

RECENT FEDERAL LEGISLATION

2020 was a year like no other. Who could have predicted the worldwide pandemic and its crippling effect on the global economy that hit the US in early 2020? In response to this crisis, Congress passed, and the President signed, multiple relief packages including:

The Consolidated Appropriations Act, 2021

The Coronavirus Aid, Relief and Economic Security (CARES) Act

The Families First Coronavirus Response Act

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019

Highlights of The Consolidated Appropriations Act, 2021 signed on 12/27/20

Individual relief:

Direct-to-taxpayer recovery rebate – The Act provides for a refundable recovery rebate credit for 2020. These payments are in addition to the direct payments provided earlier in the year. The amount of the rebate is \$600 per individual and \$600 per qualifying child and is subject to phase outs starting at \$150,000 of modified adjusted gross income for marrieds filing jointly and surviving spouses, \$112,500 for Heads of Households and \$75,000 for single taxpayers.

- \$250 Educator expense can be used for PPE and other COVID-related supplies.
- 7.5% of AGI floor on medical expenses is made permanent
- Mortgage insurance premium deduction is extended through 2021
- Above the line charitable contribution deduction for non-filers of up to \$300 extended through 2021
- Allowance of charitable contributions up to 100% of adjusted gross income through 2021
- Exclusion for discharge of certain qualified mortgage debt from income is extended but limits on amounts are lowered.

- Various tax credits expanded
- 10% early withdrawal penalty relief on qualified disaster retirement plan distributions
- Increased limits on retirement plan loans due to a qualified disaster

Business Relief:

- 50% limit on business meal deduction is suspended for meals provided by restaurants through 2022
- Full deduction of expenses paid with PPP funds and EIDL Loans
- Exclusion from income for EIDL loans, emergency EIDL grants and certain loan repayment assistance.

Highlights of The Families First Coronavirus Response Act signed on March 18, 2020

- Expansion of the Family and Medical Leave Act by adding new public health emergency leave provisions through 12/31/2020.
- Provided Emergency Unemployment Insurance and Emergency Paid Sick Leave
- Provided Refundable Tax Credits to employers who fund sick leave

Highlights of The Coronavirus Aid, Relief and Economic Security (CARES) Act signed on March 27, 2020:

Individual Provisions:

- Created the Paycheck Protection Loan Program which offered loans to small businesses with less than 500 employees. Loans could ultimately be forgiven if used for specific expenses: payroll costs, rent, mortgage interest and utilities.
- Some self-employed individuals, independent contractors and sole proprietors were eligible subject to certain conditions
- Act also provided access to other SBA loans (Economic Injury Disaster Loans) with favorable repayment terms.
- Pandemic Unemployment Assistance for nontraditional employees such as the self-employed, independent contractors and those with a limited work history.
- Economic Impact Payments of \$1,200 to certain qualifying individuals and \$500 to each qualifying child.

- Retirement Fund Distributions - Withdrawals of up to \$100 000 for coronavirus related purposes with no 10% penalty. RMD requirement for 2020 temporarily waived.
- \$300 above-the-line charitable deduction allowed for nonitemizers.

Business Provisions:

- Employee Retention Tax Credits for employers subject to closure due to COVID-19.
- Payroll tax deferral of employer share of payroll taxes
- Modification of NOL Carryback -NOL's arising after December 31, 2017 and before January 1, 2021 – 5 year carryback now allowed and taxable income limitations modified.
- Modification of Excess Business Losses
- Qualified Improvement Property technical correction -now classified as 15 year property (retroactive to 2017)

Highlights of The SECURE Act passed on December 20, 2019

Retirement:

- The repeal of the maximum age limit on contributions to a traditional IRA by working individuals who have passed the age of 70 ½.
- The required beginning date for required minimum distributions is changed to April 1 following the calendar year that the IRA owner attains age 72.
- Modification of the post-death RMD rules for non-spouse beneficiaries
- New and increased small employer credits for pension plan startup costs for \$500 to \$5,000.

Other:

- Penalty free distributions of up to \$10,000 from IRAs or defined contribution plans for the birth of a child or adoption
- Failure to file a tax return penalty will now be the lesser of \$400 or 100% of the tax due.
- Kiddie tax rates are reduced to the pre-TCJA act so that they will no longer be taxed at the rates in effect for trusts and estates.
- Expanding 529 Plan distributions

2020 Depreciation Limits:

- Bonus depreciation remains at 100% for new, used and qualified improvement property.
- Section 179 deduction –The deduction for qualified property is increased to \$1,040,000 and the phase-out threshold is increased to \$2,590,000.

