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Happy New Year!

We made it to 2021! This has been a most extraordinary year. Tax Season is again upon us and the worldwide pandemic of COVID-19 has left an impact on both our personal lives and our businesses. As we enter this tax filing season, together we face the ever-changing tax landscape that includes legislation to help cope with the economic impact COVID-19 has had on the nation such as;

- Coronavirus Aid, Relief, and Economic Security (CARES) Act and most recently
- Coronavirus Response and Relief Supplemental Appropriations Act of 2021

Including a second round of PPP loans that go into effect this month. See attached 2020 Highlights for more information on new tax laws.

As always, we will work diligently to apply all of these new changes to your greatest benefit.

Gather Your Tax Paperwork and Receipts

As you gather your tax information (i.e. W-2's, 1099's, mortgage statements, etc.) please use the 2020 Client Income Tax Checklist attached here for your convenience.

Set Up a Tax Appointment, CALL (480) 783-8870

Call us to schedule your appointment, the earlier the better! This year, we will continue to offer in person meetings (if preferred), but in order to protect the health and safety of our clients and staff, we encourage scheduling a Zoom meeting or conference call. If you do not need to meet with us no worries, simply submit your documents to our office by mail, dropping off, or uploading to our ShareFile account, or email Jadyn the information (Jadyn.Bruce@capitalacctpc.com). Again, the earlier the better!

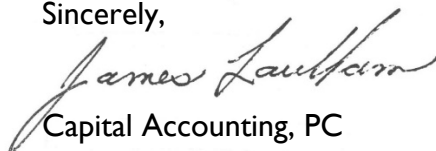
Tax Deadlines

S Corporations & Partnerships (Forms 1120S/1065) – Monday, March 15th

Individual & Corporations (Forms 1040/140 & 1120) – Thursday, April 15th

Our clients are truly the best! We thank you for your continuous business and referrals. Please feel free to call us with any questions you may have. We look forward to seeing you in 2021. As always we have your back.

Sincerely,


Capital Accounting, PC

2020

TAX HIGHLIGHTS & ANALYSIS



ECONOMIC STIMULUS SUMMARY

Each of the three stimulus packages that have been passed by the legislature this year have had significant items that were intended to help individuals and businesses that have had a negative economic impact due to COVID-19. Qualifying individuals received stimulus checks for themselves and their dependents. Unemployment benefits were increased drastically. There were eviction moratoriums put in place so people have been able to remain in their homes. If individuals needed to take money out of retirement plans, they were not subject to the 10% early distribution penalty.

Businesses have some really great opportunities with the stimulus packages. We were able to help many of our clients apply for the PPP and EIDL loans that were made available with the stimulus packages. With the most recent stimulus package, verbiage was included that allow the deduction for PPP related expenses, which were previously disallowed based on the IRS' interpretation of the CARES Act. Another great benefit for businesses is the Employee Retention Credit.

Additional information regarding these items is outlined below, as well as a detailed outline regarding the business and individual stimulus updates.

INDIVIDUALS

Individual Rates

Individual rates remained at 10, 12, 22, 24, 32, 35 and 37% through 2020. The amount of income subject to the top tax rate of 37% is \$622,051 (married filing jointly), \$518,401 (single individuals).

Child Tax and Dependent Credit

The \$2,000 Child Tax Credit awarded to each child under the age of 17 has been permanently extended. Now, the credit phases out, based on income. For those who have children 17 or older or those who care for elderly relatives, a non-refundable credit of \$500 per qualifying person may be available.

Itemized Deductions

Itemized deductions including mortgage interest, charitable contributions, and medical expenses, remain deductible, but have a couple of changes to the limits for each. Mortgage interest can now be deductible on debts up to \$750,000 vs the previous limitation of \$1,000,000. This new change ***ONLY*** applies to those mortgages taken after December 15th, 2017. Charitable contributions are now deductible up to 60% of income. Medical expenses now have a threshold of 7.5% of AGI. The deduction for state and local taxes continues to be limited to \$10,000.

Miscellaneous deductions such as unreimbursed employee expenses and tax preparation fees are still not allowable deductions on a personal tax return. In addition, any moving expenses incurred are nondeductible. Fortunately, gambling losses are deductible up to the amount received from gambling winnings.

