

# HARPER | PEARSON

## Tax Newsletter

### **Key Tax Provisions in New Relief Law** **Roundup of significant tax changes**

The new economic relief law passed by Congress at the end of the year—which was signed on December 27—includes a second round of economic stimulus checks, extended unemployment benefits and eviction protections and much more. Following is a brief summary of several key tax provisions in the new law.

**Economic stimulus payments:** Under the new law, qualified individuals are entitled to receive a maximum tax-free payment of \$600 per individual, plus \$600 for each qualified child under age 17, based on information provided on 2019 tax returns. Payments begin to phase out at an adjusted gross income (AGI) of \$75,000 for single filers and \$150,000 for joint filers.

**Charitable donations:** The Coronavirus Aid, Relief, and Economic Security (CARES) Act passed earlier last year authorized an above-the-line deduction for monetary charitable donations made by non-itemizers in 2020. The new law extends this tax break to 2021 and doubles it to \$600 for joint filers.

**Paycheck Protection Program loans:** The new law extends and modifies the Paycheck Protection Program (PPP). As before, loans may be forgiven without tax consequences if certain requirements are met. Furthermore, the new law clarifies that a business may deduct expenses paid with PPP loan proceeds, contrary to prior IRS guidance.

**Medical deductions:** The new law retains the lower medical deduction threshold based on 7.5% of AGI—permanently. The lower threshold, which was reduced by the Tax Cuts and Jobs Act (TCJA) and subsequently extended through 2020, was scheduled to revert to 10% of AGI in 2021.

**Employee retention credit:** Under the CARES Act, an employer could claim an employee retention credit (ERC), up to \$5,000 per employee, for qualified wages paid in 2020. The new law increases the maximum ERC to \$14,000 per employee, among other changes, for wages paid in the first two quarters of 2021.

**Family and medical leave credit:** Another new law enacted last year—the Families First Coronavirus Response Act (FFCRA)—provided employers with a tax credit for family and medical leaves paid in 2020 due to COVID-19. The credit has been modified and extended through March 31, 2021.

**Flexible spending accounts:** Under the new law, you may roll over unused funds in a flexible spending account (FSA) from 2020 to 2021 and from 2021 to 2022. This applies to FSAs used for either health care or dependent care expenses.

**Payroll tax deferral:** If an employer chose this option, the deadline for employee payments of the Social Security tax component of payroll tax for part of 2020 was postponed to April 30, 2021. The new law now permits payments to be made as late as December 31, 2021.

**Business meals:** Previously, deductions for business meals were limited to 50% of the cost. The new law increases the deduction to 100% of the cost for 2021 and 2022.

**Higher education expenses:** The deduction for tuition and fees, which was due to expire after 2020, has been repealed. In addition, the new law adjusts the phaseout ranges for the Lifetime Learning Credit (LLC) to match those for the American Opportunity Tax Credit (AOTC), beginning in 2021.

**Tax extensions:** Finally, the new law extends a number of provisions that were scheduled to expire after 2020, including the Work Opportunity Tax Credit (WOTC), the tax exclusion for mortgage forgiveness and tax incentives for empowerment zones, among others. The extensions for the most common provisions generally last for five years.

This article only summarizes some of the most important tax changes in the new economic relief law. Please contact your professional tax advisor to determine the impact for your family and business.

### **New Year's Resolutions for Your Business Potential ways to improve in 2021**

If you are in the habit of making New Year's Resolutions in your personal life, why not do the same for your small business? This can give you something to shoot for in 2021. Although every situation is different, following are several common themes you might adopt as your own.

- **Set realistic goals for 2021.** It may be acceptable to reach for the stars, but it is usually preferable to establish goals that are attainable. Setting your sights too high can often lead to frustration and disappointment. Be logical about what you hope to accomplish this year.
- **Delegate some of your work.** If you are like many business owners, you have trouble letting go of any responsibilities. This can backfire if you become overburdened. Assign some minor tasks to others and stop sweating the small stuff.
- **Fine-tune your business plan.** Remember the foundation you constructed for 2021 just a short time ago? It may already be showing cracks. Conduct regular reviews to see where you stand and if any modifications are needed. Developing a business plan is more than just a once-a-year event.
- **Continue to network.** Put a new twist on an old-fashioned method of generating more business. By networking with others in your business sector through videoconferencing, you can strengthen existing ties and create new ones that result in referrals. Join online groups reflecting your target audience.
- **Learn a new skill.** Even if you have been running a business for decades, you are not too old to learn some new tricks. Develop and hone a new talent that could be beneficial to your operation (especially if it is one your business is sorely lacking). Similarly, you might uncover better practices and procedures in the process.
- **Prepare for cyber-attacks.** Don't think that your small business is immune from hackers. Virtually every operation is at risk. Be proactive in shoring up your defenses, including the use of firewalls, anti-virus programs and email filters. Educate your employees to identify "red flags" that warrant attention.
- **Upgrade the equipment.** Have you been "making do" with equipment that is old or even obsolete? Although it will cost you initially, acquire equipment that can better accommodate your business. This is likely to be more cost-efficient over the long run.

