE Tax Deferral for Self-Employed

■ New Part III in Schedule SE

Part III Maximum Deferral of Self-Employment Tax Payments		
If line 4c is zero, skip lines 18 through 20, and enter -0- on line 21.		
18	Enter the portion of line 3 that can be attributed to March 27, 2020, through December 31, 2020 . . .	18
19	If line 18 is more than zero, multiply line 18 by 92.35% (0.9235); otherwise, enter the amount from line 18 . . .	19
20	Enter the portion of lines 15 and 17 that can be attributed to March 27, 2020, through December 31, 2020	20
21	Combine lines 19 and 20	21
If line 5b is zero, skip line 22 and enter -0- on line 23.		
22	Enter the portion of line 5a that can be attributed to March 27, 2020, through December 31, 2020 . . .	22
23	Multiply line 22 by 92.35% (0.9235)	23
24	Add lines 21 and 23	24
25	Enter the smaller of line 9 or line 24	25
26	Multiply line 25 by 6.2% (0.062). Enter here and see the instructions for line 12e of Schedule 3 (Form 1040)	26

Schedule SE (Form 1040) 2020

■ Partial SE Tax Deferral – New Line Schedule 3

- Claimed as a “payment” on Schedule 3, Line 12(e)

11 Credit for federal tax on fuels. Attach Form 4130		11
12	Other payments or refundable credits:	
a	Form 2439	12a
b	Qualified sick and family leave credits from Schedule(s) H and Form(s) 7202	12b
c	Health coverage tax credit from Form 8885	12c
d	Other: _____	12d
e	Deferral for certain Schedule H or SE filers (see instructions)	12e
f	Add lines 12a through 12e	12f

■ Retirement Funds – Special Use Rules

- “Qualified individuals” with coronavirus-related distributions in tax year 2020
 - 10% early distribution penalty waived
 - Can spread income over a 3-year period
 - Can repay funds within 3 years – treated as a rollover
 - Up to \$100,000 distribution
- Form 8915-E (non-COVID disasters remain out of scope)
- 3-year spread and/or repayment are IN SCOPE

■ Retirement Funds – Special Use Rules

- 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.

■ Retirement Funds – Special Use Rules

- The **individual/spouse/household member** must qualify, not the distribution
- From any qualified retirement account
- Includes pensions and minimum distributions
 - Repayment option has limits

■ Deferral of Coronavirus-Related Distributions

- Designated eligible taxable distributions up to \$100,000
- All taxed in 2020 or 1/3rd taxed in each of 2020, 2021, and 2022
- Reduce taxable amount by any repayments
- Taxpayer can choose whether to designate, or not designate, any eligible distribution
 - Must treat all designated distributions the same

■ Repayment of Coronavirus-Related Distributions

- Can repay up to \$100,000 at ANY time within 3 years from day **after** date of distribution
- Cannot repay inherited IRA distribution, pension, RMD (?), annuity
- Repay to ANY qualified account that can accept it
 - Includes, for example, 401(k) to IRA
 - Multiple repayments up to \$100,000 total allowed
- If repaid, treated as a rollover
 - Does **not** count for 1-in-12 months rule
- If repay amount previously taxed, file amended return

COVID Retirement Distribution (Form 1099-R) Worksheet

Complete only if you received a retirement plan distribution during 2020. Your name: _____

Spouse, please complete a second form if you received a retirement distribution

1. Were you or your spouse or dependent diagnosed with COVID-19 by a test? yes no
2. Did you or your spouse experience adverse financial consequences as a result of you, your spouse, or a member of your household (that is, someone who shares your principal residence):
 - being quarantined, furloughed, or laid off 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. yes no

If you checked yes to either of the above, you have choices for 2020 with respect to your retirement plan distribution as described below. **If you checked no to both questions, stop here.**

First choice: You can spread the taxable part of your eligible distribution over 3 years. If you select this option, 1/3rd of your eligible distributions will be taxed in 2020, 1/3rd in 2021, and 1/3rd in 2022. This election applies to virtually all retirement distributions. You can designate one or more distributions for this election up to a limit of \$100,000.

Pros: you have more time to pay the tax on the distribution(s). You may receive a larger refund or have a smaller balance due for 2020; but will have a smaller refund or larger balance due in 2021 and/or 2022.

