TAX PLANNING GUIDE

2021

PKF

Accountants & business advisers

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TAX PLANNING GUIDE 2021

While the pandemic dominated the tax scene in 2020, there were some other noteworthy changes for both individuals and businesses.

Understanding how the recent changes in the tax code could affect your investment, estate, retirement and business strategies is critical to developing and implementing tax-saving strategies and preparing for a financially secure future. Because tax planning has become increasingly complex and each tax situation is unique, we urge you to consult your tax professional who may advise you regarding your personal situation.

NOTABLE CHANGES

COVID-RELATED WITHDRAWAL

Withdrawals of up to $100,000 from IRA and workplace retirement accounts were permitted until December 31, 2020. The funds could be used to cover COVID-related expenses, including treatment for you, your spouse, or dependent(s). You could also use the funds to offset income lost due to quarantine, job loss or a reduction of hours. The amount withdrawn is taxed as ordinary income. You have the option of including this in your 2020 income or spreading it out equally over 2020, 2021 and 2022. However, you can avoid paying tax on it if you repay it within three years. Additionally, if you tapped your workplace retirement plan, your plan may delay repayment for up to one year.

IRA CONTRIBUTIONS ALLOWED AT ANY AGE

Congress revoked the age limit for making IRA contributions, which was 70½. Now you can continue contributing to an IRA as long as you have earned income.

RMD STARTS AT AGE 72

The age at which taxpayers must begin taking required distributions has been increased from 70½ to 72. However, taxpayers born before June 30th, 1949 must still use age 70½ as the RMD age – and begin taking RMDs no later than April 1st of the year after the year in which they turn 70½.

PENALTY-FREE WITHDRAWALS FOR NEW PARENTS

New parents may qualify for an exception to the 10% penalty that normally applies to early distributions (prior to age 59½) from IRA or 401(k) accounts. You can take the withdrawal following a qualified birth or adoption of a new child, provided you do so within a year of birth or adoption. The withdrawal is limited to $5,000 per parent, per eligible retirement account. You also have the option to repay at a later date although it isn't required.

PART-TIME EMPLOYEES MAY PARTICIPATE IN 401(K)

Part-time workers may contribute to their employer's 401(k) plan once they have worked 500 hours or more for three consecutive 12-month periods after January 1, 2021. Employers are not required to match contributions.

INHERITED IRAS

Effective in 2020, non-eligible designated beneficiaries of IRAs must withdraw the inherited accounts within ten years. There are no annual required minimum distributions – except the last one. This does not apply to the decedent's spouse, minor children, beneficiaries who are disabled or have chronic illnesses, beneficiaries not more than 10 years younger than the decedent, and See-through Trusts.

The Ten-Year Rule also applies to trusts that receive IRA assets on behalf of beneficiaries. If a conduit trust is established to help protect assets, it still must forward all the IRA income to beneficiaries. This would potentially expose the inherited IRA assets to heirs' creditors and any bankruptcy or divorce proceedings – defeating the purpose of an asset protection trust. In some circumstances, you may wish to have an attorney redraft any existing conduit trusts to allow the trust to retain the assets, rather than distributing income to beneficiaries. The downside is that these assets would then be subject to less favorable trust tax rates. If you have significant assets in retirement accounts that you are planning to pass on to non-spousal beneficiaries, it is a good idea to review your estate plan documents.

FARMERS IN DROUGHT AREAS

Farmers living in affected drought areas who were forced to sell certain livestock between 2015 and 2020 have an additional year to replace them and defer any gains on the forced sale. Usually you have four years to replace livestock from a forced sale. This change will affect those living in counties designated as having exceptional, extreme, or severe drought conditions. Currently, portions of 50 states and territories qualify and only livestock used for draft, dairy, or breeding purposes are eligible. Poultry and livestock raised for slaughter or sport don't qualify.

ABLE ACCOUNTS

Achieving a Better Life Experience (ABLE) accounts are designed to help people with disabilities save and pay for disability-related expenses. Now through 2025, eligible individuals can roll over money from a qualified 529 plan into their ABLE account. And certain contributions made by low- and moderate- income workers may qualify for the Saver's Credit which could be as much as 50% of your contribution.

BRACKETS AND RATES

Many individuals saw an increase in their take-home pay over the last two years. Tax rates remained the same, but tax brackets increased slightly for inflation effective 2021. All federal income tax brackets are based on taxable income.

