THE TAX INSTITUTE
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TAX UPDATES 2021

Overview **Page**

DUE DATES—2021 TAX FILING SEASON

The due date for the individual income tax returns will be Thursday, April 15, 2021. This is the last day for filing federal income tax returns and extension requests this 2021 tax season. The Saturday, Sunday or legal holiday policy will not be applied for the 2021 filing season.

Employers must file Form W-2 along with Forms 1099 by February 1, 2021. Normally this due date corresponds to January 31; however, in 2021 that day falls on Saturday, pushing it to the next business day Monday, February 1. Take note that this deadline is also the date to file Wage and Tax Statements, and Form W-3 with the Social Security Administration.

To review changes and other deadlines due to the COVID-19 pandemic, please refer to the *Coronavirus Outbreak* and *Business* sections.

2020 FIGURES

EITC AMOUNT AND LIMITS FOR 2020				
Income Qualification Item	**No Children**	**With 1 Child**	**With 2 Children**	**With 3+ Children**
1. Max. amount of EITC	$538	$3,584	$5,920	$6,660
2. Earned Income (lower limit) required to get maximum credit	$7,030	$10,540	$14,800	$14,800
3. Phaseout Threshold Amount Begins **(for Single, SS, or Head of Household)**	$8,790	$19,330	$19,330	$19,330
4. Phaseout Amount When Credit Ends **(for Single, SS, or Head of Household)**	$15,820	$41,756	$47,440	$50,954
5. Phaseout Threshold Amount Begins **(for Married Filing Jointly)**	$14,680	$25,220	$25,220	$25,220
6. Phaseout Amount When Credit Ends **(for Married Filing Jointly)**	$21,710	$47,646	$53,330	$56,844

Tax Income Brackets

Under the **Tax Cuts and Jobs Act,** there are seven tax rates that will be also applied to the 2020 ordinary income (see the following tables).

Tax Rate	Married Filing Jointly and Qualifying widow(er)	Married filing separately	Single	Head of Household
	Taxable Income up to			
10%	$19,750	$9,875	$9,875	$14,100
12%	$80,250	$40,125	$40,125	$53,700
22%	$171,050	$85,525	$85,525	$85,500
24%	$326,600	$163,300	$163,300	$163,300
32%	$414,700	$207,350	$207,350	$207,350
35%	$622,050	$311,025	$518,400	$518,400
37%	Over $622,050	Over $311,025	Over $518,400	Over $518,400

Qualifying dividends and Net Capital Gain Brackets

For the 2020 tax year, the qualified dividends and net capital gain are subject to 0%, 15%, and 20 %, or the combination of these (see the following table). These rates do not apply to long term gains subject to the 28% rate or the 25% rate for unrecaptured real estate depreciation.

Tax Rate	Married Filing Jointly and Qualifying widow(er)	Married filing separately	Single	Head of Household
	If taxable income is			
0%	$1 - $78,750	$1 – $39,375	$1 – $39,375	$1 - $52,750
15%	$78,751 - $488,850	$39,376 – $244,425	$39,376 - $434,550	$52,751 - $461,700
20%	Over $488,850	Over $244,425	Over $434,550	Over $461,700

OTHER FIGURES FOR THE 2020 TAX YEAR

Standard Deductions

$12,400	Single / Married filing separately.
$18,650	Head of Household.
$24,800	Married filing jointly / Qualifying widow(er)

Personal and dependent exemptions

Eliminated	From 2018 trough 2025

Child Tax Credit

$2,000	Per qualifying child
$1,400	Refundable portion

Deferral pay plan limits

$19,500	401(k), 403(b), most 457(b) plans, and SEP (Salary-reduction)—less than 50 years
$13,500	SIMPLE IRA (less than 50 years)
$6,500	401(k), 403(b), 457(b) and SEP plans—50 years or older (Catch-up amounts)
$3,000	SIMPLE IRA—50 years or older (Catch-up amounts)

IRA Contribution limits

$6,000	Traditional and Roth IRA
$7,000	Traditional and Roth IRA (50 years or older—Catch-up amounts)

HSA Contribution limits

$2,350-$3,500	Self-coverage only
$4,750	Maximum out-of-pocket expense amount
$4,750-$7,100	Family coverage
$8,650	Maximum out-of-pocket expense amount

