



2020 Individual & Business Tax Updates

January 12, 2021

AGENDA

Individual Tax

- Virtual currency question
- Income
- Adjustments to income
- Itemized deductions
- Tax credits
- SECURE Act
- Income tax bracket management
- MA tax updates

Business Tax

- SECURE Act
- CARES Act – PPP
- CARES Act – Others
- Consolidated Appropriations Act (CAA) of 2021
- Other business tax updates
- Biden tax proposal – Individual and business

INDIVIDUAL TAX - VIRTUAL CURRENCY

Form 1040		Department of the Treasury—Internal Revenue Service (99)		2020	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
Filing Status <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately (MFS) <input type="checkbox"/> Head of household (HOH) <input type="checkbox"/> Qualifying widow(er) (QW)						
Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent ▶						
Your first name and middle initial			Last name		Your social security number	
If joint return, spouse's first name and middle initial			Last name		Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.					Apt. no.	
City, town, or post office. If you have a foreign address, also complete spaces below.				State	ZIP code	
Foreign country name			Foreign province/state/county		Foreign postal code	
Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse						
At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? <input type="checkbox"/> Yes <input type="checkbox"/> No						

- Now it is on the top part of Form 1040, Page 1. For 2019, it was on Schedule 1.
- <https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions>
 - If you receive virtual currency for providing services, you must recognize the FMV of virtual currency as ordinary income.
 - If you receive a new cryptocurrency from an airdrop following a hard fork, you will have ordinary income equal to its FMV.
- FinCEN Notice 2020-2 (1/4/2021): Currently, FBAR regulations do not define a foreign account holding virtual currency as a type of reportable account. However, FinCEN announced that it intends to propose to amend the regulations to include virtual currency as a type of reportable account.

INDIVIDUAL TAX - INCOME

- CARES Act: RMD waiver for 2020 only
 - Also applied to those who turned 70½ in 2019 and chose to take their first RMD by 4/1/2020.
 - IRS Notice 2020-51: Those who already took RMDs were allowed to roll over into the IRA / 401k plans by 8/31/2020.
 - To check if any 2020 distributions / rollovers are correctly reported on Form 1099-R and Form 5498.
- QCD is still available up to \$100,000 per eligible person.
- CARES Act: Up to \$100,000 coronavirus-related distributions
 - Report the taxable amount of distribution as income.
 - Exempted from the 20% mandatory withholding tax.
 - An additional 10% tax on early distributions is waived.
 - Can include in taxable income in equal installments over a 3-year period.
 - Can put back into retirement accounts over a 3-year period. These will be treated as trustee-to-trustee transfers.
 - To attach Form 8915-E to Form 1040.

INDIVIDUAL TAX - ADJUSTMENTS TO INCOME OR DEDUCTIONS (1/2)

- Excess deductions of terminated estate or trust
 - Under TCJA, §67(g) was added to prohibit individuals, estates, and non-grantor trusts from claiming miscellaneous itemized deductions for any taxable year beginning after 12/31/2017 and before 1/1/2026.
 - IRS final regulations (10/19/2020): Each excess deduction retains its separate character in the hands of the beneficiary as either an amount allowed in arriving at AGI, a non-miscellaneous itemized deduction, or a miscellaneous itemized deduction. Can apply to 2018 and 2019 tax years.
 - Certain deductions of terminated estate or non-grantor trust are not miscellaneous itemized deductions, such as costs paid or incurred in connection with the administration of an estate or non-grantor trust that would not have been incurred if the property were not held in the estate or trust. §67(e)
- Max \$4,000 tuition and fees deduction.
 - Deduction up to \$4,000.
 - If a married couple, must file a joint return.
 - Completely phase out if MAGI > \$80K (single) or \$160K (MFJ).
 - CAA: Permanently repealed, effective after 12/31/2020.

