April 2021

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Tax Newsletter

Roundup of Ten New Law Tax Breaks
Key provisions in stimulus law

The new stimulus law signed on March 11—the American Rescue Plan Act (ARPA)—includes a bevy of tax breaks for individuals and small businesses, including the following ten provisions.

1. Stimulus payments: With this third round of payments, your family may receive up to $1,400 for each qualified individual and dependent, including college students and elderly relatives. But payments are completely phased out at $80,000 of adjusted gross income (AGI) for single filers and $160,000 for joint filers, lower than before. If you receive a smaller payment than you are entitled to, or are not paid at all, you may qualify for a credit on your tax return.

2. Unemployment benefits: The new law extends federal weekly unemployment benefits of $300 through September 6, 2021. These payments were scheduled to end in mid-March. **Tax bonus:** The first $10,200 of unemployment benefits received in 2020 is exempt from tax for a family with an AGI under $150,000.

3. Child Tax Credit: ARPA enhances the Child Tax Credit (CTC) for 2021 by—

- Increasing the maximum CTC from $2,000 to $3,000 ($3,600 for a child under age six);
- Extending the CTC to children under age 18 (up from age 17);
- Making the credit fully refundable (instead of a $1,400 maximum); and
- Providing advance payments of the credit, beginning in July.

However, the phaseout ranges are lowered for 2021, although you can choose to claim the CTC under prior rules.

4. Employee Retention Credits: A business may claim the Employee Retention Credit (ERC) for keeping workers employed despite shutdowns or reductions due to the COVD-19 pandemic. First, the ERC was extended through June 30, 2021, with a maximum credit of $14,000 per worker. Now The American Rescue Plan Act of 2021 (ARPA), extends the credit again, until December 31, 2021, with a maximum credit for the year of $28,000 per worker.

5. Family and medical leave credits: Under the Family First Coronavirus Response Act (FFCRA), an eligible employer is entitled to a tax credit for providing COVID-19-related paid family and medical leaves in 2020. Initially, this credit was extended through March 31, 2021, by the Consolidated Appropriations Act (CAA). ARPA extends it once more, with certain modifications, through September 30, 2021.

6. Dependent care credits: For 2021, ARPA increases the maximum credit for most taxpayers for qualified childcare expenses to $4,000 for one child or $8,000 for two or more children (generally up from $600 and $1,200, respectively). However, these maximum amounts are reduced for an AGI above $125,000. A further phase-out occurs if AGI exceeds $400,000.

7. Student loan debts: Generally, if a loan is forgiven, the forgiveness is treated as a taxable event. The government previously exempted some student loan debts from this rule. Now ARPA creates a broad tax exemption for student loans made, insured or guaranteed by the federal or state governments, as well as private lenders and educational institutions, for 2021 through 2025.

8. Flexible spending accounts: Thanks to other recent legislation, participants in flexible spending accounts (FSAs) may benefit from enhanced rules for carryovers of unused funds or an extended year-end grace period. Another change: ARPA increases the annual contribution limit for dependent care FSAs in 2021 by more than double, from $5,000 to $10,500.

9. Paycheck Protection Program: The new law authorizes additional funding under the Paycheck Protection Program (PPP). This includes liberalized rules for nonprofit organizations, independent contractors, and sole proprietors. As before, PPP loans may be forgiven without tax consequences if certain requirements are met.

10. COBRA assistance: Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), an ex-employee may be able to continue health insurance through the former employer for a specified time by making the premium payments. ARPA provides a 100% COBRA subsidy for most ex-employees through September 30, 2021, without any resulting tax liability. Employers may recover costs through a tax credit.

Reminder: This is only a general overview of ten key tax breaks in the new law. Contact your professional tax advisor for more information.

Connect to Electric Vehicles Credit
Securing tax benefit for purchase

Are you thinking about ditching your current gas-guzzler for a more environmentally friendly alternative? If you buy an electric vehicle this year, you may be in line for a big tax discount. Reason: The tax law allows you to claim a credit of up to $7,500 right off the top of the cost. But this tax break comes with a disclaimer. The credit is subject to a phase-out for certain manufacturers.

Background: The tax credit is available for electric vehicles, including plug-in hybrid vehicles, that meet certain specifications based on energy consumption. (We will leave the technical requirements to the experts.) In any event, the maximum credit cannot exceed $7,500.

You claim the credit in the year in which you purchase the vehicle. For instance, if you acquired a qualified vehicle last year, the credit is claimed on the 2020 tax return you must file by May 17. But first, there are six key requirements that must be met.

