

TaxMama's® Federal Tax Law

Update for Tax Year 2021

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Who is TaxMama®?



- Eva Rosenberg, EA, CTC, CTRS, Your TaxMama® has been a member of NAEA for three decades. TaxMama® has been teaching Enrolled Agents Exam review courses off and on since developing the program for UCLA Extension well over 25 years ago. These days, she's teaching her own in-depth tax course online at <http://www.irsexams.school/>
- Eva has a BA in Accounting and an MBA in International Business. Your TaxMama® was a TaxWatch columnist for Dow Jones' www.MarketWatch.com for nearly 15 years and award-winning author of best-selling books. The latest one, the 4th edition of *Small Business Taxes Made Easy*, published by McGraw-Hill – is a 12-session course at CCH CPE Link <https://www.cchcpelink.com/self-study/the-small-business-taxes-made-easy-series/19236/>
- As a speaker, TaxMama® is popular with both tax professionals and taxpayers.
- Please drop by www.TaxMama.com and get answers to tax questions we can't cover here, free, by simply clicking on Ask a Free Question.



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Introduction

- In December 2015 Congress passed a comprehensive set of laws - the PATH Act of 2015 - **Protecting Americans From Tax Hikes Act Of 2015 (PATH Act)** <https://www.finance.senate.gov/download/summary-of-the-protecting-americans-from-tax-hikes-path-act-of-2015>
- In 2017, **Congress gave us The Tax Cuts and Jobs Act (TCJA)** which became law on 12/22/17. <http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-%20466.pdf>
- On February 2, 2018, Congress passed the **Bipartisan Budget Act of 2018**. <https://www.congress.gov/115/bills/hr1892/BILLS-115hr1892enr.pdf>
- On July 1, 2019, Congress passed the **Taxpayer First Act** - <https://www.congress.gov/bill/116th-congress/house-bill/3151> – this law primarily affects representation, not preparation of returns
- And then...on December 20, the President signed the SECURE Act, part of a much larger tax bill - the **Setting Every Community Up for Retirement Enhancement Act (SECURE Act)** and the **Taxpayer Certainty and Disaster Tax Relief Act (TCDTRA)** <https://www.congress.gov/bill/116th-congress/house-bill/1865/text>
This includes extenders – that affect 2018!

Most of these laws affect our 2018-2020 tax returns.
Moving on to 2020....WOW!

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2020 and 2021 Major Tax Legislation

- March 6, 2020 – Phase 1 - H.R. 6074 – “Coronavirus Preparedness And Response Supplemental Appropriations Act”, 2020 (CPRA) - <https://www.congress.gov/116/plaws/publ123/PLAW-116publ123.pdf> 13 pages
- March 18, 2020 – phase 2 - H.R. 6201, the “Families First Coronavirus Response Act” (FFCRA)- <https://www.congress.gov/116/plaws/publ127/PLAW-116publ127.pdf> 44 pages
- March 27, 2020 – phase 3 - H.R. 748 - the “Coronavirus Aid, Relief, and Economic Security Act” (CARES Act) - <https://www.congress.gov/116/plaws/publ136/PLAW-116publ136.pdf> 335 pages
- April 24, 2020 - H.R. 266 - “Paycheck Protection Program and Health Care Enhancement Act” (the Enhancement Act) - <https://www.congress.gov/116/plaws/publ139/PLAW-116publ139.pdf> 12 pages
- June 5, 2020 - H.R. 7010 - the “Paycheck Protection Program Flexibility Act of 2020” (PPPFA or Flexibility Act) - <https://www.congress.gov/116/plaws/publ142/PLAW-116publ142.pdf> 3 pages
- FAQs re: PPP <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>
- December 27, 2020 – H.R. 133 - Consolidated Appropriations Act (CAA) - <https://www.congress.gov/bill/116th-congress/house-bill/133/text>
- * **March 6, 2021 – H.R. 1319 - American Rescue Plan Act (ARPA)** <https://www.congress.gov/bill/117th-congress/house-bill/1319>
- November 15, 2021 - Infrastructure Investment and Jobs Act (IIJA) <https://www.congress.gov/bill/117th-congress/house-bill/3684/text>

NOTE: 11/19/2021 - Build Better Act (BBB Act) up to the SENATE

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Helpful IRS Links – During Quarantine and...

- **Which IRS services are open and available** – keep an eye on this link (updated Nov 16, 2020) <https://www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue>
- **IRS Electronic Options** (updated May 2020) <https://www.irs.gov/newsroom/irsgov-helps-taxpayers-get-tax-information-they-need-find-tools-for-filing-paying-checking-accounts-and-answering-questions>
- **IRS Online Assistance Available** (updated Nov 2020) <https://www.irs.gov/newsroom/irs-urges-taxpayers-to-use-electronic-options-outlines-online-assistance>
- **Of course, all the filing and paying deadlines** – including taxpayers overseas whose June 15th filing deadline has been pushed back to July 15th and the effects on penalties and interest (updated Nov 19, 2020) <https://www.irs.gov/newsroom/filing-and-payment-deadlines-questions-and-answers>
- And a great chart: **How to Use the Tools on IRS.gov to Get Your Economic Impact Payment** <https://www.irs.gov/newsroom/how-to-use-the-tools-on-irsgov-to-get-your-economic-impact-payment> (updated Oct, 2020)
- **The IRS Newsroom** - <https://www.irs.gov/newsroom>
- **IRS Statements and Announcements** - <https://www.irs.gov/newsroom/irs-statements-and-announcements>

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More 2021 Legislation? BBB?

- At this time, the House has passed the Build Back Better Act – we are waiting for the changes to be made by the Senate. Then, the final reconciliation by the Joint Committee on Taxation.

<https://taxfoundation.org/build-back-better-plan-reconciliation-bill-tax/>

It might pass this year – but don't count in it.

Expect this to pass in January or February 2022 – with provisions that will affect the 2021 tax return.

- For more details on what's included, please drop by the Tax Foundation website <https://taxfoundation.org/build-back-better-plan-reconciliation-bill-tax/>

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2022 Filing Deadlines for 2021 Tax Returns

TAX RETURN	CURRENT DUE DATE	CURRENT EXTENSION DATE
1040	April 15	October 15
1041	April 15	September 30
1065	March 15	September 15
1120 Calendar year before Jan 1 2026	April 15	September 15
1120 Calendar year after Dec 31 2025	April 15	October 15
1120 Fiscal Year End (other than Dec. 31 or June 30)	15th day of 4th month after year-end	15th day of 10th month after year-end
1120 June 30 Fiscal Year before Jan. 1, 2026	September 15	April 15
1120 June 30 Fiscal Year after Dec 31, 2025	October 15	April 15
1120S	March 15	September 15
Exempt Form 990	May 15	November 15
FBAR - FinCEN 114	April 15	October 15
W-2s and 1099s with withholding	Forms W-2 and certain 1099-MISC due to IRS/SSA Jan. 31.	
W-2s and 1099s due to taxpayers	Forms W-2 and certain 1099-MISC due to IRS/SSA Jan. 31.	Form 8809 - 30 days

- Note: There are extended 2020 filing deadlines for various disaster areas

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Disaster Filing Deadlines for 2020 Tax Returns

Note: There are extended 2019 filing deadlines for various disaster areas. Some, through December 31, 2021 and others through January 3, 2022

<https://www.irs.gov/newsroom/tax-relief-in-disaster-situations>

- IR-2021-230, [IRS: All of Mississippi now qualifies for expanded Hurricane Ida relief; Sept. 15, Oct. 15 deadlines, other dates extended to Jan. 3](#)
- IR-2021-224, [More California wildfire relief from IRS; Sept. 15, Oct. 15 deadlines, other dates further extended to Jan. 3 for certain areas](#)
- CT-2021-05, [IRS announces tax relief for Connecticut victims of the remnants of Hurricane Ida](#)
- IR-2021-213, [More Ida relief from IRS; Sept. 15, Oct. 15 deadlines, other dates extended to Jan. 3 for parts of Connecticut](#)
- IR-2021-210, [Additional Hurricane Ida relief from IRS; Sept. 15, Oct. 15 deadlines, other dates further extended to Jan. 3 for parts of Mississippi; Nov. 1 deadline still applies to the rest of the state](#)
- MS-2021-03, [IRS announces tax relief for victims of Hurricane Ida in Mississippi](#)
- IR-2021-193, [IRS: Drought-stricken farmers and ranchers have more time to replace livestock](#)
- IR-2021-187, [IRS extends dyed diesel fuel penalty relief in Louisiana due to Hurricanes Ida and Nicholas](#)
- PA-2021-05, [IRS announces tax relief for Pennsylvania victims of Hurricane Ida](#)
- IR-2021-183, [IRS: Tax relief now available to Ida victims in Pennsylvania; Oct. 15 deadline, other dates extended to Jan. 3](#)
- NC-2021-01, [IRS announces tax relief for North Carolina victims of remnants of Tropical Storm Fred](#)
- MS-2021-02, [IRS announces tax relief for Mississippi victims of Hurricane Ida](#)
- IR-2021-180, [IRS: Hurricane Ida victims in Mississippi now eligible for tax relief; October 15 deadline, other dates extended to November 1](#)
- NJ-2021-01, [IRS announces tax relief for New Jersey victims of remnants of Hurricane Ida](#)
- NY-2021-01, [IRS announces tax relief for New York victims of remnants of Hurricane Ida](#)
- IR-2021-179, [IRS: Tax relief now available to Ida victims in New York and New Jersey; Oct. 15 deadline, other dates extended to Jan. 3](#)
- Tax Tip 2021-131, [Understanding what happens after a disaster that leads to taxpayer relief](#)
- IR-2021-176, [IRS grants dyed diesel fuel penalty relief in Louisiana due to Hurricane Ida](#)
- LA-2021-04, [IRS announces tax relief for victims of Hurricane Ida in Louisiana](#)
- IR-2021-175, [IRS: Tax relief now available to victims of Hurricane Ida; Oct. 15 deadline, other dates extended to Jan. 3](#)
- IR-2021-174, [September is National Preparedness Month; IRS urges taxpayers to prepare for natural disasters](#)

TaxMama® Tax Update in 2021 Pandemic

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Remember Your Renewals or Updates

- **PTIN** - <https://rpr.irs.gov/datamart/mainMenuUSIRS.do>
\$35.95 for 2022 – due by December 31, 2021
- **Enrolled Agent** – Renew every 3 years - Social Security Numbers **ending in 0,1,2,3** **renew** between November 1, 2021 **and January 31, 2022** (see the schedule here) <https://www.irs.gov/pub/irs-pdf/p5186.pdf>
Use online Form 8554 to renew and pay <https://www.pay.gov/public/form/start/19304437>
- **EFIN** – If you have changed your business address, business entity, added locations or owners, change employer ID #s – you need to update your EFIN registration before e-filing your first tax return of the season - <https://www.irs.gov/e-file-providers/become-an-authorized-e-file-provider>

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2021 - 2022 Standard Deductions

Filing Status	2021	2022
Married Filing Jointly	\$25,100	\$25,900
Qualifying Widow (er)	\$25,100	\$25,900
Head of Household	\$18,800	\$19,400
Single	\$12,550	\$12,950
Married Filing Separately	\$12,550	\$12,950
Dependents	\$1,100	\$1,150
	Plus - \$350 (2021) \$400 (2022) up to Single amount	
Dependent over 65 or blind	\$1,350	\$1,400
- single not surviving spouse	\$1,670	\$1,750
Dependents' Max Earnings	\$4,300	\$4,400

Naturally, the standard deductions are updated for inflation each year.

Often, the best place to find all this? <http://www.smbiz.com/sbrl001.html#pis21> and <http://www.smbiz.com/sbrl001.html#pis22>

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2021 Capital Gains Rates vs Ordinary Rates

Capital Gains

- 0% if you're in the 10% or 12% tax bracket
- 15% for everything in between (22% - 35%)
- 20% if you're in the 37% tax bracket
- Up to 28% for sale of collectibles
- Up to 28% taxable portion of sale of Qualified Small Business Stock (plus AMT on excluded portion of gain)
- Up to 25% for depreciation recapture on gain from sale of Section 1250 real property

Ordinary rates

- 10%
 - to \$9,950 - (S) & (MFS)
 - to \$19,900 (MFJ) & (QW)
 - to \$14,200 (HOH)
- 12%
 - to \$40,525 - (S) & (MFS)
 - to \$81,050 - (MFJ) & (QW)
 - to \$54,200 - (HOH)
- 22%
 - to \$86,375 - (S) & (MFS)
 - to \$172,750 - (MFJ) & (QW)
 - to \$86,350 - (HOH)
- 24%
 - to \$164,925 - (S) & (MFS)
 - to \$329,500 - (MFJ) & (QW)
 - to \$164,900 - (HOH)

More Ordinary rates

- 32%
 - to \$209,425 - (S) & (MFS)
 - to \$418,850 - (MFJ) & (QW)
 - to \$209,400 - (HOH)
- 35% - 2021
 - to \$523,600 - (S)
 - to \$314,150 - (MFS)
 - to \$628,300 - (MFJ) & (QW)
 - to \$523,600 (HOH)
- 37%
 - over \$523,600 - (S)
 - over \$314,150 - (MFS)
 - over \$628,300 - (MFJ) & (QW)
 - over \$523,600 - (HOH)

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Social Security Limits

Employee's Portion of FICA	2022	2021	2020
Maximum Earnings Subject to Social Security Tax (Medicare has	\$147,400	\$142,800	\$137,700
Social Security Tax Rate	6.20%	6.20%	6.20%
Social Security Tax Rate - Self-employed	12.40%	12.40%	12.40%
Medicare Tax Rate (no limit to earnings)*	1.45%	1.45%	1.45%
Medicare Tax Rate - Self-Employed (no limit to earnings)*	2.90%	2.90%	2.90%
Earning Limit - Collecting SS Tax before age 66	\$19,560.00	\$18,960.00	\$18,240.00
Earning Limit - Collecting SS Tax in the year you turn age 66	\$51,960.00	\$50,520.00	\$48,600.00

* plus 0.9% on wages above the threshold and 3.8% on unearned income

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Federal Pandemic Unemployment Compensation (FPUC)

- Federal Pandemic Unemployment Compensation (FPUC) ran through September 6, 2021
 - Added \$300/week to state benefits through March 14, 2021
 - Extended \$300/week to state benefits through September 6, 2021



Note: **These are taxable benefits.**

- Expect clients to have a problem paying the taxes on these amounts
- Expect some sort of IRS amnesty on the underpayment penalties
- When the taxpayer makes repayments – Use Schedule A or the claim of right credit, IRC, Sec 1341 - <https://www.investopedia.com/terms/s/section-1341-credit.asp>

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The Newer Form 1040 – Changes Again!

The main 1040 form is now much longer....