INDIVIDUAL TAX - ADJUSTMENTS TO INCOME OR DEDUCTIONS (2/2)

- Cash charitable deduction for non-itemizers:
 - CARES Act: \$300 per eligible individual who does not elect to itemize deduction
 - IRS draft instructions for 2020 Form 1040: \$300 per return (or \$150 per MFS)
 - CAA: \$300 (single) or \$600 (MFJ) for 2021
- 20% Qualified Business Income Deduction (QBID)
 - Reduction phase-in range: If taxable income is in the range of \$163,300 - \$213,300 (single) or \$326,600 - \$426,600 (MFJ).
 - Non-SSTB: If taxable income exceeds \$213,300 (single) or \$426,600 (MFJ), then QBID is limited to the lesser of 20% QBI or the greater of 50% of wages or 25% of wages plus 2.5% of UBIA.
 - SSTB: No QBID once taxable income exceeds \$213,300 (single) or \$426,600 (MFJ)
- 20% of qualified REIT dividends and publicly traded partnership income
 - Combined with QBID, subject to income limitation to 20% of taxable income minus net capital gain

INDIVIDUAL TAX - ITEMIZED DEDUCTIONS

- Medical expenses over the 7.5% floor will be deductible.
 - CAA: The 7.5% floor has been permanently extended.
- SALT deduction is still capped at \$10,000 under TCJA.
- Home mortgage interest deduction under TCJA
 - Loan taken on or before 12/15/2017: Interest on up to \$1 million.
 - Loan taken after 12/15/2017: Interest on up to \$750,000.
 - The loan proceeds must be used to buy, build, or substantially improve the home securing the loan.
- Investment interest expense paid on a loan that is allocable to property held for investment.
 - Interest deduction is limited to net investment income.
- Charitable contributions
 - CARES Act: For 2020, cash donations to public charities are deductible up to 100% of AGI by election, instead of being subject to 60% of AGI under TCJA. Note: Cash contributions to DAF are still subject to 60% limitation.
 - CAA: Extended through 2021 tax year.

INDIVIDUAL TAX CREDITS – EDUCATION CREDIT

- American opportunity tax credit
 - Max \$2,500 per eligible student, per year only for the first 4 years at an eligible college or vocational school
 - Partially refundable up to 40% or \$1,000
 - Phase out completely if MAGI > \$90K (single) or \$180K (MFJ)
- Lifetime learning credit
 - Max \$2,000 per tax return, per year
 - Available for all years of postsecondary education and for courses to acquire or improve job skills.
 - Phase out completely if MAGI > \$69K for a single filer or \$138K for a joint filer.
 - CAA: Increase the LLC phase-out range to that for AOTC, starting from 2021.
- Must receive a Form 1098-T to be eligible for these credits.
- If a married couple, must file MFJ

INDIVIDUAL TAX CREDITS – ELECTRIC VEHICLES

- Qualified plug-in electric drive motor vehicle credit
 - Max \$7,500 credit
 - Begins to phase out for a manufacturer's vehicles when at least 200,000 qualifying vehicles manufactured by that manufacturer have been sold for use in the United States on a cumulative basis for sales after December 31, 2009.
 - Tesla: No credit available for the Teslas bought after 12/31/2019.
 - GM: Qualify for 25% credit (\$1,875) if bought from 10/1/2019 through 3/31/2020.
 - <https://www.irs.gov/businesses/irc-30d-new-qualified-plug-in-electric-drive-motor-vehicle-credit>
- Qualified two-wheeled electric drive vehicle credit
 - Credit equal to 10% of the vehicle's cost or, if less, \$2,500.
 - Further Consolidated Appropriations Act of 2020 (FCAA): Retroactively applied the credit to tax years beginning 2018, and extended the credit through 2020.

INDIVIDUAL TAX CREDITS – OTHERS

- Residential energy efficient property credit
 - Qualify for the property that is installed on a dwelling unit owned and used as a residence by the taxpayer.
 - The credit reduces the taxpayer's basis in the property
 - 26% of the cost of eligible property placed in service in 2020
 - 22% of the cost of eligible property placed in service in 2021
 - Fuel cell property: \$500 credit limit for each 0.5 kilowatt of capacity for each year and applicable to the taxpayer's primary residence only.
- Recovery rebate credit (Form 1040, Page 2, Line 30)
 - 1st round EIP - \$1,200 per person plus \$500 per qualifying child
 - 2nd round EIP - \$600 per person plus \$600 per qualifying child
 - The EIPs are advance payments of the special 2020 recovery rebate credit, and to be reconciled against the 2020 recovery rebate credit.
 - If EIP > recovery rebate credit, generally no repayment is required.