Stimulus Checks

In order to help individuals stay afloat during this time of economic uncertainty, the government sent payments of up to \$1,200 to eligible taxpayers and \$2,400 for married couples filing joint returns. An additional \$500 additional payment was paid to taxpayers for each qualifying child dependent under age 17 (using the qualification rules under the Child Tax Credit). Additional payments of \$600 per eligible taxpayer and dependent have been distributed at the end of the calendar year.

For those who are qualified for the stimulus checks, but did not receive the first round, not to worry, there are recovery rebates. Rebates are payable whether or not tax is owed. Thus, individuals who had little or no income, such as those who filed returns simply to claim the refundable earned income credit or child tax credit, qualify for a rebate.

Early Retirement Distributions

The additional 10% tax on early distributions from IRAs and defined contribution plans (such as 401(k) plans) has been waived for distributions made between January 1 and December 31, 2020. This applies to distributions made by those infected with the Coronavirus or who have been economically harmed by the Coronavirus (a qualified individual). Penalty-free distributions are limited to \$100,000, and may, subject to guidelines, be re-contributed to the plan or IRA. Income arising from the distributions can be spread out over three years if the employee makes that election.

Solar Credit

Consumers who install solar energy systems (including solar water heating & solar electric systems) can receive a 26% tax credit of total cost. The credit is available through the end of 2020. After that, the percentage steps down, 22% for year 2021, and 10% for year 2022.

Adoption Credit

Tax benefits for adoption include both a tax credit for qualified adoption expenses paid to adopt an eligible child and an exclusion from income for employer-provided adoption assistance. The credit is nonrefundable, which means it's limited to your tax liability for the year. However, any credit in excess of your tax liability may be carried forward for up to five years. The maximum amount (dollar limit) for 2020 is \$14,300 per child.

Charitable Contributions

Charitable contributions continue to be deductible but proper documentation necessary. Proper documentation can be a cancelled check or a credit card receipt, and for any donation more than \$250, a

written acknowledgement from the charity is required. With the second stimulus package, Taxpayers are able to take a deduction of up to \$300 for contributions made to qualifying charities. This deduction applies for those taking the Standard Deduction or for those taking an Itemized Deduction.

Additional 0.9% Medicare Tax

A 0.9% tax is imposed on wages in excess of \$200,000 for single taxpayers and \$250,000 of the combined wages of married taxpayers.

Net Investment Income Tax 3.8%

Applies to long term and short-term capital gains, dividends, rental income or income from a business in which the taxpayer is a passive participant. Income thresholds apply – (\$250,000 threshold for married filing joint).

Capital Gain and Dividend Rates

The general structure of the capital gains tax system isn't changing. However, for married filing jointly the capital gains rate is 0% up to \$80,000 of taxable income and 15% for incomes of \$80,000 - \$496,600.

Standard Deduction and Personal Exemption

The standard deduction for 2020 is \$12,400 for single filers and \$24,800 for married filers.

Electric Vehicle Credit

Credits are still available for purchasing electric vehicles. The credits phaseout as the manufacturer sells a specific number of electric vehicles. Make sure to check if your vehicle is eligible for the credit.

BUSINESS

PPP Loans and ERC

Just before the new year, Congress passed a second stimulus package, which included the second round of stimulus payments to eligible taxpayers and a second round of PPP funding for businesses who experienced and drop of at least 25% in any quarter of 2020 as compared to the same quarter in 2019. One of the most significant parts of the second package is the update to the initial CARES Act to allow tax deductions for expenses paid with PPP loan funds. The IRS had initially interpreted the PPP loan verbiage, such that expenses were not deductible. Any one that received PPP loans that have been forgiven or expect to be forgiven should be very grateful for this update.

In addition to the PPP, employers may be eligible to claim the Employee Retention Credit (ERC). This credit has been increased from 50% to 70% of employee wages, up to \$10,000 per employee per quarter. ERC can be claimed on any wages paid that exceed the amounts used for PPP forgiveness.

Research & Development Credit

The Research and Development Credit is available for Qualified Small Businesses. The credit is available for up to 20% of Qualified Research Expenses for which the tax year exceeds a base amount. Qualified Small Businesses can choose to make the Alternative Simplified Research Credit election. This election may be eligible to claim a federal tax credit for costs related to their research and development activities, up to \$250,000 per fiscal year.