Cons: if your tax rate increases in 2021 or 2022 compared to 2020, it might cost more. Future tax law changes may increase or decrease future tax rates. You can refer to the 2020 tax rate schedules on the reverse side for your filing status.

Would you like to spread one or more taxable distributions over the 3 years? yes no

Second choice: You also have the right to repay a distribution and avoid paying the tax until a later year. However, you cannot repay either a pension or a distribution from an account you inherited from

■ Temporary Waiver of RMDs

- RMD waived for 2020 only
- Can recontribute RMD by 8/31/20
 - Does not count as a rollover for 1-in-12-months rule
- If meet coronavirus-related distribution criteria, maybe can repay within 3 years to any qualified account (???)
 - Instructions say RMD not eligible for repayment

■ Above-the-Line Charitable Contribution Deduction

- Max \$300 cash contribution **per return** for tax year 2020
 - IRS specifies up to \$150 if filing MFS (IR-2020-278)
- If taxpayer not itemizing
- See CAA 2021 section for tax year 2021

■ Charitable Contribution Limit

- Cash contributions allowed up to 100% of AGI
- Was 60%
- Tax years 2020 and 2021 (CAA 2021)

■ Expanded Employer Provided Education Benefit

- Employers may pay up to \$5,350 annually for education
- Payments excluded from employee's income by employer (not wages on W-2; may be in box 14)
- Now includes student loan repayments
- Payments made 3/27/20 – 12/31/20*
- No deduction or credit for items paid by employer

* See CAA 2021 section for later years

■ Health Care Spending – HSAs

- Qualified medical expenses
 - Menstrual care products are included
 - Requirement that medicine or drug be prescribed no longer applies (HSA only – no change for Schedule A medical expenses)
 - Over-the-counter products and medications
 - Applies to amounts paid after Dec. 31, 2019
- HSA is now part of Advanced certification

Higher Education Emergency Financial Aid Grants

- School grant under the CARES Act for unexpected expenses, unmet financial need, or expenses related to the disruption of campus operations on account of the COVID-19 pandemic
 - Food, housing, course materials, technology, health care, or childcare
- Not includible in gross income
- No deduction or credit for expenses paid with the grant for Tuition and fees deduction or the Lifetime Learning Credit*
- Will not be included on Form 1098-T – need to ask in interview/see student's school financial account
- * CAA 2021 specifies no reduction of expenses for American Opportunity Credit

■ SECURE, Families First, CARES

Questions



Comments



Consolidated Appropriations Act, 2021

■ 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 (this is different than EIP/RRC under CARES Act)
 - MFJ members of military get full \$1,200 if at least one spouse has SSN
- \$600 per dependent child
 - If can be claimed as a dependent, not eligible for RRC
- Same income phase-out levels as under CARES Act
- RRC #2, if any, applies to 2020 return even if payment not received until 2021

■ 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
- Taxpayer 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 AOC
 - 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 in Consolidated Appropriations Act, 2021

■ 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

■ Consolidated Appropriations Act, 2021

Questions

Comments



Other Tax Law Changes

■ Other Tax Law Changes

- Expensing cost of goods
- Deductible meals expense
- Estimated tax payments
- Individual Taxpayer Identification Numbers (ITINs)
- Extenders
- Form 1040

■ Expensing Cost of Goods

- Self-employed taxpayers can expense purchases effective 1/1/2018
- Enter as supplies or “other expenses” (not in cost of goods sold)
 - Cost of goods sold section of Schedule C remains **out of scope**

■ Deductible Meal Expenses

- Deduction allowed if:
 - Directly related to the active conduct of business
 - Before or after a substantial and bon fide business discussion
- Not for entertainment, amusement, or recreation
- For self-employed and performing artists (OOS)

■ Estimated Tax Payments

- 2020 payments for 2020 normally due 4/15/20 or 6/15/20
- Treated as timely when made by July 15, 2020
- Significant processing delays at IRS

■ Individual Taxpayer Identification Numbers (ITINs)

- ITINs expiring
 - Not used in the last three consecutive tax years
- Middle digits 88 will expire 12/31/20
- Middle digits "90", "91", "92", "94", "95", "96", "97", "98", or "99" assigned before 2013 expire 12/31/20
- Need to renew if ITIN will be used on a U.S. federal tax return filed in 2021