You can use the IRS' tax withholding calculator to see if you're withholding an adequate amount. *https://www.irs.gov/individuals/tax-withholding-estimator*

MARRIED FILING JOINTLY & SURVIVING SPOUSES

TAX RATE	2021 INCOME	2020 INCOME
10%	$0–$19,900	$0-$19,750
12%	$19,901 - $81,050	$19,751 - $80,250
22%	$81,051 - $172,750	$80,251 - $171,050
24%	$172,751 - $329,850	$171,051 - $326,600
32%	$329,851 - $418,850	$326,601 - $414,700
35%	$418,851 - $628,300	$414,701 - $622,050
37%	$628,301 or more	$622,051 or more

MARRIED FILING SEPARATELY & SINGLES & HEAD OF HOUSEHOLD

TAX RATE	MARRIED FILING SEPARATELY INCOME		SINGLE INCOME		HEAD OF HOUSEHOLD INCOME	
	2021	2020	2021	2020	2021	2020
10%	$0–$9,950	$0–$9,875	$0–$9,950	$0–$9,875	$0–$14,200	$0–$14,100
12%	$9,951–$40,525	$9,876–$40,125	$9,951–$40,525	$9,876–$40,125	$14,201 - $54,200	$14,101 - $53,700
22%	$40,526 - $86,375	$40,126 - $85,525	$40,526 - $86,375	$40,126 - $85,525	$54,201 - $86,350	$53,701 - $85,500
24%	$86,376 - $164,925	$85,526 - $163,300	$86,376 - $164,925	$85,526 - $163,300	$86,351 - $164,900	$85,501 - $163,300
32%	$164,926 - $209,425	$163,301 - $207,350	$164,926 - $209,425	$163,301 - $207,350	$164,901- $209,400	$163,301 - $207,350
35%	$209,426 - $314,150	$207,351 - $311,025	$209,426 - $523,600	$207,351 - $518,400	$209,401 - $523,600	$207,351 - $518,400
37%	$314,151 or more	$311,026 or more	$523,601 or more	$518,401 or more	$523,601 or more	$518,401 or more

ALTERNATIVE MINIMUM TAX

The Alternative Minimum Tax (AMT) was designed to limit allowable deductions taken by the highest-income taxpayers to ensure they pay their fair share of taxes. There was a modest increase for inflation for 2021.

AMT EXEMPTION AMOUNTS		
STATUS	2021	2020
Exemption for Singles	$73,600	$72,900
Exemption for Married Filing Separately	$57,300	$56,700
Exemption for Married Filing Jointly	$114,600	$113,400
Phase-out for Singles & Married Filing Separately	$523,600	$518,400
Phase-out for Married Filing Jointly	$1,047,200	$1,036,800

KIDDIE TAX

For 2020 and forward, the kiddie tax goes back to the previous method of using the parent's marginal tax rate. If a child has both earned and unearned income, they are allowed a standard deduction of up to $1,100 of their unearned income or their earned income plus $350, whichever is greater, but can't be more than the regular standard deduction amount.

SOCIAL SECURITY TAX WAGE BASE INCREASED

Beginning in 2021, the maximum earnings subject to Social Security tax increased to $142,800. Currently, the employer and employee each pay half of the 12.4% Social Security tax and the 2.9% Medicare tax.

Self-employed workers must pay the full 12.4% Social Security tax, which could result in a maximum tax increase of $632.40 for 2021, due to the increased wage base.

CAPITAL GAINS TAX

Remember that you pay long-term capital gains taxes on investments held longer than one year, while you pay ordinary income taxes on short-term investment gains. The capital gains tax brackets are based on taxable income, just like the ordinary income tax brackets.

CAPITAL GAINS TAX BRACKETS				
TAX RATE	MARRIED FILING JOINTLY		FILING SINGLE	
	2021	2020	2021	2020
0%	$80,800	$80,000	$40,400	$40,000
15%	$80,801 - $501,600	$80,001 - $496,600	$40,401 - $473,750	$40,001 - $441,450
20%	$501,601 and up	$496,601 and up	$473,751 and up	$441,451 and up

TREATMENT OF LOSSES

A capital gain or loss is the difference between your basis, which is typically the cost of buying an asset or investment, adjusted by certain previous deductions for depreciation and/or depletion, and what you get for selling it. If your investments have a net capital loss, you can deduct up to $3,000 of the loss against your income annually if filing jointly, ($1,500 married filing separately). If your losses exceed these annual limits, you may carry losses forward to future years, deducting up to $3,000 per year against your income until your capital losses are exhausted.

A WORD ABOUT DIVIDENDS

Qualified dividends are eligible for more favorable capital gains tax rates, while unqualified dividends are taxed as ordinary income. Generally, dividends from real estate investment trusts (REITs) are unqualified, as are those from credit unions and mutual savings banks.

HEALTH SAVINGS ACCOUNTS

Some limits increased for Health Savings Accounts (HSAs) and their companion High-Deductible Health Plans (HDHPs).

HEALTH SAVINGS ACCOUNTS AND HIGH DEDUCTIBLE HEALTH PLANS		
	2021	**2020**
HSA contribution limit*	Self-only: $3,600 Family: $7,200	Self-only: $3,550 Family: $7,000
HSA catch-up contribution	$1,000	$1,000
HDHP minimum deductible	Self-only: $1,400 Family: $2,800	Self-only: $1,400 Family: $2,800
HDHP maximum out-of-pocket expenses	Self-only: $7,000 Family: $14,000	Self-only: $6,900 Family: $13,800

HDHPs now cover remote health care services and costs of COVID-19 related testing and treatment before the annual deductible is met. HSAs now cover menstrual care products and over-the counter products and medications.

**Combined employer and employee contributions*

FLEXIBLE SPENDING ACCOUNT ROLLOVERS

For 2020 and 2021, unused flexible spending account funds are permitted to rollover and can be used in the subsequent year.