And the 1040-SR doesn't include everything that's on the main Form 1040 – but all the text is larger

There are still only 3 schedules, now with two pages, that feed into this not-so-short form

- Schedule 1 Income and AGI
- Schedule 2 Additional Taxes
- Schedule 3 Credits and Payments

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2021 Form 1040, page 1 - <https://www.irs.gov/pub/irs-dft/f1040--dft.pdf>

1040 Department of the Treasury—Internal Revenue Service (99) **2021** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) 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. 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.
 You Spouse

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

At any time during 2021, did you receive, sell, exchange, or otherwise dispose of any financial interest in any virtual currency? Yes No

Standard Deduction Someone can claim: You as a dependent Your spouse as a dependent Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1957 Are blind **Spouse:** Was born before January 2, 1957 Is blind

Dependents (see instructions): If more than four dependents, see instructions and check here ▶

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> Child tax credit	Credit for other dependents

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1
2a	Tax-exempt interest	2a
3a	Qualified dividends	3a
4a	IRA distributions	4a
5a	Pensions and annuities	5a
6a	Social security benefits	6a
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>	7
8	Other income from Schedule 1, line 10	8
9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9
10	Adjustments to income from Schedule 1, line 2b	10
11	Subtract line 10 from line 9. This is your adjusted gross income	11
12a	Standard deduction or itemized deductions (from Schedule A)	12a
b	Charitable contributions if you take the standard deduction (see instructions)	12b
c	Add lines 12a and 12b	12c
13	Qualified business income deduction from Form 8995 or Form 8995-A	13
14	Add lines 12c and 13	14
15	Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-	15

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 113300B Form 1040 (2021)

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2021 Form 1040, page 2 - <https://www.irs.gov/pub/irs-dft/f1040--dft.pdf>

Form 1040 (2021) Page 2

16 Tax (see instructions). Check if any from Form(s): 1 8814 2 4972 3

17 Amount from Schedule 2, line 3 17

18 Add lines 16 and 17 18

19 Nonrefundable child tax credit or credit for other dependents from Schedule 8812 19

20 Amount from Schedule 3, line 8 20

21 Add lines 19 and 20 21

22 Subtract line 21 from line 18. If zero or less, enter -0- 22

23 Other taxes, including self-employment tax, from Schedule 2, line 21 23

24 Add lines 22 and 23. This is your total tax 24

Federal income tax withheld from:

a Form(s) W-2 25a

b Form(s) 1099 25b

c Other forms (see instructions) 25c

d Add lines 25a through 25c 25d

26 2021 estimated tax payments and amount applied from 2020 return 26

27a **27a** **27a**

27b **27b**

27c **27c**

27d **27d**

27e **27e**

27f **27f**

27g **27g**

27h **27h**

27i **27i**

27j **27j**

27k **27k**

27l **27l**

27m **27m**

27n **27n**

27o **27o**

27p **27p**

27q **27q**

27r **27r**

27s **27s**

27t **27t**

27u **27u**

27v **27v**

27w **27w**

27x **27x**

27y **27y**

27z **27z**

28 Refundable child tax credit or additional child tax credit from Schedule 8812 28

29 American opportunity credit from Form 8863, line 8 29

30 Recovery rebate credit. See instructions. 30

31 Amount from Schedule 3, line 15 31

32 Add lines 27a and 28 through 31. These are your total other payments and refundable credits 32

33 Add lines 25d, 26, and 32. These are your total payments 33

34 If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you overpaid 34

35a Amount of line 34 you want refunded to you. If Form 8888 is attached, check here **35a**

b Routing number **b**

c Account number **c**

d Type: Checking Savings **d**

36 Amount of line 34 you want applied to your 2022 estimated tax 36

37 Amount you owe. Subtract line 33 from line 24. For details on how to pay, see instructions 37

38 Estimated tax penalty (see instructions) 38

Third Party Designee

Do you want to allow another person to discuss this return with the IRS? See instructions Yes, Complete below. No

Designee's name Phone no. Personal identification number (PIN)

Your signature Date Your occupation

Spouse's signature. If a joint return, both must sign. Date Spouse's occupation

Preparer's name Preparer's signature Date PTIN Check if: Self-employed

Firm's name Firm's address Firm's phone no. Firm's EIN

Go to www.irs.gov/Form1040 for instructions and the latest information. Form 1040 (2021)

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2021 Schedule 1 – Income & AGI - <https://www.irs.gov/pub/irs-dft/f1040s1--dft.pdf>

SCHEDULE 1 (Form 1040) Additional Income and Adjustments to Income

OMB No. 1545-0047

Department of the Treasury Internal Revenue Service

2021

Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0047

2021

Adjustments to Income

Part I Additional Income

1 Taxable refunds, credits, or offsets of state and local income taxes 1

2a Alimony received 2a

3 Date of original divorce or separation agreement (see instructions) 3

4 Business income or (loss). Attach Schedule C 4

5 Other gains or losses. Attach Form 4797 5

6 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 6

7 Farm income or (loss). Attach Schedule F 7

8 Unemployment compensation 8

9 Other income: 9

a Net operating loss 8a

b Gambling income 8b

c Cancellation of debt 8c

d Foreign earned income exclusion from Form 2555 8d

e Taxable Health Savings Account distribution 8e

f Alaska Permanent Fund dividends 8f

g Jury duty pay 8g

h Prizes and awards 8h

i Activity not engaged in for profit income 8i

j Stock options 8j

k Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property 8k

l Olympic and Paralympic medals and USOC prize money (see instructions) 8l

m Section 951(a) inclusion (see instructions) 8m

n Section 951(A) inclusion (see instructions) 8n

o Section 461(i) excess business loss adjustment 8o

p Taxable distributions from an ABL account (see instructions) 8p

z Other income. List type and amount 8z

9 Total other income. Add lines 8a through 8z 9

10 Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8 10

Part II Adjustments to Income

11 Educator expenses 11

12 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 12

13 Health savings account deduction. Attach Form 8889 13

14 Moving expenses for members of the Armed Forces. Attach Form 9300 14

15 Deductible part of self-employment tax. Attach Schedule SE 15

16 Self-employed SEP, SIMPLE, and qualified plans 16

17 Self-employed health insurance deduction 17

18 Penalty on early withdrawal of savings 18

19a Alimony paid 19a

b Recipient's SSN 19b

c Date of original divorce or separation agreement (see instructions) 19c

20 IRA deduction 20

21 Student loan interest deduction 21

22 Reserved for future use 22

23 Archer MSA deduction 23

24 Other adjustments: 24

a Jury duty pay (see instructions) 24a

b Deductible expenses related to income reported on line 8k from the rental of personal property engaged in for profit 24b

c Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8l 24c

d Reformation amortization and expense 24d

e Repayment of supplemental unemployment benefits under the Trade Act of 1974 24e

f Contributions to section 501(c)(18)(D) pension plans 24f

g Contributions by certain chaplains to section 403(b) plans 24g

h Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions) 24h

i Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations 24i

j Housing deduction from Form 2555 24j

k Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041) 24k

z Other adjustments. List type and amount 24z

25 Total other adjustments. Add lines 24a through 24z 25

26 Add lines 11 through 25 and 25. These are your adjustments to income. Enter here and on Form 1040 or 1040-SR, line 10, or Form 1040-NR, line 10a 26

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Stimulus Payments

Are Really Advances from 2021 1040

(See line 30 on Form 1040 – Recovery Rebate Credit)

<https://www.irs.gov/coronavirus/third-economic-impact-payment>

Eligibility

Most eligible people won't need to take additional action to get a third payment.

Due to new income limitations, some individuals won't be eligible for the third payment even if they received a first or second Economic Impact Payment or claimed a 2020 Recovery Rebate Credit.

Generally, **someone is eligible** for the full amount of the third Economic Impact Payment if they:

- are a U.S. citizen or U.S. resident alien (and their spouse if filing a joint return), and
- are not a dependent of another taxpayer, and
- their adjusted gross income (AGI) is not more than:
 - \$150,000 if married and filing a joint return or if filing as a qualifying widow or widower
 - \$112,500 if filing as head of household or
 - \$75,000 for eligible individuals using any other filing status

Payments will be phased out – **or reduced – above those AGI amounts.** This means people will not receive a payment if their AGI is at least:

- \$160,000 if married and filing a joint return or if filing as a qualifying widow or widower
- \$120,000 if filing as head of household
- \$80,000 for eligible individuals using any other filing status

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Stimulus Payments

Advances from 2021 1040

<https://www.irs.gov/coronavirus/third-economic-impact-payment>

Amount of Third Economic Impact Payment

The third Economic Impact Payment amount is:

- **\$1,400** for an eligible individual with a valid Social Security number (**\$2,800** for married couples filing a joint return if both spouses have a valid Social Security number or if one spouse has a valid Social Security number and one spouse was an active member of the U.S. Armed Forces at any time during the taxable year)
- **\$1,400** for each qualifying dependent with a valid **Social Security number or Adoption Taxpayer Identification Number** issued by the IRS

Getting Your Payment

Most eligible individuals will get their third Economic Impact Payment automatically and won't need to take additional action. The IRS will use available information to determine your eligibility and issue the **third payment to eligible people who:**

- filed a 2020 tax return
- filed a 2019 tax return if the 2020 tax return has not been submitted or processed yet
- did not file a 2020 or 2019 tax return but registered for the first Economic Impact Payment with the Non-Filers tool in 2020
- registered through the 2021 Child Tax Credit **Non-filer Sign-up Tool, which may also be used by people who do not have children**
- are **federal benefit recipients who do not usually file a tax return.**

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SCHEDULE 1 (Form 1040) Additional Income and Adjustments to Income

OMB No. 1545-0074
2021
 Attachment Sequence No. 01

Department of the Treasury Internal Revenue Service
 Attach to Form 1040, 1040-SR, or 1040-NR.
 Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR _____ Your social security number _____

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling income	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Taxable Health Savings Account distribution	8e	
f	Alaska Permanent Fund dividends	8f	
g	Jury duty pay	8g	
h	Prizes and awards	8h	
i	Activity not engaged in for profit income	8i	
j	Stock options	8j	
k	Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property	8k	
l	Olympic and Paralympic medals and USOC prize money (see instructions)	8l	
m	Section 951(a) inclusion (see instructions)	8m	
n	Section 951A(a) inclusion (see instructions)	8n	
o	Section 461(f) excess business loss adjustment	8o	
p	Taxable distributions from an ABL account (see instructions)	8p	
z	Other income. List type and amount	8z	
9	Total other income. Add lines 8a through 8z	9	
10	Combine lines 1 through 7 and 9. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 9	10	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2021

2021 Schedule 1 – Income & AGI – Page 1 of 2
<https://www.irs.gov/pub/irs-dft/ft1040s1-dft.pdf>

The Usual Adjustments to Income

- Line 11 - Educator's Expense - \$ 250 (2021) \$300 (2022)
- Line 20 – IRA **SECURE Act changes**
- Line 21 – Student Loan Interest \$2,500 – (no change)
- Line 22 – Tuition and Fees - Gone again (so far)

Schedule 1 (Form 1040) 2021 Page 4

Part II Adjustments to Income

11	Educator expenses	11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	
13	Health savings account deduction. Attach Form 8889	13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903	14	
15	Deductible part of self-employment tax. Attach Schedule SE	15	
16	Self-employed SEP, SIMPLE, and qualified plans	16	
17	Self-employed health insurance deduction	17	
18	Penalty on early withdrawal of savings	18	
19a	Alimony paid	19a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions)		
20	IRA deduction	20	
21	Student loan interest deduction	21	
22	Reserved for future use	22	
23	Archer MSA deduction	23	

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Schedule 1 (Form 1040) 2021 Page **2**

Part II Adjustments to Income

11	Educator expenses	11
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17	Self-employed health insurance deduction	17
18	Penalty on early withdrawal of savings	18
19a	Alimony paid	19a
b	Recipient's SSN	
c	Date of original divorce or separation agreement (see instructions)	
20	IRA deduction	20
21	Student loan interest deduction	21
22	Reserved for future use	22
23	Archer MSA deduction	23
24	Other adjustments:	
a	Jury duty pay (see instructions)	24a
b	Deductible expenses related to income reported on line 8k from the rental of personal property engaged in for profit	24b
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8i	24c
d	Reforestation amortization and expenses	24d
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e
f	Contributions to section 501(c)(18)(D) pension plans	24f
g	Contributions by certain chaplains to section 403(b) plans	24g
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i
j	Housing deduction from Form 2555	24j
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k
z	Other adjustments. List type and amount	24z
25	Total other adjustments. Add lines 24a through 24z	25
26	Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 10, or Form 1040-NR, line 10a	26

Schedule 1 (Form 1040) 2021

2021 Schedule 1 – Income & AGI - Page 2 of 2 <https://www.irs.gov/pub/irs-dft/f1040s1--dft.pdf>

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2021 Schedule 2 – Add'l Taxes - Page 1 of 2
<https://www.irs.gov/pub/irs-dft/f1040s2--dft.pdf>

SCHEDULE 2 (Form 1040) **Additional Taxes** OMB No. 1545-0074
2021
Attachment Sequence No. **02**

Department of the Treasury Internal Revenue Service ▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR Your social security number

Part I Tax

1	Alternative minimum tax. Attach Form 6251	1
2	Excess advance premium tax credit repayment. Attach Form 8902	2
3	Add lines 1 and 2. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 17	3
Part II Other Taxes		
4	Self-employment tax. Attach Schedule SE	4
5	Social security and Medicare tax on unreported tip income. Attach Form 4137	5
6	Uncollected social security and Medicare tax on wages. Attach Form 8919	6
7	Total additional social security and Medicare tax. Add lines 5 and 6	7
8	Additional tax on IRAs or other tax-favored accounts. Attach Form 5329 if required	8
9	Household employment taxes. Attach Schedule H	9
10	Repayment of first-time homebuyer credit. Attach Form 5405 if required	10
11	Additional Medicare Tax. Attach Form 8959	11
12	Net investment income tax. Attach Form 8960	12
13	Uncollected social security and Medicare or RRTA tax on tips or group-term life insurance from Form W-2, box 12	13
14	Interest on tax due on installment income from the sale of certain residential lots and timeshares	14
15	Interest on the deferred tax on gain from certain installment sales with a sales price over \$150,000	15
16	Recapture of low-income housing credit. Attach Form 8611	16

(continued on page 2)
Schedule 2 (Form 1040) 2021

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Schedule 2 (Form 1040) 2021 Page **2**

Part II Other Taxes (continued)

17 Other additional taxes:

a	Recapture of other credits. List type, form number, and amount ▶	17a	
b	Recapture of federal mortgage subsidy. If you sold your home in 2021, see instructions	17b	
c	Additional tax on HSA distributions. Attach Form 8889	17c	
d	Additional tax on an HSA because you didn't remain an eligible individual. Attach Form 8889	17d	
e	Additional tax on Archer MSA distributions. Attach Form 8853	17e	
f	Additional tax on Medicare Advantage MSA distributions. Attach Form 8853	17f	
g	Recapture of a charitable contribution deduction related to a fractional interest in tangible personal property	17g	
h	Income you received from a nonqualified deferred compensation plan that fails to meet the requirements of section 409A	17h	
i	Compensation you received from a nonqualified deferred compensation plan described in section 457A	17i	
j	Section 72(m)(5) excess benefits tax	17j	
k	Golden parachute payments	17k	
l	Tax on accumulation distribution of trusts	17l	
m	Excise tax on insider stock compensation from an expatriated corporation	17m	
n	Look-back interest under section 167(g) or 460(b) from Form 897 or 8866	17n	
o	Tax on non-effectively connected income for any part of the year you were a nonresident alien from Form 1040-NR	17o	
p	Any interest from Form 8621, line 16f, relating to distributions from, and dispositions of, stock of a section 1291 fund	17p	
q	Any interest from Form 8621, line 24	17q	
z	Any other taxes. List type and amount ▶	17z	
18	Total additional taxes. Add lines 17a through 17z	18	
19	Additional tax from Schedule 8812	19	
20	Section 965 net tax liability instalment from Form 965-A	20	
21	Add lines 4, 7 through 16, 18, and 19. These are your total other taxes. Enter here and on Form 1040 or 1040-SR, line 23, or Form 1040-NR, line 23b	21	

Schedule 2 (Form 1040) 2021

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2021 Schedule 3 – Credits/Pmts – Page 1 of 2
<https://www.irs.gov/pub/irs-dft/f1040s3--dft.pdf>

SCHEDULE 3 (Form 1040) Additional Credits and Payments

Department of the Treasury Internal Revenue Service OMB No. 1545-0074

2021
Attachment Sequence No. **03**

▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR Your social security number

