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Monthly Updates

April 2021

Tax Due Dates Updated for COVID-19 Relief

As most of you are aware, the US Treasury Department and the IRS announced on March 17, 2021 that the federal income tax filing due date for individuals for the 2020 tax year will be automatically extended from April 15, 2021 to May 17, 2021.

The federal tax filing deadline postponement to May 17, 2021 only applies to individual federal income tax returns and tax payments otherwise due April 15, 2021. Note that relief does not apply to 1st qtr estimated tax payments that are due on April 15, 2021.

California announced it will also extend the state tax filing and payment deadline for individuals to May 17, 2021. The extension does not apply to 1st qtr estimated tax payments due April 15, 2021.

Proposed New Tax Law Changes

President Biden is expected to release shortly a 2022 federal budget, which will include the President's new proposed tax law changes. With the Democrats currently controlling both houses of Congress, new proposed tax legislation is anticipated to be introduced by the Biden administration into Congress in the fall of 2021. To facilitate the enactment of new tax law changes, it is anticipated that the Biden administration will use the budget reconciliation process (thereby requiring only an affirmative 51 votes in the Senate to pass the tax law changes). Most likely, there will be a January 1, 2022 effective date for most of the new tax laws (but there could be earlier effective dates for certain selected tax law provisions). Additionally, there has recently been proposed estate and gift tax law changes introduced into Congress by House Ways and Means Committee member Jimmy Gomez and by Senate Budget Committee Chair Bernie Sanders, known as the "For the 99.5 Percent Act".

With the large federal deficits generated by the recent COVID-19 relief legislation and the Biden administration's stated goal to spend further monies to invest in the nation's infrastructure in the American Jobs Plan, it is anticipated that Congress will increase both income taxes and estate and gift taxes in order to fund these legislative measures. Potential tax law changes are expected to affect both businesses and individuals.

We will be keeping you updated as things progress. I plan to send out a video email later this month summarizing the changes so please keep an eye out for it in your email inbox.

Start thinking about these changes now. Once this new law passes there will be limited time to make changes before the January 1, 2022 effective date.

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PPP Extended—Act Fast or Miss Out

This is likely it—your last chance to obtain first- and second-draw Paycheck Protection Program (PPP) monies.

A new law, the PPP Extension Act of 2021, extends the expiration date to the later of May 31 or when the money runs out. Note the phrase "when the money runs out," and be forewarned that this can happen within weeks. So don't procrastinate—not even for one day.

If you qualify for the first-draw PPP money, complete your application now. The money is going to run out fast—and once it's gone, so is the PPP. Legislatively, the new round for the PPP ends on May 31. The clock ticks.

You qualify for the PPP if any of the following are true:

- You file your taxes on Schedule C of your tax return.
- You are a general partner in a partnership, but the partnership asks for and receives the money based on your and the other partners' combined self-employment incomes, as adjusted.
- You operate as an S corporation.
- You operate as a C corporation.
- You are the only worker in the business.
- You have employees whom you pay on a W-2.

If you qualify, you want the PPP. It's a much-needed, tax-free cash infusion. It's called a loan, but it's not. You have to repay loans. The PPP does not have to be repaid—it's forgiven.

Plus, expenses paid with this forgiven PPP loan are tax-deductible.

Employee Retention Tax Credit

The Employee Retention Tax Credit (ERTC) has been extended through 12/31/2021 because of the American Rescue Plan Act of 2021 and it represents a significant opportunity to recoup some of the losses suffered during the pandemic.

Qualifying Parameters of the ERTC:

1. For 2020, did your business experience a 50% reduction is quarterly receipts compared to the same quarter in 2019 (which quarters)?
   OR
2. For 2021, did your business experience a:
   20% reduction in quarterly receipts comparing Q4 2020 to Q4 2019?
   OR
   20% reduction in quarterly receipts comparing Q1 2021 to Q1 2019?

If the business can answer YES to just one question above, then they qualify for ERTC!!

How much credit are you eligible for?

2020 – 50% of $10,000 in gross wages per employee – Up to a $5,000 credit per employee for the year.

2021 – 70% of $10,000 in gross wages per employee per quarter – Up to a $7,000 credit per employee per quarter.

Double Benefits: Claiming Both the Employee retention tax credit and Tax-Free PPP

First, say thanks to the Consolidated Appropriations Act, 2021 (CAA), enacted December 27, 2020. It opened the door (retroactively and going forward) for PPP participants to also claim the employee retention tax credit (ERTC).

Reminder. Tax credits are the best. They usually reduce taxes dollar-for-dollar.

(The ERTC is not quite as good as the usual tax credit, because you increase taxable income by the amount of the credit. But it's still good—very good.)

