

WHAT INDIVIDUALS NEED TO KNOW

The Consolidated Appropriations Act of 2021 included nearly \$900 billion in additional COVID-19-related aid. The Act also extended many tax credits that were set to expire on December 31, 2020 and included some significant changes to the current tax code. Following are the key points for businesses and individuals:

STIMULUS CHECKS

The bill provides direct payments of \$600 per adult and per qualifying dependent child under age 17. The amount begins phasing out for individuals earning \$75,000 and \$150,000 for married filing jointly taxpayers.

EXTENDED UNEMPLOYMENT COMPENSATION

Federal unemployment compensation of \$300 per week is available through March 14, 2021 for individuals who are unemployed due to the pandemic. The maximum number of weeks an individual can collect unemployment benefits increases from 39 weeks to 50 weeks.

ABOVE THE LINE CHARITABLE DEDUCTIONS EXTENDED

Taxpayers who don't itemize deductions can continue to take a deduction for cash donations of up to \$300 through 2021.

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.

MEDICAL EXPENSE DEDUCTION FLOOR PERMANENTLY LOWERED

Moving forward, taxpayers who itemize deductions can deduct medical expenses that exceed 7.5% of adjusted gross income. This percentage was set to revert to 10% in 2021.

TUITION DEDUCTION ELIMINATED

Beginning in 2021, taxpayers can no longer deduct tuition expenses. Instead, the income phase-out thresholds for the Lifetime Learning Credit will expand, allowing more taxpayers to qualify for the credit.

WHAT GOES AWAY FOR INDIVIDUALS

- Student loan forbearance is set to expire on January 31, 2021.
- Early withdrawals from retirement plans to cover COVID-19-related expenses, or a related economic setback, are no longer exempt from the 10% early withdrawal penalty.

WHAT BUSINESS OWNERS NEED TO KNOW

The Consolidated Appropriations Act, 2021 includes financial assistance for businesses, including a new round of the Paycheck Protection Program (PPP), EIDL Grants and Employee Retention Credits. Additionally, some tax deductions and credits were extended to help businesses to stay open.

PAYCHECK PROTECTION PROGRAM REOPENED AND EXPANDED

The Paycheck Protection Program (PPP) reopens to eligible borrowers in January 2021. This program provides forgivable loans to businesses when used to pay qualified expenses.

LOAN ELIGIBILITY

Eligibility requirements largely remain the same as they were in the CARES Act for first-time applicants. Businesses with 500 or fewer employees and sole proprietors, independent contractors, and nonprofits are eligible for a PPP loan. The bill allows borrowers that returned all or part of a previous PPP loan to reapply for the maximum amount available to them. Some businesses who received and exhausted an initial PPP loan can request a second PPP loan of up to \$2 million. Only companies with 300 or fewer employees that experienced a 25% reduction in gross receipts during any calendar quarter in 2020 compared with the same quarter in 2019 are eligible for a second loan. Certain borrowers are excluded from receiving a second loan.

Applying for a loan involves calculating your monthly payroll expenses for 2019 and completing the Small Business Administration's (SBA) loan application. Submit it to an SBA-approved lender.

FORGIVABLE EXPENSES

Forgivable payroll-related expenses now include specific health and disability insurance premiums and additional categories of non-payroll costs. While the IRS had issued guidance that forgiven expenses weren't tax-deductible, this Act expressly makes forgiven expenses tax-deductible. The new legislation allows for a streamlined forgiveness application process for loans of \$150,000 or less. PPP loans are complicated, so speak with your tax professional to see if your business qualifies and ensure you follow all the requirements.

GRANTS REOPENED: ECONOMIC IMPACT DISASTER LOAN (EIDL)

Eligible businesses that didn't receive the full \$10,000 EIDL grant can now reapply for the difference. Grants will not be taxed and expenses paid with grant funds will be tax-deductible.

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 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 natural disasters at any time during 2020 or 2021, can claim a credit of up to \$6,000 per employee.

DEDUCTIONS AND CREDITS EXTENDED

The Work Opportunity Credit allows businesses to claim a credit for hiring certain groups of employees and is extended until December 31, 2025.

- The Families First Coronavirus Response Act allows certain businesses to take a credit for sick leave paid to employees that couldn't work due to COVID-19-related child care restrictions. This credit is extended to March 31, 2021.
- The deduction for making energy-efficient improvements to nonresidential rental property is now permanent.
- Employers that pay qualified tuition expenses or student loan payments for employees can continue to deduct those expenses until December 31, 2025.

BUSINESS MEALS DEDUCTION INCREASED

For 2021 and 2022, business meals at restaurants are 100% deductible rather than 50%.

DEFERRED PAYROLL TAXES

Employers that deferred withholding payroll taxes from employees' pay in 2020 now have until December 31, 2021 to complete repayment.

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