Pandemic Relief

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NEWDAY ADVISORY
VENTURE FINANCIAL GROUP

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The following is a brief summary of key tax provisions included in the Consolidated Appropriations Act, 2021, signed into law on December 27, 2020.

Charitable Contributions

- The CARES Act permits taxpayers who claim the standard deduction a deduction of up to $300 for qualified charitable contributions made during 2020. The new law extended this provision for 2021 with a maximum deduction of $300 ($600 for Married Filing Jointly).
- The increased charitable contribution deduction limit of 100% (from 60%) is extended through 2021.

Tax Provisions Made Permanent

- The threshold for deducting medical expenses as an itemized deduction is 7.5% of AGI.
- The tuition and fees deduction is no longer available for expenses paid after December 31, 2020.
- The Lifetime Learning Credit phaseout range is equal to the American Opportunity Credit effective for tax years beginning after December 31, 2020. The modified AGI limitation for both credits is $80,000 – $90,000 ($160,000 – $180,000 MFJ).
- The deduction for energy efficient commercial building property.
- The gross income exclusion for certain benefits provided to volunteer firefighters and emergency medical responders.

Tax Provisions Extended

A number of provisions that were set to expire at the end of 2020 were extended. These provisions include:

- Mortgage insurance premium deduction (2021).
- Nonbusiness Energy Property Credit (2021).
- Residential Energy Efficient Credit (2023).
- Exclusion from gross income of cancellation of qualified principal residence indebtedness (2025).
- Educational assistance program to include certain employer payments of employee student loans (2025).

Earned Income

For purposes of determining earned income for the 2020 Earned Income Credit and Additional Child Tax Credit, you may elect to use your 2019 earned income if 2020 earned income is less than 2019.

Business Meal Expense Deduction

Generally, the deduction for business meals is limited to 50% of the cost of the meal. For the period January 1, 2021 through December 31, 2022, the limitation is increased to 100% of the cost of food or beverages provided by a restaurant.

Paycheck Protection Program (PPP)

The new law extends the PPP to March 31, 2021 with additional funding and makes several modifications to the PPP provisions.

- The list of expenses that are allowable uses of PPP funds for loan forgiveness was expanded. Expenses added to the 40% category for non-payroll costs include covered operations expenditures, covered property damage costs, covered supplier costs, and covered worker protection expenditures.

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- Allowable payroll costs include group life, disability, vision, and dental insurance benefits.
- A "PPP second draw" loan was created for smaller, harder-hit businesses, with a maximum loan amount of $2 million. Eligible entities must not have more than 300 employees, have used or will use the full amount of the first PPP loan, and demonstrate at least a 25% reduction in gross receipts in the 1st, 2nd or 3rd quarter of 2020 relative to the same quarter in 2019.

PPP — Tax Treatment of Expenses

PPP loans that are forgiven are excluded from taxable income. Expenses that are otherwise tax deductible and paid for with PPP loan proceeds are allowed as a deduction on your tax return.

The new law clarifies that gross income does not include any amount that would otherwise arise from the forgiveness of a PPP loan. The new law also clarifies that no deduction shall be denied, no tax attribute reduced, and no basis increase shall be denied by reason of the exclusion of gross income under the PPP loan program.

Payroll Tax Credits

- The Paid Sick and Family Leave Credit was extended for wages paid through March 31, 2021.
- The Employee Retention Credit was extended for wages paid through June 30, 2021. Changes to the Employee Retention Credit, effective for calendar quarters beginning after December 31, 2020, include the following.
  - The credit limit was increased from 50% to 70%.
  - The $10,000 limit applies on a per calendar quarter per employee basis, rather than a limit for all calendar quarters.
  - A significant decline in gross receipts means less than 80% of gross receipts for the same calendar quarter in 2019.
  - You may elect to use the immediately preceding calendar quarter instead of the corresponding calendar quarter in calendar year 2019 for purposes of determining a significant decline in gross receipts.
  - The 100 employee threshold is increased to 500 employees.

Emergency Financial Aid Grants

Qualified emergency financial aid grants made after March 26, 2020 to college and university students are not included in the gross income of a student receiving the grant. The grant also does not reduce the amount of qualified tuition and related expenses for purposes of the education credits.

Tax Treatment of Loan Forgiveness

The new law clarifies that gross income does not include forgiveness of certain loans, emergency EIDL grants, and certain loan repayment assistance, as provided by the CARES Act. Deductions are allowed for otherwise deductible expenses paid with the amount not included in income, and that tax basis and other attributes will not be reduced as a result of the exclusion from income. This provision is effective for tax years ending after March 27, 2020. A similar treatment applies for Targeted EIDL advances and Grants for Shuttered Venue Operators, effective for tax years ending after December 27, 2020.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.