> ***HSAs are triple tax-advantaged with tax-deferred contributions, tax-free potential earnings and tax-free withdrawals for qualified medical expenses, and you can roll over any balance to the next year. Nonqualified withdrawals incur a tax penalty, but that disappears at age 65, when you can take withdrawals for any reason (just pay income tax on the nonqualified amount).***

DEDUCTIONS AND CREDITS

STANDARD DEDUCTION

The standard deduction, which reduces the amount of your taxable income, for 2020 is $24,800 ($25,100 in 2021) for married taxpayers filing jointly, $18,650 ($18,800 in 2021) for those who file as heads of household and $12,400 ($12,550 in 2021) for those who file as single or married filing separately.

CHILD TAX CREDIT

Each dependent child under the age of 17 with a Social Security number qualifies for a $2,000 tax credit, subject to income limitations. Up to $1,400 of the credit is refundable. The credit phases out at $400,000 for joint filers and $200,000 for everyone else.

DEPENDENT TAX CREDIT

Take a $500 tax credit for each dependent adult child or elderly parent in your care. The dependent doesn't need to be related to you if they lived with you for the entire tax year and is a U.S. citizen, national, or resident alien. This credit is subject to the child tax credit's income limits discussed above.

ITEMIZED DEDUCTION LIMIT GONE

Itemized deductions, which were previously phased out for taxpayers with higher incomes, have no income-based limit through 2025.

MEDICAL EXPENSE DEDUCTIONS

For taxpayers who itemize deductions, medical expenses will now be deductible to the extent they exceed 7.5% of your adjusted gross income income. The 7.5% threshold was made permanent for tax years 2020 and beyond.

EMPLOYEE BUSINESS EXPENSE DEDUCTION

Only certain employees can claim unreimbursed business expenses as an itemized deduction now. Eligible employees include: Armed Forces reservists, qualified performing artists, fee-basis state or local government officials and employees with impairment-related work expenses. These individuals can deduct ordinary and necessary expenses incurred while conducting business as an employee. Expenses must be paid or billed during the tax year.

HOME LOANS

Married taxpayers filing jointly may deduct the interest on a maximum of only $750,000 of mortgage principal, down from $1 million previously. The deduction is limited to half of that for single taxpayers. Interest on home equity loans, home equity lines of credit (HELOCs) and second mortgages may be deducted only when used to buy, build or substantially improve the taxpayer's primary or secondary qualified residence that secures the loan, subject to limits.

REAL ESTATE SECTION 1031 LIKE-KIND EXCHANGES

The treatment of investment property for Section 1031 exchanges is now limited to real property – including land and permanent structures on that land. However, you can still sell one property and buy one to three other properties within a certain timeframe. If you sell investment property, you may defer taxable gains if within 45 days of the sale you identify other income-producing property that you buy within 180 days or by the due date of your tax return, including extensions. Your tax professionals will give you more information.

SALT TAXES

Taxpayers who itemize deductions are limited to $10,000 on state and local tax (SALT) deductions. This provision is especially harsh on homeowners in high-tax states, where state income and property taxes can easily exceed this figure. Making "charitable deductions" to a state-run charitable fund won't allow you to get around the SALT limitations. Buying SALT credits this way is not allowed, because as with all charitable contributions, you'll have to reduce the amount of your contribution by the value of anything you receive.

MORTGAGE INSURANCE PREMIUM DEDUCTIONS

Individuals may deduct mortgage insurance premiums on their personal residence and on one other home, such as a vacation home. The deduction is set to expire December 31, 2021, unless Congress acts to extend it. It begins to phase out when your adjusted gross income reaches $100,000 ($50,000 for married filing separate returns).

ESTATE TAXES

The estate, gift and generation-skipping tax exemption increased to $11.7 million for individuals in 2021, up from $11.58 million in 2020. Married couples filing jointly qualify for $23.4 million in 2021, up from $23.16 million in 2020.

If you haven't discussed estate planning opportunities with your legal, tax and financial professionals yet, now is a good time to learn more.

Even with more generous federal estate tax exemptions, taxpayers need to be aware of local estate and inheritance taxes. Although some states have repealed their estate tax statutes and others increased their exemptions recently, a few still have the tax. A handful of states also have an inheritance tax.

GIFT TAXES

The annual gift tax exemption remains $15,000 per donor for each recipient. If, for example, you and your spouse each max out your annual gift exemption to three grandchildren, you will avoid gift tax and preserve your entire estate tax exemption.

STEP UP IN BASIS

A new fair market value is established for assets received after a donor's death — a step up in basis — but there is no step up in basis for gifts received during a donor's life. The step-up in basis sets a new starting value for inherited assets, which can make a big difference if the assets have appreciated significantly, while making it less likely to trigger larger capital gains tax.

> ***Reduce your taxable estate by putting five years' worth of gifts into a 529 plan for a loved one's college education. Maximize your gift by giving up to the maximum annual tax-free gift limit of $15,000 each year for five years per donor per recipient; the plan's assets then grow tax-deferred and qualified withdrawals are tax-free.***

CHARITABLE CONTRIBUTIONS

For 2020 and 2021, the CARES Act allows you to deduct qualified charitable contributions of up to 100% of your adjusted gross income, but not for donations made to donor-advised funds or educational institutions for which you receive event seating in return.