INDIVIDUAL TAX - SECURE ACT (1/3)

- Major changes to the Required Minimum Distribution (RMD) rules.
- The required beginning age for taking RMDs rises from 70½ to 72.
 - This change applies to an account owner who reaches age 70 ½ in 2020 or later.
 - The first RMD must be made no later than April 1 of the following year after the account owner attains 72.
- New 10-year payout period: Designated beneficiaries who inherited IRAs and qualified retirement accounts must withdraw the entire balance of the inherited accounts within 10 years following the participant's death.
 - Exceptions: Eligible designated beneficiaries (EDBs) are allowed to stretch RMDs over the EDB's lifetime.
 - EDBs: The participant's surviving spouse, disabled or chronically ill individuals, minor children of the participant until they reach the age of majority, and beneficiaries who are not more than 10 years younger than the participant.

INDIVIDUAL TAX - SECURE ACT (2/3)

- Allows owners of traditional IRAs to make contributions past the age of 70½ starting in 2020 if eligible to do so.
 - Annual \$100,000 QCD limit is reduced by the aggregate amount of deductible IRA contributions made for prior tax years under the SECURE Act.
- 529 plan distributions
 - Up to \$10,000 in total can be used to repay the beneficiary's student loans. Plus, up to another \$10,000 each can be used to repay student loans held by the beneficiary's siblings.
 - 529 funds to be used to pay for apprenticeships, which typically combine on-the-job training with classroom instruction, often at a community college. To qualify, the apprenticeship must be registered with the federal Labor Department.
- Fellowships, stipends or similar payments to graduate or post-doctoral students are treated as compensation for purposes of making IRA contributions.

INDIVIDUAL TAX - SECURE ACT (3/3)

- Can take up to \$5,000 (for each spouse) of retirement plan distributions for expenses related to the birth or adoption of a child without 10% early withdrawal penalty.
- Kiddie tax: Repeals the TCJA rules which required to be taxed at trust tax rates and reverts back to the pre-TCJA rule that applies parent's marginal tax rates to the unearned income above the threshold.
- Late filing penalty if not filed within 60 days of the prescribed filing deadline (including extensions): The minimum penalty is the lesser of \$435 or 100% of the tax required to be shown on the tax return

INDIVIDUAL TAX BRACKETS - 2020

Single filers					
Ordinary Taxable Income		Q.Div & LT Cap Gains		Non-SSTB QBI Deduction	
Up to	Rate	Up to	Rate	Up to	Rate
\$ 9,875	10%				
\$ 40,125	12%	\$ 40,000	0%		
\$ 85,525	22%				
\$ 163,300	24%			\$ 163,300	20%
\$ 207,350	32%			\$ 213,300	Partial
\$ 518,400	35%	\$ 441,450	15%	Over \$213,300	Limited
Over \$518,400	37%	Over \$441,450	20%		

INDIVIDUAL TAX BRACKETS - 2020

Married couples filing jointly					
Ordinary Taxable Income		Q.Div & LT Cap Gains		Non-SSTB QBI Deduction	
Up to	Rate	Up to	Rate	Up to	Rate
\$ 19,750	10%				
\$ 80,250	12%	\$ 80,000	0%		
\$ 171,050	22%				
\$ 326,600	24%			\$ 326,600	20%
\$ 414,700	32%			\$ 426,600	Partial
\$ 622,050	35%	\$ 496,600	15%	Over \$426,600	Limited
Over \$622,050	37%	Over \$496,600	20%		

TRUST & ESTATE TAX BRACKETS - 2020

Trusts & Estates			
Ordinary Taxable Income		Q.Div & LT Cap Gains	
Up to	Rate	Up to	Rate
\$ 2,600	10%	\$ 2,650	0%
\$ 9,450	24%		
\$ 12,950	35%	\$ 13,150	15%
Over \$12,950	37%	Over \$13,150	20%

- QBI deduction is available at the individual beneficiary level, except for 20% deduction of REIT and PTP net gain.

MA INDIVIDUAL TAX UPDATES

- Tax rate 5%, except for 12% for certain capital gains
- Employee working remotely due to the COVID-19 pandemic
 - MA non-residents: If they generally perform services in MA but for a pandemic-related circumstance, their compensation will continue to be treated as MA source income subject to MA personal income tax.
 - MA residents: If they, immediately prior to the MA COVID-19 state of emergency, were employees engaged in performing services from a location outside of MA and began performing such services in MA due to their employing state's COVID-19 state of emergency, they will be eligible to claim a credit for taxes paid to that other state, to the extent generally provided under MA law.
- CARES Act: Qualified education loan payments made by an employer are excludible in the employee's gross income. MA does not conform to this income exclusion.
- Forgiven PPP loan is included in gross income for businesses that are taxed through the personal income tax.
- MA charitable contribution deduction: Delayed the reinstatement which was previously scheduled to be restored in 2021.

