

GOMES, DaCRUZ & TRACY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 588
CHESTNUT OFFICE PARK
77 WINSOR STREET, LUDLOW, MA 01056
TELEPHONE: (413) 589-7831
FAX: (413) 589-9587
www.gdtcpa.com

MEMBERS:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
MA. SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

MARIA F. GOMES, MBA, CPA
MARK A. GERMAIN, MBA, CPA, CITP
DAVID J. MANTONI, CPA

January 13, 2021

Dear Friends and Family of Gomes DaCruz & Tracy, PC,

While this has been a very eventful past year in politics and economic swings for both individuals and businesses, we are hopeful that 2021 brings a bit of stability to your day-to-day lives. On December 27, 2020, President Trump signed the Consolidated Appropriations Act. The act contains numerous individual, business, tax extenders, disaster, and payroll tax provisions. Below are some of the take-a-ways that we wanted to share.

Individual Provisions

- New Recovery Rebate: \$600 for individuals making \$75,000 per year and \$1,200 for married couples making up to \$150,000 per year, and \$600 for heads of household making \$112,500 per year, as well as a \$600 payment for each child dependent.
- \$250 educator expense deduction includes personal protective equipment (PPE).
- Individuals may base 2020 refundable child tax credits and earned income tax credits based on 2019 earned income.
- Up to \$300 (\$600 for married filers) can be deducted for charitable contributions by non-itemizers as an above the line deduction.
- Temporary special rules for health and dependent care flex spending arrangements. Expanded carryover period for 2020 and 2021 is now up to twelve months after year end.

Business Provisions

- Clarification that Payroll Protection Program (PPP) loan forgiveness is not taxable and expenses paid with funds are deductible.
- Economic Injury Disaster Loan (EIDL) grants and loan repayment assistance for certain recipients of CARES Act loans are not taxable income and do not get subtracted from the PPP loan forgiveness calculation.
- 50% limit on business meal deduction is suspended for meals “provided by” restaurants in 2021 and 2022.

Tax Extenders Provisions

- The 7.5% threshold for medical expense deductions as itemized expenses was made permanent.
- Different phaseout rules for the American Opportunity Tax Credit and Lifetime Learning Credit were removed and replaced with a single phaseout.
- New Market Tax Credit for investments in qualified community development entities were set to expire in 2020 and are now extended through 2025.
- Work Opportunity Tax Credits for hiring individuals in one of ten targeted groups were set to expire in 2020 and are now extended through 2025.
- Exclusion for discharge of qualified principal residence indebtedness was set to expire in 2020 and are now extended through 2025 at a reduced limit of \$750,000 (\$375,000 for married individuals filing separately).
- Employer credit for paid family and medical leave was set to expire in 2020 and are now extended through 2025. The credit is equal to 12.5% of eligible wages if the rate of payment is 50% of such wages and is increased by .25 percentage points (but not above 25%) for reach percentage point that the rate exceeds 50%, not to exceed 12 weeks per tax year.
- Exclusion for up to \$5,250 from an employee's wages for employer payments towards their student loans. This was set to expire in 2020 and are now extended through 2025.
- Mortgage Insurance Premiums treated as qualified residence interest were set to expire in 2020 and are now extended through 2021. The deduction phases out starting at adjusted gross income (AGI) of \$100,000 (\$50,000 for married individuals filing separately).
- Nonbusiness energy property expenditures allowed for a 10% credit for certain expenses on a principal residence. The code allows for credits of \$50 to \$500, with a \$500 lifetime. These credits were set to expire in 2020 and are now extended through 2021.
- Credit for purchasing a new qualified fuel cell motor vehicle of \$4,000 to \$40,000 was set to expire in 2020 and are now extended through 2021.
- A 30% credit for qualified fuel cell refueling property (limit \$30,000 business and \$1,000 personal residence) was set to expire in 2020 and are now extended through 2021.

Disaster Relief Provisions

- The 10% early withdrawal penalty does not apply to qualified disaster distributions from an eligible retirement plan.
- Net disaster losses of individuals are allowed as addition to standard deduction subject to a \$500 floor and does not have a 10% AGI limitation.

Payroll Related Provisions

- Extension of paid sick and family leave credits: refundable tax credits available to employers who provide paid sick and family leave related to COVID-19 pandemic as enacted in the Families First Coronavirus Response Act (FFCRA) were extended through March 31, 2021.
- Certain Deferred Payroll Taxes: On August 8, 2020, President Trump signed a Presidential Memorandum permitting the postponement of withholding the employee's share of Social Security Tax (6.2%) on wages from September 1, 2020 to December 31, 2020. The repayment period has been extended through December 31, 2021.
- Employee Retention Tax Credit Expansion and Extension: The CARES Act provided a refundable tax credits for 50% of qualified wages up to \$10,000 per employee, for a maximum credit of \$5,000 per employee. The provisions were extended from January 1, 2021 through June 30, 2021 and increase the credit to 70% of qualified wages up to \$10,000 per quarter, for a maximum credit of \$7,000 per employee, per quarter. Eligibility was expanded by reducing the required year-over-year gross receipts decline from 50% to 20%.
- Pandemic Unemployment Assistance was extended through March 14, 2021 at an amount of \$300 per week as a supplement to regular benefits (through April 5, 2021 for those who have not reached the maximum number of weeks of 50 (previously 39).
- Paycheck Protection Program Second Draw Loans: Those who received loans in round one who experienced a 25% reduction in gross receipts are eligible for a second draw. Qualified employers must employ no more than 300 employees and show at least a 25% reduction in gross receipts for any 2020 quarter over the same 2019 quarter. The second round is 100% forgivable if it is used for payroll costs of up to 60% and non-payroll costs (i.e., rent, mortgage interest and utilities).
- Paycheck Protection Program Continuation: there is clarification that gross income does not include any amount forgiven and that deductions are allowed for those expenses paid with the proceeds of the PPP loan that is forgiven. The same is true for second draw loans. Expanded qualified non-payroll costs include operations expenditures, property damage costs, supplier costs, and worker protection expenditures.

If you have any questions about the above information, please reach out to your contact at our firm or make mention of such items when bringing in your tax information.

Thank you for your commitment and support and we wish all of you the very best in 2021.



Shaw, McLaughlin & Terry, P.C.