Knueven, Schroeder & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Jerome B. Schroeder, CPA
Douglas E. Schleucher, CPA
Ann E. Woolum, CPA
Timothy J. Gephart, CPA
Mark L. Schroeder, CPA
Angela L. Bursby, CPA
Jeffrey C. Quinlan, CPA

Balance sheet

CONSOLIDATED APPROPRIATIONS ACT, 2021 THAT AFFECT INDIVIDUALS

By Roger Maag

The following is an overview of key provisions in the recent COVID relief legislation that affect individuals. The legislation is the COVID-related Tax Relief Act of 2020 and the Taxpayer Certainty and Disaster Tax Relief Act of 2020, both of which are part of the Consolidated Appropriations Act, 2021.

Recovery Rebate/Economic Impact Payment. The Act provides for a refundable recovery rebate credit for 2020 that will be paid in advance to eligible individuals, often automatically early in 2021. These payments are in addition to the direct payments/rebates provided for in earlier Federal legislation, the 2020 Coronavirus Aid, Relief and Economic Security Act, which were called Economic Impact Payments (EIP). The amount of the rebate was $600 per eligible family member – $600 per taxpayer ($1,200 for married filing jointly) plus $600 per qualifying child. Thus, a married couple with two qualifying children will receive $2,400, unless a phase out applies. The credit is phased out at a rate of $5 per $100 of additional income starting at $150,000 of modified adjusted gross income for married filing jointly and surviving spouse, $112,500 for heads of household, and $75,000 for single taxpayers. The Treasury will make the advance payments based on the information on 2019 tax returns. Eligible taxpayers who claimed their EIPs by providing information through the nonfiler portal on IRS's website will also receive these additional payments.

COVID-19 Relief
Under Consolidated
Appropriations Act, 2021

DEDUCTIONS

$250 educator expense deduction applies to PPE, and other COVID related supplies. The Act provides that eligible educators (K – 12) can claim the existing $250 above the line educator expense deduction for PPE, disinfectant and other supplies used for the prevention of the spread of COVID-19 that were bought after March 12, 2020.

7.5% of AGI on medical expense deductions is made permanent. The Act makes permanent the 7.5% of adjusted gross income threshold on medical expense deduction, which was to have increased to 10% of AGI after 2020. The lower threshold will allow more taxpayer to take the medical deduction in 2021 and later years if the taxpayer itemizes.

Mortgage insurance premium deduction is extended by one year. The Act extends through 2021 the deduction for qualifying mortgage insurance premiums, which was due to expire at the end of 2020. The deduction is subject to a phase out based on the taxpayers adjusted gross income.

Above the line charitable contribution deduction is extended through 2021. For 2020 individuals who do not itemize deductions can take up to $300 above the line deduction for cash contributions to qualified charitable organizations. The Act extends this above the line deduction through 2021 and increases the deduction allowed on a joint return to $600 (it remains at $300 for other taxpayers).

Extension through 2021 of allowance of charitable contributions up to 100% of AGI. In response to the COVID pandemic, the limit on cash contributions by an individual in 2020 was increased to 100% of the individuals AGI. The usual limit is 60% of AGI. The Act extends this rule through 2021.

EXCLUSIONS FROM INCOME

Exclusion for benefits provided to volunteer firefights and emergency medical responders made permanent. Emergency workers who are members of a qualified volunteer emergency response organization can exclude from gross income certain state or local government payments received and state or local tax relief provided on account of their volunteer services. This exclusion was due to expire at the end of 2020, but the Act made it permanent.

Exclusion for discharge of qualified mortgage debt is extended, but limits on amount of excludable discharge are lowered. Usually if a lender cancels a debt, such as a mortgage, the borrower must include the discharged amount in gross income, but under an exclusion that was due to expire at the end of 2020, a taxpayer can exclude from gross income up to $2 million ($1 million for married individuals filing separately) of discharge of debt income if qualified principal residence debt is discharged. The Act extends this exclusion through the end of 2025 but lowers the amount of debt that can be discharged tax free to $750,000 ($375,000 for married individual filing separately).

TAX CREDITS

Individuals may elect to base 2020 refundable child tax credit and earned income credit on 2019 earned income. If an individual's child tax credit exceeds the taxpayers tax liability, the taxpayer is eligible for a refundable credit equal to 15% percent of so much of the taxpayers earned income for the tax year as exceeds $2,500. And the earned income credit equals a percentage of the taxpayers earned income. For both of these credits, earned income means wages, salaries, tips and other employee compensation. But for determining the refundable CTC and the EIC for 2020, the Act allows taxpayers to elect to substitute the earned income for the preceding tax year, if that amount is greater than the taxpayers earned income for 2020.

DISASTER RELATED CHANGES IN RETIREMENT PLAN RULES

10% early withdrawal penalty does not apply to qualified disaster distributions from retirement plans. A 10% early withdrawal penalty generally applies to, among other things, a distribution from employer retirement plan to an employee who is under the age of 59½ . The Act provided that the 10% early withdrawal penalty does not apply to any qualified disaster distribution from an eligible retirement plan. The aggregate amount of distribution received by individual that may be treated as qualified disaster distributions for any tax year may not exceed the excess of $100,000 over the aggregate amounts treated as qualified disaster distributions received by that individual for all prior tax years.

Increased limit for plan loans made because of a disaster. Generally, a loan from a retirement plan to a retirement plan participant cannot exceed $50,000. Plan loans over this amount are considered taxable distributions to the participant. The Act increases the allowable amount of a loan from a retirement plan to $100,000 if the loan is made because of a qualified disaster and meets various other requirements.

Please contact us with questions about the above information or any other matters.