

2021 taxes: What to know & how to prepare

December 8

Webinar starts at Noon CT

Continuing education credits available

Please answer at least **three** polling questions.



Recording & slides will be available.



For best audio quality, call in by phone



Questions? Ask away!



Don't forget our survey





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Emily provides business valuation, tax planning and compliance services. She works in various industries including manufacturing, vehicle dealerships, and estates/trusts.

Emily is a member of the AICPA, KSCPA, and was named a member of the KSCPA's 20 up to 40 young leadership classes.



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LeAnn has multiple years of experience providing tax services primarily to manufacturing, wholesale/retail distribution, and not-for-profit industries.

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Today's topics

- State & local taxes
- International reporting
- Research & development
- TCJA v. CARES Act
- Paycheck Protection Program (PPP)
- Employee Retention Tax Credit (ERC)
- Non-deductible parking
- Meals & entertainment
- Tax extenders
- Energy credits
- Child tax credit
- Child & dependent care credits
- Student loans
- Education expenses & credits
- Unemployment income
- Economic impact payments & recovery rebate credit
- Charitable contributions
- Mileage rates
- Estate planning
- IRS & legislative updates



State & local taxes (SALT)

- Remote employee taxation
- Wayfair case
- Pass-through entity taxes
- Recent Kansas legislation
- Multi-state tax commission
- Amazon warehouses
- Non-net income taxes



International reminders

Penalties

LARGE dollar penalties

Don't forget to mention these to your tax preparer

- Own foreign entity
- Are owned by foreign entity
- Have foreign bank account(s) (or signature authority)
- Making payments to foreign persons or entities subject to withholding



Polling question #1

TCJA to CARES Act and back to TCJA for 2021



Business interest expense limitation

Section 163(j) / Form 8990

Required when:

- Average annual gross receipts over \$26 million for prior three tax years OR
- Tax shelter



Business interest expense limitation changes

TCJA:

- Limited to 30% of adjusted taxable income
- Adjustable taxable income =
 - Taxable income +
 - Business interest expense +
 - Depreciation +
 - Amortization +
 - Depletion

CARES Act:

- Increased limitation to 50%
- Tax years beginning in 2019 and 2020



Excess business loss limitation change

Applies to **taxpayers other than**
C-corporations

Excess business loss **equals**:

- Aggregated deductions minus
- Sum of aggregate gross income and threshold

Excess business loss is **treated** as a
net operating loss



Excess business loss limitation change

TCJA:

- Limit on excess business losses over \$250,000 (\$500k for married filing jointly) adjusted annually for inflation
- Excess treated as NOL carryover to the following year
- Effective for tax years after Dec. 31, 2017

CARES Act:

- Suspended limitation for excess losses arising in 2018, 2019, and 2020

Opportunity: Amending 2018 or 2019 return if limitation was reported on original return



Net Operating Losses

TCJA - Tax years beginning **after**
Dec. 31, 2017

- Deduction limited to 80% of taxable income

CARES Act - Tax years **2018, 2019,**
and 2020

- NOL able to offset 100% of taxable income
- NOL eligible for carry-forward or five-year carry-back

Tax year **2021** and forward:

- Revert to TCJA rules



Polling question #2

Paycheck Protection Program (PPP) loans

The loan forgiveness is **non-taxable income**

- Reported as book income and not subject to tax

Accrued interest on loan forgiveness is **non-deductible**

- Reported as book expense and not deductible for tax

Round two **ended** May 31, 2021

- Forgiveness date could stretch into 2022

Some states **do not conform** to federal PPP treatment regarding income & expenses



Employee Retention Tax Credit (ERTC or ERC)

Payroll costs used for ERTC are **NOT** deductible

Payroll costs used for ERTC may **NOT** be used for other federal credits

- R&D tax credits
- Work Opportunity Tax Credits
- FFCRA leave credits



Non-deductible parking expense

Final regulations allow an **exception** to nondeductible parking expense rule

- No add-back if fair market value of parking facility is zero
- Examples: rural, industrial, or remote area

Taxpayer bears **burden of proof**



Meals & entertainment changes

100% deductible food and beverage expense if purchased from a restaurant in 2021 & 2022

Other food & beverage expenses are **50% deductible**

Recommendations for accounting

Entertainment expenses remain **100% nondeductible**



Charitable contributions

Businesses

- C-Corporation limitation for cash contributions raised to 25% of taxable income
- Charitable donation or advertising?