Alternative Minimum Tax (ATM) exemption and brackets

26% bracket	
$72,900	Singles and Head of households
$113,400	Married couples filing jointly and Qualifying widows(ers)
28% bracket	
$197,900	All taxpayers
$98,950	Married couples filing separately

NEWS FOR THE 2021 TAXABLE YEAR

Standard mileage rates

56 cents per mile	Business use
16 cents per mile	Medical or moving purposes for qualified active duty members of the Armed Forces
14 cents per mile	Charitable organizations

PREPARERS DUTIES AND REMINDERS

PTIN Renewal

The IRS reminds all active tax preparers to renew their Preparer Tax Identification Numbers now. Every taxpayer must remember that all current PTINs will expire by December 31, 2020. Anyone who receives a compensation for preparing or helping to prepare a federal tax return must have a valid PTIN. This 2020 tax year, tax preparers must pay a non-refundable fee of $35.95 to renew or get a PTIN for 2021.

Tax preparers should use the online renewal process for 2020 PTINs. On the other hand, Form W-12 along with its instructions gives taxpayers the option to renew their PTIN on paper, taking four to six weeks to process. Please take note that failure to have and use a valid PTIN may result in penalties.

CLIENT REMINDERS

ITIN Renewal

Taxpayers with an expired Individual Tax Identification Number (ITIN) should renew it before filing a tax return in 2021. ITINs that were not used on a federal tax return at least once in the last three years will expire on December 31, 2020. Submit Form W-7, *Application for IRS Individual Taxpayer Identification Number*, to renew an ITIN. Taxpayers who fail to renew ITINs before filing their 2020 tax return could face a delayed refund and may be ineligible for certain tax credits.

The following ITINs will expire this year on December 31, 2020:

- ITINs with middle digits 88, or
- ITINs assigned before 2013 (not already renewed) with middle digits 90, 91, 92, 94, 95, 96, 97, 98 or 99.

Follow the guidelines provided for Form W-7 in order to properly complete this form. Take note that this information can be submitted by mail, using the ISR Certified Acceptance Agents or making an appointment at a designated IRS Tax Assistance Center.

ITINs PREVIOUSLY EXPIRED

2019 - ITINs with middle digits 83 through 87.

2018 - ITINs with middle digits 73, 74, 75, 76, 77, 81 and 82.

2017 - ITINs with middle digits 70, 71, 72, and 80.

2016 - ITINs with middle digits 78 and 79.

Report of interest received on a federal tax refund

Taxpayers must remember that all interest received with a federal tax refund in 2020 may have been paid interest. Interest payments are taxable and must be reported on their 2020 federal income tax return. In January 2021, taxpayers will receive a Form 1099-INT, *Interest Income,* if the interest totals at least $10.

Charitable contributions under the CARES Act

Taxpayers must remember that individuals taking the standard deduction are allowed to claim a deduction for their charitable contributions during 2020. Cash contributions include those made by check, credit card or debit card as well as amounts incurred by an individual for unreimbursed out-of-pocket expenses in connection with the individual's volunteer services to a qualifying charitable organization.

Individuals can take an above-the-line deduction of up to $300 per year ($150 for married filing separately) for their cash contributions. Individuals who itemize may claim up to 100% of their AGI for qualifying charitable contributions made by cash. C Corporations are also allowed to apply an increased limit of 25% of taxable income for cash contributions given to eligible charities.

Tax relief for California disaster victims California Updates

Taxpayers affected by the California wildfires that began in September 4, 2020, may qualify for tax relief from the IRS. Individuals who are residents or have business on certain areas will receive this tax relief. The areas who qualify for this provision are: Fresno, Los Angeles, Madera, Mendocino, Napa, San Bernardino, San Diego, Shasta, Siskiyou, Sonoma, Yolo and other localities.

Eligible taxpayers were allowed to postpone certain tax-filing and tax-payment deadlines. For example, deadlines falling between September 5, 2020 and January 14, 2021, are granted more time to file through January 15, 2021. This measure includes the 2019 filing extension due by October, 15, 2020. The January 15 deadline also applies to estimated income tax payments due on September 15, 2020, and the quarterly payroll and excise tax returns originally due on November 2, 2020. Finally, penalties on payroll and excise tax deposits due between September 4, 2020, and September 20, 2020 were abated if they were made by September 21, 2020.