Section 179 Expense – Permanently Extended

The increased expensing allowance for business assets, computer software, and qualified real property (i.e., leasehold improvement, restaurant, and retail improvement property) was permanently extended to allow

property with a cost of up to \$1,00,000 to be expensed currently (with a limit of \$2,500,000 in total property placed in service before the Section 179 limit would be reduced).

Bonus Depreciation

Similar to section 179 bonus depreciation is accelerated depreciation, however it allows for up to 100% expensing for most business assets with less than a 20-year life (machinery, equipment, furniture).

Business Entertainment Deductions

Are now eliminated, but a meals deduction is still allowed at 50%. Only for 2021, the CARES Act allows for 100% business deduction for meals.

Small Business Stock – Permanently Extended

Allows a taxpayer to exclude from income up to 100% of the gain from the sale of qualified small business stock held for more than five years (must be stock of a C-corporation). Exclusion of 100% of gain on certain small business stock is permanently extended.

AZ State Credit for S-Corporations

Dollar for dollar for contributions to school tuition organizations (STO's). Minimum \$5,000 – No maximum limit.

Reporting of 1099's (Independent Contactors)

Forms 1099-MISC or 1099-NEC must be filed for payments of \$600 or more to individuals or partnerships. You will need to meet the January 31st filing deadline. Applicable to both recipient and agency copies, whether filing by paper or electronically.

Net Operating Loss Deduction

The 2017 Tax Act limits the amount of the NOL that a taxpayer can use to 80% of taxable income. Plus, the law also repeals the provision allowing for a 2-year carryback but does allow for indefinite period to carryforward the NOL.

RETIREMENT ACCOUNTS

401k Accounts

401(k) contributions remain at \$19,500 in 2020, and an additional catch up of \$6,500 if you are age 50 or older. For 2021 the deduction will remain at \$19,500, plus the catchup.

Required Minimum Distributions (RMD)

The law raises to 72 from 70½ the age at which individuals must begin taking RMDs from their retirement accounts. Important: The new law only applies to people who turn 70½ after December 31, 2019. If a person turned 70½ in 2019, the law does not apply—that person must take an RMD in 2019, 2020 and beyond.

Traditional IRA

The IRA contributions limits for 2020 is capped at \$6,000, with a \$1,000 catch up contribution. Your ability to deduct traditional IRA contributions from your taxable income is income limited, with allowed amounts phased out as your income rises.

IRS Office

Contacting the IRS for guidance continues to be difficult. On the bright side, your chances of facing an IRS audit are greatly reduced. However, the IRS continues to send out computer-generated notices, usually from document-matching processes. Since IRS notices generated in this way are sometimes incorrect, you should contact us as soon as you receive correspondence and we will take care of it.

Remember, never ignore an IRS notice, it won't go away.



Summary of Year-End Coronavirus Relief Act

This document provides a brief summary of key tax provisions contained in the Consolidated Appropriations Act, 2021, [H.R. 133](#), that was signed into law on Dec. 27, 2020. This resource also serves as a supplement to engagement letters, organizers, checklists and practice guides contained in the AICPA Tax Section's [2020 Annual Tax Compliance Kit](#). Further research and analysis are recommended based on each client's facts and circumstances.

Additional refundable tax credit

The Act provides a refundable tax credit in the amount of \$600 per eligible family member (Sec. 6428A). The credit is \$600 per taxpayer (\$1,200 for married taxpayers 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 taxpayers filing jointly) at a rate of \$5 per \$100 of additional income.

Deductibility of PPP-funded expenses

Effective as of the date of enactment of the CARES Act, the Act clarifies that gross income does not include any amount that would otherwise arise from the forgiveness of a Paycheck Protection Program (PPP) loan.

Deductions are allowed for otherwise deductible expenses paid with the proceeds of a PPP loan that is forgiven and the tax basis and other attributes of the borrower's assets will not be reduced as a result of the loan forgiveness. The forgiveness will be treated as tax-exempt income for the purposes of the stock basis increase for PPP recipients that are partnerships or S corporations.