Donations of goods to charity are valued at their market value at the time of donation. You can't claim the price you paid for the item.

The CARES Act also allows non-itemizers to deduct up to a $300 cash contribution to qualified charities in 2020. While the 2020 deduction is limited to $300 per tax return, in 2021, the deduction expands to allow joint filers to deduct up to $600.

Remember all donations of goods with a market value greater than $250 must have a receipt from the charity.

If you don't itemize because your deductions are less than the standard deduction you might consider accelerating or bunching contributions for a number of years. For example, if you give $10,000 per year to a charity, bunch three years of contributions — $30,000 — into one year instead, then itemize the deduction on your tax return. Take the standard deduction in the other two years.

> ***When donating to charity, ensure the charity is qualified by searching the IRS database. Only donations qualified by the IRS are eligible for tax deductions.***

RETIREMENT & HEALTH SAVINGS PLAN CONTRIBUTION LIMITS

PLAN		2021	2020
401(k) 403(b) 457	Employee Contribution Limit	$19,500	$19,500
	Catch-Up Contributions (Age 50+)	$6,500	$6,500
	Combined Employer / Employee Contribution	$58,000	$57,000
Traditional IRA / Roth IRA	Contribution Limit	$6,000	$6,000
Traditional IRA Limits for Deductible Contributions (Based on Adjusted Gross Income, not taxable income.)	Catch-Up Contribution Limit (Age 50+)	$1,000	$1,000
	Single or Head of Household Income Limit	$66,000 - $76,000	$65,000 - $75,000
	Married Filing Jointly Income Limit	$105,000 - $208,000	$104,000 - $206,000
Roth IRA Income Limit (Based on Adjusted Gross Income, not taxable income.)	Single or Head of Household	$125,000 - $140,000	$124,000 - $139,000
	Married Filing Jointly	$198,000 - $208,000	$196,000 - $206,000
SIMPLE IRA	Elective Contribution Limit	$13,500	$13,500
	Catch-Up Contribution (Age 50+)	$3,000	$3,000
	Employer Non-Elective Contribution Limit	2% of Compensation up to $290,000	2% up to $285,000
SEP-IRA / Profit Sharing / Money Purchase	Contribution Limit	$58,000	$57,000
Defined Benefit	Maximum Annual Benefit	$230,000	$230,000
Supplemental Security Income (SSI) Employee Deduction	Annual Income When Deduction Stops	$142,800	$137,700
Health Savings Account (HSA) Maximum Contribution	Single	$3,600	$3,550
	Family	$7,200	$7,100
	Catch Up (Age 55+)	$1,000	$1,000
High Deductible Health Plan (HDHP)	Single Coverage Deductible	$1,400	$1,400
	Family Coverage Deductible	$2,800	$2,800
HDHP Maximum Out-Of-Pocket Limit	Single Coverage	$7,000	$6,900
	Family Coverage	$14,000	$13,800

TAX PLANNING AND COLLEGE

SECTION 529 PLANS

529 plan account owners may now make tax-free withdrawals of up to $10,000 from these plans for the purposes of paying down qualified student loans. This $10,000 is a lifetime limit that applies to the 529 plan beneficiary and each of his or her siblings. So, a parent with three children can make a tax-free withdrawal of up to $30,000 total – one for each child.

Any interest paid down with a 529 plan is ineligible for the student loan interest deduction.

You can also use 529 plans to pay qualified apprenticeship program costs. The apprenticeship program must be registered with and certified by the U.S. Department of Labor.

Additionally, the Tax Cuts and Jobs Act extended the definition of qualified 529 plan distributions to include some K-12 educational costs – up to $10,000 per year, beginning in 2017. These include tuition, books, fees and computers.

The withdrawal allowances for higher education expenses still apply.

COVERDELL ESA

The Coverdell Education Savings Account (ESA) remains unchanged, with a $2,000 annual contribution limit per student. You qualify to make a full nondeductible contribution if you file jointly, but the limit is phased out at a modified AGI of $190,000–$220,000. Limits for singles are half of those for joint filers. Earnings are tax-deferred and qualified withdrawals are tax-free.

You have until the April 2021 tax filing deadline to make a Coverdell ESA contribution for 2020.

EDUCATION TAX CREDITS

You may have a choice of taking a Lifetime Learning Tax Credit (up to $2,000) or an American Opportunity Tax Credit (up to $2,500 per student) for qualified education expenses, but you can't take both in the same year. The deduction for qualified tuition expenses expired at the end of 2020, but is replaced with increased income phaseout thresholds on the Lifetime Learning Tax Credit. The credit is deducted from your taxes owed, not from your income.

GRADUATE AND DOCTORAL STUDENTS AND IRA CONTRIBUTIONS

Stipend payments for graduate and doctoral students are 'earned income' for the purposes of determining allowable IRA contributions. If you or your spouse receives such a stipend, you may be able to contribute more towards a traditional or Roth IRA.