The CARES Act, enacted on March 27, 2020, created the PPP money, but it prohibited you from getting both PPP money and tax credits from the ERTC; you had to choose one benefit or the other. Now, thanks to the new December law, you can have both tax-free PPP money and tax credits from the ERC.

And perhaps the best news of all comes from the IRS in its recently released, business-friendly guidance on how the rules work when you want to claim both PPP and ERTC benefits.

How the Law Changed

The CAA made four important changes retroactive to 2020:

1. You may now qualify (yes, retroactively) to claim the ERTC for 2020 wages even though you had a 2020 PPP loan.

2. You may not claim the ERTC on PPP wages used for PPP loan forgiveness.

3. You can elect not to claim the ERTC, so as to increase your tax-free PPP monies.

4. If your lender denies your PPP loan forgiveness, you can claim the ERTC for the qualified wages even when you made the election not to claim the ERTC for those wages.

Congress made the changes retroactive to March 13, 2020, allowing you to now amend your 2020 payroll tax returns to claim the employee tax credits for which you are eligible.

You likely hadn't thought of amending payroll tax returns, because it's not often done. But you have the three-year statute of limitations for amending payroll taxes just as you have it for your income tax returns.

ARPA Adds Cash to the Child Tax Credit (2021 Only)

For the 2021 tax year only, the American Rescue Plan Act of 2021 (ARPA) makes big, taxpayer-friendly changes to the federal income tax child tax credit (CTC).

Here's what you need to know, starting with some necessary background information.

CTC Basics

For 2018-2020 and 2022-2025, the maximum annual CTC is $2,000 per *qualifying child*.

A qualifying child is an **under-age-17** child who could be claimed as your dependent for the year. Basically, that means the child lived with you for over half the year; did not provide more than half of his or her own support; and is a U.S. citizen, U.S. national, or U.S. resident.
The maximum $2,000 CTC is phased out (reduced) if your modified adjusted gross income (MAGI) for the

year exceeds $200,000, or $400,000 for a married joint-filing couple. The credit is phased out by $50 per $1,000 (or fraction of $1,000) of MAGI in excess of the applicable phaseout threshold.

For 2018-2020 and 2022-2025, the CTC is partially refundable. You can collect the refundable amount even if you have no federal income tax liability for the year. So, the refundable amount is free money. The refundable amount generally equals 15 percent of your earned income above $2,500.

An alternative formula for determining the refundable amount applies if you have three or more qualifying children. In any case, the maximum refundable amount for 2018-2020 and 2022-2025 is limited to $1,400 per qualifying child. (If you have a 2020 tax liability, the CTC can offset up to $2,000.)

More Generous CTC Rules for 2021

For your 2021 tax year only, ARPA makes the following taxpayer-friendly changes.

Qualifying Children Can Be Up to 17 Years Old

The definition of a qualifying child is broadened to include children who are **age 17 or younger** as of December 31, 2021.

Bigger Maximum CTC with Separate Phaseout Rule for the Increase

ARPA increased the maximum CTC to $3,000 per qualifying child, or $3,600 for a qualifying child who is age 5 or younger as of December 31, 2021. But the increased 2021 credit amounts are subject to two phaseout rules:

1. The increased CTC amount—$1,000 or $1,600, whichever applies—is phased out for single taxpayers with MAGI above $75,000, for heads of household with MAGI above $112,500, and for married jointly filing couples with MAGI above $150,000. The increased amount is phased out by $50 per $1,000 (or fraction of $1,000) of MAGI in excess of the applicable phaseout threshold.
2. The "regular" $2,000 CTC amount is subject to the "regular" phaseout rule explained earlier.

Key point. If you're not eligible for the increased CTC amount for 2021 because your income is too high, you can still claim the regular CTC of up to $2,000, subject to the regular phaseout rule.

CTC Is Fully Refundable for Most Folks

For the 2021 tax year, the CTC is fully refundable if you (or, if married, you and your jointly filing spouse) have a principal residence in the U.S. for more than half the year. If you are a member of the U.S. Armed Forces who is stationed outside the U.S. while serving on extended active duty, you're treated as having a principal residence in the U.S.

For 2021, the CTC is fully refundable even if you have no earned income for the year. The MAGI phaseout rules explained earlier apply in calculating your allowable, fully refundable CTC for 2021.

IRS Will Make Advance CTC Payments (We Hope)

Another ARPA provision directs the IRS to establish a program to make monthly advance payments of CTCs (generally via direct deposits).

Such advance payments will equal 50 percent of the IRS's estimate of your allowable CTC for 2021. The advance payments will be made in the form of equal monthly installments from July through December 2021. To estimate your advance CTC payments, the IRS will look at the information shown on your 2020 Form 1040 (or on your 2019 return if you have not yet filed your 2020 return).

