A Sigh of Tax Relief

Key 2021 Tax Stimulus and Relief for Employers and Individuals

BY ROBERT S. SMITH, CPA AND LINDA A. PAPPAJOHN

ON DECEMBER 27, 2020, the Consolidated Appropriations Act of 2021 (the CAA) became law, which contained long-anticipated stimulus and tax relief aimed at the COVID-19 pandemic.

Below is a high-level summary of the provisions in the CAA that are of interest to businesses, including nonprofits, as well as individuals.

Businesses:

Business meals are 100% tax-deductible for the period January 1, 2021 through December 31, 2022 for food and beverages provided by a restaurant. This temporarily relaxed the rules classifying meal deductions into three categories: 100% deductible, 50% deductible, and non-deductible. Meals not purchased from a restaurant are still subject to the regular rules.

Employer tax credits under FFCRA and Section 45S

- FFCRA's Emergency Paid Sick Leave and Expanded Paid Family and Medical Leave allowed a payroll tax credit up to 100% of the employer's and employees' portion of Social Security and Medicare taxes, and federal income taxes withheld from employees up to 100% of the required paid leave under FFCRA caused by qualified COVID-19 circumstances, with excess amounts being refundable credits. The CAA allows employers to voluntarily extend these paid leaves and receive the payroll tax credit through March 31, 2021.
- The Section 45S tax credit is the employer-paid family and medical leave program started in 2017 under the TCJA allowing employers of any size to claim an income (not payroll) tax credit up to 25% of wages for paid leave, subject to certain qualifications. This program's expiration date was extended from December 31, 2020 to December 31, 2025.

The Employee Retention Credit (ERC) was started under the CARES Act to provide a refundable payroll tax credit of up to 50% of certain wages up to $10,000 for 2020 paid by qualified employers. PPP loan recipients were ineligible for this credit. The CAA extends the program through June 30, 2021 and increases the credit to 70% of wages plus health plan expenses, as well as the wage cap to $10,000 per quarter. Further, PPP loan recipients are now allowed to receive this credit retroactively to inception of the CARES Act, as long as the same wages and benefits aren't used for both PPP loan forgiveness and the ERC. Lastly, restrictions were relaxed for larger employers. Requirements for reduced gross receipts and other restrictions apply. Maximizing PPP loan forgiveness and the ERC should be optimized before committing to either strategy.

Expenses related to PPP loan forgiveness are declared as tax deductible under the CAA. Shortly after the CARES Act was passed, making forgiven PPP loans tax free, the IRS ruled that expenses giving rise to PPP loan forgiveness would not be tax deductible, causing a large, unexpected tax bill for most PPP loan recipients. Congress finally changed the law ensuring these expenses would be tax deductible.

Individuals:

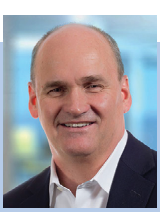
Recovery rebates, also known as stimulus payments, are once again being paid to individual taxpayers under the CAA. Using criteria identical to the earlier round of stimulus payments, qualified individuals are receiving payments from the IRS of up to $600 per individual. Additional payments of $600 are also being made for each dependent child under the age of 17. Dependents over the age of 16 do not qualify for recovery rebate credits. The determination of the stimulus payment amount is done primarily using a taxpayer's 2019 tax return. The final calculation of the recovery rebate is done on the 2020 tax return. If stimulus payments exceed the computed amount, no repayment is required. If payments were less than allowed, taxpayers receive the difference.

The medical expense deduction has just gotten easier for those who have large medical bills and itemize their deductions on Schedule A. In order to deduct medical expenses, itemizers will need to exceed 7.5% of their adjusted gross income (AGI) in medical expenses, rather than the 10% of AGI rule originally set to begin in 2021.

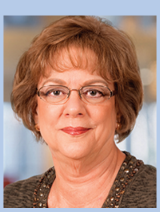
Flexible spending accounts (FSA) now have special temporary rules for 2021 and 2022, which benefit FSA account holders. This is especially helpful for people whose childcare providers closed during 2020 and elective surgeries were postponed. The CAA allows employees to carry over unused 2020 dependent and healthcare FSA funds into 2021, and for 2021 into 2022, plus more flexibility for qualified expenses and making changes.

Charitable contributions can be deducted even if you don't itemize deductions. Effective for 2021, the $300 limit for deducting charitable contributions for non-itemizers increases to $600 for married couples filing jointly. Also, the 100% of AGI ceiling for deducting qualified charitable contributions was extended through 2021.

In summary, these were highlights of the more popular tax law changes enacted in December 2020 for much-needed stimulus and relief. Other changes, such as extending various energy tax credit programs, are worth looking into. There will most likely be additional tax legislation aimed at further economic stimulus until the pandemic subsides. ■



Robert S. Smith, CPA is the Managing Director of Tax Services at Santora CPA Group in Newark, Delaware. Bob can be contacted at 302-224-5107 or rsmith@santoracpagroup.com.



Linda A. Pappajohn is the Director of Human Resources at Santora CPA Group in Newark, Delaware. Linda can be contacted at 302-224-5103 or lpappajohn@santoracpagroup.com.