■ Extenders Extended Through 2020*

- Exclusion from gross income of qualified principal residence indebtedness
- Mortgage insurance premiums deductible as qualified residence interest
- Deduction for qualified tuition & fees
- Credit for nonbusiness energy property (residential energy credit)

* Refer to CAA 2021 section for changes starting 2021

■ 2020 Form 1040

■ Withholding breakdown

25	Federal income tax withheld from:		
a	Form(s) W-2	25a	
b	Form(s) 1099	25b	
c	Other forms (see instructions)	25c	
d	Add lines 25a through 25c		

■ Amending 2019

- IRS will accept e-filed Form 1040-X for 2019 if original 2019 return was e-filed
 - TaxSlayer offers option
- Non-Filer “return” to claim EIP is not considered an e-filed 2019 return – paper Form 1040/1040SR must be mailed (do not use Form 1040-X)
 - Available in TaxSlayer

Inflation Adjustments

■ Standard Deduction Inflation Adjustments

Pub 4012 Tab F

- Standard deduction increased to
 - \$24,800 MFJ and QW
 - \$18,650 HoH
 - \$12,400 Single and MFS
- Additional standard deduction amount for age 65 and older and/or blind increased
 - \$1,650 S, HoH
 - \$1,300 MFJ, MFS, QW (no change)

■ Standard Deduction Single Dependent Under 65

Pub 4012 Tab F

- Dependent standard deduction is the greater of
 - \$1,100 or
 - Earned income plus \$350 not to exceed standard deduction for filing status

■ Filing Threshold

Pub 4012 Tab A Chart A

- Filing thresholds for most taxpayers is their standard deduction
 - See exceptions in footnotes to Chart A
 - Also see Chart C for other situations that must file
- Filing threshold increased by additional standard deduction amount due to age 65 or older
 - **Filing threshold** not increased by additional amount for blindness

■ Qualifying Relative Gross Income Test

- Personal or dependent exemption deduction is \$0 through 2025
- Threshold amount is \$4,300 for 2020
 - Used for qualifying relative gross income test

■ Standard Mileage Rates

- Standard mileage rates per mile 2020
 - Business mileage 57.5¢
 - Medical mileage 17¢
 - Moving mileage for active duty military 17¢
 - Charitable mileage 14¢

■ Other Inflation Adjustments

Pub 4012

- Earned income credit – Tab I
 - Max investment income \$3,650
- Student loan interest deduction income phase out – Tab E
- Retirement savings contribution credit income brackets – Tab G
- Education credits income phase out – Tab J
- Foreign earned income exclusion (International certification required)

Other Inflation Adjustments

Pub 4012

- Qualified business income (QBI) deduction thresholds – Tab F
 - \$326,600 for MFJ
 - \$163,300 for single, HoH, MFS
 - Scope: if taxable income (before the QBI deduction) exceeds the threshold, return is out of scope

- Income limits for IRA deductions and Roth IRA contributions – Tab E

Roth IRA Income Limits

Filing status	2019 MAGI	2020 MAGI	Maximum annual contribution
Single, head of household or married filing separately (if you didn't live with spouse during year)	Less than \$122,000	Less than \$124,000	\$6,000 (\$7,000 if 50 or older)
	\$122,000 up to \$137,000	\$124,000 up to \$139,000	Contribution is reduced
	\$137,000 or more	\$139,000 or more	No contribution allowed
Married filing jointly or qualifying widow(er)	Less than \$193,000	Less than \$196,000	\$6,000 (\$7,000 if 50 or older)
	\$193,000 up to \$203,000	\$196,000 up to \$206,000	Contribution is reduced
	\$203,000 or more	\$206,000 or more	No contribution allowed
Married filing separately (if you lived with spouse at any time during year)	Less than \$10,000	Less than \$10,000	Contribution is reduced
	\$10,000 or more	\$10,000 or more	No contribution allowed

Caution: TaxSlayer does not alert to excess contributions

Double Caution: TaxSlayer does not limit Retirement Savings Credit to allowable contribution

