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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Tax Implications of the Consolidated Appropriations Act, 2021

Published January 4, 2021 - On December 27, 2020, President Trump signed into law the Consolidated Appropriations Act, 2021. The Act includes extensions for some of the favorable provisions of the earlier COVID-19 relief and includes four individual acts that contain some new provisions and some updated provisions. A summary of what is inside the Act is as follows.

COVID-19-Related Tax Relief Act

Direct Payments to Taxpayers

The COVID-19-Related Tax Relief Act is basically an updated version of the Families First Coronavirus Response Act and the CARES Act. This act also contains direct payments to taxpayers that are meant to help stabilize the economy. The payments under this act are for $600 per individual, unlike the $1,200 payments that were made under the CARES Act. Families are able to claim the full $600 amount for child dependents. This amount was limited to $500 under the CARES Act. These payments are a credit against 2020 taxes and has a phase-out for individuals with adjusted gross income in 2019 over $75,000 or $150,000 for joint filers. The phase-outs are stricter than the earlier payments so less people will be eligible to receive payment this time around. The CARES Act allowed the phase-out to be based on 2018 adjusted gross income, but that is not allowed this time around.

Deferred Payroll Taxes

On August 8, President Trump declared that employers were allowed to defer paying their employee's share of payroll taxes from the period beginning September 1, 2020 through December 31, 2020. Employers originally had to repay them evenly after the deferral period through April 31, 2021. This has now been extended to December 31, 2021. Penalties and interest will accrue starting the next day.

Educator Expenses

Teachers are now able to deduct personal protective equipment and other items that are used to protect against the spread of COVID-19 as an above-the-line educator expense.

Paycheck Protection Program (PPP)

Originally the IRS stated that business expenses paid with PPP loans would be nondeductible. The new act states that the initial intent of the PPP loans was that they were to be used for deductible expenses.

Exclusions of Certain Financial Aid

This act also states that financial aid received by college students, and Economic Injury Disaster Loans (EIDL) that were given to small businesses by the CARES Act are to be excluded from income.

Tax Credit Updates

- The credit that employers were granted for paid sick and family leave is now extended. The covered period has been extended from the end of 2020 to March 31, 2021.

- The employee retention tax credit to apply to compensation paid to a covered employee have been extended from the end of 2020 to June 30, 2021.

- There has also been an update to the calculation of the child tax credit and earned income tax credit. The credits for the 2020 tax year can be calculated using higher 2019 income amounts if taxpayers have suffered a reduction of wages in 2020. A lower credit amount can result in a year where a taxpayer has a reduction in their income.

Distributions from Retirement Plans

The CARES Act waived the 10% additional tax on qualified coronavirus-related distributions from a retirement plan. Some eligible individuals are able to spread the inclusion of these distributions in income over three years. They also have three years to repay the amount of the distribution. The new act states that a coronavirus-related distribution that is an in-service withdrawal from a money-purchase pension plan is a qualified distribution.

Farming Net Operating Losses

The CARES Act allowed for Net Operating Losses (NOLs) created in 2018, 2019, and 2020 to have a five-year carryback and an unlimited carryforward. The 80% of taxable income NOL deduction limitation of NOLs created in tax years beginning after 2017 does not apply during those years. The act also clarifies that the elimination of the two-year carryback applies to tax years beginning after 2017 and not to tax years ending after 2017 for taxpayers with a 2017 or 2018 fiscal year.

Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act

The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act extends and enhances the Payroll Protection Program (PPP). Eligible recipients that had no more than $150,000 of the PPP loan may not be required to submit an application for forgiveness and information required to substantiate forgiveness.

Taxpayer Certainty and Disaster Tax Relief Act of 2020

Notable highlights of the Taxpayer Certainty and Disaster Tax Relief Act of 2020 are the charitable contribution extension and the revised rule relating to the business meals deduction. This act also extends other tax provisions (extenders) that may be beneficial. Notable extensions include the 7.5% of adjusted gross income limitation for medical and dental expenses, the above the line deduction for qualified tuition and related expenses and the work opportunity tax credit.

Charitable Contribution Extension

For tax year 2020 and 2021, individual taxpayers are not limited to the amount of contributions to be itemized. Individual taxpayers can also claim up to $300 of qualifying contributions without the need to itemize.

The percentage limitation for corporate taxpayers increased from 10% to 25%. Corporate taxpayer may benefit from this provision for tax year 2020 and 2021.

Business Meals Deduction

As opposed to the 50% limitation, businesses are allowed to deduct meals at 100% for tax years 2021 and 2022.

If you wish to learn more, contact your Client Service Coordinator or Nicolaus VanCleave at nvancleave@dopkins.com or Sawyer Stapleton at sstapleton@dopkins.com.