BUSINESS TAX - SECURE ACT

- Credit for startup costs for retirement plans
 - Credit amounts to 50% of qualified startup costs up to the greater of:
 - \$500, or
 - Lesser of \$250 times number of non-highly compensated employees eligible to participate in plan or \$5,000
- Credit to incentivize small employers to use an automatic enrollment plan
 - Credit is up to \$500 per year for up to 3 years
 - Can be claimed in addition to the startup credit
- Form 8881 Credit for Small Employer Pension Plan Startup Costs and Auto-Enrollment

BUSINESS TAX – CARES ACT (1/4)

- Provided \$349 billion of Paycheck Protection Program (PPP) loan funds to support small businesses impacted by COVID-19.
- PPP under CARES Act closed on 8/8/2020
- Eligible expenses include payroll and payroll-related costs, interest on mortgage payments, rent, utilities, and paid sick or medical leave incurred during the loan covered period (either 8 weeks or 24 weeks).
- PPP loan forgiveness will be excluded in federal gross income.
 - Owners of pass-through entities subject to MA personal income tax: MA does not conform to this deduction. So, the PPP loan forgiven is included in gross income for MA tax purposes.
- Congress declared that forgiveness would NOT create taxable income but then the IRS issued Notice 2020-32 denying deduction of business expenses paid by the proceeds of PPP loan forgiven.

BUSINESS TAX – CARES ACT (2/4)

- Economic Injury Disaster Loans (EIDL) Advance
 - Emergency grant program for small businesses for \$1,000 per employee or up to max \$10,000 per borrower.
 - EIDL advance received would reduce PPP loan forgiveness, essentially requiring the advance to be repaid.
 - CAA Act: EIDL will have no impact on PPP loan forgiveness. So, the previous EIDL borrowers may amend their application and request the return of EIDL loan repayment.
- Employee Retention Credit (ERC)
 - Refundable payroll tax credit equal to 50% of certain qualified wages (including certain health plan expenses) of max \$10,000 paid to its employees during 3/13/2020 – 12/31/2020 period.
 - Business was shut per government order, or gross receipts for any quarter in 2020 was less than 50% of what they were in a similar quarter in 2019.
 - The credit can be used to offset all federal payroll taxes, including federal withholding tax, and the employer's and employee's share of social security tax and Medicare, but not FUTA.
 - File Form 7200 – Advance of Employer Credits due to COVID-19.

BUSINESS TAX - CARES ACT (3/4)

- Suspended excess business loss deduction limitation (§461(l)) on individual returns for 2018 through 2020.
 - TCJA limits the amount of trade or business losses up to \$500,000 for joint filers and \$250,000 for other filers, with any excess carried forward.
- Allowed 100% absorption of NOL for tax years 2018 through 2020.
- 5-year carryback: NOLs arising in tax years 2018 through 2020 have a five-year carryback period and an unlimited carryforward period.
 - For NOL arising in 2018 or 2019: A separate election to waive 5-year carryback must be made to the tax return for the first taxable year ending after 3/27/2020.
- Qualified improvement property (QIP)
 - CARES Act assigns a 15-year depreciable life under MACRS and a 20-year depreciable life under ADS to QIP placed in service after 12/31/2017.

BUSINESS TAX – CARES ACT (4/4)

- Business interest expense deduction limitation - §163(j)
 - Increased the limitation from 30% to 50% of adjusted business income for 2019 and 2020 tax years and allows taxpayers to elect to use 2019 adjusted taxable income in calculating the limitation for 2020 tax year.
- Charitable contribution deductions for C-corp: Increased the limitation from 10% to 25% of the taxable income for qualified cash contributions made in 2020. Excess can be carried forward 5 years.
 - Limitation for donations of food inventory: Goes up from 15% to 25% of the C-corporation's taxable income or the aggregate net income from all other trades or businesses.
 - CAA: Extended to 2021 tax year.

