Morrow & Co. LLC
CERTIFIED PUBLIC ACCOUNTANTS

January 2021

COVID Relief Legislation Impact on 2020 Taxes for Individuals and Businesses

On December 27, 2020 the Consolidated Appropriations Act, 2021 (CAA) was signed into law by President Trump. The CAA will fund the government through September 30, 2021 and implements numerous provisions to provide relief to individuals and businesses struggling due to COVID-19. The law also extended, changed, or eliminated certain tax provisions regarding the 2020 tax season and future tax years. Earlier in 2020, the Families First Coronavirus Response Act (FFCRA) and Coronavirus Aid, Relief, and Economic Security (CARES) Act included numerous provisions that will affect the 2020 filing season and beyond. This newsletter provides a brief summary of a few key tax implications with an emphasis on the recent changes implemented by the CAA.

Key 2020 Income Tax Items Affecting Individuals Including COVID Related Provisions

- **Additional 2020 Recovery Rebates for Individuals**. The additional recovery rebate will be $600 for eligible individuals or $1,200 for eligible individuals filing a joint tax return. A $600 credit is also available for each qualifying child. The child must be under 17 years of age to qualify for the $600 credit and meet other requirements. The amount of the recovery rebate credit will start to phase-out when a taxpayer's adjusted gross income exceeds $150,000 for joint return filers, $112,500 for head of household, or $75,000 for other taxpayers. Advanced payment of the credit will be based upon 2019 income levels and will be reconciled on the 2020 tax return along with the prior stimulus payment from earlier in 2020. The CAA instructs the Department of Treasury to pay the advanced refunds as soon as possible. If a taxpayer receives a larger payment than he or she would be entitled to on the 2020 return, there will be no requirement to repay the credit.
- **Elimination of Deduction for Qualified Tuition and Related Expenses**. The above the line deduction for qualified tuition and related expenses was repealed for tax years beginning after December 31, 2020.

2020 Review of Retirement Plan Changes

Before and during the COVID-19 pandemic, there have been multiple law changes that have impacted retirement plans and benefits. The below summary provides a list of some of these changes.

Penalty free withdrawal of up to $100,000 in 2020 for distributions related to COVID.

Increase in potential plan loan amounts and time period for repayments.

No required minimum distributions for the 2020 tax year from IRAs and defined contribution plans.

Required minimum distributions now start at age 72.

The age limitation is removed regarding traditional IRA contributions. Must still have earned income.

- **Increased Income Limitation for Lifetime Learning Credit**. For tax years beginning after December 31, 2020, the income limitation regarding the Lifetime Learning Credit will be the same limitation applied to the American Opportunity Tax Credit.
- **Guidance Clarifying the Education Expense Tax Deduction**. The CAA requires the Department of Treasury to clarify that personal protective equipment, disinfectant, and other supplies used to prevent the spread of COVID-19 should be qualified expenses for the above the line $250 educator deduction.
- **Reduction in Medical Expense Deduction Floor**. The CAA permanently reduces the medical expense deduction floor from 10% of adjusted gross income to 7.5%.
- **Charitable Contributions by Non-Itemizers**. The CAA extends and modifies the charitable deduction for non-itemizers. Married couples filing jointly that do not itemize may now deduct up to $600 and non-itemizer individuals may deduct up to $300 in qualified charitable donations through the 2021 tax year. Taxpayers that overstate cash contributions will be subject to a 50% penalty rather than the usual 20% penalty.
- **Modified Limits on Charitable Contributions**. For cash contributions made in 2020 and 2021, the adjusted gross income limitation is increased to 100% for itemizers.
- **Treating Mortgage Insurance as Qualified Residence Interest**. The CAA extended the treatment of mortgage insurance as deductible residence interest through the 2021 tax year. This deduction is subject to a phase-out based upon adjusted gross income.
- **Exclusion from Gross Income of Qualified Principal Residence Indebtedness**. The CAA extended the exclusion from gross income of qualified principal residence indebtedness for discharges occurring prior to January 1, 2026. It lowers the amount that can be discharged to $750,000 or to $375,000 for married individuals filing separately.
- **Credit for Nonbusiness Energy Property**. The CAA extends the credit for nonbusiness energy property to apply to property placed in service by December 31, 2021.
- **Extension of Residential Energy Efficient Property Credit**. The CAA extends the credit for residential energy property such as solar electric property, solar water heating property, and geothermal heat pump property. The CAA extends the phasedown of the credit with 26% of the costs qualifying for property placed in service after December 31, 2020 and before January 1, 2023. A 22% rate will apply to property placed in service after December 31, 2022 and before January 1, 2024. The credit is set to expire after the 2023 tax year.
- **Temporary Special Rules for Health and Dependent Care Flexible Spending Arrangements**. Taxpayers may rollover unused amounts in flexible spending accounts from 2020 to 2021 and from 2021 to 2022. The provision also permits employers to allow employees to make a 2021 midyear change in contribution amounts.
- **Temporary Special Rules for Determination of Earned Income**. For purposes of the Earned Income Credit and the Additional Child Tax Credit, a taxpayer may elect to apply earned income from the preceding tax year if it is greater than the taxpayer's earned income for 2020. This applies only to the 2020 tax year.
- **Minimum Age for Distributions During Working Retirement**. The CAA modifies prior law to allow certain qualified pensions to make distributions to workers who are 59 and ½ and still working (55 years of age for certain construction and building trade workers).

