Mike D'Avolio • Dec. 09, 2020

This past year has been a busy one on the tax legislation front with the following tax bills passed by Congress: Coronavirus Aid, Relief and Economic Security (CARES) Act; Families First Coronavirus Response Act; Setting Every Community Up for Retirement Enhancement (SECURE) Act; and the Taxpayer Certainty and Disaster Tax Relief Act of 2019.

The below gives a review of the higher impact tax law changes and tax form changes, and what they mean for the tax year 2020 filing season to ensure accurate preparation of tax returns.

Economic Impact Payments

The CARES Act provided Economic Impact Payments (EIPs) to taxpayers based on

Taxpayers also received a $500 EIP for each qualifying child, and the IRS issued Notice 1444 within 15 days after the EIP was sent out, showing how the payment was made. The payment is not includible in gross income, and will not reduce a refund or increase the amount owed.

Taxpayers who didn't get some or all of the EIP they were entitled to will be able to claim the difference as a Recovery Rebate Credit on their 2020 tax return. According to the IRS, there is no provision in the law that would require individuals who qualify for a Payment based on their 2018 or 2019 tax returns, to pay back all or part of the payment, if based on the information reported on their 2020 tax returns, they no longer qualify for that amount or would qualify for a lesser amount.

Paycheck Protection Program Loans

The Paycheck Protection Program (PPP) provides low-interest loans to eligible small business owners and other eligible businesses (including nonprofits) to cover payroll and other expenses (mortgage interest, rent, and utilities) for a 24-week period. The Small Business Administration may forgive these loans, in whole or in part, if PPP funds are spent on eligible expenses during the Loan Forgiveness Covered Period. Lenders are responsible for determining loan forgiveness eligibility.

For tax purposes, loan forgiveness amounts are excluded from gross income, but forgiven expenses are not deductible (IRS Notice 2020-32). Lenders are not supposed to file and report forgiven amounts on Form 1099-C, Cancellation of Debt (Announcement 2020-12).

Forms 1099-MISC and 1099-NEC

To reduce confusion around filing deadlines, Form 1099-MISC (Miscellaneous Income) has been redesigned, and Form 1099-NEC for reporting nonemployee compensation has been reintroduced in tax year 2020. Prior to the change, non-

golden parachute payments, will be reported on Form 1099-NEC, box 1.

Charitable contributions

The CARES Act makes the following changes to charitable contributions beginning in tax year 2020:

- A $300 above-the-line charitable contribution deduction is now available for taxpayers who don't itemize deductions.
- The 60% adjusted gross income (AGI) limit on cash contributions by individuals is disregarded.
- For corporations, the taxable income limit is increased from 10% to 25% on cash charitable contributions.
- The taxable income limit on contributions of food inventory is increased from 15% to 25%.

Kiddie tax changes

Prior to the Tax Cuts and Jobs Act (TCJA), the net unearned income of a child under 19 years old (or a full-time student under 24) was taxed at the parent's tax rates, if the parent's rates were higher than the child's rates. For tax years beginning after 2017, the TCJA changed the rule so that the unearned income of the child would be taxed at trust and estate tax rates.

However, this change seemed to unfairly increase the tax on certain children. Effective for tax years beginning after Dec. 31, 2019, the SECURE Act repeals TCJA rules, and you may elect to apply the pre-TCJA rules in 2018 and 2019. Also, a child's earned income is taxed at single rates and this has not changed.

Required minimum distribution age raised from 70½ to 72

Prior to 2020, participants in employer-sponsored retirement plans (for example,

Please note: Under the CARES Act, RMDs are not required for 2020. Initially, the provision stated that you may return an RMD within 60 days if you had already taken the distribution. Notice 2020-51 allows you to return the distribution by Aug. 31, 2020.

Retirement plan distributions

Under the CARES Act and for 2020 distributions from IRAs and workplace retirement plans, if the taxpayer is impacted by COVID-19, they can take a distribution up to $100,000 and not be subjected to the 10% early withdrawal penalty. The distribution can be included in income ratably over a 3-year period unless the taxpayer elects otherwise. The taxpayer can also contribute the money back to their retirement plan within three years and treat the transaction as a direct rollover.

Retirement plan loans

Under the CARES Act and for taxpayers affected by COVID-19, loans from a qualified plan on or after March 27, 2020, and before Sept. 23, 2020, may be made up to the lesser of $100,000 (instead of $50,000) minus loans you have outstanding, or 100% of your non-forfeitable account balance or accrued benefit.

The taxpayer has up to six years (instead of five) to repay the loan. Amounts in IRAs are eligible for COVID-19-related distributions, but you can't take a loan from an IRA.

For new and existing loans, plans can also suspend loan repayments due between March 27, 2020, and Dec. 31, 2020, for up to one year. Typically, at least those repayments originally scheduled for 2021 must resume in January 2021.

Repeal of maximum age for traditional IRA contributions

Under the SECURE Act and for contributions made for tax years beginning after 2019,

age 70½, over the aggregate amount of reductions in prior years.

Penalty-free retirement plan withdrawals for births and adoptions

In general, retirement plan distributions are included in income, and unless an exception applies, distributions before the recipient turns 59½ years old are subject to a 10% early withdrawal penalty. Under the SECURE Act and beginning in 2020, taxpayers can take up to $5,000 (for each spouse) of penalty-free retirement plan distributions for expenses related to the birth or adoption of a child.

Extender provisions

On Dec. 19, 2019, Congress passed the Taxpayer Certainty and Disaster Tax Relief Act of 2019, which extends more than 30 tax code provisions. These measures will expire at the end of 2020 unless further extended.

Higher-impact extender items:

- Exclusion from gross income for discharge of debt income from qualified principal residence debt (expired after 2017, retroactively extended through 2020).
- Deduction for mortgage insurance premiums (expired after 2017, retroactively extended through 2020).
- Tuition and fees deduction for higher education (expired after 2017, retroactively extended through 2020).
- Nonbusiness energy property credit (expired after 2017, retroactively extended through 2020).
- Medical expense deduction subject to 7.5% adjusted gross income threshold, instead of 10% (expired after 2018, extended for 2019 & 2020).

Disaster relief

The Taxpayer Certainty and Disaster Tax Relief Act of 2019 also gives the following

IRS products now in Spanish

- Form 1040
- Form 1040-SR (for seniors)
- Instructions for Forms 1040 and 1040-SR
- Schedules 1, 2, and 3

Additional products will be translated into Spanish and other languages as resources allow. Schedule LEP, Request for Change in Language Preference, is for Limited English Proficiency filers, and allows for individuals to indicate a preference for communications in a language other than English. The IRS will only send communications (such as a notice) in the preferred language if the communication has been translated. A copy of the communication in English will also be provided.

Reminder

The IRS reminds all active tax preparers to start the upcoming 2021 filing season smoothly by renewing their Preparer Tax Identification Numbers now. All current PTINs will expire Dec. 31, 2020.

Looking forward

As always, stay tuned to the Intuit® Tax Pro Center for the latest information and additional tax changes.

In addition, I will present a more detailed explanation of tax law changes for tax year 2020 during the December and January Intuit ProConnect™ virtual conferences – Dec. 2-3, 2020, and Jan. 6-7, 2021.

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