- **Give back to the community.** Look into ways you can help out in your area. For example, you might serve on a local committee, act as a mentor, volunteer your services or make donations. Besides the personal rewards, you will increase your visibility and create goodwill for your business.
- **Admit to your mistakes.** Did you make a decision or take an action in recent years that has come back to haunt you? Rather than sticking to your guns, it may be time to concede the error of your ways and adopt a different approach. There is nothing worse than throwing good money after bad simply because of pride.

Finally, you might make a resolution that directly affects you personally. Small business owners may be consumed with the operation at the expense of everything else. Take time to relax and enjoy a hobby or other activity that relieves stress. Resolve to find the proper balance in 2021 for your situation.

### **Can You Claim a Recovery Rebate Credit? IRS issues guidance on EIP shortages**

The massive law enacted by Congress last year in response to the COVID-19 outbreak—the Coronavirus Aid, Relief, and Economic Security (CARES) Act—authorized the distribution of **Economic Impact Payments (EIPs)** to qualified individuals. (Late in December, Congress authorized another round of payments.) But some eligible taxpayers were shorted or did not receive any payment at all.

Fortunately, you still have some recourse. If you qualify, you can claim a “recovery rebate credit” on your 2020 tax return. Generally, this credit will increase the amount of your tax refund or lower the amount of the tax you owe.

**Background:** Under the CARES Act, millions of Americans received EIPs in 2020. The maximum EIP was \$1,200 for single filers and \$2,400 for joint filers if both spouses were eligible. In addition, you were entitled to receive an extra \$500 payment for each qualified child under the age of 17. Advance payments were made by direct deposit or check.

But not everyone received the full amount that they were supposed to collect. For example, the IRS may not have had all the information needed to provide the maximum economic stimulus payment or it may have failed to add \$500 for a child born in 2020.

The IRS recently posted guidance reminding taxpayers that you may be able to claim the recovery rebate credit if—

- You are eligible but did not receive an EIP in 2020; or
- Your EIP was less than \$1,200 (\$2,400 for joint filers) plus \$500 for each qualifying child you had in 2020.

To be eligible for the recovery rebate credit, you must have been a U.S. citizen or U.S. resident alien in 2020, you cannot have been a dependent of another taxpayer for the 2020 tax year and you must have a Social Security number (SSN) valid for employment issued before the due date of your 2020 tax return (including extensions).

You can take the recovery rebate credit for any recovery rebate amount that is more than the EIP you received by completing the required information on your 2020 tax return.

As was the case with the first round of EIPs handed out in 2020, the maximum recovery rebate credit is \$2,400 if you file a joint return or \$1,200 for all other eligible individuals. Those with qualified children will receive up to an additional \$500 per child. The recovery rebate amount is phased out if your adjusted gross income (AGI) for 2020 exceeds \$75,000 for single filers or \$150,000 for joint filers.

Because that EIP received in 2020 was an advance payment, the IRS has included a worksheet in the **tax return instructions** to determine the amount of any recovery rebate amount. It can be tricky, so contact your professional tax advisor for assistance.

**Reminder:** Don't procrastinate. This is especially true if you expect to receive a refund on your 2020 return.

### **Speed Up Corporate Tax Refund**

If your C corporation overpaid its estimated tax in 2020 due to the pandemic or some other reason, you may be in line for some quick tax relief.

When you file Form 4466 with the IRS, you will receive a faster-than-usual refund. It may arrive within a matter of weeks. The fast corporate refund is available if—

- The overpayment is at least 10% of the estimated 2020 tax liability.
- The overpayment is at least \$500.

The sooner you file for the refund, the better. Contact your professional tax advisor for more details.

### **Facts and Figures**

#### **Timely points of particular interest**

**Standard Mileage Rates**—The IRS has announced the standard mileage rates that taxpayers may choose to use to deduct expenses in 2021. If you use a vehicle for business driving, the flat rate is 56 cents per mile, down from 57.5 cents in 2020. For travel for medical reasons (or moving by military personnel), the rate for 2021 is 16 cents per mile, down from 17 cents. Note: The rate for charitable driving, which is set by Congress, remains at 14 cents per mile.

**New Tax Form**—Your business may be required to file a new tax information form this year. Beginning with payments for the 2020 tax year, you must report compensation of more than \$600 paid to nonemployees like independent contractors on **Form 1099-NEC**. Previously, Form 1099-MISC was used for this purpose. The new Forms 1099-NEC must be sent to both the IRS and recipients by February 1 2021.