Key 2020 Income Tax Items Affecting Businesses Including COVID Related Provisions

- **Deductibility of Paycheck Protection Program (PPP) Funded Expenses**. Under the CARES Act, PPP loan forgiveness was excluded from gross income, but it did not specifically address whether the related expenses paid for with the forgiven proceeds would be deductible. The CAA states that no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied by reason of a forgiven PPP loan. This overrides IRS Notice 2020-32 and Revenue Ruling 2020-27, which disallowed a deduction for expenses paid with PPP loan proceeds with a reasonable expectation of forgiveness. The CAA also states that loan proceeds excluded from income are treated as tax-exempt income for purposes of pass-through entity basis adjustments.
- **Clarification of Tax Treatment of Certain Loan Forgiveness**. The CAA provides that Economic Injury Disaster Assistance (EIDL) advances provided as emergency grants under the CARES Act are excluded from taxable income and the related expenses will remain deductible. The CAA provides similar tax treatment regarding loan subsidy payments made to shuttered venue operators under the CARES Act.
- **Changes to Existing PPP Rules**. The CAA expands the types of borrowers that are eligible for PPP loans. Certain 501(c)(6) nonprofit trade organizations or business leagues, certain destination marketing organizations, and certain media companies are now eligible. The CARES Act allowed borrowers to spend PPP proceeds on payroll costs as well as non-payroll costs such as rent, business mortgage interest, and utilities. The CAA also expands the allowable use of loan proceeds to items such as certain business software or cloud computing services, certain property damage not covered by insurance, and certain COVID related worker protection expenditures.
- **PPP Second Draw Loans**. The CAA establishes a PPP Second Draw Loan program that generally applies to businesses with 300 or fewer employees. To qualify, the business must have gross receipts during any quarter in 2020 that were reduced by at least 25% from the gross receipts of the business during the same quarter in 2019. To be eligible for a second draw loan, the taxpayer must have received a PPP loan in 2020 and used all of the proceeds of that loan for permitted purposes. Eligible recipients will be able to receive up to 2.5 times their 2019 average monthly payroll or 2.5 times their average monthly payroll from the one-year period on which the loan is made. Businesses in the lodging or food service industries will be eligible for a loan 3.5 times the average monthly payroll. To receive full forgiveness of the loan, the borrower will be required to spend at least 60% of the loan proceeds on payroll costs. The additional eligible expenses listed in the above paragraph will qualify as eligible non-payroll costs.
- **Increased Ability for PPP Borrowers to Request an Increase in Loan Amount**. The CAA allows borrowers that have not received forgiveness to request an increase in their loan amount if they returned all or part of a PPP loan or did not take the full amount of a PPP loan to which they were entitled. The provision allows borrowers who received loans prior to the issuance of more favorable regulations to take advantage of the new provisions. Farmers and ranchers who report their income on a Schedule F may be able to request an additional amount under an existing PPP loan if they have not received forgiveness before the enactment date of the CAA.