Business Tax Breaks Thanks to the Recently Enacted CAA

When you operate a business, you have a variety of tax breaks available. The recently enacted CAA extends and expands some of the breaks. We bring the following selection of them to your attention as a tax-strategy buffet.

- You can deduct 100 percent of your business meals that are provided by restaurants in 2021 and 2022.
- For hiring members of 10 targeted groups, you can obtain the work opportunity tax credit for first-year wages through 2025.
- You can now qualify for the 39 percent new markets tax credit for investments through 2025.
- The empowerment zone tax breaks that were scheduled to expire on December 31, 2020, are extended through 2025, but the new law terminates, for 2021 and later, both (a) the enhanced first-year depreciation rules and (b) the capital gains tax deferral break.
- Employers may continue through 2025 making Section 127 education plan payments that cover student loan principal and interest up to the plan maximum of $5,250.
- For residential rental property that you placed in service before 2018 and were depreciating over 40 years under the straight-line method, you can now use 30 years if you elect out of the TCJA business interest expense limitations.
- Farmers may elect a two-year NOL carryback rather than the five-year carryback retroactively, as if this change were in the original CARES Act.
- The $1.80 per-square-foot or $0.60 per-square-foot deductions for energy-efficient improvements to commercial buildings are now permanent.
- Small Business Administration Economic Injury Disaster Loan advances and loan repayment assistance are not taxable, and you suffer no tax attribute reductions as a result of the tax-free monies.
- Manufacturers of residential homes can claim a credit of $1,000 or $2,000 for homes that meet applicable energy-efficiency standards through 2021.
- Your business can claim a business federal income tax credit for up to 30 percent of the cost of installing non-hydrogen alternative-fuel vehicle refueling equipment (say, for your employees' electric vehicles) through 2021.
- Your business can claim a federal income tax credit for buying vehicles propelled by chemically combining oxygen with hydrogen to create electricity, through 2021 (credits range from $4,000 to $40,000).
- The new law extends the seven-year recovery period to cover motorsports entertainment complex property placed in service through 2025.
- You can elect to claim the first-year write-off for the cost of qualified film, television, and theatrical productions commencing before 2025, subject to a $15 million per-production limit or a $20 million limit for productions in certain disadvantaged areas.
- For racehorses that are no more than two years old that you place in service during 2021, you may use three-year depreciation.

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Deducting Disaster Losses for Individuals

We seem to be living in an age of natural disasters. Floods, fires, hurricanes, tornados, and other disasters often dominate the news. If a disaster strikes you, the tax law may help. When defined as such by the tax code, a disaster loss may qualify for deduction from your taxable income. The rules for personal losses are complex and far more restrictive than for business losses.

Only Casualty Losses Are Deductible

Damage to personal property caused by a disaster is deductible only if it qualifies as a casualty loss. A casualty is damage to, destruction of, or loss of property from events such as fires and floods that are sudden, unexpected, or unusual.

Many, but not all, casualty losses are covered by insurance. The insurance recovery reduces your tax-deductible loss and could result in a taxable gain.
And here's a possible nasty surprise. Say you have a deductible loss after reducing the loss by the insurance recovery. If you want to deduct the loss on your taxes, you must file a timely insurance claim, even if that insurance claim will result in the cancellation of your policy or an increase in premiums.

Your casualty loss (not your deduction) is equal to the lesser of

1. the decrease in the property's fair market value after the disaster, or
2. the property's adjusted basis before the disaster (usually its cost).

Subtract any insurance or other reimbursement from the lesser of these two options. To find the decline in the property's fair market value, you can use an appraisal or the repair costs.

Limits on Casualty Losses

Unfortunately, you can't deduct all your casualty losses. From 2018 through 2025, you can deduct personal casualty losses on due to a federally declared disaster or to the extent you have casualty gains.

For example, a homeowner can claim a casualty loss if a wildfire (declared a federal disaster) destroys his home. But he gets no deduction if a faulty fireplace caused the fire and destroys his home (no federal disaster).

The law imposes major limits on your casualty-loss deduction. The general rule says that you first reduce the loss by $100 and deduct the remaining loss only to the extent it exceeds 10 percent of your adjusted gross income (AGI). Your final hurdle is that claim the loss as an itemized deduction. These rules significantly reduce or even eliminate many casualty loss deductions.

Fortunately, some casualty losses are not subject to these limits, including disaster losses sustained due to a federally declared major disaster from January 1, 2020, to February 25, 2021. Instead, losses from such disasters are subject to a $500 floor with no 10-percent-of-AGI reduction. Under this rule, you deduct the loss whether or not you itemize. If you don't itemize, you add the deductible loss to your standard deduction.

You have a choice for losses from a federal disaster: claim the loss in the year of the disaster or on the prior year's return if it's before October 15. This can result in a quick refund of all or part of the tax you paid that year.

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