Individuals

- Above the line \$300 (single) and \$600 (married filing jointly) maximum deduction for cash charitable contributions if you DO NOT itemize.
- AGI limitation raised to 100% for cash donations made in 2021



Mileage rates

- Rates **decreased** for 2021
 - Business
 - Medical
 - Moving
- Charity rate **unchanged**



Research & Development (R&D) credit

- **R&D expenses**
 - In-house research expenses (wages/supplies)
 - Contract research expenses
- 2021 law: **currently deductible**
- 2022 law: **amortize** over 5 (or 15) years



Recovery rebate credit (2021)

- **Economic Income Payment (EIP)** number three was announced March 2021
- EIP three **will be reported** on the 2021 Form 1040 as a recovery rebate credit calculation
- **Income phaseout** amounts
- Qualifying dependents **expanded**



Polling question #3

Nonbusiness energy property credit v. residential energy efficient property credit

- Nonbusiness energy credit **limited to 10%** of qualified energy efficiency improvements
 - \$500 lifetime limit
- Residential energy efficient property credit **limited to 26%** of eligible qualified property expense
 - Beginning Jan. 1, 2023, this will drop to 22%



Expanded child tax credit

- **Increased** amounts and **different** amounts based on age
- **Advance** payments - elect out



Child and dependent care credit

- **Increased** eligible expenses

- **2020 maximum eligible expenses:**
 - 1 person: \$3,000
 - 2 or more: \$6,000
- **2021 maximum eligible expenses:**
 - 1 person: \$8,000
 - 2 or more: \$16,000

- **Increased** credit amount

- **2020 maximum credit allowed:**
 - 1 person: \$1,050
 - 2 or more: \$2,100
- **2021 maximum credit allowed:**
 - 1 person: \$4,000
 - 2 or more: \$8,000

- Potentially **refundable** credit



Education credits

- **Lifetime Learning** credit
- **American Opportunity** credit
- **Increased** income phase-outs



Student loans

- Loan repayment **starts back** Feb. 1, 2022
- **Employer-paid** student loans
 - Up to \$5,250 can be excluded from taxable income



Retirement plans

- RMDs are **required** in 2021
- **Age change** for RMDs from 70.5 to 72
- **Qualified Charitable Deduction (QCD)**
 - Up to \$100,000 from an IRA
- **COVID retirement withdrawals**
 - Up to \$100,000
 - Extended penalty-free until June 25, 2021



Estate provisions

- Exemptions
- Rates
- Step-up basis
- Other items of note



Polling question #4

IRS update

- Status of notices - SLOW
- Exams - SLOW
- Processing of returns & refunds - SLOW



Unemployment income (UI)

- **Fully taxable** in 2021
- American Rescue Plan Act of 2021 **excluded** the first \$10,200
- IRS has **issued refunds** for individuals who originally filed and paid tax on UI up to \$10,200



Tax extenders

Extended until the end of 2021

- Mortgage insurance premiums deduction
- Health coverage tax credit for medical insurance premiums paid by certain recipients
- Fuel cell motor vehicle credit
- Alternative fuel vehicle refueling property credit
- Two-wheeled plug-in electric vehicle credit



Recent legislation

- **Infrastructure Investment & Jobs Act**
 - Passed into law
- **Build Back Better legislation (budget)**
 - Passed by the House, awaiting Senate action now



Thank you!



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