


MEMORANDUM

TO: OUR CLIENTS AND PROFESSIONAL COLLEAGUES
FROM: EUGENE GORRIN, ESQ. 
RE: CONSOLIDATED APPROPRIATIONS ACT, 2021 – INDIVIDUALS
DATE: DECEMBER 29, 2020

On December 27, President Trump signed the Consolidated Appropriations Act, 2021, (“CAA 2021”) narrowly averting a government shutdown. CAA 2021 not only contains funding for ongoing government operations, it also contains a \$900 billion COVID-relief package which includes a number of measures affecting individuals, as well as businesses. In addition, CAA 2021 extends and amends certain tax provisions contained in the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which became law last March, and it funds another round of Paycheck Protection Program loans, which may be forgiven if certain requirements are met.

The provisions in CAA 2021 Act are quite extensive. If you have any questions or comments, please contact us.

The following is a recap of the provisions affecting individuals.

Additional 2020 Recovery Rebates

CAA 2021 provides a refundable tax credit in the amount of \$600 per eligible family member. The credit is \$600 per taxpayer (\$1,200 for married filing jointly), in addition to \$600 per qualifying child. The credit phases out starting at \$75,000 of modified adjusted gross income (\$112,500 for heads of household and \$150,000 for married filing jointly) at a rate of \$5 per \$100 of additional income.

Medical Expense Deduction Limitation Increased

CAA 2021 permanently reduces the medical expense deduction floor from 10% of adjusted gross income (“AGI”) to 7.5% of AGI.

Temporary Allowance of Full Deduction for Business Meals

CAA 2021 provides that the 50% limitation on the deduction for food or beverage expenses does not apply to expenses for food or beverages provided by a restaurant and paid or incurred before January 1, 2023.

Special Rule for Determining Earned Income for Child Tax Credit and Earned Income Credit

CAA 2021 provides that, for purposes of the earned income credit or the child tax credit, if your earned income for the first tax year beginning in 2020 is less than your earned income for the preceding tax year, the child tax credit and the earned income credit may, at your election, be determined by substituting your earned income for the preceding tax year. If you filed a joint return, earned income for the preceding year means the sum of the earned income of each spouse for the preceding tax year.

Certain Charitable Contributions Deductible by Non-Itemizers

For 2021, if you do not elect to itemize deductions, you can still deduct an amount not in excess of \$300 (\$600 in the case of a joint return) of cash contributions on your tax return.

Extension of Exclusion for Certain Employer Payments of Student Loans

CAA 2021 extends through 2025 the exclusion from income available with respect to an employer's payments of student loans.

Certain Emergency Financial Aid Grants Excluded from Income

CAA 2021 provides that certain emergency financial aid grants under the CARES Act are excluded from the gross income of college and university students.

Modification of Limitations on Charitable Contributions of Food Inventory

CAA 2021 extends through 2021 the increase in the deduction limitation on donations of food inventory, by a taxpayer other than a C corporation, from 15 percent to 25 percent of net income.

Expenses for Personal Protective Equipment Are Allowed as Part of Educator Expense Deduction

CAA 2021 provides that personal protective equipment and other supplies used for the prevention of the spread of Covid-19 are treated as eligible expenses for purposes of the educator expense deduction.

Volunteer First Responder Benefits Extended

CAA 2021 permanently excludes from income certain tax benefits for volunteer firefighters and emergency medical responders.

Repeal and Replacement of Tuition Deduction

CAA 2021 repeals the deduction for qualified tuition and related expenses and replaces it with increased income limitations on the lifetime learning credit.

Extension of Mortgage Insurance Premiums Being Treated as Qualified Residence Interest

CAA 2021 extends the amount of mortgage insurance premiums that may be treated as qualified residence interest through December 31, 2021.

Extension and Reduction of Discharge of Qualified Principal Residence Indebtedness

The exclusion from gross income of discharge of indebtedness income related to a discharge of qualified principal residence debt is extended through 2025. However, the amount of the qualified principal residence exclusion is reduced from \$2,000,000 (\$1,000,000 if married filing separately) to \$750,000 (\$375,000 if married filing separately).

Expensing of Costs Relating to Certain Productions Extended

For productions beginning after December 31, 2020, the deduction available for certain qualified film and television and live theatrical productions, which was scheduled to expire at the end of 2020, is extended through 2025.

Extension of Nonbusiness Energy Property Credit

The nonbusiness energy property credit is extended one year and expires on December 31, 2021. Under this provision, you are allowed a credit for (1) 10% of the amounts paid or incurred for qualified energy efficiency improvements installed during the tax year; and (2) the amount of residential energy property expenditures paid or incurred during the tax year. The lifetime limitation on the credit is \$500.

Extension of Residential Energy-Efficient Property Credit

The credit for expenditures relating to specified categories of energy-efficient property, which was previously set to expire on December 31, 2021, is extended to December 31, 2023.

Money Purchase Pension Plans Are Included in Penalty-Free Withdrawal

Under the CARES Act, you can temporarily make penalty-free withdrawals from certain retirement plans for COVID-related expenses and pay the associated tax over three years. CAA 2021 clarifies that money purchase pension plans are included in the retirement plans qualifying for these temporary rules.

Election to Waive Certain Modifications to Farming Losses

CAA 2021 allows farmers who elected a two-year net operating loss carryback prior to the CARES Act to elect to retain that two-year carryback rather than claim the five-year carryback provided in the CARES Act. As a result, farmers who previously waived an election to carry back a net operating loss can revoke the waiver, thus eliminating unnecessary compliance burdens for farmers.

Extension of Two-wheeled Plug-in Electric Vehicle Credit

The credit available for acquiring a qualified two-wheeled plug-in electric drive motor vehicle, which was set to expire on December 31, 2020, is extended and now applies to vehicles acquired before January 1, 2022.

Disaster Tax Relief

Special tax relief is provided for individuals and businesses in Presidentially declared disaster areas for major disasters declared on or after January 1, 2020, through February 25, 2021. The relief does not apply to areas for which a major disaster has been so declared only by reason of COVID-19.

Under the disaster relief in CAA 2021, an exception to the 10% early retirement plan withdrawal penalty for qualified disaster relief distributions (not to exceed \$100,000 in qualified disaster distributions cumulatively) is provided. Accordingly, if you take a qualified disaster relief distribution, it is either included in income ratably over three years or it may be recontributed to a retirement plan to avoid taxable income and restore savings. CAA 2021 also allows for the re-contribution of retirement plan withdrawals for home purchases cancelled due to eligible disasters, and provides flexibility for loans from retirement plans for qualified disaster relief.

In addition, CAA 2021 eliminates current law requirements that personal casualty losses must exceed 10% of AGI to qualify for a casualty loss deduction. The provision also eliminates the current requirement that taxpayers must itemize deductions to access this tax relief.