CUSTODIAL ACCOUNTS

The Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) facilitate custodial accounts set up for the benefit of minors. While they don't have restrictions like qualified education accounts, they feature two distinct disadvantages: Beneficiaries can do what they want with the account once reaching the age of majority because they'll own the assets. Also, students are expected to contribute a greater percentage of assets than parents when paying for education expenses.

STUDENT LOANS

Borrowers have a few ways to see their student loans forgiven, cancelled or discharged for working in public service and other sectors. Talk to your tax professional to learn if any apply to your situation.

For those taxpayers paying off their student loans and who qualify by income, they may deduct from their AGI up to $2,500 in qualified education loan interest. This deduction phases out for individuals with a modified AGI greater than $70,000.

NOTE: President Biden and the Department of Education recently extended student loan forbearance until Sept 30, 2021.

PLAN FOR RETIREMENT

Ask anyone nearing or in retirement and they'll tell you the future is closer than you think. That's why the steps you take many years before retirement will shape your financial picture in retirement.

There are a variety of retirement savings vehicles to which you can contribute, depending on your employment situation. Traditional and Roth IRAs, Simplified Employee Pensions (SEPs), SIMPLE plans, and 401(k), 403(b) and 457 plans are examples of the many opportunities Americans have to put money away for a more financially secure retirement. An added bonus is that you reduce your taxable income by contributing before-tax to most retirement vehicles.

Making tax-deductible contributions to a qualified retirement plan makes sense if you believe that your future tax rate will be higher than your current tax rate. At minimum, if your employer offers matching contributions in a 401(k) contribute enough to receive the maximum match.

ROTH IRAS

Roth IRAs require after-tax contributions, but qualified distributions are tax-free and there are no required minimum distributions during your lifetime, unlike most other retirement accounts. However, if a withdrawal is made within five years of the first contribution it is not considered a qualified distribution in most cases.

Contributing to a Roth IRA makes sense if you do not need the tax deduction now. Roth IRAs can provide tax-free income before RMDs kick in, requiring you to take distributions from qualified retirement accounts.

This year, due to the lower tax rates, many people have rolled over their traditional IRAs to a Roth IRA to avoid paying higher tax rates in the future. This only makes sense for people with the liquidity to pay the tax bill due in April without tapping retirement funds. If you are in a higher tax bracket now and planning to retire soon, a rollover may not make sense for you.

PERSONAL TAX CONSIDERATIONS

The following checklist includes items to think about and perhaps address with your team of legal, tax and financial professionals.

- ☐ Check your wills, trusts and other legal documents to potentially change outdated information. Tax law changes or not, it's always good to review these documents annually to make sure they are drafted as you wish.
- ☐ Talk to your human resources department to ensure you are withholding just enough from your income to pay next year's taxes.
- ☐ Reexamine saving for college through a 529 plan for at least these two reasons: First, the federal tax law now allows qualified withdrawals for private and parochial grade school and high school of up to $10,000 annually. Check to see if your state 529 plan will allow this, first. Second, use your full annual gift tax exemption times five. You can combine five years of contributions up to the annual gift tax limit for each of the five years. (You can't make another gift to the same person during this time.)
- ☐ Did you make some money on the side? If you did, you need to report all the income, not just that for which you received a 1099 statement. This form isn't required for annual earnings from a client of under $600, but taxes are!
- ☐ Most taxpayers will need to provide a variety of other tax statements and documentation, from identification to income statements from other sources.

> ***Talk to your tax professional to get a complete list of what you will need for your next tax planning meeting.***

THE PANDEMIC TRIGGERS LEGISLATION

The CARES Act and the subsequent COVID-19 Related Tax Relief Act of 2020 provided several changes for businesses. In order to retain employees and help prevent businesses from closing permanently, many incentives were provided to businesses. We'll discuss the most common ones still available today.

DEFERRAL OF SOCIAL SECURITY TAX

The CARES Act allows employers to defer paying the employer's portion of the social security tax on wages earned from March 27, 2020 through December 31, 2020. These taxes are required to be paid to the Treasury within two years to avoid penalties and interest.

In early August 2020, an executive order was signed that allows employers to defer withholding and paying the employee portion of social security tax for the period September 1 - December 31, 2020. Starting on January 1, 2021, employers must begin withholding the deferred taxes ratably through December 31, 2021 or penalties and interest will be charged.

EMPLOYEE RETENTION TAX CREDIT EXPANDED

There are now three different categories of Employee Retention Tax Credits:

1. A refundable payroll tax credit of up to $5,000 per employee is available to businesses that were partially or fully shut down due to a government mandate in 2020 or had a drop in gross receipts in 2020 compared to 2019 but managed to retain employees.

2. The Employee Retention Credit was expanded and extended until June 30, 2021, during which time eligible businesses can claim a tax credit of up to $14,000 per employee.

3. Businesses that were prevented from operating because they were impacted by qualified natural disasters at any time during 2020 or 2021, but continued to pay employees, can claim a credit of up to $2,400 per employee.