Part I Nonrefundable Credits

1	Foreign tax credit. Attach Form 1116 if required	1	
2	Credit for child and dependent care expenses from Form 2441, line 11. Attach Form 2441	2	
3	Education credits from Form 8863, line 19	3	
4	Retirement savings contributions credit. Attach Form 8880	4	
5	Residential energy credits. Attach Form 5695	5	
6	Other nonrefundable credits:		
6a	General business credit. Attach Form 3800	6a	
6b	Credit for prior year minimum tax. Attach Form 8801	6b	
6c	Adoption credit. Attach Form 8839	6c	
6d	Credit for the elderly or disabled. Attach Schedule R	6d	
6e	Alternative motor vehicle credit. Attach Form 8910	6e	
6f	Qualified plug-in motor vehicle credit. Attach Form 8936	6f	
6g	Mortgage interest credit. Attach Form 8396	6g	
6h	District of Columbia first-time homebuyer credit. Attach Form 8859	6h	
6i	Qualified electric vehicle credit. Attach Form 8834	6i	
6j	Alternative fuel vehicle refueling property credit. Attach Form 8911	6j	
6k	Credit to holders of tax credit bonds. Attach Form 8912	6k	
6l	Amount on Form 8978, line 14. See instructions	6l	
6z	Other nonrefundable credits. List type and amount ▶	6z	
7	Total other nonrefundable credits. Add lines 6a through 6z	7	
8	Add lines 1 through 5 and 7. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 20	8	

(continued on page 2)
Schedule 3 (Form 1040) 2021

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2021 Schedule 3 – Credits/Pmts – Page 2 of 2

<https://www.irs.gov/pub/irs-dft/f1040s3--dft.pdf>

Schedule 3 (Form 1040) 2021

Page **2**

Part II Other Payments and Refundable Credits			
9	Net premium tax credit. Attach Form 8962	9	
10	Amount paid with request for extension to file (see instructions)	10	
11	Excess social security and tier 1 RRTA tax withheld	11	
12	Credit for federal tax on fuels. Attach Form 4136	12	
13	Other payments or refundable credits:		
a	Form 2439	13a	
b	Qualified sick and family leave credits from Schedule(s) H and Form(s) 7202 for leave taken before April 1, 2021	13b	
c	Health coverage tax credit from Form 8885	13c	
d	Credit for repayment of amounts included in income from earlier years	13d	
e	Reserved for future use	13e	
f	Deferred amount of net 965 tax liability (see instructions)	13f	
g	Credit for child and dependent care expenses from Form 2441, line 10. Attach Form 2441	13g	
h	Qualified sick and family leave credits from Schedule(s) H and Form(s) 7202 for leave taken after March 31, 2021	13h	
z	Other payments or refundable credits. List type and amount ▶	13z	
14	Total other payments or refundable credits. Add lines 13a through 13z	14	
15	Add lines 9 through 12 and 14. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 31	15	

Schedule 3 (Form 1040) 2021

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Earned Income Tax Credit 2021

Item	Number of Qualifying Children			
	One	Two	Three or More	None
Earned Income Amount	\$10,640	\$14,950	\$14,950	\$7,100
Maximum Amount of Credit	\$3,618	\$5,980	\$6,728	\$543
Threshold Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$19,520	\$19,520	\$19,520	\$8,880
Completed Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$42,158	\$47,915	\$51,464	\$15,980
Threshold Phaseout Amount (Married Filing Jointly)	\$25,470	\$25,470	\$25,470	\$14,820
Completed Phaseout Amount (Married Filing Jointly)	\$48,108	\$53,865	\$57,414	\$21,920



Excessive Investment Income - \$3,650

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Earned Income Tax Credit 2022

Item	Number of Qualifying Children			
	One	Two	Three or More	None
Earned Income Amount	\$10,980	\$15,410	\$15,410	\$7,320
Maximum Amount of Credit	\$3,733	\$6,164	\$6,935	\$560
Threshold Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$20,130	\$20,130	\$20,130	\$9,160
Completed Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$43,492	\$49,399	\$53,057	\$16,480
Threshold Phaseout Amount (Married Filing Jointly)	\$26,260	\$26,260	\$26,260	\$15,290
Completed Phaseout Amount (Married Filing)	\$49,622	\$55,529	\$59,187	\$22,610

Excessive Investment income – has risen to **\$10,300** (was \$3,650)

Premium Tax Credit Poverty Levels Increased for 2021

<https://www.irs.gov/pub/irs-dft/i8962--dft.pdf>

Table 1-1. Federal Poverty Line for the 48 Contiguous States and the District of Columbia

IF your Family Size* from Form 8962, line 1, was ...	THEN enter the amount below on Form 8962, line 4 ...
1	\$12,760
2	\$17,240
3	\$21,720
4	\$26,200
5	\$30,680
6	\$35,160
7	\$39,640
8	\$44,120

*If your family size was more than 8 people, add \$4,480 for each additional person. For example, if your family size is 11, you have 3 additional people. Multiply \$4,480 by 3 and add the result of \$13,440 to \$44,120. Enter the result of \$57,560 on Form 8962, line 4.

Table 1-2. Federal Poverty Line for Alaska

IF your Family Size* from Form 8962, line 1, was ...	THEN enter the amount below on Form 8962, line 4 ...
1	\$15,950
2	\$21,550
3	\$27,150
4	\$32,750
5	\$38,350
6	\$43,950
7	\$49,550
8	\$55,150

*If your family size was more than 8 people, add \$5,600 for each additional person. For example, if your family size is 11, you have 3 additional people. Multiply \$5,600 by 3 and add the result of \$16,800 to \$55,150. Enter the result of \$71,950 on Form 8962, line 4.

Table 1-3. Federal Poverty Line for Hawaii

IF your Family Size* from Form 8962, line 1, was ...	THEN enter the amount below on Form 8962, line 4 ...
1	\$14,680
2	\$19,830
3	\$24,980
4	\$30,130
5	\$35,280
6	\$40,430
7	\$45,580
8	\$50,730

*If your family size was more than 8, add \$5,150 for each additional person. For example, if your family size is 11, you have 3 additional people. Multiply \$5,150 by 3 and add the result of \$15,450 to \$50,730. Enter the result of \$66,180 on Form 8962, line 4.

Premium Tax Credit Repayment Amounts 2021

If the household income (expressed as a percent of poverty line) is:	The limitation amount for unmarried individuals (other than surviving spouses and heads of household) is:	The limitation amount for all other taxpayers is:
Less than 200%	\$325	\$650
At least 200% but less than 300%	\$800	\$1,600
At least 300% but less than 400%	\$1,350	\$2,700

- You will find the amounts of the 3 different poverty levels for the continental U.S., Alaska and Hawaii in the instructions to Form 8962 <https://www.irs.gov/pub/irs-pdf/i8962.pdf#page=16>
- The **exclusion** from tax for excess income **is only applied to 2020**

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Premium Tax Credit Repayment Amounts 2022

If the household income (expressed as a percent of poverty line) is:	The limitation amount for unmarried individuals (other than surviving spouses and heads of household) is:	The limitation amount for all other taxpayers is:
Less than 200%	\$325	\$650
At least 200% but less than 300%	\$825	\$1,650
At least 300% but less than 400%	\$1,400	\$2,800

- You will find the amounts of the 3 different poverty levels for the continental U.S., Alaska and Hawaii in the instructions to Form 8962 <https://www.irs.gov/pub/irs-pdf/i8962.pdf#page=16>
- The **exclusion** from tax for excess income **is only applied to 2020**
- Potentially, the Build Back Better Act (BBBA) may extend that to 2022**

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Child Tax Credit 2021 Refundable; 2022 – Not Refundable

A result of the **American Rescue Plan Act (ARPA)** – there is a massive amount of IRS information about this for your clients (in several languages) here: <https://www.irs.gov/newsroom/2021-child-tax-credit-and-advance-child-tax-credit-payments-e-posters-toolkits-and-user-guides>

For 2021 the maximum Child Tax Credit – PER CHILD - was increased to

- \$3,600 per child for children **under the age of 6**
- \$3,000 per child for children between **ages 6 and 17**

NOTE: Important Changes in Child Ages (previously, under age 17)

IRS started issuing advance payments from July 15 – December 15

- \$300 per month per child for children under the age of 6
- \$250 per month per child for children between ages 6 and 17

For 2022, we expect the Child Tax Credit to return to the pre-COVID limits:

- \$2,000 per child
- \$1,500 per child refundable

No earned income is required

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Child Tax Credit Phaseout

The amount of the credit in excess of \$2,000 per child is phased out by \$50 per \$1,000 of Modified AGI (MAGI) over these limits – and disappears completely at the top limits:

- \$150,000 - \$400,000 – Married filing jointly
- \$112,500 - \$200,000 – Head of Household
- \$75,000 - \$200,000 – Single and Married Filing Separately

The **first half** of the credit is being sent out in **advance**.

The **second half** of the credit will be **claimed on the 2021** tax returns.

CAUTION: Advance Child Tax Credit might have to be **REPAID** IF it exceeds the Child tax credit claimed on 2021 tax return.

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Child and Dependent Care Credit – Form 2441

The qualifying Child and Dependent care costs were **increased**

- From \$3,000 per child (up to 2 children) to **\$8,000 per child** (up to \$16,000).
- For 2021 the credit is fully refundable, instead of being limited to the taxpayer's tax liability.
 - To the average family with 2 qualifying children attending private school or getting after-school care, **this is worth about \$3,200.**
- On the other hand, the employer-provided child-care amount that is excluded from income was doubled, from \$5,250 to \$10,500. (This benefit would reduce the \$8,000 or \$16,000 above)
- Phaseout of 50% rate from \$125,000 - \$185,000
- Phaseout of 20% rate \$185,000 to \$400,000

<https://www.irs.gov/forms-pubs/about-form-2441>

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Savers Credit & Credit for Elderly & Disabled

This is a credit for making contributions to any IRA or retirement plan, non-deductible Roth IRAs, paycheck deductions for retirement contributions, and contributions to ABLE accounts (disability accounts). (Also applies to mandatory state retirement programs, like CA' Cal Saver accounts)

- Credit amount is 50% of the contribution – maximum contribution is \$2,000; so maximum credit is \$1,000
- This is a non-refundable credit
- Form 8880 <https://www.irs.gov/forms-pubs/about-form-8880>

A similar credit is the **Schedule R – Credit for the elderly and disabled** - <https://www.irs.gov/instructions/i1040sr>

- Your software will always test to see if your client qualifies for these credits. However, in most cases, anyone with income low enough to qualify will not be able to use the credit.

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Energy Credit – Form 5695

- **Residential Energy Credit (Form 5695) – Non Refundable**
- **Nonbusiness Energy Property Credit** (primary home only)– **(Part 2)**
 - *Energy Efficiency Improvements*, think windows, doors, insulation. Materials only. 10% of cost.
 - *Qualified Residential Energy Property*, think water heaters, AC and heating. Materials and labor.
 - **\$500 lifetime limit. (may be changed by BBB Act)**
- **Residential Energy Efficient Property Credit. (Part 1)**
 - **26% of cost.** Materials and labor. Primary, secondary home and new construction. No double dip with subsidies.
 - Think Solar heating and power, geothermal heat pumps, small wind systems.
 - Unused Credit can be carryforward to 2022
 - Credit starts to phase down to 22% on 1/1/2023; 0% on 1/1/2024
 - Note: Dates are based on the start of construction – must be put into service before January 1, 2026

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Business Property Energy Credit – use Form 3468

<https://www.irs.gov/pub/irs-pdf/i3468.pdf#page=12>

- The qualifications for the nature of the equipment are essentially the same as for the residential credit.
- When claiming the credit, reduce the basis of the property installed by 50% of the credit.
- When buying a new building with energy assets, the buyer gets the credit, not the builder.
- When leasing energy property, the lessor can use Form 3468 to transfer the credit to the lessee (user)

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Other Key Credits for 2021 - 2022

- **Adoption Credit** - \$14,440 (\$14,890 – 2022)
- Adoption Assistance from employer \$14,440 (\$14,890 – 2022)
 - SECURE Act – Allows for up to \$5,000 penalty-free withdrawals from IRAs or retirement plans per qualified birth or adoptions – after 12/31/2019 -
 - Withdrawals within 1 year of birth or adoptions – money does not have to be used for this purpose.
 - May be repaid and rolled over – treated as 60-day trustee-to-trustee rollover if the account is eligible.
- **Lifetime Learning Credit** – phases out for 2021 incomes over \$119,000 for a joint return or \$59,000 for all others; \$80,000 - \$120,000 (2022)
- **American Opportunity Credit (R & NR)** – \$2,500 (\$1,000) – no change
- Employee Health Insurance Expense of Small Employers, the average annual wages are \$27,800 (2021) and \$28,700 (2022).

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Don't Forget – First-Time Homebuyers Credit

- Hearing about e-file rejections!
- The repayment of the 2008 is still with us. The \$7,500 Home Buyers Credit must be repaid over **15 years - up to \$500 a year.**
(Purch from 04/08 - 12/31/08)
Final payment is in 2023
- You do not need to attach a Form 5405 if still living in same home – just pay.
- IRS look-up tool - <https://sa.www4.irs.gov/irfof-fthb/>
- Use for 5405 to report accelerated repayments:
 - Acceleration of repayment – If a taxpayer disposes of the home for which a first-time homebuyer credit was allowed, or the taxpayer (and the taxpayer's spouse, if married) ceases to use the home as a principal residence before the end of the 15-year repayment period, the remaining credit repayment amount is added to the income tax liability of the taxpayer for the year of disposition or cessation of use.
- Good News! In 2014 all clients who had non-repayable credit should have passed the deadline for the repayment of portion of the credit from selling the property (or converting it to rental use) within 36 months of purchase.



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Updated Deduction - Charity

<small> jointly or Qualifying widower), \$25,100 • Head of household, \$18,800 • If you checked any box under Standard Deduction, see instructions. </small>	11	Subtract line 10 from line 9. This is your adjusted gross income ▶	11	
	12a	Standard deduction or itemized deductions (from Schedule A)	12a	
	b	Charitable contributions if you take the standard deduction (see instructions)	12b	
	c	Add lines 12a and 12b	12c	
	13	Qualified business income deduction from Form 8995 or Form 8995-A	13	
	14	Add lines 12c and 13	14	
	15	Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-	15	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2021)

Non-itemizers can write off up to **\$300 per person (Up to \$600 for Married filing Jointly)** worth of charitable **cash** contributions.

- This is an improved "**above-the-line**" deduction for people who don't file Schedule A.
- You take it on page 1 of the Form 1040 (not the Schedule 1)
- This is right above the Qualified Business Income Deduction (QBI)

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Educator's Expenses

Main Change Is **COVID Supplies**

- Adjustment (\$250 x 2)
Sec 104 – permanent + indexed (retained by TCJA)
- Teachers/Classroom Supplies - Allowable expenses include books, supplies, computers, software and anything else you use in the classroom. Health and physical education teachers are entitled to deductions for athletic equipment and supplies. Make sure you have receipts for all expenses.
- **Beginning in 2016, Sec 104 of the PATH Act also modified the deduction to index the \$250 cap to inflation and include professional development expenses.** (We haven't seen an increase) <https://www.irs.gov/pub/irs-pdf/i1040gi.pdf#page=90>
- Teachers are not the only folks who are entitled to use this deduction.
- It may be used by an instructor, counselor, principal, or aide in a school. Your educational institution may span kindergarten through grade 12. And you must work for at least 900 hours a year in the designated job type. (Note: 2,080 hours are considered full time in the business world.)

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Moving Expenses

No changes since the TCJA:

- The TCJA generally suspends the deduction for moving expenses for taxable years 2018 through 2025.
- However, during that suspension period, the provision retains the deduction for moving expenses and the rules providing for exclusions of amounts attributable to in-kind moving and storage expenses (and reimbursements or allowances for these expenses) for members of the **Armed Forces (or their spouse or dependents) on active duty that move pursuant to a military order and incident to a permanent change of station.**
- Moving mileage for 2021 - **16 cents – military only.**



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IRA Updates – SECURE Act

- Nontaxable income that now qualifies as **“earned income”** for IRA contribution purposes – beginning **after 12/31/2019**
 - In Home Supportive Services (IHSS)
 - Certain Tuition Fellowship and stipend payments paid to graduate and post-doctoral students.
- Allows contributions by persons age 70.5 (72) and over if they have qualified earned income.
 - If these taxpayers do make contributions, the \$100,000 limit on qualified charitable transfers is reduced by that amount.