BUSINESS TAX - CAA (1/3)

- Signed into law on 12/27/2020.
- Included many changes and updates to the prior relief legislation for COVID-19 that was initially created by the CARES Act.
- Business expenses related to PPP loan forgiveness are now deductible to the extent they would otherwise qualify as ordinary / necessary business expenses.
- Provides 2nd round of PPP loan program for small businesses through 3/31/2021 and allows for 2nd-time PPP loan application.
- 2nd-time PPP loan borrowers must:
 - Employer with 300 or fewer employees, down from the previous 500.
 - Used up the 1st PPP loan funds
 - Demonstrate that the gross receipts in any 2020 quarter are at least 25% less than the same 2019 quarter.
- Expanded forgivable costs to covered operating costs and worker protection expenditures, etc.

BUSINESS TAX - CAA (2/3)

- Covered periods: Can be any period lasting between 8 and 24 weeks.
- When can you apply? TBD – SBA may be ready January 15th
- Simplified forgiveness application for PPP loans under \$150,000.
- Employee Retention Credit (ERC)
 - Extended through 6/30/2021
 - Credit percentage has increased from 50% to 70%.
 - Per-employee limitation has increased from \$10,000 in total to \$10,000 per quarter or \$40,000 for a full year.
 - Allows businesses to take PPP loan and claim ERC
 - CARES Act: Allowed either one or the other
- Payroll tax credit for paid sick and family leave
 - Families First Coronavirus Response Act (FFCRA) allows credit for 100% of sick leave wages (10 days) and family leave wages (10 weeks) paid during the 4/1/2020 – 12/31/2020 period.
 - CAA extended until 3/31/2021.
- Business meals deduction for 2021 and 2022
 - Full expensing of “restaurant” meals if the other requirements met

BUSINESS TAX UPDATES - OTHERS

- §1031 Like-kind exchange: Final regulations (T.D. 9935) published on 12/2/2020.
 - Real property is defined as the property classified as real property under law of state or local jurisdiction in which the property is located.
- §179 max at \$1,040,000 before the phaseout starts if the aggregate value of placed-in-service properties exceeds \$2,590,000.
- 100% bonus depreciation continues until 1/1/2023. Then, it will gradually decrease over the years to 20% for 2026.
- Qualified opportunity zone / fund investment: The 180-day investment deadline was extended until 12/31/2020 if the 180-day window falls between 4/1/2020 and 12/31/2020. (IRS Notice 2020-39)

BIDEN TAX PROPOSAL (1/2)

- With a democratic controlled the Senate, it is more likely that the incoming Biden administration will be able to pass through new tax legislation.
- Restore 39.6% marginal rate on individuals with over \$400,000 of income. Currently, the 37% top bracket applies when taxable income exceeds \$518,400 (single) or \$622,050 (MFJ).
- Expand the Social Security Tax on the earned income over \$400,000
- Eliminate the preferential tax rate for long-term capital gains and qualified dividends on income over \$1 million
- Eliminate the TCJA's SALT deduction limitation capped at \$10,000.
- Cap the itemized deduction tax benefit to 28%
- Restore the 3% PEASE limitation if income exceeds \$400,000
- Reduce the retirement contribution to the 28% benefit
- Add a new Section 199A deduction phaseout if income exceeds \$400,000.
- Reduce the record-high estate tax exemption to the 2009 level (\$3.5 million and 45% tax rate)
- Eliminate the step-up in basis at death or impose capital gains tax on the appreciated assets at death

BIDEN TAX PROPOSAL (2/2)

- Eliminate the real estate tax breaks such as:
 - \$25,000 passive loss rules for rental activity loss
 - §1031 like-kind exchanges that allow for deferral of capital gains on real property
 - QBI deduction for profitable rental real estate activities
- Child and dependent care tax credit: Increase qualified expense maximum limit from \$6,000 to \$8,000
- Expand the ACA premium credit
- Expand the EITC for childless workers over 65
- New renewable energy tax credits
- First time home buyers tax credit - Refundable credit for up to \$15,000 and collected when home is purchased.
- Renters credit for those who are “housing cost burdened” – The credit would be intended to hold rent and utility payments to 30% of monthly income.
- Expand retirement savings credit
- Increase corporate tax rate from the current 21% to 28%.
- Impose 15% minimum tax on corporations with at least \$100 million in annual income that pay little to no tax. The corporation would pay the greater of 1) “regular” federal income tax, OR 2) 15% of reported book income.
- Retroactive tax legislation is possible.

THANK YOU!