PAID SICK LEAVE CREDIT

For employers with fewer than 500 employees, tax credits for paid sick leave are available until March 31, 2021. If an employee contracted COVID-19, was instructed to self-quarantine, is caring for someone that must self-quarantine, or caring for a child due to school or childcare closures, a credit of up to 80 hours, (up to $5,110 per employee), is available for the wages an employer pays while these employees are on sick leave.

ECONOMIC INJURY DISASTER LOANS

The Small Business Administration is providing low-interest loans to small businesses and non-profit organizations that have suffered a loss of revenue due to the pandemic. These 30-year loans are intended to be used to cover working capital and normal operating expenses. Payments are generally deferred for the first year; however, interest still accrues. But with interest rates as low as 2.75%, it can provide a low-cost influx of cash for struggling businesses.

ECONOMIC INJURY DISASTER LOAN (EIDL) ADVANCES

Eligible businesses that didn't receive the full $10,000 EIDL grant earlier can now reapply for the difference. The grants are offered in conjunction with the Economic Injury Disaster Loan program. And unlike EIDL Loans, the advances do not need to be repaid.

CORPORATE CHARITABLE GIVING

Similar to the personal charitable giving changes provided under the CARES Act, some businesses are now able to deduct qualified contributions of up to 25% of taxable income in 2020. This is an increase from the 10% usual rate.

NET OPERATING LOSSES

The CARES Act suspended the no carry-back rule and allows net operating losses to be carried back five years for losses incurred in tax years 2018 - 2020. It also eliminated the 80% limitation and now 100% of losses can be carried back. The old net operating loss rules return for 2021.

PAYCHECK PROTECTION PROGRAM REOPENED AND EXPANDED

The Paycheck Protection Program (PPP) reopened in January 2021 to new participants. Eligibility requirements generally remain the same as under the CARES Act.

A second PPP loan is available for qualified businesses that have received and exhausted their first loan. However, second PPP loans are more restrictive, with loans capped at $2 million and limited to companies with fewer than 300 employees that experienced a 25% drop in gross receipts during a quarter in 2020 relative to the same quarter in 2019.

First PPP loans are generally equal to 2.5 times the average 2019 or 2020 monthly payroll costs. However, for second loans, hospitality businesses will be able to use a multiple of 3.5.

PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS

Businesses that obtained a Paycheck Protection Program (PPP) loan may qualify to have all or part of their loan forgiven if the loan proceeds were used for eligible payroll, business mortgage interest, rent or other eligible non-payroll expenses during the period covered by the loan. Payroll-related expenses also qualify now, such as specific health and disability insurance premiums and additional categories of non-payroll costs.

Forgiven PPP loans are tax-exempt and the forgiven expenses are tax deductible. There are limits on the amounts paid to employees and business owners and on the types of payroll and benefit costs that will be forgiven. There is a streamlined forgiveness process for loans under $150,000.

Borrowers can apply for forgiveness as soon as all the loan proceeds are used and as late as the maturity date of the loan. Payroll records and bank documents that prove compliance need to be included with the loan forgiveness application.

If a borrower hasn't applied for forgiveness within 10 months after the last day of the loan's covered period, then the PPP loan is no longer deferred and the borrower will have to start making loan re-payments to the lender.

PPP loans are complicated, so speak with your tax professional to ensure you follow all the requirements.

GRANTS FOR SHUTTERED VENUE OPERATORS

Congress authorized the SBA to provide grants of up to 67.5% of 2019 gross revenue to certain venue and entertainment operators who showed at least a 25% drop in revenue in 2020 compared with 2019. Total grants can't exceed $10 million per qualified venue. Qualified venue operators must have been fully operational at February 29, 2020 and must state they intend to remain in business.

DEFINED BENEFIT PLAN CONTRIBUTIONS

The CARES Act allows for deferral of contributions to single-employer defined benefit pension plans. Any contribution required to be made in 2020 can be made as late as January 4, 2021 and still be considered to be paid on time. This deferral is intended to help alleviate additional adverse impacts on business owners who were impacted by the COVID-19 pandemic.

> ***Discuss tax credits with your tax professional each year. As your business grows, you may be able to claim additional credits that were not previously allowed.***

INDIAN EMPLOYMENT CREDIT RESURRECTED

The Indian Employment Credit, which expired at the end of 2017, is back in force through December 31, 2021. This credit incentivizes employers to boost employment on Indian reservations. The credit is worth up to 20% of the first $20,000 in qualified employee wages and health insurance costs over the amount of these costs and wages incurred by the employer in 1993.

EMPOWERMENT ZONE TAX INCENTIVES

The Empowerment Zone Tax Incentive program, which was designed to incentivize business investment and job growth in certain economically disadvantaged areas is available through December 31, 2025. The program may entitle you to expanded Section 179 deduction allowances, potential deferral of capital gains under IRC Section 1397B, and the ability to finance projects using certain tax-exempt bonds under IRC Section 1394.

TAX RATES AND BUSINESS STRUCTURES

The corporate tax rate is now a flat 21%. There is also favorable treatment for pass-through entities, including S corporations and limited liability companies (LLCs). Now may be a good time to discuss your corporate structure with your tax and legal professionals.