We will talk about more retirement issues

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Student Loan and Interest

- Lesser of **\$2,500** or amount paid that tax year.
- Phased out \$70,000 and \$85,000 (\$145,000 and \$175,000 if you file a joint return).
- Client or spouse must be liable for the loan.
- Can't be related to the lender!
- **Not deductible for MFS or filing as a dependent!**
- Look for a 1098-E if more than \$600.

The CARES Act allowed **employers to pay up to \$5,250** in workers' college loans
 - extended to December 31, 2025 by the Consolidated Appropriations Act 2021

- The payments are excluded from the workers' wages for federal tax purposes.
- The \$5,250 cap applies to both student loan repayment benefits and other educational assistance (e.g., tuition, fees, books, etc.) offered by an employer under current law.

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Retirement Contributions Limits - Overview

<u>IRA OPTIONS:</u>	<u>2021</u>	<u>2022</u>
IRA & Roth	6,000	\$6,000
IRA 50+ & Roth	\$7,000	\$7,000
SIMPLE-IRA -	\$13,500	\$14,000
SIMPLE IRA 50+ (+ \$3,000)	\$16,500	\$17,000
<u>QUALIFIED PLANS</u>		
401(k)	\$19,500	\$20,500
401(k) 50 (+ \$6,500)	\$26,000	\$27,000
SEP/Profit-Sharing	\$58,000	\$61,000
50+ max defined contribution	\$64,500	\$67,500
Defined Benefit Plans	\$230,000	\$245,000
- Compensation Limits	\$290,000	\$305,000
Highly Compensated Employees	\$130,000	\$135,000
Key Employee limit - testing	\$185,000	\$200,000

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IRA Contributions - Income Phaseouts

<u>Filing Status:</u>	<u>2021</u>	<u>2022</u>
IRA when covered by plan at work		
Single & HOH	\$66,000-\$76,000	\$68,000-\$78,000
Married Filing Jointly	\$105,000-\$125,000	\$109,000-\$129,000
Married – Spouse Cover	\$198,000-\$208,000	\$204,000-\$214,000
Married Filing Separately	\$ 10,000	\$ 10,000
Roth IRA - Based on AGI		
Single & HOH	\$125,000-\$140,000	\$129,000-\$144,000
Married Filing Jointly	\$198,000-\$208,000	\$204,000-\$214,000
Married Filing Separately	\$ 10,000	\$ 10,000

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More Retirement Updates – SECURE Act – Employers – Effective after 12/31/2019

- **Credit for Small Employer Pension Plan Startup Cost** (Form 8881 - <https://www.irs.gov/pub/irs-pdf/f8881.pdf>) is increased **from \$500 to \$5,000*** – per year, for up to the first three years of a new plan
 - *Based on up to \$250 per eligible employee
- **Small Employer Auto-Enrollment Credit of \$500** - per year, for up to the first three years of a new plan or adding auto-enrollment to an existing plan
- Employers with 401(k) plan must permit part-time employee to participate (500 hours and age 21 by end of 3-year period, or complete 1 year of service) – effective after 12/31/2020
- Allows unrelated employers to participate in pooled multiple employer plans (MEPs) effective after 12/31/2020

So far...no changes

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More Retirement Updates – SECURE Act – Employers – Effective after 12/31/2019

- **401(k)** – increases the limitation on default rates in automatic enrollment safe harbor plan from 10% to 15% (this is the maximum automatic contribution rate)
- **403(b)** – allows custodial accounts terminated by an employer to be distributed to the employee or to another custodial account – retroactive to tax years after 12/31/2008. Allowing funds to remain tax-deferred like a Section 403(b)(7) custodial account, similar to the treatment of fully-paid individual annuity contracts under Revenue Ruling 2011–7
- Allows retirement plans adopted by the filing date (including extensions) for the year to be treated as in effect as of the close of the year – applicable to plans adopted for tax years beginning after 12/31/2019.

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More Retirement Updates – SECURE Act – Employees – Effective after 12/31/2019



- The SECURE Act also allows owners of traditional IRAs to make contributions past the age of 70½ starting in 2020.
- In addition, folks having a baby or adopting a child can now take payouts **from IRAs and 401(k)s of up to \$5,000 without having to pay the 10% fine** for pre-age-59½ withdrawals.
- Beginning in 2020, fellowships, stipends or similar payments to graduate or post-doctoral students are treated as compensation for purposes of making IRA contributions, too..

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Itemized Deductions

- On the next several slides we will be talking about deductions in effect for 2021.
- There are no significant changes for this year.
- We don't know anything about 2022 until Congress finishes hashing out the newest changes in the tax laws. Expect that by December.
(like an increased **SALT** deduction)

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Deductions Limitations

Which Itemized Deductions Are Not Limited?

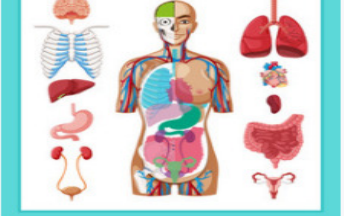
The Pease phaseout limits are gone – at least until 12/31/2025.
(note the new line numbers)

However, they are still subject to other applicable limits.

- **Medical** and dental expenses (**7.5%**)—line 4.
- **PMI** – Line 8 d - Mortgage Insurance Premiums – are back through 2021
- Investment interest expense (investment income)—line 9.
- Casualty and theft losses of personal use property—line 20 (10% of AGI + \$100) – for **Presidential disasters only**, no thefts!
- Casualty and theft losses of income-producing property—line 15.
<https://www.irs.gov/pub/irs-pdf/f4684.pdf>
- Gambling losses—line 16 (limited to gambling income).
- Miscellaneous expenses – subject to 2% reduction – **ALL GONE!**

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Medical and Dental Expenses

- You can only include in medical expenses those amounts paid during the taxable year for which taxpayer received **NO** insurance or other reimbursement during the year.
 - Medical Mileage is **16 cents** per mile for 2021 **(2022 -?)**
<https://www.irs.gov/tax-professionals/standard-mileage-rates>
 - Don't forget tolls and parking fees (but not speeding tickets!)
 - Medical travel also includes the costs for the patient and a (one) companion/ caregiver – **up to \$50/night each, for patient and caregiver. (no meals)**
 - Medical travel for treatment outside of the country is deductible.
 - Treatment may require the patient to stay in that country for several weeks until the full set of procedures are complete. The lodging for all days is allowable.
 - In some cases, the treatment, travel and living expenses are still cheaper than it would cost here in the US.
 - See pub 502 for more expenses
<https://www.irs.gov/publications/p502>
- 
- ORGANS OF THE HUMAN BODY | FEMALE
- Home improvements and Special equipment** are deductible as medical expenses. *(to the extent it does not increase the value of home)*
 - Payments made by others** – Taxpayers may be able to deduct medical expenses paid by others on their behalf.
 - Child of Divorced or separated parents** – Child is treated as dependent of BOTH parents for medical purposes. *(each parent can include medical expenses he or she pays for the child, even if the other parent claims the child as a dependent)*
 - Nursing Services** - You can include in medical expenses wages and other amounts you pay for nursing services. The services *need not be performed by a nurse* as long as the services are of a kind generally performed by a nurse. This includes services connected with caring for the patient's condition, such as giving medication or changing dressings, as well as bathing and grooming the patient. These services can be provided in your home or another care facility. **Generally, only the amount spent for nursing services is a medical expense.** If the attendant also provides personal and household services, amounts paid to the attendant must be divided between the time spent performing household and personal services and the time spent for nursing services

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Medical for Non-Dependent

You can include medical expenses you paid for your dependent. For you to include these expenses, the person must have been your dependent either at the time the medical services were provided or at the time you paid the expenses. A person generally qualifies as your dependent for purposes of the medical expense deduction if both of the following requirements are met.

- The person was a qualifying child or a qualifying relative and
- The person was a U.S. citizen or national or a resident of the United States, Canada, or Mexico.

You can include medical expenses you paid for an individual that **would have been** your dependent **except that:**

- He or she received gross income of \$4,300 or more in 2021, (\$4,400 – 2022)
- He or she filed a joint return for 2021, or
- You, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2021 return.

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Reminder - In Home Supportive Service Workers' Income



As you know, this income is **no longer taxable** – since 2016.

- **SECURE Act Sec 116** makes this income qualified as “earned income” to allow for defined benefit contribution plan limits after 12/31/2015
- And it allows for IRA contributions made after **12/20/2019**

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Home Care Compensation Tip

Always check with your clients to determine if they are paying for household help.

They may have to put workers on payroll and file a Schedule H if they pay \$2,300 (2021) \$2,400 (2022) or more per year. (or more than \$1,000 per quarter) <https://www.irs.gov/pub/irs-dft/f1040sh--dft.pdf>

Three options:

1. Recommend that they pay an outside service for the workers.
2. Paying directly may be cheaper, then they must set up payroll for IRS and State (which probably doesn't have a Schedule H) and must file all their own quarterly/annual reports, W-2s, etc.
3. Have them hire you to handle all the payroll details.

Note: Remember to adjust federal withholding or ES payments for the additional Schedule H taxes.

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Medical Expenses & Retirement Accounts

TaxMama® Tip: When clients have high medical expenses, find out how much they have in their pensions, retirement accounts and IRAs.

- This is an excellent opportunity to draw money out of those accounts (generally without penalties).
- Balance the draws to offset medical expenses.
- If the taxpayer doesn't need the money to pay the medical expenses. Fine – move the funds to a Roth IRA to convert the taxable accounts to tax-free accounts.

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Home Mortgage Interest

What's new for 2021?

- Nothing, really.
- The PMI deduction (mortgage insurance premiums) is **still around through 12/31/2021** – with an income limitation of \$100,000 or \$50,000 for MFS.

Interest You Paid <small>Caution: Your mortgage interest deduction may be limited (see instructions).</small>	8 Home mortgage interest and points. If you didn't use all of your home mortgage loan(s) to buy, build, or improve your home, see instructions and check this box <input type="checkbox"/>	
	a Home mortgage interest and points reported to you on Form 1098. See instructions if limited	8a
	b Home mortgage interest not reported to you on Form 1098. See instructions if limited. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	8b
	c Points not reported to you on Form 1098. See instructions for special rules	8c
	d Mortgage insurance premiums (see instructions)	8d
	e Add lines 8a through 8d	8e
	9 Investment interest. Attach Form 4952 if required. See instructions.	9
	10 Add lines 8e and 9	10

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Parents or Others Main Borrowers

- Sometimes the taxpayer(s) do(es) not have the credit to qualify for a home mortgage/purchase.
- Family members end up being the buyers and borrowers on paper.
- But the taxpayer lives in home, makes all the mortgage payments, etc. And except for the original paperwork, is really the intended owner.
- “*Equitable Owner*” or “*Beneficial Owner*” – it can get complicated – or you can make it simple.
- There may be more of this kind of thing going on these days...

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Equitable or Beneficial Owner issues

- **Simple** – Get attorney to draw up paperwork to spell out who really owns the home & loan.
- **Simple** - Need deed in the Beneficial Owner’s name. Whether filed or not.
- Simple – when CP-2000 comes, simply reply as follows:
The taxpayer is a Beneficial owner under Treasury Regulation Treas. Reg. § 1.163-1(b) <https://www.law.cornell.edu/cfr/text/26/1.163-1>
- **Complicated** – Potential gift tax issues can complicate the arrangement.
- **No paperwork** to prove the real arrangement? Taxpayer may have to fight it out in Tax Court. GET paperwork set up!
<https://www.journalofaccountancy.com/issues/2008/oct/equitableownerequalsdeduction.html>

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Mortgage Cancellation of Debt



- The **SECURE Act** restored the exclusion from income for qualified mortgage debt cancellation – for 2018 – 2020.
- Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTRA) extended this to 12/31/2025
 - Discharges after 2020, exclude up to **\$750,000** (MFS \$375,000)
- If you had clients with this kind of debt and you used the insolvency exclusion, you're probably fine. But consider revisiting the return.
 - Insolvency worksheet - <https://www.irs.gov/pub/irs-pdf/p4681.pdf#page=6>

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Insolvency Worksheet – instead of Cancellation of Debt

Insolvency Worksheet *Keep for Your Records*

Date debt was canceled (mm/dd/yyyy)

Part I. Total liabilities immediately before the cancellation (don't include the same liability in more than one category)		Amount Owed Immediately Before the Cancellation
Liabilities (debts)		
1. Credit card debt		\$
2. Mortgage(s) on real property (including first and second mortgages and home equity loans) (mortgage(s) can be on main home, any additional home, or property held for investment or used in a trade or business)		\$
3. Car and other vehicle loans		\$
4. Medical bills owed		\$
5. Student loans		\$
6. Accrued or past-due mortgage interest		\$
7. Accrued or past-due real estate taxes		\$
8. Accrued or past-due utilities (water, gas, electric, etc.)		\$
9. Accrued or past-due child care costs		\$
10. Federal or state income taxes remaining due (for prior tax years)		\$
11. Judgments		\$
12. Business debts (including those owed as a sole proprietor or partner)		\$
13. Margin debt on stocks and other debt to purchase or secured by investment assets other than real property		\$
14. Other liabilities (debts) not included above		\$
15. Total liabilities immediately before the cancellation. Add lines 1 through 14.		\$
Part II. Fair market value (FMV) of assets owned immediately before the cancellation (don't include the FMV of the same asset in more than one category)		FMV Immediately Before the Cancellation
Assets		
16. Cash and bank account balances		\$
17. Real property, including the value of land (can be main home, any additional home, or property held for investment or used in a trade or business)		\$
18. Cars and other vehicles		\$
19. Computers		\$
20. Household goods and furnishings (for example, appliances, electronics, furniture, etc.)		\$
21. Tools		\$
22. Jewelry		\$
23. Clothing		\$
24. Books		\$
25. Stocks and bonds		\$
26. Investments in coins, stamps, paintings, or other collectibles		\$
27. Firearms, sports, photographic, and other hobby equipment		\$
28. Interest in retirement accounts (IRA accounts, 401(k) accounts, and other retirement accounts)		\$
29. Interest in a pension plan		\$
30. Interest in education accounts		\$
31. Cash value of life insurance		\$
32. Security deposits with landlords, utilities, and others		\$
33. Interests in partnerships		\$
34. Value of investment in a business		\$
35. Other investments (for example, annuity contracts, guaranteed investment contracts, mutual funds, commodity accounts, interests in hedge funds, and options)		\$
36. Other assets not included above		\$
37. FMV of total assets immediately before the cancellation. Add lines 16 through 36.		\$
Part III. Insolvency		
38. Amount of insolvency. Subtract line 37 from line 15. If zero or less, you aren't insolvent.		\$

<https://www.irs.gov/pub/irs-pdf/p4681.pdf#page=6>

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Points

No changes to deductibility:

What are not Points? The IRS specifically states that if the fee is for items that would normally be itemized on a settlement statement, such as notary fees, preparation costs, and inspection fees, it is not deductible.

- Must amortize, over the life of the loan
 - If business, rental or investment property.
 - When refinancing
 - Failure to meet requirements
 - careful- HUD 1 shows if there isn't enough cash to cover the points

TaxMama® Reminder - If they refinance again and replace the previous mortgage, remember to deduct the unused balance of the previous refinance. It's deductible in full. <https://www.irs.gov/pub/irs-pdf/i1040sca.pdf#page=9>

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Time for a Bit of a Stretch!



