Appropriations Law Adds Some Business Tax Breaks and Extends Others

President Trump signed the Consolidated Appropriations Act (CAA) into law on December 27, 2020. The legislation adds a few new tax breaks for businesses and extends a bevy of other business breaks that were set to expire at the end of 2020.

Note: The tax changes explained in this article are found in sections of the CAA, which are called the Taxpayer Certainty and Disaster Tax Relief Act (TCDTRA) and the COVID-Related Tax Relief Act (COVIDTRA).

Deduction for Business Meals at Restaurants

A controversial change allows taxpayers to deduct 100% of the cost of business-related food and beverage expenses provided by restaurants in 2021 and 2022. For earlier years, business meal deductions are generally limited to only 50% of the cost.

While some have decried this change as an unwarranted tax break for those who indulge in "three-martini lunches," it's intended to help restaurants survive the COVID-19 economic fallout.

Depreciation for Residential Rental Property Owned by Electing Real Estate Businesses

For tax years beginning in 2018 and beyond, the Tax Cuts and Jobs Act (TCJA) imposed new limitations on deductions for business interest expense. However, real property businesses can elect out of the TCJA business interest expense limitations by choosing to depreciate nonresidential real property, qualified improvement property, and residential rental property straight-line over 30 years, under the so-called alternative depreciation system (ADS). When made, the election applies to such property placed in service in 2018 and beyond.

New law: For tax years beginning in 2018 and beyond, the TCDTRA assigns the 30-year depreciation period to residential rental property that was placed in service before 2018, if the property:

- Was already being depreciated under ADS and
- Is held by a real property business that elects out of the TCJA business interest expense limitations.

Before this change, such property had to be depreciated over 40 years under the pre-TCJA ADS rules.

Credit for Alternative Fuel Vehicle Refueling Equipment

A personal and business federal income tax credit can be claimed for up to 30% of the cost of installing non-hydrogen alternative fuel vehicle refueling equipment.

New law: The TCDTRA extends this break to cover qualifying 2021 expenditures.

Credit for Fuel Cell Vehicles

A federal income tax credit can be claimed for vehicles propelled by chemically combining oxygen with hydrogen to create electricity. The base credit is $4,000 for vehicles weighing 8,500 pounds or less. Heavier vehicles can qualify for bigger credits of up to $40,000. An additional $1,000 to $4,000 credit is available to cars and light trucks to the extent their fuel economy meets federal standards.

New law: The TCDTRA extends this break to cover qualifying 2021 purchases.

NOL Rules for Farming Losses

Taxpayers with net operating losses (NOLs) from farming are allowed to choose to carry back those NOLs to the two preceding tax years. They are also allowed to waive the carry-back privilege and instead only carry NOLs forward to future tax years. As a tax relief measure, the CARES Act allows NOLs that arise in tax years beginning in 2018-2020 to be carried back for five years

New law: The COVIDTRA allows farming businesses that chose the two-year NOL carry-back option before the CARES Act became law to elect to retain that two-year carry-back rather than follow the five-year carry-back rule set forth in the CARES Act. The new law also allows farmers who previously waived the carry-back privilege to revoke the waiver. These changes apply retroactively as if they were included in the CARES Act.

Credit for Energy-Efficient Manufactured Homes

Manufacturers of residential homes can claim a tax credit of $1,000 or $2,000 for homes that meet applicable energy-efficiency standards.

New law: The TCDTRA extends the credit to cover new homes that are acquired from manufacturers in 2021 for use as residences.

Deduction for Energy-Efficient Commercial Buildings

Commercial building owners can claim deductions for expenditures for energy-efficient improvements to lighting, heating, cooling, ventilation, and hot water systems and building envelopes. The write-off equals $1.80 per square foot or $0.60 per square foot if certain subsystems meet energy-efficiency standards but the entire building does not.

New law: The TCDTRA makes this deduction permanent and adds an inflation-adjustment feature for tax years beginning in 2021 and beyond.

New Markets Credit

The new markets federal income tax credit can be claimed by both individual and corporate taxpayers. The credit equals 39% of the taxpayer's capital investment in a qualified entity that commits to the rules of the new markets tax credit program. In turn, the recipient entity must loan or invest substantially all of the invested capital in qualified businesses that operate in low-income communities. Before the CAA, a $5 billion allocation was made to the new markets tax credit program for 2020.

New Law: The TCDTRA extends $5 billion annual allocations to cover allocations made for 2021-2025. The TCDTRA also extends the carryover period for taxpayers to utilize unclaimed new markets tax credits through 2030.

Work Opportunity Tax Credit

Employers can claim the work opportunity tax credit (WOTC) for hiring members of 10 targeted groups. Before the CAA, the WOTC only applied to first-year wages paid to qualifying employees who were hired before 2021.

New law: The TCDTRA extends the WOTC to cover first-year wages paid to qualifying employees who are hired in 2021-2025.

Empowerment Zone Breaks

Special federal income tax incentives are available in census tracts designated as empowerment zones. In these zones, taxpayers are potentially eligible for 20% wage credits under IRC Sec. 1396, enhanced first-year depreciation deductions under IRC Sec. 1397A, tax-exempt bond financing under IRC Sec. 1394, and deferral of federal capital gains tax under IRC Sec. 1397B when qualifying assets are sold and sales proceeds are reinvested in other qualifying assets. Before the CAA, empowerment zone designations were scheduled to expire on December 31, 2020.

New law: The TCDTRA extends through 2025 the period for which empowerment zone designations can remain in effect. However, the new law terminates the Section 1397A enhanced first-year depreciation rules for property placed in service in tax years beginning in 2021 and beyond and terminates the Section 1397B capital gains tax deferral break for sales that occur in tax years beginning in 2021 and beyond.

We Can Help

This article only describes some of the tax breaks in the massive law. Contact us with any questions.

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