Other Miscellaneous Updates

Retirement Plans:

IRA Contribution: For 2020 and 2021, the maximum that can be contributed to an IRA or Roth IRA is \$6,000. For persons 50 and over, an additional “catch-up” contribution up to \$1,000 may be made for both 2020 and 2021.

Retirement Plan Contribution Limits:

	<u>2020</u>	<u>2021</u>
Maximum 401(k) and 403(b) employee contribution	\$19,500	\$19,500
Maximum SIMPLE employee contribution	\$13,500	\$13,500

“Catch-up” Contribution Limits:

Taxpayers who are at least age 50 before the end of the respective year can increase their contribution limits by the following amounts:

401(k), 403(b), salary reduction SEP plans and 457 plans	\$6,500	\$6,500
SIMPLE plans	\$3,000	\$3,000

Affordable Care Act:

If you or a family member enrolled in health insurance through the Marketplace and advance payments of the premium tax credit were made to your insurance company, you will receive Form 1095-A. A copy of this form is required to prepare your tax return. Please provide this form to us.

Estate & Gift Tax:

For 2020 the applicable federal estate and gift tax exemption for individuals is \$11,580,000 and \$23,160,000 for a married couple. For 2021, the estimated exemption is \$11,700,000 per individual. The annual gift tax exclusion amount is \$15,000 per recipient in 2020 and 2021.

Kiddie Tax:

In 2020, the “kiddie tax” applies to children up to age 18, and full-time students age 19-23, whereby a child’s investment income greater than \$2,200 is taxed at the parent’s marginal rate.

Standard Mileage Rates:

The business mileage rate for 2020 is 57.5 cents per mile. Business related costs for parking, tolls, auto loan interest, and auto excise tax may be deducted in addition to the standard mileage rate. The standard mileage rate for medical purposes in 2020 is 17 cents.

Social Security Retirement Earnings Test:

For persons who are at least age 62, but under their full retirement age, the maximum income that can be earned while drawing Social Security without losing benefits for 2020 is \$18,240 and rises to \$18,960 for 2021. For persons who reach full retirement age in 2020 or 2021, the limit of earnings for the period prior to this date are \$48,600 and \$50,520 respectively. Full retirement age is determined based on the individual’s date of birth and gradually increases from age 65 to age 67.

2019 MASSACHUSETTS TAX HIGHLIGHTS

December 31, 2020

As a rule, Massachusetts does not adopt any federal personal income tax law changes made to the Internal Revenue Code after January 1, 2005. However, certain specific Massachusetts personal income tax provisions automatically conform to the current Internal Revenue Code.

Tax Rate:

The 2020 tax rate for income (other than short-term capital gains, long-term gains on collectibles and short-term gains on the sale of trade or business property used in a trade or business) is 5.05%.

Senior Circuit Breaker Tax Credit - Real estate tax credit for persons age 65 and older:

The maximum credit is increased to \$1,150 for 2020. The 2020 limitations on income are \$61,000, for single, \$76,000 for head of household and \$92,000 for married filing jointly. The assessed value of the real estate at January 1, 2019 cannot exceed \$848,000 to qualify for this credit. For properties with greater than 1 acre of land, the assessed value and real estate taxes must be pro-rated.

Estate Tax:

The Massachusetts filing threshold and exempt amount remains at \$1,000,000 with a top rate of 16%. There is no gift tax in Massachusetts.

Prepaid Tuition or College Savings Program Deduction:

A deduction is available for contributions to a pre-paid tuition program or a college savings program established by the Commonwealth. The deduction is capped at \$1,000 for a single person or head of household and \$2,000 for a married couple filing jointly.

Paid Family and Medical Leave Contributions:

Employers with over 25 employees must tax or contribute .75% of payroll to the PFML program. Employers can deduct from employee wages up to 40% of the medical contribution and up to 100% of the family leave contribution from employees and certain self-employed individuals based on their earnings.

Short-Term Rentals:

As of July 1, 2019, short term rentals of less than 31 days are subject to room occupancy excise tax.

Please feel free to contact us for additional information on any tax matter or to discuss how the 2020 tax law changes will affect you.

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