



COVID-19 UPDATE | DECEMBER 31, 2020

KEY TAX PROVISIONS OF THE CONSOLIDATED APPROPRIATIONS ACT 2021

On December 27, 2020, the President signed into law a long-awaited \$900 billion COVID-19 relief bill called the Consolidated Appropriations Act 2021. The Act expands on the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) passed earlier this year, and provides support to millions of Americans, including households, small businesses, health care providers, government programs such as unemployment assistance and vaccine development and distribution, as well as the transportation industry and other industries critically impacted by the pandemic. President Elect Joe Biden has indicated that he will propose additional COVID-19 relief legislation in 2021, supported by both House Speaker Nancy Pelosi and Senate Majority Leader Mitch McConnell.

The Consolidated Appropriations Act is extensive and includes many provisions that will impact individuals and businesses. Below is a summary of a few of the most notable tax provisions impacting individuals and businesses:

For Individuals

- **New Recovery Rebate**

Individuals making up to \$75,000 per year will receive a direct economic impact payment of \$600; married couples making up to \$150,000 per year will receive \$1,200; and individuals will receive \$600 for each child dependent (President Trump has proposed an increase in the individual payment amount from \$600 to \$2,000; however this is currently under debate with lawmakers).

- **Unemployment Benefits**

Individuals receiving unemployment benefits will receive a \$300 per week supplement from December 26, 2020 through March 14, 2021. The Act also extends the Pandemic Unemployment Assistance (PUA) Program, with expanded coverage for self-employed individuals, gig workers, and others in nontraditional employment. The Pandemic Emergency Unemployment Compensation (PEUC) program has also been extended.

- **Teacher Expenses**

The Act expands the above-the-line educator expense deduction to include PPE and other supplies used to prevent the spread of COVID-19.

- **Temporary Special Rules for Health and Dependent Care Flexible Spending**

The Act allows employers to make plan amendments to prevent individual members from losing unused FSA and/or DCA contributions for plans ending in 2020 and 2021.

- **Charitable Contribution Extensions**

The CARES Act increased the limit on charitable contributions from 60% of the contribution base to 100% for 2020. Also, individual taxpayers can claim a \$300 above-the-line charitable contribution on 2020 tax returns.

- **Tax Extenders**

Many individual tax provisions that were set to expire at the end of 2020 have now either been extended for up to 5 years or made permanent, including but not limited to the following:

- o Reduction in medical expense deduction limitation to 7.5% of AGI
- o Discharge of indebtedness on principal residence excluded from gross income
- o Exclusion from gross income of certain employer payments of student loans
- o Treatment of Mortgage Insurance as qualified mortgage interest
- o Credit for health insurance costs of eligible individuals
- o Tax-favorable treatment of benefits provided to volunteer firefighters and emergency medical responders
- **COVID-19-Related Distributions from Retirement Plans**
The CARES Act waived the 10% additional tax for any qualified Coronavirus-related distributions from a retirement plan. Eligible individuals can include these distributions in gross income over a three-year span and have three years to repay the amount. The Act clarifies that in the case of a money-purchase pension plan, a Coronavirus-related distribution that is an in-service withdrawal will be treated as a qualified distribution.

For Businesses:

- **Paycheck Protection Program (PPP)**
The Act provides \$284 billion to the Small Business Administration (SBA) for its Paycheck Protection Program (PPP), and outlines several new key provisions, including:
 - o Business expenses paid with forgiven PPP loans are now tax deductible
 - o Additional funding will be available for first-time borrowers
 - o Borrowers who have not already applied for forgiveness may increase their loan amount for certain qualified expenses
 - o Borrowers who returned their PPP funds may reapply for a PPP loan
 - o Additional expenses are now eligible for forgiveness
 - o A simplified loan forgiveness process will be available for small loans (loans under \$150,000)
 - o Clarified forgiveness calculations
- **Second Round of PPP Loans**
A second round of PPP loans will be available for previous borrowers, who may receive a loan up to 2.5 times (3.5 times for certain food services and accommodation sector business) their average monthly payroll costs in 2019 or 12 months before the loan application, with loans being capped at \$2 million. Borrowers must meet certain requirements, including but not limited to the following:
 - o Have 300 or fewer employees. Rule for borrowers with related entities or more than 300 employees must meet SBA criteria to qualify as a small business.
 - o Show a revenue reduction of at least 25% during one of the first three quarters of 2020 (or fourth quarter of 2020 if applying after January 1, 2021), with special rules applying to businesses not in operation for all or part of 2019.
- **Economic Injury Disaster Loan (EIDL) Grants**
The Act allocates \$20 billion to provide EIDL Grants to businesses in low-income communities.
- **Deferred Payroll Taxes**
In August, the President issued a memorandum stating that employers were allowed to defer their employee's share of payroll taxes from the period beginning September 1, 2020 through December 31, 2020, with a payback period ending April 31, 2021. The Act extends the pay back period to December 31, 2021. Penalties and interest will begin to accrue on the deferred taxes on January 1, 2022.
- **Employer PFMLA Tax Credit**
The employer credit for paid sick and family leave, which was set to expire at the end of 2020, has been extended to March 31, 2021.
- **Employee Retention Tax Credit**
The Act extends the employee retention tax credit for covered wages paid through June 30, 2021, increases the credit rate from 50% to 70% of qualified wages, and increases the per employee wage cap from \$10,000 for the year to \$10,000 per quarter.

- **Business Meals Deduction**

The Act includes a temporary return of the business meals deduction, allowing businesses to deduct 100% of the cost of meals, including beverages, purchased at a restaurant in 2021 and 2022.

- **Charitable Contribution Deductions**

The CARES Act increased the percentage limitation on charitable contribution deductions for corporations from 10% to 25% for qualified cash contributions made in 2020. A corporation may carry forward for five years any qualifying contribution that exceeds the 25% limit. The deduction limitation for contributions of food inventory from any business is also temporarily increased from 15% to 25% made in 2020. The Act has extended all of these provisions through 2021.

- **Business Tax Extender Legislation Passed**

Many business tax provisions that were set to expire at the end of 2020 have now either been extended for up to 5 years or made permanent, including but not limited to the following:

- o New Markets Tax Credits
- o Work Opportunity Tax Credits
- o Empowerment Zone Tax Credits
- o Energy efficient commercial buildings deduction
- o Look through rule for payments between related controlled foreign corporations
- o Employer credit for paid family and medical leave

- **Additional Funding**

The Act will also provide \$45 billion in transportation funding, including \$16 billion for airlines, \$14 billion for transit systems, \$10 billion for state highways, \$2 billion each for airports and intercity buses, and \$1 billion for Amtrak; \$82 billion in funding for colleges and schools, including \$10 billion in child care assistance; \$22 billion for health-related expenses incurred by state, local, Tribal and territorial governments; \$25 billion in emergency rental aid and an extension of the national eviction moratorium through January 31, 2021; \$13 billion for emergency food assistance; and \$7 billion for broadband expansion.

The Consolidated Appropriations Act is quite extensive, and CRR will be closely analyzing all provisions and their impacts, as well as any changes that may occur as this legislation takes effect, in order to best assist our clients. If you have questions about how this legislation will impact you or your business, please don't hesitate to contact us at info@crrcpa.com. You can also visit our [COVID-19 Resource Center](#) for the latest updates, alerts, and impacts.