REDUCED FEDERAL INCOME TAX RATE

Corporate entities are still double taxed on the corporate side and as individual taxpayers. While the lower corporate tax rate should help ease a bit of this tax burden, business owners can avoid this double taxation by organizing their businesses as pass-through-entities, such as S corporations or limited liability companies (LLCs). There is no corporate income tax on business income for these entities. Instead, profits "flow through" to the individual tax returns of their owners, paying income tax once at their individual tax rate.

Sole proprietorships and partnerships also avoid double-taxation and receive 'flow through' treatment. But these latter two forms do not provide limited liability. Sole proprietors and partners may be personally liable for claims against their businesses.

PASS-THROUGH INCOME

Owners of some pass-through businesses can now take a deduction of up to 20% of qualified business income — plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. This tax break phases out for single taxpayers at $163,300 of taxable income, and for married taxpayers at $326,600 — not including qualified business income deduction. Above these thresholds, the deduction is based on whether you are a specified service trade business (SSTB) or not. There is a caveat: The pass-through provision will pass into history in 2026 unless Congress votes to make it permanent.

TAX BENEFITS FOR RENTAL REAL ESTATE INVESTORS

Certain interests in rental real estate now qualify for the 20% pass-through income deduction. These enterprises are generally defined as owning real estate for purposes of generating rental income. In order to claim the deduction, you'll need to meet these requirements:

- Keep separate books showing income and expenses for each rental real estate enterprise.
- Complete 250 hours or more of rental services each year if your rental real estate enterprise is less than four years old. For older enterprises, 250 or more hours of rental services must have been performed in at least three of the past five years. Rental services include advertising the property for rent, collecting rent, and completing routine repairs or maintenance on the property.
- Maintain meticulous records, including time logs for hours of all services performed; description of all services performed; dates on which such services were performed; and who performed the services. Attach this report to your tax return.

The formula to figure out your tax liability with the pass-through income provision is complex, so work with your tax professional, who can help you calculate your pass-through income and its tax.

ENERGY EFFICIENT IMPROVEMENTS

The deduction for making energy-efficient improvements to nonresidential rental property is now permanent.

NOTEWORTHY CONSIDERATIONS

THE CORPORATE AMT IS GONE

The corporate Alternative Minimum Tax (AMT) is history. However, businesses can still receive credit for previous AMT payments that exceed their regular tax liability through 2021.

SECTION 179

For 2020, the limit for Section 179 expensing on eligible property is now $1,040,000 and phases out completely at $2,590,000. The limits for 2021 are $1,050,000 and phases out completely at $2,620,000.

Within these guidelines, Section 179 also allows for immediate and 100% expensing of qualified improvement property placed in service starting in tax year 2018. This provision phases out in 2023. Improvements include:

- Any improvement to a building's interior but not building enlargements, elevators and escalators, or changes to the internal structural framework of the building
- Roofs, HVAC, and security and fire alarms.

BONUS DEPRECIATION

The amount of bonus depreciation percentage you can use for qualified property acquired and placed in service after September 27, 2017 until January 1, 2023 is now 100%. In contrast, the bonus depreciation percentage for qualified property that a taxpayer acquired before September 28, 2017 and placed in service before January 1, 2018, remains at 50%. Talk to your tax professional to get the specifics, of which there are many.

WORK OPPORTUNITY TAX CREDIT EXTENDED

The Work Opportunity Tax Credit is still available through December 31, 2025. This credit provides an incentive for employers to hire long-term unemployed individuals (i.e., those unemployed for 27 weeks or longer.) Generally, the credit is equal to 40 percent of the first $6,000 in wages paid out to the newly hired worker.

LUXURY VEHICLES

Depreciation limits have changed for passenger vehicles placed in service after December 31, 2017. If the taxpayer doesn't claim bonus depreciation, limits range from $10,000 in the first year to $5,760 for years four and beyond.

- $10,000 for the first year,
- $16,000 for the second year,
- $9,600 for the third year, and
- $5,760 for each taxable year thereafter in the recovery period.

If the taxpayer claims 100% bonus depreciation, the first-year limit is $18,000, while the limits for the other years remain the same. However, computer or peripheral equipment placed in service after December 31, 2017 is excluded.

INTEREST EXPENSING

Through 2025, amended IRC Section 163(j) limits corporations' business interest expensing to any business interest income, plus 30% of the business' adjusted taxable income. This interest expensing provision doesn't apply to companies with gross average receipts of $26 million or less for the three previous years.

MEALS AND ENTERTAINMENT

For 2021 and 2022, business meals from restaurants are 100% deductible, rather than the usual 50%. Entertainment expenses remain non-deductible.

ACCOUNTING METHODS

In 2020, if your average annual gross receipts were $26 million or less in the three previous tax years, you can choose either a cash or accrual method of accounting.

If your gross receipts exceed that threshold, you must use the accrual method. For more information about the advantages and disadvantages of each method, speak with your tax professional, or see IRS Publication 538 – *Accounting Periods and Methods.*

EMPLOYEE BENEFIT PLANS

It's important to review employee benefit offerings to ensure you're receiving maximum tax benefits while providing plans that will attract and retain qualified employees.