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Charitable Contributions



- The limit on deductions of charitable contributions of cash was increased from 50 percent to 60 percent of adjusted gross income. **
- **RMD to Charity** - Sec. 408(d)(8), which allows taxpayers to distribute up to \$100,000 in qualified charitable distributions from individual retirement plans without including the distributions in income. **Sec. 112 of PATH Act – makes this permanent.**
 - Note: This doesn't mean someone must be rich or make a \$100,000 contribution.
 - The distribution is excluded from income.
 - There is no charitable deduction.
 - If taxpayer made contributions to an IRA after age **70.5 or 72 (SECURE Act and CARES Act)**, (since they are still working) reduce the \$100,000 donation limit by those contributions (more RMD details coming up).
No charitable deduction for college athletic event seating rights.
- Repeals the section 170(f)(8)(D) substantiation exception to the contemporaneous written acknowledgment requirement by having the organization file a report.
<https://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-%20466.pdf#page=619>

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Cash Donations in 2021

<https://www.irs.gov/newsroom/expanded-tax-benefits-help-individuals-and-businesses-give-to-charity-during-2021-deductions-up-to-600-available-for-cash-donations-by-non-itemizers>

- **\$300 per person – “above the line” deduction (up to \$600 for Married Filing Jointly)**
- 100% on cash contributions made to all qualifying charitable organizations
- If you give property to a qualified organization, you generally can deduct the *fair market value* of the property at the time of the contribution.
- 25% limit on corporations' contributions, up from 10%
- 25% limit on donated food inventory, up from 15%

See Pub 526 for interesting contributions you can deduct and some that you cannot deduct. Sorry, no Bingo games or Political Organizations.

<https://www.irs.gov/publications/p526>

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Contemporaneous \$250 or More - IRC 170 – Charitable Contributions – Contemporaneous - MANDATORY

<https://www.law.cornell.edu/uscode/text/26/170>

Donation Receipt from [Organization Name]	
Questions? Contact the [name of organization] at [phone number].	
Organization Tax ID Number XX-XXXXXX	
Donor name	
Address	
City	
State/Province	
Postal code	
Phone	
Total amount	
Date of donation	
Type of donation	[cash, merchandise, service]
Description	[details of merchandise or service]
Value	[value of merchandise or service]
Statement	[Donor received] [value OR no goods or services] for this donation.

Thank you for your generous support!

The receipt is a customized Office 365 template - <https://templates.office.com/en-us/donation-receipt-tm06089148>

(8) **Substantiation requirement for certain contributions** (A) **General rule** No deduction shall be allowed under subsection (a) for any contribution of \$250 or more unless the taxpayer substantiates the contribution by a contemporaneous written acknowledgment of the contribution by the donee organization that meets the requirements of subparagraph (B).

(C) **Contemporaneous** For purposes of subparagraph (A), an acknowledgment shall be considered to be contemporaneous if the taxpayer obtains the acknowledgment on or before the earlier of—

- (i) the date on which the taxpayer files a return for the taxable year in which the contribution was made, or
- (ii) the due date (including extensions) for filing such return.

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Charitable Contributions – TaxMama® Tip

For clients who cannot itemize – and won't be able to use/carry over the deduction within the 5-year limit:

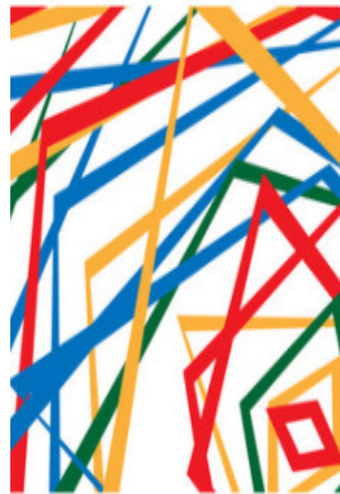
- Have them gift their donations to family members who can itemize (both cash and non-cash)
- Family member can make the donation and get deduction
- The donation can be made in honor of the parent (or family member) so they still get the standing in the community
- And consider other alternatives, like Donor Advised Funds <https://www.irs.gov/charities-non-profits/charitable-organizations/donor-advised-funds>

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Miscellaneous Deductions – “Other Deductions”

- Miscellaneous expenses – subject to **2% reduction** – **ALL GONE!**
- “Other Deductions” are still available
 - Amortizable premium on taxable bonds.
 - Casualty and theft losses from income-producing property.
 - Federal estate tax on income in respect of a decedent.
 - **Gambling losses** up to the amount of gambling winnings.
 - Impairment-related work expenses of persons with disabilities.
 - Losses from Ponzi-type investment schemes.
 - **Repayments** of more than \$3,000 under a claim of right.
 - Unlawful discrimination claims.
 - Unrecovered investment in an annuity.



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Required Minimum Distributions - RMDs

- The **SECURE Act** raises the age to take the first distribution from 70.5 to **age 72** – for taxpayers turning 70.5 after 12/31/2019
- **Inherited IRAs** – **new 10-year RMD** limit for deaths after 12/31/2019, except
 - Surviving spouse
 - Disabled or chronically ill beneficiary
 - Person not more than 10 years younger than the IRA owner
 - Minor child of the IRA owner
 - (Delayed effective dates for government plans and collective bargaining agreements)

All requirements were suspended for seniors and heirs due to COVID19 in 2020 – they are **back in force for 2021!**

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Corona Virus Distributions –2020 - 2021

<https://www.irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers>

What is a coronavirus-related distribution?

- A4. A coronavirus-related distribution is a distribution that is made from an eligible retirement plan to a qualified individual from January 1, 2020, to July 25, 2021 (180 days after enactment of TCDRA), up to an aggregate limit of \$100,000 from all plans and IRAs – no 10% penalty.
- Includes distributions from retirement plans and IRAs, but not defined benefit plans.

When do I have to pay taxes on coronavirus-related distributions?

- A6. The distributions generally are included in income ratably over a three-year period, starting with the year in which you receive your distribution. For example, if you receive a \$9,000 coronavirus-related distribution in 2020, you would report \$3,000 in income on your federal income tax return for each of 2020, 2021, and 2022. However, you have the option of including the entire distribution in your income for the year of the distribution.

May I repay a coronavirus-related distribution?

- A7. In general, yes, you may repay all or part of the amount of a coronavirus-related distribution to an eligible retirement plan, provided that you complete the repayment within three years after the date that the distribution was received. If you repay a coronavirus-related distribution, the distribution will be treated as though it were repaid in a direct trustee-to-trustee transfer so that you do not owe federal income tax on the distribution

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COVID19

Related Withdrawals

- There are **no special rules for 2021 withdrawals.**
 - BUT...remember, our clients do have to pay taxes on 1/3 of last year's distributions – in 2021 and 2022 (if not rolled back into the account).
- For more details...let's review last year's rules – coming up

	1	Wages, salaries, tips, etc. Attach Form(s) W-2	1
Attach Sch. B if required.	2a	Tax-exempt interest	2b Taxable interest
	3a	Qualified dividends	3b Ordinary dividends
	4a	IRA distributions	4b Taxable amount
	5a	Pensions and annuities	5b Taxable amount
	6a	Social security benefits	6b Taxable amount
Standard Deduction for— • Single or Married filing separately, \$12,550	7	Capital gain or (loss). Attach Schedule D if required. If not required, check here	7
	8	Other income from Schedule 1, line 10	8
	9	Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9

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Employee Benefits

Description	2021	2022
Cafeteria Plans (FSA)- Max deduction	\$2,750	\$2,850
...Carryover benefits	\$550	\$550
Commuter Benefits - monthly	\$270	\$280
- Bicycle commuter benefits of \$20/ mo suspended 2018-2025		
- Deductible to employer. but ADD to employee wages		
Parking Benefits - monthly	\$270	\$280
Employee Awards - non-qualified	\$400	\$400
Employee Awards - maximum (multiple)	\$1,600	\$1,600

Read IRS Publication 15-b – Employer’s Guide to Fringe Benefits

<https://www.irs.gov/publications/p15b/>

IRS updates for 2021 <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf#page=14>

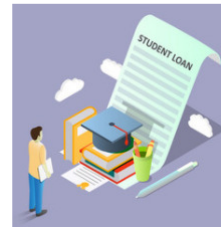
Tangible property, not cash - <https://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-%20466.pdf#page=776>

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Education – Discharge Student Loan Debt

American Rescue Plan Act (ARPA) changed the landscape



Exclusion of Forgiven Student Loans

The Act includes an expanded exclusion of forgiven student loan amounts applicable to loans discharged **after 2020 and before 2026**. Under prior law, forgiven student loans are only excludable given certain conditions (such as the death or disability of the borrower). However, this expansion allows for the exclusion to apply to **any discharge of student loans for any reason during the period**. The exclusion also applies to private student loans, as long as there is no required provision of services to the discharging lender.

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Sec 529 Accounts Use of Funds - Changes

We already knew that up to \$10,000 in funds from Sec 529 accounts can be used towards qualified home-schooling costs, elementary schools and high schools.

Effective for distributions made after 12/31/2018, the SECURE Act **adds**

- Cost associated with registered apprenticeships and
- Up to \$10,000 of qualified student loan repayments (principal and interest) for the taxpayer and siblings
- The basic details can be found here (Yes room and board are included)

<https://www.irs.gov/pub/irs-pdf/p970.pdf#page=59>

The provision also **modifies** the definition of higher education expenses to include certain expenses incurred in connection with a homeschool.

Those expenses are:

- 1) Curriculum and curricular materials;
- 2) Books or other instructional materials;
- 3) Online educational materials;
- 4) Tuition for tutoring or educational classes outside of the home (but only if the tutor or instructor is not related to the student);
- 5) Dual enrollment in an institution of higher education;
- 6) Educational therapies for students with disabilities.

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Gifts and Estates

Gift Tax

- **\$16,000 - 2022**
- **\$15,000 (2018-2021)**
- Annual exclusion \$14,000 – 2014-2017

Estate Tax

- **\$12,060,000 - 2022**
- \$11,700,000 - 2021
- \$11,580,000 - 2020
- \$11,400,000 – 2019

Tax rate for taxable estate - 40%

Gifts to Non-Citizen Spouse

- \$164,000 - 2022
- \$159,000 - 2021
- \$157,000 - 2020
- \$155,000 - 2019

Table for Computing Gift Tax

Column A	Column B	Column C	Column D
Taxable amount over	Taxable amount not over—	Tax on amount in Column A	Rate of tax on excess over amount in Column A
.....	\$10,000	.....	18%
\$10,000	20,000	\$1,800	20%
20,000	40,000	3,800	22%
40,000	60,000	8,200	24%
60,000	80,000	13,000	26%
80,000	100,000	18,200	28%
100,000	150,000	23,800	30%
150,000	250,000	38,800	32%
250,000	500,000	70,800	34%
500,000	750,000	155,800	37%
750,000	1,000,000	248,300	39%
1,000,000	345,800	40%

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Estates & Trusts – Form 1041 – Estate Tax Rate – 2021

2021 Tax Rate Schedule			
Estates and trusts, if line 6 of the 2021 Estimated Tax Worksheet above is:			
Over—	But not over—	The tax is:	Of the amount over—
\$0	\$ 2,650	10%	\$0
2,650	9,550	\$265.00 + 24%	2,650
9,550	13,050	1,921.00 + 35%	9,550
13,050	-----	3,146.00 + 37%	13,050

- Form 1041- ES <https://www.irs.gov/pub/irs-prior/f1041es--2020.pdf>
- Form 1041 2021 <https://www.irs.gov/pub/irs-dft/f1041--dft.pdf>
- **Note:** These rates are a good reason to pass income through to the beneficiaries so they can pay at their lower tax rates - Due by 65th day after end of tax year. Calendar year 2021 – due by **March 7, 2022**.
- Trust can make estimated tax payments on their behalf and allocate it to them, using Form 1041T <https://www.irs.gov/pub/irs-dft/f1041t--dft.pdf>

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Estates & Trusts – Form 1041 – Estate Tax Rate – 2022

If Taxable Income Is:			
Over	But Not More Than	The Tax Is	Of the Amount Over
.....\$0	.....\$2,750	\$0 + 10%	.....\$0
..... 2,750	.....9,850	275 + 24%	..... 2,750
..... 9,850	..... 13,450	1,979 + 35%	..... 9,850
..... 13,450		3,239 + 37%	..... 13,450

Since, currently most estate values are too low to require filing Form 706, the IRS has another option, to ensure valuation of an estate's assets is the same by all beneficiaries.

- **Consistent basis reporting for inherited assets – use Form 8971 (Required if Filing 706)** <https://www.irs.gov/pub/irs-dft/f8971--dft.pdf>
- Executors must provide Schedule A to each beneficiary to give them the value of their assets - <https://www.irs.gov/pub/irs-dft/i8971--dft.pdf>

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Kiddie Taxes – SECURE Act changes



- Reporting investment income on parents' return – Form 8814 - <https://www.irs.gov/pub/irs-pdf/f8814.pdf> - is available for income up to **\$11,000 -2021** (\$11,500 - 2022) per child
- Reporting income on child's return – Form 8615 - <https://www.irs.gov/pub/irs-pdf/f8615.pdf>

Effective for tax years **after 12/31/2019**, the trust tables are no longer to be used. The old rules (**parents' rates**) are **back in effect**. This applies to all unearned income. Earned income is taxed at the child's own tax rate

- 2021 - The first \$1,100 is tax-free; the next \$1,100 is taxed at 10%
 - The rest is taxed at the parent's marginal rate
- 2022 - The first \$1,150 is tax-free; the next \$1,150 is taxed at 10%
 - The rest is taxed at the parent's marginal rate

CARES Act – NOL Provisions - through 2020

<https://www.congress.gov/bill/116th-congress/house-bill/748>

- The rules relating to net operating losses to allow taxpayers to carry back net operating losses in 2018-2020 **for up to five years**, and to offset 100% of their income with losses in taxable years beginning before 2021.
- **Farmers** who elected a two-year net operating loss carryback prior to the CARES Act to elect to retain that two-year carryback rather than claim the five-year carryback provided in the CARES Act. This section also allows farmers who previously waived an election to carry back a net operating loss to revoke the waiver. These clarifications eliminate unnecessary compliance burdens for farmers. The provision applies retroactively as if included in the CARES Act..
- The \$250,000 limitation on the net business losses of individuals other than corporations is repealed in **2018 and 2019**
- The tax credit for the prior year minimum tax liability of corporations is **immediate refundable**.
- The limitation on the deductibility of business interest is raised taxable years beginning in 2019 and 2020 . The deductible limit is raised to 50% instead of 30%.
- The error in the TCJA that didn't classify qualified improvement property (certain improvements to the interior of nonresidential real property) as 15-year property for depreciation purposes – has been corrected.
- Through 2020 the excise tax for alcohol used in hand sanitizers has been suspended.
- **Note: Forgiven funds from PPP can be used to claim all employer credits...but... you must reduce the payroll expenses accordingly**

TCJA Act – NOL Provisions - 2021 and Later

<https://www.congress.gov/bill/116th-congress/house-bill/748>

For taxable years beginning **after December 31, 2020**, the NOL deduction reverts back to the pre-CARES Act rules – to the TCJA. The NOL is equal to the sum of:

- The aggregate NOL carryovers of NOLs generated in taxable years beginning before January 1, 2018; **plus**
- The lesser of:
 - The aggregate amount of NOL carryovers from NOLs arising in taxable years beginning after December 31, 2017; or
 - 80% of the excess (if any) of:
 - Taxable income computed without regard to NOLs, §199A, and IRC §250 deductions; over
 - The aggregate amount of NOL carryovers from pre-2018 taxable years. (IRC §172(a)(2))

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Employer Tax Credits

We will be skipping the next section
in the interest of time
from slide – 83 to slide 96

But we wanted to leave the
information here
for those of you working with employers.