New Head of Household process California Updates

On January, 2020, the FTB started a new process of verifying the Head of Household (HOH) filing status. Taxpayers who file a return and do not include the FTB Form 3532, and those who do not qualify for the HOH status based on the information provided on that form, will receive a Notice of Tax Return Change (NTRC) denying the HOH filing status. Taxpayers who disagree with the NTRC are allowed to use the FTB contact centers to resolve their issue.

Second Stimulus Payments (EIP 2)

At the end of the 2020 tax year the IRS and the Treasury Department began issuing a second stimulus payment, also called EIP 2. These payments are scheduled by January 4, 2021. However, direct deposits may take several days to be posted to individual accounts. Paper checks and prepaid debit cards are also being sent through January 2021, so taxpayers must check their mail carefully. As it occurred with the first round of economic impact payments (EIP), the second stimulus payments will be automatic and there is no action required by eligible taxpayers to receive it. Payments are also automatic for individuals who successfully registered for the first EIP using the online *Non-filers* tool or who submitted a simplified tax return already processed by the IRS.

This second stimulus check has been prepared for U.S. citizens and resident aliens who may not be claimed as a dependent of anyone else. This year the law expands this provision allowing families to receive this payment for taxpayers and qualifying children who have a work-eligible SSNs. Eligible individuals will receive an EIP of up to $600 for individuals ($1,200 for married filing jointly) and up to $600 per qualifying child under 17. Taxpayers will receive the full payment if they have an adjusted gross income of up to $75,000 ($150,000 for married couples filing jointly and surviving spouses). This second stimulus payment will be reduced for taxpayers with and income above this limit.

Taxpayers must remember that EIPs will be figured and sent to taxpayers according with the information provided on their 2020 tax return, including income. However, individuals who received a partial EIP—either for the first or the second payment—may take the Recovery Rebate Credit for any remaining amount on their 2020 income tax return.

2020 Economic Impact Payment

Taxpayers eligible for the EIP who do not need to file a tax return should register using the online Non-filers tool by October 15, 2020. However, the IRS extended this provision until November 21, 2020. Self-supporting college students who cannot be claimed as dependent by someone else are allowed to use the *Non-filers* tool to claim this relief. Individuals who usually file a tax return in order to claim a tax credit (e.g. EITC or CTC) were not allowed to introduce this information by means of this tool.

In addition, individuals who did not receive the $500 per qualifying child should use the *Non-filers* tool until September 30, 2020 to enter their qualifying children information in order to get the $500 catch-up payment. Individuals whose portion of the economic impact payment was diverted to pay their past-due child support must have received their catch-up payments at least by mid September, 2020. The IRS issued those payments whether the Form 8379, *Injured Spouse Allocation,* was submitted or not.

Eligible taxpayers will have to wait until 2021 to claim the Recovery Rebate Credit if they fall into one of the following scenarios:

- They did not receive an EIP in 2020.
- They missed the 2020 deadlines to claim the credit by means of the *Non-Filers* tool.
- Their EIP amount was less than $1,200 for single taxpayers.
- Their EIP amount was less than $2,400 if married filing jointly for 2019 or 2018.
- They did not receive $500 for each qualifying child.

Individuals claiming the Recovery Rebate Credit for the 2020 tax year in 2021 must use either Form 1040 or Form 1040-SR to get this credit. Taxpayers may also need Notice 1444, *Economic Impact Payment*, which provides information about the amount of their payment, how the payment was made and how to report any payment that was not received.

Energy credits for the 2020 tax year

The **Residential Energy Efficient Property** credit allows for a credit equal to the applicable percent of the cost of qualified property such as solar electric property, solar water heaters, geothermal heat pumps, small wind turbines and fuel cell property. Although the Residential energy property credit expired on December 31, 2017, the Further Consolidated Appropriations Act of December 20, 2019 extended this provision retroactively for tax years 2018 through 2020. The applicable percentages are:

- **30%** for property placed in service **after December 31, 2016, and before January 1, 2020.**
- **26%** for property placed in service **after December 31, 2019, and before January 1, 2021.**
- **22%** for property placed in service **after December 31, 2020, and before January 1, 2022.**

The **Non-business Energy Property Tax Credits** has been also retroactively extended through December 31, 2020. This credit has been designed to claim 100% of energy-related property costs, but it is capped to a maximum lifetime amount of $500. Taxpayers may also claim a credit for a specific amount from $50 through $300 depending on the type of property being installed.