Other Inflation Adjustments

Pub 4012

- HSA contribution limits – Tab E
- Limit on long term care insurance deduction – Tab F
- PTC
 - Federal poverty lines updated for premium tax credit purposes – Tab H
 - Repayment of APTC caps – Tab H

■ No Inflation Adjustment

Pub 4012

- IRA maximum contribution – Tab E
 - Stays at \$6,000; catch-up \$1,000
- Refundable portion of child tax credit – Tab G
 - Stays at \$1,400
- Educator deduction* – Tab E
 - Eligible educator unreimbursed classroom expense adjustment stays at \$250 per individual

* See CAA 2021 section for enhanced eligible expenses

Scope Changes

■ Kiddie Tax – Out of Scope (again)

- Kiddie tax kicks in at \$2,200 of unearned income (after the filing threshold is met)
- Kiddie tax reverts to pre-2018 law – child's unearned income again taxed at parents' top marginal rates rather than trust rates
- Kiddie tax in scope only for 2018 and 2019 if electing estate/trust tax rates

■ Schedule C Expenses

- Schedule C expenses in scope up to \$35,000
 - Increased from \$25,000
 - Includes purchases of goods
 - No inventories
 - Mileage method for leased vehicles

■ Form 1099-INT

- Bond premium is larger than the respective interest amount
 - Taxable bonds Box 11 > Box 1
 - Treasuries Box 12 > Box 3
 - Munis Box 13 > Box 8
- Out of scope

**SCHEDULE LEP
(Form 1040)**

(December 2020)

Department of the Treasury
Internal Revenue Service

Request for Change in Language Preference

OMB No. 1545-0074

▶ **Attach to Form 1040, 1040-SR, 1040-NR, 1040-PR, or 1040-SS.**
▶ **Go to www.irs.gov/ScheduleLEP for the latest information.**

Attachment
Sequence No. **77A**

Name of person making request (as shown on tax return)	Social security number of person making request

1 I would prefer to receive written communications (see instructions) from the IRS in the following language. Check only one.

- | | |
|--|---|
| <input type="checkbox"/> 000 English | <input type="checkbox"/> 011 French (Français) |
| <input type="checkbox"/> 001 Spanish (Español) | <input type="checkbox"/> 012 Japanese (日本語) |
| <input type="checkbox"/> 002 Korean (한국어) | <input type="checkbox"/> 013 Gujarati (ગુજરાતી) |
| <input type="checkbox"/> 003 Vietnamese (Tiếng Việt) | <input type="checkbox"/> 014 Punjabi (ਪੰਜਾਬੀ) |
| <input type="checkbox"/> 004 Russian (Русский) | <input type="checkbox"/> 015 Khmer (ខ្មែរ) |
| <input type="checkbox"/> 005 Arabic (العربية) | <input type="checkbox"/> 016 Urdu (اردو) |
| <input type="checkbox"/> 006 Haitian Creole (Kreyòl Ayisyen) | <input type="checkbox"/> 017 Bengali (বাংলা) |
| <input type="checkbox"/> 007 Tagalog (Tagalog) | <input type="checkbox"/> 018 Italian (Italiano) |
| <input type="checkbox"/> 008 Portuguese (Português) | <input type="checkbox"/> 019 Chinese (Traditional) 中文(繁體) |
| <input type="checkbox"/> 009 Polish (Polski) | <input type="checkbox"/> 020 Chinese (Simplified) 中文(简体) |
| <input type="checkbox"/> 010 Farsi (فارسی) | |

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 74174D

Schedule LEP (Form 1040) (12-2020)

Virtual Currency Question on F1040

Your first name and middle initial		Last name		Your social security number	
If joint return, spouse's first name and middle initial		Last name		Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.			Apt. no.		Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse
City, town, or post office. If you have a foreign address, also complete spaces below.		State	ZIP code		
Foreign country name		Foreign province/state/county		Foreign postal code	
At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? <input type="checkbox"/> Yes <input type="checkbox"/> No					

■ Tax Software

- Anticipate TaxSlayer will update all programming as needed
- We will not know what it is or when it will be available
 - Please do not submit a ticket on the Portal
- 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
 - Then call TaxSlayer or send the issue to them (not to NTTC)

■ Tax Law Changes



■ Tax Law and Scope Changes

Questions



Comments



■ More Tax Law Changes to Come?