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CARES Act - Delayed FICA/Medi and SE Payments

Employers affected by COVID19 may defer the withholding, deposit, and payment of payroll tax obligations for Social Security (employer and employee). Payments are postponed until the period beginning on January 1, 2021, and ending on April 30, 2021.

https://www.irs.gov/irb/2020-38_IRB#NOT-2020-65

Substitute April 30, 2021 for January 1, 2021; and January 1, 2022 for May 1, 2021 (penalties and interest begin to accrue on May 1st)

It would be wise to advise your clients to **avoid taking** advantage of this provision if they can afford to pay their payroll taxes currently.

Let's look at Form 941

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Paid Sick and Family Leave Updated Amounts

<https://www.irs.gov/coronavirus/employer-tax-credits>

- The paid leave credits under the ARP are **tax credits against the employer's share of the Medicare tax**. The tax credits are refundable, which means that the employer is entitled to payment of the full amount of the credits if it exceeds the employer's share of the Medicare tax.
- The tax credit for paid **sick leave wages** is equal to the sick leave wages paid for COVID-19 related reasons for
 - up to two weeks (80 hours),
 - **limited to \$511 per day and \$5,110** in the aggregate, at
 - 100 percent of the employee's regular rate of pay.
- The tax credit for paid **family leave wages** is equal to the family leave wages paid for
 - up to twelve weeks,
 - **limited to \$200 per day and \$2,000** in the aggregate,
 - at 2/3rds of the employee's regular rate of pay.
- The amount of these tax credits is increased by allocable health plan expenses and contributions for certain collectively bargained benefits, as well as the employer's share of Social Security and Medicare taxes paid on the wages (up to the respective daily and total caps).

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Tax Credits For Paid Sick And Paid Family And Medical Leave

- An employer is entitled to a refundable income tax credit for **100% of the qualified family leave amounts of self-employed individuals**, subject to a specified formula for determining the leave amounts. Self-employed individuals must maintain documentation prescribed by the Internal Revenue Service to establish eligibility for the credit. (documentation is not defined)
- **Wages** required to be paid to employees under the Emergency Paid Sick Leave Act and the Emergency Family and Medical Leave Expansion Act **shall not be considered wages for purposes of the Federal Insurance Contributions Act (FICA)**.
- The Tax Credit for Family and Medical Leave was extended to December 31, 2025 (from 12/31/2021)
 - Applies to time off for vaccinations

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Sick and Family Leave (SAFL) – Time Periods

- 2020 - Q2 through Q4
 - Mandatory for employers to provide paid sick and family leave (SAFL) for employees affected directly or indirectly by COVID19
- 2021 – Q1
 - Employers that voluntarily provide SAFL get the credits that were previously outlined.
- 2021 – Q2 – Q3
 - The credits expired – but were renewed through 09/30/2021
 - The time limits were re-set for employees (and the self-employed) to use the benefits – i.e. if the employer claimed the maximum credit days in 2020 and Q1 of 2021, they may start counting days again as of April 1, 2021 to get the credits, anew.

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Form **941 for 2021: Employer's QUARTERLY Federal Tax Return**
 (Rev. June 2021) Department of the Treasury - Internal Revenue Service OMB No. 1545-0029

Report for this Quarter of 2021
 (Check one)
 1. January, February, March
 2. April, May, June
 3. July, August, September
 4. October, November, December
 Go to www.irs.gov/Form941 for instructions and the latest information.

Name (not your trade name) _____
 Trade name (if any) _____
 Address _____
 Number Street State or room number
 City State ZIP code
 Foreign country name Foreign province/county Foreign postal code

Read the separate instructions before you complete Form 941. Type or print within the boxes.

Part 1: Answer these questions for this quarter.

1 Number of employees who received wages, tips, or other compensation for the pay period including: June 12 (Quarter 2), Sept. 12 (Quarter 3), or Dec. 12 (Quarter 4) 1 _____

2 Wages, tips, and other compensation 2 _____

3 Federal income tax withheld from wages, tips, and other compensation 3 _____

4 If no wages, tips, and other compensation are subject to social security or Medicare tax Check and go to line 6.

	Column 1	Column 2	
5a Taxable social security wages*	_____ × 0.124 = _____	_____	*Include taxable qualified sick and family leave wages for leave taken after March 31, 2021, on lines 5a, 5b, 5c, and 5d; only for wages paid after March 31, 2020, for leave taken before April 1, 2021.
5a (i) Qualified sick leave wages*	_____ × 0.062 = _____	_____	
5a (ii) Qualified family leave wages*	_____ × 0.062 = _____	_____	
5b Taxable social security tips	_____ × 0.124 = _____	_____	
5c Taxable Medicare wages & tips	_____ × 0.029 = _____	_____	
5d Taxable wages & tips subject to Additional Medicare Tax withholding	_____ × 0.009 = _____	_____	
5e Total social security and Medicare taxes. Add Column 2 from lines 5a, 5a(i), 5a(ii), 5b, 5c, and 5d		_____	5e _____
5f Section 3121(g) Notice and Demand—Tax due on unreported tips (see instructions)		_____	5f _____
6 Total taxes before adjustments. Add lines 3, 5e, and 5f		_____	6 _____
7 Current quarter's adjustment for fractions of cents		_____	7 _____
8 Current quarter's adjustment for sick pay		_____	8 _____
9 Current quarter's adjustments for tips and group-term life insurance		_____	9 _____
10 Total taxes after adjustments. Combine lines 6 through 9		_____	10 _____
11a Qualified small business payroll tax credit for increasing research activities. Attach Form 8974		_____	11a _____
11b Nonrefundable portion of credit for qualified sick and family leave wages for leave taken before April 1, 2021		_____	11b _____
11c Nonrefundable portion of employee retention credit		_____	11c _____

► You MUST complete all three pages of Form 941 and SIGN it.
 For Privacy Act and Paperwork Reduction Act Notice, see the back of the Payment Voucher. Cat. No. 170912 Form 941 (Rev. 6-2021)

Revised Form 941
<https://www.irs.gov/pub/irs-pdf/f941.pdf>

Name (not your trade name) _____ Employer identification number (EIN) **951221**

Part 1: Answer these questions for this quarter, (continued)

11d Nonrefundable portion of credit for qualified sick and family leave wages for leave taken after March 31, 2021 11d _____

11e Nonrefundable portion of COBRA premium assistance credit (see instructions for applicable quarters) 11e _____

11f Number of individuals provided COBRA premium assistance _____

11g Total nonrefundable credits. Add lines 11a, 11b, 11c, 11d, and 11e 11g _____

12 Total taxes after adjustments and nonrefundable credits. Subtract line 11g from line 10 12 _____

13a Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), 944-X, or 944-X (SP) filed in the current quarter 13a _____

13b Reserved for future use 13b _____

13c Refundable portion of credit for qualified sick and family leave wages for leave taken before April 1, 2021 13c _____

13d Refundable portion of employee retention credit 13d _____

13e Refundable portion of credit for qualified sick and family leave wages for leave taken after March 31, 2021 13e _____

13f Refundable portion of COBRA premium assistance credit (see instructions for applicable quarters) 13f _____

13g Total deposits and refundable credits. Add lines 13a, 13c, 13d, 13e, and 13f 13g _____

13h Total advances received from filing Form(s) 7200 for the quarter 13h _____

13i Total deposits and refundable credits less advances. Subtract line 13h from line 13g 13i _____

14 Balance due. If line 12 is more than line 13i, enter the difference and see instructions 14 _____

15 Overpayment. If line 13i is more than line 12, enter the difference _____ Check one: Apply to next return. Send a refund.

Part 2: Tell us about your deposit schedule and tax liability for this quarter.
 If you're unsure about whether you're a monthly schedule depositor or a semiweekly schedule depositor, see section 11 of Pub. 15.

16 Check one: Line 12 on this return is less than \$2,500 or line 12 on the return for the prior quarter was less than \$2,500, and you didn't incur a \$100,000 next-day deposit obligation during the current quarter. If line 12 for the prior quarter was less than \$2,500 but line 12 on this return is \$100,000 or more, you must provide a record of your federal tax liability. If you're a monthly schedule depositor, complete the deposit schedule below; if you're a semiweekly schedule depositor, attach Schedule B (Form 941). Go to Part 3.
 You were a monthly schedule depositor for the entire quarter. Enter your tax liability for each month and total liability for the quarter, then go to Part 3.

Tax liability: Month 1 _____
 Month 2 _____
 Month 3 _____
 Total liability for quarter _____ Total must equal line 12.

You were a semiweekly schedule depositor for any part of this quarter. Complete Schedule B (Form 941), Report of Tax Liability for Semiweekly Schedule Depositors, and attach it to Form 941. Go to Part 3.

► You MUST complete all three pages of Form 941 and SIGN it.
 Page 2 Form 941 (Rev. 6-2021)

Revised Form 941, cont
<https://www.irs.gov/pub/irs-pdf/f941.pdf>

Refundable Employee Retention Credit - Form 7200

- **Employee Retention Credit** — The Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted December 27, 2020, amended and extended the employee retention credit (and the availability of certain advance payments of the tax credits) under section 2301 of the CARES Act until June 30, 2021. Extended to December 31, 2021, by the ARPA (**but changed by the Infrastructure Act**)
- Allows for up to **70% of \$10,000** per qualified employee of an eligible business through December 31, 2021
- There is a separate \$50,000 per quarter credit limit for “recovery businesses”
- UPDATE - <https://www.congress.gov/117/bills/hr3684/BILLS-117hr3684eas.pdf>
 - **This credit ends on September 31, 2021, for businesses in general**
 - For a recovery start-up businesses, they get until December 31, 2022
- To apply, fax Form 7200 to 855-248-0552
<https://www.irs.gov/pub/irs-pdf/i7200.pdf>

See tips on the NSTP website - http://iTaxMama.com/NSTP_Form7200_new

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Who Qualifies for Refundable Employee Retention Credit? - Qualified Businesses

- An **eligible employer** is an employer carrying on a trade or business
 - (1) whose trade or business’s operation is fully or partially suspended due to orders from a governmental authority limiting commerce, travel, or group meetings due to COVID-19;
 - (2) that experiences a decline in gross receipts (as defined in Notices 2021-20 and 2021-23); or (3) is a recovery startup business.
- A **recovery startup business** is an employer that
 - (1) is not otherwise an eligible employer under conditions (1) or (2) of the preceding sentence; that
 - (2) began carrying on a trade or business after Feb. 15, 2020;
 - (3) with average annual gross receipts for the three tax years preceding the quarter in which it claims the credit of no more than \$1 million (with rules under Sec. 448(c)(3) for their calculation if the entity has not been in existence for three years and by reference to the entity’s predecessor).

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Form 7200 - Advance Payment of Employer Credits Due to COVID-19
<https://www.irs.gov/pub/irs-pdf/f7200.pdf> (Not Yet Updated For 2021 returns)

Employee Retention Credit

- you can use forgiven funds from PPP to claim the credit...but...

Part I Tell Us About Your Employment Tax Return

A Check the box to indicate which employment tax return form you file (or will file for 2021). Check only one box.
 941, 941-PR, or 941-SS 943 or 943-PR 944 CT-1

B Enter the total number of employees to whom you paid qualified wages eligible for the employee retention credit this quarter

C Amount reported on line 2 of your most recently filed Form 941 (or wages reported on Schedule R (Form 941), column (d), by your third-party payer (see instructions)). If you file a different employment tax return or have never filed one, see instructions

D Tax period of most recently filed Form 941 (for example, "Q4 2020") or annual employment tax return (for example, "2020")

E If you're requesting an advance payment of the employee retention credit (Part II, line 1), enter the average number of full-time employees you had in 2019 (or 2020) if your business wasn't in existence in 2019. Aggregation rules apply. See instructions

F If you're requesting an advance payment for qualified sick and/or family leave wages (Part II, lines 2 and/or 3), enter the number of employees you had when qualified leave was taken during the quarter for the advance requested. See instructions

G Number of individuals provided COBRA premium assistance during the quarter for the advance requested

H If you're eligible for the employee retention credit solely because your business is a recovery startup business, check here

Part II Enter Your Credits and Advance Requested

1	Total employee retention credit for the quarter. Don't enter more than the amount eligible to be advanced for the quarter. See instructions	1
2	Total qualified sick leave wages eligible for the credit and paid this quarter. See instructions	2
3	Total qualified family leave wages eligible for the credit and paid this quarter. See instructions	3
4	Total COBRA premium assistance provided this quarter. See instructions	4
5	Add lines 1, 2, 3, and 4	5
6	Total amount by which you have already reduced your federal employment tax deposits for these credits for this quarter. Enter as a positive number	6
7	Total advanced credits requested on previous filings of this form for this quarter	7
8	Add lines 6 and 7	8
9	Advance requested. Subtract line 8 from line 5. If zero or less, don't file this form	9

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Refundable Employee Retention Credit – Who Qualifies?

Wage and Credit Limits

- 70% of qualified wages in 2021 – all quarters
- Employee **wages** up to **\$10,000** in aggregate for that employee
- Max **\$7,000 credit** per employee

Compensation Defined

- Includes wages, health plan expenses.
 - Small employers - wages paid to all employees
 - Q1 and Q2 - 100 or fewer full-time employees
 - Q3 and Q4 -500 or fewer full-time employees
 - Larger employers – qualified wages are those paid only to employees who are not working

- Does not include wages paid with PPP forgiven loans or for which family and sick leave credits were claimed

Severely distressed Employers

- May claim credits for wages paid to all employees, even if more than 500 employees
- Distressed means – gross receipts have declined by more than 90% over the same quarter in 2019
- **Q4** – the Employee Retention Credit is only available to recovery start-up-businesses

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Form 7200 – COBRA Qualified Events - Employee

The American Rescue Plan Act of 2021 (ARPA) provided for the administration to subsidize **100% of the cost of COBRA** coverage through the end of September 2021.

https://www.irs.gov/instructions/i7200#en_US_2021_publink100072268

See the Department of Labor guide for employers, here

http://iTaxMama.com/COBRA_DOL_Employer

Qualified Events for a covered employee if they cause the covered employee to lose coverage:

- Termination of the covered employee's employment for any reason other than "gross misconduct," or
- Reduction in the covered employee's hours of employment.

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Form 7200 – COBRA – Qualifying Events - Family

The American Rescue Plan Act of 2021 (ARPA) provided for the administration to subsidize 100% of the cost of COBRA coverage through the end of September 2021. https://www.irs.gov/instructions/i7200#en_US_2021_publink100072268

The following are qualifying events for a **spouse** and **dependent child** of a covered employee if they cause the spouse or dependent child to lose coverage:

- Termination of the covered employee's employment for any reason other than "gross misconduct,"
- Reduction in hours worked by the covered employee,
- Covered employee becomes entitled to Medicare,
- Divorce or legal separation from the covered employee, or
- Death of the covered employee.

In addition to the above, the following is a qualifying event for a **dependent child** of a covered employee if it causes the child to lose coverage:

- Loss of "dependent child" status under the plan rules. Under the Affordable Care Act, plans that offer coverage to children on their parents' plan must make coverage available until the child reaches the age of 26.

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Form 7200 – COBRA Premiums Reimbursements

The American Rescue Plan Act of 2021 (ARPA) provided for the administration to subsidize 100% of the cost of COBRA coverage through the end of September 2021. https://www.irs.gov/instructions/i7200#en_US_2021_publink100072268

Use Form 7200 if the COBRA premiums would reduce the payroll taxes (Form 94X series) below -0-

Line G. Enter the number of individuals provided COBRA premium assistance during the quarter for the advance requested on line 9. Enter a cumulative total for the quarter similar to the way that cumulative totals are entered on lines 1, 2, 3, 4, 6, and 7; see *Caution* below *Lines 1-9*, later. Count each assistance eligible individual that received assistance as one individual, whether or not the COBRA coverage was for insurance that covered more than one assistance eligible individual. For example, if the coverage was for a former employee, spouse, and two children, you would include one individual on line G. Further, each individual is reported only once per quarter. For example, an assistance eligible individual that received assistance for all 3 months of a quarter is only reported as one individual.