COVID-19 relief for undocumented workers California Updates

Governor Newsom announced on April 15, 2020, that disaster relief assistance would be available for undocumented workers impacted by the COVID-19 pandemic in California. This relief is designed for workers who were eligible for unemployment insurance benefits and disaster relief, including the CARES Act, due to their immigration status.

Millions of adults received this one-time assistance payment of $500 per person with a cap of $1,000 per household. However, take into account that these payments *are not subject to tax in California.*

BUSINESS

Reporting withholding of employees' share of SS

On August 8, 2020, the Secretary of Treasury received instructions from the president of the United States to defer the withholding, deposit and payment of certain payroll taxes. Further, self-employed individuals are also allowed to defer payment of certain self-employment taxes. Eligible employers that are required to withhold and pay the employee share of social security tax under section 3101(a) and 3102(a), are allowed to defer those taxes from September 1, 2020 through December 31, 2020. This deferral may apply to payments of taxable wages to an employee that are less than $4,000 during a bi-weekly pay period, with each pay period considered separately.

Employee Retention Credit

This credit has been designed to encourage employers to maintain employees on their payroll for businesses impacted by the COVID-19 pandemic. This credit equals to 50% of up to $10,000 of the qualified wages (including health care costs), paid to employees from March 13, 2020 until December 31, 2020. This works out for a credit of up to $5,000 per employee for the period.

All employers are allowed to claim for this credit regardless of size and including tax exempt organizations. However, State and local governments, and small business taking small loans are not allowed to get this credit. Employers are eligible for this credit if (1) their business is fully or partially suspended because of a governmental order due to the COVID-19 pandemic or (2) if their gross receipts experience a significant decline of more that 50%.

Employers cannot qualify for this credit if they got a Work Opportunity credit for the employee for the same 2020 quarter. No credit is also allowed if the employee is a relative or dependent of the employer, or if the employee is owner of over 50% in value of employer's stock, or capital and profits interests.

Paycheck Protection Program (PPP) Loans

The Paycheck Protection Program (PPP) authorized loans for small business during the COVID-19 pandemic. This initiative provided 100% of federal guarantee loans for small businesses and independent contractors, which may be forgiven if the borrower retains employees, keep its payroll, hire back employees who may have been laid off, and cover applicable overhead.

Businesses affected by Coronavirus-related issues from February 15, 2020, until June 30, 2020, are eligible to apply for PPP loans. Eligible businesses must have 500 or fewer employees. Loans can be forgivable if the credit is exclusively used to 1) retain their workers by paying the following subjects over the 8 weeks period after the loan is disbursed or 2) to maintain salary and compensation levels similar to those paid before the pandemic. If any loan is used for objectives different that those mentioned above, business will have to pay back the credit.

Qualifying payroll costs.

- Compensations (salary, wages, commissions, and cash tips capped at $100,000 on an annual basis per employee).
- Employee benefits including costs for: vacation, parental, family, medical or sick leave, allowance for separation dismissal; payments for group health-care benefits (including insurance premiums), and employee retirement benefits.

Deferral of employment tax deposits and payments

Under the CARES Act, employers may defer deposits of their share of Social Security tax and payments of the tax imposed on wages paid from March 27, 2020, through December 30, 2020. Take note that December 31, 2021 is the next deadline to defer employment tax deposits and payments in order to avoid a failure to deposit penalty. For this period, employers must pay 50% of the eligible deferred amount corresponding the employers' share of Social Security tax. The remaining amount must be paid on December 31, 2022.

Additionally, the Paycheck Protection Program Flexibility Act (PPPFA), enacted on June 5, 2020, amends section 2302 of the CARES Act. It revoked the rule preventing an employer from deferring the deposit and payment of the employer's share of Social Security tax *after* the employer receives a decision that its PPP loan was forgiven by the lender. *Now employers are entitled to this deferral even if the loan is forgiven.*

Minimum Essential Coverage and Premium Assistance Subsidies California Updates

The following forms and instructions have been created and updated to help taxpayers to report their Qualifying Health Coverage and Premium Assistance Subsidies in California.

