Greetings and Happy New Year!

The Tax Relief Act of 2020 and the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (all part of the Consolidated Appropriations Act of 2021, "the Act") contain $900 billion in spending along with several tax-related items. Although there are few showstopper "financial planning" items (in contrast to the SECURE Act and even the relief packages from earlier in 2020), there are several items in the bill that you should know about.

The legislation includes a variety of personal income tax planning relief provisions, and we highlight below the most critical ones that may impact you.

We understand that there is a lot of "tax chaos" so please review these items and then set up a time for us to discuss any questions you may have.

1. Charitable Contribution Deductions are Extended. The above the line deduction for cash contributions has been extended through 2021, but this is only available for those who do not itemize. In addition, in contrast to the CARES Act, there is no more marriage penalty and now a married couple filing jointly can deduct $600 (instead of the previous $300). This extension is for 2021 only.

Also extended through 2021 is the ability to deduct up to 100% of an individual's adjusted gross income when making a cash contribution to a qualifying charity, but this does NOT include donor-advised funds.

In addition, being able to contribute to charity up to 100% of AGI may help you obtain deductions and drive down income to offset Roth conversions.

2. Medical expenses are deductible when in excess of 7.5% of AGI. This change is supposedly "permanent," and supports the argument in favor of bunching as it will be easier to exceed the standard deduction when all the other deductions are counted together.

3. Employer Payments of Student Loans is Tax-Free. The Act extends until 2025 the ability of an employer to pay up to $5,250 annually towards an employee's student loan principal or interest. The payments can be made to the employee or directly to the institution. These little know provisions are often buried in the employee benefits booklet (typically available online).

And while we are discussing student loan relief, to be clear, the Act did not extend the relief from the CARES Act, such as suspended collection efforts, suspended loan payments, or 0% interest rates.

4. The Act Did NOT Provide Extended RMD Relief. Contrary to some preliminary chatter, the Act did not extend the RMD moratorium past 2020, so RMDs are required in 2021.

Please schedule a call with our office to discuss tax implications and different strategies for addressing the fact that account balances could be much higher at the end of 2020 and therefore RMDs are likely to be much higher in 2021 (particularly if you skipped their RMD in 2020).

5. If You Own a Small Business. There are a number of provisions applying to small businesses, and although this is not designed to be an exhaustive review, we include below some of the most popular items to consider.

First, the law provides that employers may voluntarily permit paid leave and receive a tax credit for wages paid during the employee's leave through March 31, 2021. This tax credit has also been extended to self-employed taxpayers who can satisfy the existing criteria for leave.

Second, The Act also extended the period for repaying deferred employee payroll taxes from April 30, 2021 to Dec. 31, 2021.

Third, The Act contains $284 billion in relief for a second round of Paycheck Protection Program (PPP) loan funding, some for first-timers and some for repeat applicants. Notably, businesses with 300 or fewer employees that have already spent an initial PPP loan are now eligible for a second loan for up to 2.5 average monthly payroll costs. These "second draw" loans are only available up to a maximum of $2.0 million.

To qualify for a second draw loan, the business must demonstrate at least a 25% reduction in gross receipts of any quarter in 2020 as compared to the same quarter of 2019.

All borrowers are now permitted to choose whether to use the eight-week or the twenty-four-week covered period for spending down loan proceeds and the forgiveness process for loans under $150,000 has become greatly simplified.

Perhaps most exciting, Congress clarified that businesses are able to take the deduction for otherwise eligible business even if those expenses are paid out of PPP loan proceeds that are forgiven. The law also reaffirms that those forgiven amounts will not be included in income (phew).

Employers should consider whether they now wish to implement a program to continue paid FFCRA sick leave in the absence of a federal mandate — also considering whether state and local rules might require paid time off after the federal rule expires.

Please don't hesitate to reach out to our office to answer any questions you may have!

Regards,

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