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Form 7200 – COBRA Premiums – From Employee View

The Department of Labor answers questions for employees about their COBRA coverage.

Consider providing this to your clients' employees

<https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/faqs/cobra-premium-assistance-under-arp.pdf>

It deals with when to apply, what's if they declined coverage originally and now want COBRA, or family members want to be added, and so much more

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Back to Today's Topics!

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CARES Act – Retirement Updates

<https://www.congress.gov/bill/116th-congress/house-bill/748>

We have these withdrawal benefits in 2021 until July 25, 2021

Tax favored withdrawals from retirement plans during 2020 –through **During Disasters and for 180 days after the disaster (or enactment of the law – 12/27/20)**

- IRC § 72(t) waived for any coronavirus-related distribution - no 10% early withdrawal penalties
- Up to \$100,000 in the taxable year
- May be repaid within 3 years
 - treated as eligible rollover
 - Treated as trustee to trustee within 60 days



So why is this here?

We still have withdrawals being taxed for two more years

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Three Years to Repay

<https://www.irs.gov/pub/irs-pdf/i8915e.pdf>

<https://www.congress.gov/116/plaws/publ136/PLAW-116publ136.pdf#page=60>

How Is a Qualified 2020 (2021) Disaster Distribution Taxed?

Generally, a qualified 2020 disaster distribution is included in your income in **equal amounts over 3 years**.

- That means the **first** installment was on the **2020 (2021)** return
- The **second** installment will be paid on the **2021 (2022)** return
- The **final** installment is due on the **2022 (2023)** return

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Schedule C – 2021 What's New

<https://www.irs.gov/pub/irs-pdf/f1040sc.pdf>

- **Entertainment is no longer deductible (*not new*)**
- **Business mileage** rate for 2021 56 cents **(2022 - ?)**
<https://www.irs.gov/tax-professionals/standard-mileage-rates>
 - SE income limits \$142,800 - 2021; \$147,400 - 2022
 - FICA tax on income up to limit – 15.3%
 - Medicare on SE Income – 2.9% on excess of earnings (no change)
- **Additional Medicare Tax on Wages and Self-Employment Income** –
- Additional tax of 0.9% on wages and self-employment income in excess of \$200,000 (S,HOH,QW) (\$250,000 for married joint; \$125,000 married separate). <https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Questions-and-Answers-for-the-Additional-Medicare-Tax>

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Entertainment, Meals & Travel Expenses

Everybody's Favorite Way to Pad Your Deductions – **so entertainment is long GONE!** § 274(a)(1)

Travel and “meals and entertainment” are so intertwined. Especially when it comes to your credit card bills. The meals you've charged at the hotel on the card, or to your room, often appear as part of the hotel bill.

<https://www.irs.gov/publications/p463>

If 100% of the reason for the trip is business, there's no question. The trip is all deductible. If you keep and record all receipts for airfare, local transportation, lodging, meals and tips, there's no problem. Just deduct the appropriate costs.

Remember to separate the meals costs on the hotel bills. Generally travel meals are only 50% deductible – even if you use the meals per diem rates.

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Entertainment, Meals & Travel Expenses - Continued

Of course, taxpayers probably don't have all the receipts – like meals, cab fare, shuttles, tips, anything you paid cash for, etc.

What's the client's alternative? Use an app, like Deductr, or FreshBooks, or...even the GSA per diem app for CONUS travel <https://www.gsa.gov/reference/for-gsa-employees/on-the-go/per-diem-mobile>

TaxMama® Tip: When clients don't break out meals from their travel expenses, look at the number of days for their trips and pull out an appropriate percentage for meals, reducing travel.

EFFECTIVE for 2021 and 2022 Only - Business meals purchased in a RESTAURANT are 100% deductible

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Per Diem Limitations

- a) Self-employed or owner of corporation, partnership, etc.
 - a) May not use **lodging** per diem rates – **must use actual**
 - b) May use full meal & incidental per diems
- b) Employees – (including working shareholders of C or S corporations) may only use per diems if the employer has a reimbursement policy – and to **submit expenses to the employer under an accountable plan.**
 - a) May use lodging per diems
 - b) May use meal per diems



For employee deductions - NOW THIS OPTION IS GONE THRU 2025!

Exception to lodging deduction – no available records and/or impossible to reconstruct. Under Cohan Rule, you may use per diems for both lodging and meals –see our class: <https://www.cchcpelink.com/product/detail/?p=14683&s=85iz6kg>

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Per Diem Look-Ups

- In the contiguous US - click here (CONUS) <https://www.gsa.gov/travel/plan-book/per-diem-rates>
- Archives to 1997 - <https://www.gsa.gov/travel/plan-book/per-diem-rates/per-diem-files>
- Mobile App - **GONE**
- For rates off the continental US (OCONUS) includes Alaska, Hawaii, Guam and US territories <https://www.defensetravel.dod.mil/site/perdiemCalc.cfm>
- For Foreign Per Diem Rates https://aoprals.state.gov/content.asp?content_id=184&menu_id=78
- Transportation Worker Per Diem - \$66/day CONUS; \$71/day OCONUS
- General rates - \$155 = \$96 lodging; \$59 meals CONUS
- There are no per diems (or away from tax home deductions) for locations that are not inside the territorial waters or air spaces of countries (like oil rigs out in the middle of the ocean) or for countries that are **banned - Cuba, Iran, North Korea, and Syria** <https://www.bis.doc.gov/index.php/policy-guidance/country-guidance/sanctioned-destinations>

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TaxMama® Tip

Get clients to give you/employer the dates and CITIES of their trips, not just states. **Look up cities –**

Suppose you were staying in San Francisco during January - March. Instead of using the \$96 (2020) national rate for lodging, you could deduct about 3 times that amount - \$333!

<https://www.gsa.gov/travel/plan-book/per-diem-rates/per-diem-rates-lookup>

- For the current IRS rates – https://www.gsa.gov/cdnstatic/FY_2022_Per_Diem_Rates_Highlights.docx
- Consider offering a service to your clients to prepare their expense reports for their accountable plan reimbursements
- (I have heard the GSA app isn't that great)

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State Taxes – Sales etc.

- **State Income Tax Registration** – generally only needed if taxpayers have formed an entity other than a sole proprietorship
- **Sales tax** – even for online sales. Taxpayers must collect sales taxes if they are selling products to the end user. Some states might charge sales taxes on services. Check with your state's department of revenue <https://www.taxadmin.org/state-tax-forms>
- If you have to register for sales tax purposes...you will also have to file income tax returns for that state, won't you?
- Beware of **Nexus** – more states are imposing nexus rules when your clients have affiliates or agents, of any sort, in another state.
And we have the Wayfair case – business may need to start collecting (and paying) sales taxes if they have more than 200 transactions in a state or \$100,000 in sales. Or....look up your state, or your client's relevant state on the nexus chart (see next page) <https://www.salestaxinstitute.com/resources/remote-seller-nexus-chart>
- Register with your state's payroll tax department if you plan to have employees. The taxpayer's children might be employees – only if they actually do the work they're getting paid to do.
- **We have an entire class for Special Considerations for Online Businesses -** <https://www.cchcpelink.com/product/detail/?p=19095&s=85iz6kg>

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Terms to Understand

https://www.salestaxinstitute.com/sales_tax_faqs/what_is_nexus

In all cases, there are minimum sales levels – which are different for each state.

- **Click-Through Nexus** – a merchant in some other state sells their products via links on the sites of others. Customers click on those links to order. The in-state site receives a commission. (often called affiliate commissions) (Amazon)
- **Affiliate Nexus** – Not the same as the affiliates in the Click-Through Nexus. These are individuals or businesses who have a specific connection or agency relationship to a merchant outside their state. (Scholastic)
- **Remote Seller Nexus** – A merchant in one state that ships merchandise (or provides services) to customers in other states. (Wayfair) - <https://www.salestaxinstitute.com/resources/remote-seller-nexus-chart>
- **Marketplace Nexus** – this transfers all the sales tax collection, reporting and filing requirements to the intermediary who provides e-commerce infrastructure as well as customer service, payment processing services and marketing. This could also impose reporting requirements on the marketplace facilitator. (think – Amazon, GooglePay, Etsy, Uber, AirBnB)
- **Economic Nexus** – Once a certain level of sales within a state is met by an out of state seller, they have economic nexus. No physical presence required. (Wayfair) - <https://www.salestaxinstitute.com/resources/economic-nexus-state-guide>

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AirBnB – Type Rental Income



How do you handle these kinds of income sources?

- When dealing with Uber and similar systems where you **perform a service** – this is pretty clear – it's **self-employment income** – despite the lawsuits – or is it?!
 - Recent California case generated a **law in CA AB5** – based on Dynamex Decision <https://taxmama.com/tax-quipts/navigating-the-california-employee-vs-independent-contractor-maze/>
- But AirBnB – type income?
- Make sure clients comply with hotel registration rules, if applicable.
 - Rooms are generally rented on a short-term basis by visitors – that is Schedule C income – like a hotel.
 - However, some people turn their property over to AirBnB – who rents it out continuously. **This could possibly be Schedule E, passive income or Schedule C** – use your judgment and research the client's arrangement.
 - Renting out personal residence or rooms in residence might result in deductions being limited to income. [Reg 1.280A-3(d)(3) <https://www.law.cornell.edu/uscode/text/26/280A>]

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Other Gig Economy Issues

<https://www.irs.gov/businesses/gig-economy-tax-center>

What is Gig Work?

- Gig work is certain activity you do to earn income, often through an app or website (digital platform), like:
- Drive a car for booked rides or deliveries
- Rent out property or part of it
- Run errands or complete tasks
- Sell goods online
- Rent equipment
- Provide creative or professional services
- Provide other temporary, on-demand or freelance work

What are Digital Platforms?

- Digital platforms are businesses that match workers' services or goods with customers via apps or websites. This includes businesses that provide access to:
- Ridesharing services
- Delivery services
- Crafts and handmade item marketplaces
- On-demand labor and repair services
- Property and space rentals

The IRS has a video webinar about the Gig Economy -

<https://www.irsvideos.gov/Individual/PayingTaxes/UnderstandingTheGigEconomy>

Note: This list does not include all types of gig work or digital platforms.

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Sec 199A 20% QBI Deduction Updates

For 2021, the threshold is taxable income of \$164,925 or \$329,800 if married filing jointly and \$164,900 for all others.

Phase-in range equals the threshold amount plus \$50,000 (S, HOH, MFS) or \$100,000 if married filing jointly:

- More than \$164,900 to \$214,900 (S, HOH)
 - \$170,050 to \$220,050 (2022)
- More than \$164,925 to \$ 214,925 (MFS)
 - \$170,050 to \$220,050 (2022)
- More than \$329,800 to \$429,800 if married filing jointly.
 - \$340,100 to \$440,100 (2022)



These amounts are adjusted annually for inflation.

Form 8995 <https://www.irs.gov/pub/irs-dft/f8995--dft.pdf>

Form 8995A <https://www.irs.gov/pub/irs-dft/f8995a--dft.pdf>

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Vehicle Expenses

TaxMama® Tip - Don't forget other transportation costs that may be deductible regardless which method you use

- Tolls, trains, shuttles, buses, etc. AND tips.

Autos – Much simpler to have a separate car or cars just for business. Even then, you will have some personal miles on it.

Deduction options:

1) Mileage or 2) Actual Expenses



- To have a mileage choice must use mileage the *first year*. Then can change each year unless it is a leased car.
- Some clients can not take mileage - if they have 5 or more vehicles.

Remember: Clients will need the date the vehicle is placed into service – and the cost. Get a copy of that long purchase document

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2021 Depreciation Limits for Passenger Vehicles

Depreciation Limits for Cars 2021

Depreciation on autos is limited. For vehicles first placed in service in 2021 there are two tables and the limit depends on when the auto was purchased and whether bonus depreciation applies. See the examples below.

Depreciation Limits for Passenger Automobiles Acquired After September 27, 2017 and Placed in Service During Calendar Year 2021 for which Additional First Year Depreciation Applies

Tax Year	Depreciation
First	\$18,200
Second	16,400
Third	9,800
Subsequent	5,860

Depreciation Limits for Passenger Automobiles Placed in Service During Calendar Year 2021 for which Additional First Year Depreciation Does Not Apply

Tax Year	Depreciation
First	\$10,200
Second	16,400
Third	9,800
Subsequent	5,860

Best source - <http://www.smbiz.com/sbrl003.html#lct21>

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Standard Mileage – and Related Depreciation

Standard Mileage		
Rate Per Mile	2021	2022
Business	56.0 ¢	?
Medical and Moving (military)	16.0 ¢	?
Charitable	14.0¢	14.0¢
Depreciation	26.0 ¢	?

Best source – 2022 to come soon -
<https://www.irs.gov/tax-professionals/standard-mileage-rates>

Depreciation Adjustment for Standard Mileage Rate	
Year	Depreciation cents per mile
2022	??
2021	26
2020	27
2019	26
2018	25
2017	24
2016	24
2015	24
2014	22
2012-2013	23
2011	22
2010	23
2008-2009	21
2007	19
2005-2006	17
2003-2004	16
2001-2003	15
2000	14
1994-1999	12
1992-1993	11.5

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Luxury Auto Depreciation



Vehicles - 5 kinds of vehicles

- **“Luxury” autos**, with a floor set so low, that even Yugos are considered luxury autos. There are strict limits to annual deductions.
- **Small trucks** - pick-ups, etc. < 6,000 pounds gross - there are limits, very similar to luxury autos.
- **Large trucks** - and, ≥ 6,000 pounds gross. No limits - treated like any equipment.
- **SUVs and luxury autos** - ≥ 6,000. Like small trucks - but Sec. 179 depreciation is limited to \$25,500 for 2019 (\$25,900 for 2020).
Offroad vehicles - farm/ranching equipment, like tractors; industrial, like fork-lifts, etc. Typically, depreciated over 5 years at maximum rates. No special limit to Section 179 - just the usual limit

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Listed Property Updates

- Passenger automobiles
- Any other property used for transportation, unless it is an excepted vehicle.
- Property generally used for entertainment, recreation, or amusement (including photographic, phonographic, communication, and video recording equipment).

REMOVED from Listed Property:

Computers and related peripheral equipment. Computers and related peripheral equipment placed in service after 2017, in tax years ending after 2017, are no longer treated as listed property. (Cell phones were removed several years ago.)

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Depreciation - Section 179 Expense Limits

	2021	2022
Regular 179 limits	\$1,050,000	\$1,080,000
SUV limits	\$26,200	\$27,000
Investment phaseout begins	\$2,620,000	\$2,700,000

Note: Certain race horses qualify as 3-year property through 12/31/22
TCJA Sec 124 makes it permanent and adjusted for inflation

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Bonus Depreciation – New and Used Assets

Placed in Service Year ⁵⁰⁰	Bonus Depreciation Percentage	
	Qualified Property in General/Specified Plants	Longer Production Period Property and Certain Aircraft
Portion of Basis of Qualified Property Acquired before Sept. 28, 2017		
Sept. 28, 2017 – Dec. 31, 2017	50 percent	50 percent
2018	40 percent	50 percent
2019	30 percent	40 percent
2020		30 percent ⁵⁰¹
2021 and thereafter	None	None
Portion of Basis of Qualified Property Acquired after Sept. 27, 2017		
Sept. 28, 2017 – Dec. 31, 2022	100 percent	100 percent
2023	80 percent	100 percent
2024	60 percent	80 percent
2025	40 percent	60 percent
2026	20 percent	40 percent
2027	None	20 percent ⁵⁰²
2028 and thereafter	None	None

As a conforming amendment to the repeal of corporate AMT, the conference agreement repeals the election to accelerate AMT credits in lieu of bonus depreciation.

A transition rule provides that, for a taxpayer's first taxable year ending after September 27, 2017, the taxpayer may elect to apply a 50-percent allowance instead of the 100-percent allowance.