New Forms	Name and Purpose
FTB 3849	*Premium Assistance Subsidy*—Created to reconcile advance premium assistance subsidy payments
FTB 3853	*Health Coverage Exemptions and Individual Shared Responsibility Penalty*
FTB 3895	*California Health Insurance Marketplace Statement*
Publication 3949A	*Premium Assistance Subsidy*
Publication 3995B	California instructions for filing federal Form 1094-B and Form 1095-B
Publication 3895C	California instructions for filing federal Form 1094-C and Form 1095-C

Updated Forms	Use
Form 540, 540NR, 540EZ	Checkbox added to indicate qualifying health coverage the entire year.
Form 540, 540NR	Can be used to report the premium assistance subsidy, health coverage exemptions, and the Individual Shared Responsibility Penalty
Form 540EZ	Cannot be used to report the premium assistance subsidy and the repayment of excess advance payments.

Small Business Hiring Credit California Updates

To claim the credit individuals must obtain a tentative reservation between December 1, 2020 and January 15, 2021. Taxpayer may apply for one reservation to the California Department of Tax and Fee Administration (CDTFA). The Small and Business Hiring Credit can be used to offset either sales or use tax, or income and franchise tax. This election is made when applying for the reservation.

Each taxpayer is eligible for up to $100,000 and this credit will be allocated according to the date of the reservation. The amount of the credit is $1,000 per increase in employees, as measured in average full-time employee equivalents. The increase is figured by comparing the period from July through November, 2020, to the period between April and June, 2020.

Who qualifies for this credit? Eligible taxpayers who:

- Had up to 100 employees on December 31, 2019
- Had a 50% reduction in their gross receipts compared to the same period in 2019.
- Must not file or be eligible or a combined report.

Changes for LLCs, LLPs and LPs California Updates

One of the changes of the Assembly Bill 85 (AB 85) was to eliminate the annual tax for Limited Liability Companies (LLCs), Limited Liability Partnerships (LLPs), and Limited Partnerships (LPs), that organize, register, or file with the Secretary of State **on or after January 1, 2021, and before January 1, 2024** for their first taxable year.

Because of this operative date, the 15-day rule will only apply if the LLCs, LLPs or LPs organize, register, or file after January 1, 2021. Therefore, entities that registered on December 17, 2020, and on or before December 31, 2020 are not eligible for the first tax year exemption.

LLCs Dissolution California Updates

The FTB will resume on January 1, 2021, the administrative dissolution program that was postponed due to the COVID-19 outbreak. Under this program, domestic corporations or domestic limited liability companies (LLCs) will be dissolved if the following requirements are met.

The entity has…	• Been suspended by the FTB for 2 or more consecutive months. • Never done business in California at any time after it was incorporated or has ceased doing business. • Paid all taxes, penalties and interest due as of the date the entity ceased doing business. • Filed all returns due as the date the entity ceased doing business. • Been notified.

Entities that have been dissolved and continue to do business, or has remaining assets that were not disclosed before the request for their abatement, must be charged immediately with the abated qualified tax, interest and penalties. Additionally, a 50% penalty of the total tax abated plus interest may be assessed in addition to any other penalty imposed.

LAO Proposal 22 Overturned California Updates

In 2019, the state of California passed a law (Proposition 22) that limits the ability of rideshare and delivery companies to hire workers as independent contractors, pushing those companies to hire drivers as employees. As employees, drivers would get the standard job benefits and protections that independent contractors do not have. Some of these benefits are: minimum wages, health insurance, and unemployment lifeline.

However, gig economy companies congratulated on November 2020 for winning a costly fight for overturning this law. Almost immediately, other gig companies promised to replicate this law in other states.

CTEC news

Assembly Bill 1140

AB1140 has been taken off this year's legislative calendar mainly due to the COVID19 pandemic. However, tax preparers must be attentive if this bill will be reintroduced to the new legislative session which begins in January 2021. If it is, CTEC will send out email alerts to all CTEC Registered Tax Preparers indicating what steps need to be taken.