1. The vehicle must have at least four wheels manufactured primarily for use on public streets, roads, and highways. So, electric motorcycles are not eligible for the credit, although those vehicles may qualify for a lesser credit.

2. The vehicle is propelled to a significant extent by an electric motor that draws electricity from a battery that has a capacity of at least 4 kilowatt hours (kWh) and is capable of being recharged from an external source of electricity.

3. The vehicle is treated as a motor vehicle for purposes of Title II of the Clean Air Act. This effectively bars certain low-speed motor vehicles from the credit.

4. The vehicle has a gross vehicle weight rating (GVWR) of less than 14,000 pounds.

5. The vehicle is used predominantly in the U.S.

6. You are the original purchaser of the vehicle. The credit cannot be claimed on a resale.

The IRS regularly updates the list of qualified vehicles. In recent months, it has approved credits for vehicles produced by Audi, Ford, Lincoln and Mitsubishi.

But here is the kicker: The credit begins to phase out for a manufacturer's vehicles when it has sold at least 200,000 qualifying vehicles for domestic use. Thus far, two well-known manufacturers—Tesla and GM—have exceeded the 200,000 vehicle threshold and credits are no longer available for electric vehicles produced by those manufacturers. Others will be phased out in the coming years.

Furthermore, the credit is **nonrefundable**. For example, if you owe $5,000 in tax on your 2020 return and you qualify for a $7,500 credit, your credit is limited to $5,000.

Last, but not least: The credit is only available to the owner of the vehicle. In other words, you do not qualify if you lease the vehicle. (The manufacturer offering the lease may factor it into the cost, but it is not required.)

Do you have any more questions? You cannot expect the dealership's personnel to know all of the ins and outs of the electric vehicle credit. Rely on your trusted tax advisor for guidance in this area.

Four Steps in Eldercare Planning
Consider the family implications

Over the course of time, the caretaker roles of parents and children often reverse, especially if one or more parent experiences health problems. For example, an elderly parent may no longer be competent to handle his or her own affairs. This can raise sensitive financial and personal issues within the family.

The optimal approach is to discuss "eldercare planning" frankly and openly with your parents. Include siblings and anyone else who should be involved. Here are four practical suggestions.

1. Move slowly. It is usually not necessary to cover everything in one or two sittings (unless the parties live far apart). In most cases, your relationship will not change overnight, but it will occur gradually.

2. Be gentle. If you hit your parents with a barrage of information, they may be overwhelmed. Instead of opening up, the lines of communication can close. You might start by showing your parents a relevant clipping or post from an outside source. If you give them time to talk with friends, they will find out that there are others in the same position. That may soften their resistance.

3. Show you have your parents' best interests at heart. If they are like most elderly people, they will want to maintain their independence for as long as they can. You may be able to provide some options that allow them to keep some degree of control over their lives and finances.

4. Ask the critical questions before taking action. This may include the following:

- Do you have a will, power of attorney, living will or similar document? Where is it located? Have you prepared a letter of instructions?

- Do you have life insurance, disability income insurance and long-term care insurance policies? Who are the insurers and how much is the coverage?

- Are you covered by a pension plan or other retirement plan? What about traditional and Roth IRAs? Who maintains them and what is the value? Who are the beneficiaries?

- Do you receive Social Security benefits? How much? Are you collecting on a spouse's earnings history?

- Are you receiving income from other sources, such as annuities, stocks and bonds or certificates of deposit (CDs)? What are they and how much?

- What are your real estate investments? Is any property owned as a "life estate" where ownership ends at death?

- Do you have any other assets? What is their value and where are they located? How about bank accounts and safe deposit boxes?

- Have you already transferred some of your assets? Who did you give them to and how much?

Develop a plan that satisfies the main objectives while taking all the factors into account. For example, you may be able to shelter parents from the exorbitant cost of nursing home stays by having them transfer assets to a qualified trust within certain limitations.

Final words: Be aware that the laws can vary widely from state to state. Obtain expert professional assistance.

Facts and Figures
Timely points of particular interest

SBA Disaster Loans—The Small Business Administration (SBA) has announced an extension for repayment of certain SBA disaster loans, including loans under the COVID-19 Economic Injury Disaster Loan (EIDL) program, until 2022. For loans made in 2020, the first payment due date is extended from 12 months to 24 months from the date of the note. The extension for 2021 loans is 18 months from the date of the note. Contact your professional for details about the EIDL program.