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Bonus Depreciation Details

Under the new law, certain types of property are not eligible for bonus depreciation in any taxable year beginning after December 31, 2017. One such exclusion from qualified property is for property primarily used in the trade or business of the furnishing or sale of:

- Electrical energy, water or sewage disposal services,
- Gas or steam through a local distribution system or
- Transportation of gas or steam by pipeline.

This exclusion applies if the rates for the furnishing or sale have to be approved by a federal, state or local government agency, a public service or public utility commission, or an electric cooperative.

The new law also adds an exclusion for any property used in a trade or business that has had floor-plan financing indebtedness if the floor-plan financing interest was taken into account under section 163(j)(1)(C). Floor-plan financing indebtedness is secured by motor vehicle inventory that in a business that sells or leases motor vehicles to retail customers.

The new law eliminated qualified improvement property acquired and placed in service after December 31, 2017 as a specific category of qualified property.

This was corrected in the CARES Act, effective retroactively to 2018 and forward.

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Remember the Depreciation Election

Folks who bought business or rental assets after Sept. 27, 2017 and didn't depreciate them fully on your tax returns.

Currently, you must file an election to NOT use the 100% depreciation deduction.

(What a bizarre requirement.)

So, for assets purchased in 2020 – remember to include the election to NOT use the 100% depreciation deduction.

"Taxpayers who elect out of the 100-percent depreciation deduction, as well as the 50-percent deduction available under prior law, must do so by attaching a statement to a timely-filed return."

Note: The election is per asset class each year

It is acceptable to add it to an amended return filed by the due date of the original return (including extensions, if extended – too late for 2019 returns, though – unless they are in a disaster area).

<https://www.irs.gov/newsroom/new-rules-and-limitations-for-depreciation-and-expensing-under-the-tax-cuts-and-jobs-act>

TaxMama® Tip - A good reason to always extend business (and Schedule C, E, F) returns

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Comparison of Sec. 179 and Special Depreciation

Not clarified in this comparison:

- **Sec. 179** deduction is limited to business income. This deduction cannot generate a business loss
- Excess **Sec. 179** must be carried forward
- **Special Depreciation** may be deducted in excess of business income and may generate – not only a deductible loss – but a net operating loss (NOL)

From The TaxBook – Tab 19

Section 179 vs. Special Depreciation		
Provision	Special Depreciation Allowance	Section 179 Deduction
New or used property	Yes ¹	Yes
Specific date range for eligibility	Yes	No
Annual limits ²	No	Yes
Rental activity personal property	Yes	Yes
Property qualifies if used 50% or less for business purposes	Yes ³	No
Recapture if business use of property decreases to 50% or less	No ³	Yes
Property (new) may be acquired from related party	Yes	No
AMT adjustment	No	No

¹ Property acquired before September 28, 2017, must be new.
² Additional section 280F limits apply to passenger vehicles, and \$25,500 SUV limit.
³ Listed property does not qualify if used 50% or less for business and special depreciation must be recaptured if listed property use falls to 50% or less.

Author's Comment: Check state law prior to claiming either the special depreciation allowance or Section 179 deduction. In many states it may be more advantageous to claim one over the other.

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Foreign Tax Issues – Form 2555

The Foreign Earned Income Exclusion (FEIE) (Form 2555) allows American taxpayers working outside the US to exclude up to **\$108,700 – 2021** – (\$112,000 - 2022) (plus housing allowance).

<https://www.irs.gov/pub/irs-pdf/f2555.pdf>

When you **exclude this income**, you may **not count it as earned income** for any credits – like child tax credits, dependent care credits, OR Foreign Tax Credits! Or towards IRA or other retirement account contributions – which may be helpful in the long run.

- If the taxpayers are paying taxes in the country where they work, consider reporting the income in full and using the Foreign Tax Credit to offset the US taxes.
- **Option:** You may report part of the income and exclude some of it. If you do, only use that percentage of the foreign taxes paid on Form 1116.
 - Taxpayers can avoid using Form 1116 to claim foreign tax credits if the total foreign taxes paid are \$300 or less (\$600 married filing jointly)
- Note: Both of these tax breaks are only available in countries recognized by the US

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Foreign Tax Issues – Form 2555 - Continued



- When using the FEIE, if they are **not on payroll**, they are subject to **SE taxes**.
- Only earned income is excluded – **retirement and other income is all taxable**.
- Remember, the income tax, when using FEIE is based, essentially, on the tax rate on the total taxable income (without taking the FEIE into account) x % of taxable income.
 - i.e., \$25K taxable income/\$150K total income x tax on \$150K

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FinCEN 114 – FBAR Filing



<http://iTaxMama.com/FinCEN-114-FBAR> - You must file when:

1. a financial interest in or signature or other authority over at least one financial account located outside the United States if
2. the aggregate value of those foreign financial accounts **exceeded \$10,000** at any time during the calendar year reported.

Generally, an account at a financial institution located outside the United States is a foreign financial account. Whether the account produced taxable income has no effect on whether the account is a “foreign financial account” for FBAR purposes.

Due Date – April 15th

Automatic Extension – October 15th

Disaster extensions look-up - <https://www.fincen.gov/report-foreign-bank-and-financial-accounts>
(some have until December 31, 2021)

Other Forms to be aware of:

- Form 8938 (FATCA) Statement of Specified Foreign Financial Assets
- Form 3520 Annual Return to Report Transaction with Foreign Trust/Gifts
- **Schedule B – bottom of page – even when there is no interest or dividend income**

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COVID-19 Economic Injury Disaster Loan - 2021

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/economic-injury-disaster-loans#section-header-4>

- **Loan** – 30-year, 3.75% fixed (Private non-profits – 2.75% fixed) must be repaid
- **Use of funds** - Working capital to make regular payments for operating expenses, including payroll, rent/mortgage, utilities, and other ordinary business expenses. **NEW** - pay business debt incurred at any time (past, present, or future)
- **Maximum Loan** – **New** - \$2 million. **Note:** SBA began approving loans greater than \$500,000 on **October 8, 2021**.
- **Payment deferment** - Payments are deferred **for the first 2 years** (during which interest will accrue), and payments of principal and interest are made over the remaining 28 years. No penalty for prepayment. (**NEW** - existing loans with a less than 24-month deferment will be adjusted)
- **Fees** – Up to \$25,000 no fees, over that - \$100 plus lien recording fees
- **Collateral** – Required for loans in **excess of \$25,000**; Personal guaranty for loans greater than \$200,000
- **Already have a loan** – may apply for an increase <https://covid19relief1.sba.gov/>

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Other Grants and Forgiveness

- GRANTS FOR SHUTTERED VENUE OPERATORS - Economic Aid to Hard-Hit Small Businesses, Non-profits, and Venues - grants equal to 45% of their gross earned revenue. Not taxable income.
<https://www.sba.gov/funding-programs/loans/covid-19-relief-options/shuttered-venue-operators-grant>
- Restaurant Revitalization Funds – not taxable as long as funds are used eligible expenses no later than March 11, 2023.
There are three different funding calculations based on when the restaurant started business
<https://www.sba.gov/funding-programs/loans/covid-19-relief-options/restaurant-revitalization-fund>
- Federal rental assistance grants for those affected by COVID are not taxable to the tenants – but are rental income to landlords.
- Grants from cities and states, rather than the federal programs – those are not tax-free.

Note: Reporting requirements for the cancellation of debt are waived. Don't expect 1099Cs

- Expenses paid with these funds are deductible for IRS
- Check with your state for state rules (CA has limits based on 25% loss of income)

NOTE for PPP Loans to get forgiven, at least **60%** of funds must be used to cover payroll expenses.

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First Time Penalty Abatement – Still Available

First Time Abatement Penalty Relief (FTA) - You will find the details in the Internal Revenue Manual (last update October 2020)

https://www.irs.gov/irm/part20/irm_20-001-001r

Specifically - 20.1.1.3.6.1 (08-05-2014)

The Reasonable Cause Assistant (RCA) provides an option for penalty relief for the FTF (IRC 6651(a)(1), IRC 6698(a)(1), and IRC 6699(a)(1)); FTP (IRC 6651(a)(2) and IRC 6651(a)(3)); and/or FTD (IRC 6656) penalties if the following are true for the taxpayer:

- Has not previously been required to file a return or **has no prior penalties** (except the estimated tax penalty, TC 17X) for the **preceding 3 years** on the same MFT (except MFT 30/31, and see the exception for MFTs 01 and 14 in paragraph (5)(f)), and
- Has filed, or filed a valid extension for, all currently required returns and paid, or arranged to pay, any tax due. (translation = **in compliance**)

Example: Consider the taxpayer current if he or she has an open installment agreement and is current with his or her installment payments.

Note: Your state may comply with IRS (CA does) – or have similar provisions.

But...there's more!

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First Time Penalty Abatement – the Old Stand-by

First Time Abatement Penalty Relief (FTA) - You will find the details in the Internal Revenue Manual - https://www.irs.gov/irm/part20/irm_20-001-001r

Specifically - 20.1.1.3.6.1 (08-05-2014)

The Reasonable Cause Assistant (RCA) provides an option for penalty relief for the FTF (IRC 6651(a)(1), IRC 6698(a)(1), and IRC 6699(a)(1)); FTP (IRC 6651(a)(2) and IRC 6651(a)(3)); and/or FTD (IRC 6656) penalties if the following are true for the taxpayer:

- Has not previously been required to file a return or **has no prior penalties** (except the estimated tax penalty, TC 17X) for the **preceding 3 years** on the same MFT (except MFT 30/31, and see the exception for MFTs 01 and 14 in paragraph (5)(f)), and
- Has filed, or filed a valid extension for, all currently required returns and paid, or arranged to pay, any tax due. (translation = **in compliance**)

Example: Consider the taxpayer current if he or she has an open installment agreement and is current with his or her installment payments.

Note: Your state may comply with IRS (CA does) – or have similar provisions.

But...there's more!

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Taxpayer Relief Initiative *(Updated: 06-Oct-2021)*

<https://www.irs.gov/newsroom/irs-makes-it-easier-to-set-up-payment-agreements-offers-other-relief-to-taxpayers-struggling-with-tax-debts>

All of these provisions are still in effect

The revised COVID-related collection procedures will be helpful to taxpayers, especially those who have a record of filing their returns and paying their taxes on time. Among the highlights of the Taxpayer Relief Initiative:

- Taxpayers who qualify for a short-term payment plan option may now have up to **180 days** to resolve their tax liabilities instead of 120 days.
- The IRS is offering **flexibility for some taxpayers** who are temporarily unable to meet the payment terms of **an accepted Offer in Compromise**.
- The IRS will automatically add certain **new tax balances to existing Installment Agreements**, for individual and out of business taxpayers. This taxpayer-friendly approach will occur instead of defaulting the agreement, which can complicate matters for those trying to pay their taxes.
- To reduce burden, certain qualified individual taxpayers **who owe less than \$250,000 may set up Installment Agreements** without providing **a financial statement or substantiation** if their monthly payment proposal is sufficient.
- Some individual taxpayers **who only owe for the 2019 tax year and who owe less than \$250,000 may qualify to set up an Installment Agreement** without a **notice of federal tax lien** filed by the IRS.
- Additionally, qualified taxpayers **with existing Direct Debit Installment Agreements** may now be able to use the Online Payment Agreement system to propose lower monthly payment amounts and change their payment due dates.

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IRS Penalty Appeal Tool <https://www.irs.gov/appeals/penalty-appeal>

If the IRS rejected your request to remove a penalty, you may be able to request an Appeals conference or hearing. *You have 30 days from the date of the rejection letter to file your request for an appeal.*

You can file an appeal if **all** the following have occurred:

- You received a letter that the IRS assessed a failure to file and/or failure to pay penalty to your individual or business tax account
- You sent a written request to the IRS asking them to remove the penalty
- The IRS denied your request to remove the penalty (penalty abatement)
- You received a Notice of Disallowance, which gives you your appeal rights

For an overview of the penalty appeals process, see [Publication 4576, Orientation to the Penalty Appeals Process](#) [PDF](#).

The two most common penalties that Appeals may remove (abate) are penalties that can have a reasonable cause:

- Failure to file
- Failure to pay

Reasonable cause is relief we may grant when a taxpayer exercises ordinary business care and prudence in determining their tax obligations but is unable to comply with those obligations due to circumstances beyond their control.

The IRS can also remove (abate) penalties because of *certain statutory exceptions and administrative waivers*. You can learn more about these by visiting the [Internal Revenue Manual Penalty Handbook \(IRM 20.1.1\)](#):

- [Section 20.1.1.3.3.1, Statutory and Regulatory Exceptions](#)
- [Section 20.1.1.3.3.2, Administrative Waivers](#)

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More on Taxpayer Relief Initiative

<https://www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue>

IRS Enforcement and Compliance Operations

Our offices have resumed many other operations.

- ⊕ **IRS Collection to Resume Normal Operations (added June 14, 2021)**
- ⊕ **Systemic Lien and Levy Programs (added June 14, 2021)**
- ⊕ **Other IRS Collection Programs to Resume (added June 14, 2021)**
- ⊕ **Certifying Tax Debt to State Department (added March 15, 2021)**
- ⊕ **Compliance (updated December 1, 2020)**

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IRS Collections Programs to Resume – Revoke PASSPORTS

- Regarding certification to the State Department, the current tax balance is \$54,000

Other IRS Collection Programs to Resume (added June 14, 2021)

- Notifications to the Department of State (DOS) to exercise their authority to revoke the passports of taxpayers with seriously delinquent tax debt that they fail to pay will resume on July 15, 2021. We resumed certifying tax debt as seriously delinquent to the U.S. State Department in mid-March 2021. (Being certified to the State Department prevents a taxpayer from renewing or obtaining a new passport).
 - Automated levies in coordination with other state and federal agencies including:
 - Federal Payment Levy Program (FPLP), State Income Tax Levy Program (SITLP), and the Municipal Tax Levy Program (MTLP) – start July 15, 2021
 - Alaskan Permanent Fund Dividend Program (AKPFD) – start August 15, 2021
- Balance due notices (including final notices) will start being mailed by the Automated Collection System (ACS) in June 2021. Systemic levies and Notice of Federal Tax Liens to be issued starting August 15, 2021, if taxpayers fail to pay, establish a payment plan, or reach agreement with the IRS that the taxes are uncollectible.

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General Penalty Relief and COVID19

There are **no special relief provisions for 2021 penalties** – however, the IRS is issuing balance due notices, even after people have paid their taxes because the payments are not being matched up to taxpayer accounts.

If the client has complied, but the IRS does assess penalties for that period of time, either call the IRS or use Form 843 to request abatement.

<https://www.irs.gov/forms-pubs/about-form-843>

In December 2020, a team of all major tax and accounting societies sent a letter to the Secretary of Treasury and IRS Commissioner requesting streamlined penalty procedures

<https://www.natptax.com/TaxKnowledgeCenter/GovernmentNews/Documents/121020ReliefCoronavirusRelatedPenaltiesLetter.pdf>



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Request in the Text of Joint Letter

A concerted effort to address these problems is needed as we are all, unfortunately, facing illness, death, economic hardships or other Coronavirus related tests. We, therefore, ask the IRS and the Department of the Treasury to:

- Provide targeted penalty relief through the creation of an expedited and streamlined reasonable cause penalty abatement process to taxpayers affected by the Coronavirus pandemic that eliminates the need for written requests;
- Develop specific Coronavirus examples, for impacts on both taxpayers and tax professionals, where the taxpayer can self-certify that they qualify for reasonable cause abatement¹ and share these examples with all telephone assistors through interim guidance; and
- Develop a dedicated telephone number, or dedicated prompt, for taxpayers or their advisors to call to request Coronavirus-related penalty relief.

So far, I haven't seen any new procedures or phone numbers. So, we will have to fight each assessment and penalty, one at a time.