- **Simplified Forgiveness Application**. The CAA provides a simplified forgiveness procedure for PPP loans up to $150,000. Documentation would not be required at the time of application for forgiveness, but lenders may request documentation to satisfy certain regulatory requirements.
- **Election to Waive Application of Certain Modifications to Farming Losses**. The Tax Cuts and Jobs Act eliminated carrybacks for net operating losses regarding businesses other than farm operations. Farm businesses were allowed a two-year carryback instead of the prior 5-year farm carryback. The CARES Act implemented a five-year carryback rule that applies to all businesses including farming operations. However, the CARES Act did not provide farmers with the ability to revoke prior elections. The CAA allows farmers to make an election to disregard the CARES Act changes for tax years 2018, 2019, or 2020 and continue with the two-year carryback. The CAA also allows farmers to revoke a prior election to waive a carryback for the 2018 and 2019 tax years.
- **Extension of Credits for Paid Sick and Family Leave**. The CAA extends the tax credits available under the FFCRA through March 31, 2021. Although the credits will be allowed to employers that pay sick and family leave after December 31, 2020, the employer is not required to do so. The CAA does not provide additional credits for each employee once the employer has been provided with a credit of two weeks for sick leave and ten weeks for family leave per employee.
- **Repeal of EIDL Advance Deductions**. The CAA repeals the provision in the CARES Act requiring the Small Business Administration to reduce the borrower's PPP forgiveness by the amount of an EIDL advance.
- **Temporary Allowance of Full Deduction for Business Meals**. After December 31, 2020, a 100% deduction is allowed for business meals in which food and beverages are provided by a restaurant. This provision will expire on January 1, 2023.

2020 Kansas Tax

- The graduated individual tax rates remain the same as 2019: 3.1%, 5.25%, and 5.7%
- The itemized deductions for medical expenses, qualified residence interest, and taxes on real and personal property are increased to 100% of the federal amount. A taxpayer must itemize on the federal return to itemize on the Kansas return.
- 100% of the federal amount of qualified charitable contributions are allowed as an itemized deduction.
- The limitation on taxes deducted on the federal Schedule A will not affect the real and personal property deduction allowed on the Kansas return.
- The credit for child and dependent care is 25% of the Federal Child and Dependent Care Credit for individual filers regarding the 2020 tax year.
- The Kansas Exemption Allowance remains at $2,250 for each applicable person claimed on the return.

2020 / 2021 FEDERAL TAX INFORMATION

	2020	2021
Standard Deduction Married Joint	$24,800	$25,100
Standard Deduction Single	$12,400	$12,550
Standard Deduction Head of Household	$18,650	$18,800
Standard Deduction Married Filing Sep.	$12,400	$12,550
Child Tax Credit	$2,000	$2,000
Other Dependent Credit	$500	$500
Kiddie Tax Unearned Income Threshold	$2,200	$2,200
Maximum Earnings Subject to SS Tax	$137,700	$142,800
Standard Mileage Rate - Business	$ .575	$ .56
Standard Mileage Rate – Charity	$ .14	$ .14
Standard Mileage Rate – Medical	$ .17	$ .16
HSA – Self Only	$3,550	$3,600
HSA – Family	$7,100	$7,200
HSA – Additional - Age 55 and older	$1,000	$1,000
IRA Contribution Limits – Under 50	$6,000	$6,000
IRA Contribution Limits – 50 or older	$7,000	$7,000
SIMPLE Plan Limits – Under 50	$13,500	$13,500
SIMPLE Plan Limits – 50 or older	$16.500	$16,500
401(k), 403(b), 457 Limits – Under 50	$19,500	$19,500
401(k), 403(b), 457 Limits – 50 or older	$26,000	$26,000
Profit Sharing / SEP Contribution Limits	$57,000	$58,000
Estate and Gift Tax Exclusion	$11,580,000	$11,700,000
Gift Tax Annual Exclusion	$15,000	$15,000

Employee Benefit Plan
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Memberships
- American Institute of Certified Public Accountants
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- AICPA Employee Benefit Plan Audit Quality Center
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