TAX CREDITS FOR SMALL BUSINESS RETIREMENT PLANS

Small business retirement plan tax credits can be up to $5,000. This credit is designed to provide small business owners with an incentive to provide access to a retirement plan for their employees. Another $500 in tax credits each year for up to three years is available for businesses that enroll new hires automatically. The maximum auto-enrollment contribution for the first year of employment is 10% of compensation. After the worker's first year, the SECURE Act allows safe harbor plans to automatically increase employee contributions up to a maximum of 15% of compensation. Employees must have the choice to opt out of auto-enrollment.

Additionally, you now have until the due date for your company's tax return filing, to establish a plan and claim the credit for the previous year.

"CADILLAC" EMPLOYEE HEALTH CARE PLAN TAX REPEALED

The Affordable Care Act imposed a 40% tax on certain high-end employee health plans, which was slated to become effective in January 2022. Congress has repealed it entirely.

MULTIPLE EMPLOYER PLANS

The SECURE Act allows employers of all sizes to collaborate and open "pooled plans," or Multiple Employer Plans (MEPs) for plan years starting after December 31, 2020. Employers need not show a common interest to do so. Until now, employers were discouraged from entering into MEP arrangements because of the "One Bad Apple" rule. Under this rule, if one-member employer had problems complying with ERISA requirements, the entire plan could be disqualified. This change, reduces employer risk by allowing for the non-compliant plan to be separated from the MEP, leaving the remaining plans under the MEP intact.

TUITION DEDUCTION

Employers that pay qualified tuition expenses or student loan payments for employees can continue to deduct those expenses until December 31, 2025.

COMPLIANCE PENALTIES INCREASED

Fines and penalties for non-compliance with ERISA requirements are generally $250 per day with a maximum penalty of $150,000 depending on the type of non-compliance.

QUALIFIED RETIREMENT PLAN OFFSET

Previously, employees with a defaulted plan loan who were no longer with their qualified plan's company, or had a terminated plan, had 60 days to roll over the loan plus withholding taxes before penalties and interest accrued. Now, they have until the tax filing deadline (plus extensions) of the following year to make a rollover

QUALIFIED PLAN LIMITS

The annual compensation limit for retirement accounts under Sections 401(a)(17), 404(l), 408(k)(3)(C) and 408(k)(6)(D)(ii) was $285,000 in 2020. In 2021, the limit increases to $290,000.

ESOPs

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a five-year distribution period is $1,150,000 in 2020, and $1,165,000 in 2021. The dollar amount used to determine the lengthening of the five-year distribution period is $230,000 in 2021.

TRANSPORTATION BENEFITS

The corporate tax break for employer-paid transportation benefits was repealed. However, it is still tax-free to employees.

EMPLOYER FMLA TAX CREDIT EXTENDED

The Employer Family Medical Leave Act credit, originally set to expire at the end of 2019, has been extended through 2025. This credit is equal to 12.5% to 25% of eligible wages paid to low-and moderate-income employees while they are on family or medical leave. If your employees have taken medical leave due to COVID-19, talk with your tax professional about COVID-19 sick leave tax credits.

BUSINESS TAX CONSIDERATIONS

Whether recovering from losses due to the pandemic, dealing with COVID-related loans or working to grow sales, business owners need to plan ahead. Here's a checklist of practical considerations.

- ☐ Revisit how much you save for estimated taxes.
- ☐ Understand that state and local tax jurisdictions may not recognize all federal tax law changes.
- ☐ Owners of most business structures, including freelancers, need to understand the term "qualified business income (QBI)." You may qualify for a "pass-through" tax benefit on a portion of income, which may be lower than your personal federal income tax rate.
- ☐ Be aware of new depreciation formulas, which may let you deduct 100% of the cost of eligible property in the year it is placed in service, through 2022.
- ☐ Section 179 expensing also sees some changes, with an expanded definition of real property. Find out if this applies to your business.
- ☐ You may switch from an accrual accounting method to a cash method of accounting if your average annual gross receipts were $25 million or less in the three previous tax years.
- ☐ You may deduct up to 80% of net operating losses and carry forward these losses indefinitely, so keep your documentation until you use up this tax benefit.
- ☐ The business Alternative Minimum Tax (AMT) is gone, but you can still receive credit for previous AMT payments over your regular tax liability through 2021.
- ☐ Revisit your payroll and bookkeeping records to see if you need to hire employees or contractors to handle them.

Talk to your tax professional for a complete list of documents you'll need to bring to your next tax-planning meeting.

WE CAN HELP

Tax regulations are ever-changing and always complex. It has never been more important to work with your tax and financial professionals to learn how to minimize taxes and leverage your savings to invest in your future. We urge you to call us to schedule an appointment.

Getting a head start on tax-planning can save you money, time and stress.

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NOTES

PKF

Accountants &
business advisers

75 State Street
Suite 2105
Boston, MA 02109
617-753-9985

300 Crown Colony Drive
Suite 400
Quincy, MA 02169
617-422-0007

www.pkfboston.com