Tax extenders

Made permanent:

- Sec. 213(f) reduction in medical expense deduction floor, which allows individuals to deduct unreimbursed medical expenses that exceed 7.5% of adjusted gross income (previously 10%)
- Sec. 179D deduction for energy-efficient commercial buildings (the amount will be inflation-adjusted after 2020)
- Sec. 139B gross income exclusion for certain benefits provided to volunteer firefighters and emergency medical responders
- Sec. 45G railroad track maintenance credit; however, the credit rate is reduced from 50% to 40%

5-year extensions (through 2025):

- Sec. 45D new markets tax credit
- Sec. 45S employer credit for paid family and medical leave (note this credit is different than the payroll tax credits for paid sick and family leave)
- Sec. 51 work opportunity credit
- Sec. 108(a)(1)(E) gross income exclusion for discharge of indebtedness on a principal residence; note that the amount of exclusion is lowered to \$750,000 (\$375,000 for married individuals filing separately) from \$2 million (\$1 million for married individuals filing separately)
- Sec. 127(c)(1)(B) exclusion for certain employer payments of student loans
- Sec. 168(e)(3)(C)(ii) seven-year recovery period for motorsports entertainment complexes
- Sec. 181 special expensing rules for certain film, television and live theatrical productions
- Sec. 954(c)(6) lookthrough treatment of payments of dividends, interest, rents and royalties received or accrued from related controlled foreign corporations under the foreign personal holding company rules
- Sec. 1391(d) empowerment zone designation
- Sec. 4611 Oil Spill Liability Trust Fund financing rate

Tax extenders (cont.)

2-year extensions (through 2022):

- Sec. 25D residential energy-efficient property credit (the Act also makes qualified biomass fuel property expenditures eligible for the credit)
- Sec. 45Q carbon oxide sequestration credit (through 2025)
- Sec. 48 energy investment tax credit for solar and residential energy-efficient property

1-year extensions (through 2021):

- Sec. 25C 10% credit for qualified nonbusiness energy property
- Sec. 30B credit for qualified fuel cell motor vehicles
- Sec. 30C 30% credit for the cost of alternative (nonhydrogen) fuel vehicle refueling property
- Sec. 30D 10% credit for plug-in electric motorcycles and two-wheeled vehicles
- Sec. 35 health coverage tax credit
- Sec. 40(b)(6) credit for each gallon of qualified second-generation biofuel produced
- Sec. 45(e)(10)(A)(i) production credit for Indian coal facilities
- Sec. 45(d) credit for electricity produced from certain renewable resources
- Sec. 45A Indian employment credit
- Sec. 45L energy-efficient homes credit
- Sec. 45N mine rescue team training credit
- Sec. 163(h) treatment of qualified mortgage insurance premiums as qualified residence interest
- Sec. 168(e)(3)(A) three-year recovery period for racehorses two years old or younger
- Sec. 168(j)(9) accelerated depreciation for business property on Indian reservations
- Sec. 4121 Black Lung Disability Trust Fund increase in excise tax on coal
- Sec. 6426(c) excise tax credits for alternative fuels and Sec. 6427(e) outlay payments for alternative fuels
- The American Samoa economic development credit (P.L. 109-432, as amended by P.L. 111-312)

CARES Act extensions and related provisions

Educator expenses for protective equipment: The Act requires the Treasury to issue regulations or other guidance providing that the cost of personal protective equipment and other supplies used for the prevention of the spread of COVID-19 is treated as an eligible expense for purposes of the Sec. 62(a)(2)(D)(ii) educator expense deduction (currently \$250). The regulations or guidance will apply retroactively to March 12, 2020.

Waiver of information filing requirements: The Act waives the information filing requirements for any amount excluded from income due to the exclusion of loan forgiveness, emergency financial aid grants or other business financial assistance provided under the CARES Act.

Farmer NOL carrybacks: The Act allows farmers who elected a two-year net operating loss (NOL) 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. This allows farmers who previously waived an election to carry back an NOL to revoke the waiver.

Payroll tax credits: The Act extends the refundable payroll tax credits for paid sick and family leave, enacted in the Families First Coronavirus Response Act, P.L. 116-127, through the end of March 2021. It also modifies the payroll tax credits so that they apply as if the corresponding employer mandates were extended through March 31, 2021. The Act also allows individuals to elect to use their average daily self-employment income from 2019 rather than 2020 to compute the credit.

Employee retention tax credit modifications: The Act extends the CARES Act employee retention tax credit (ERTC) through June 30, 2021. It also expands the ERTC and contains technical corrections. A noteworthy modification provides that employers who receive PPP funds may still qualify for the ERTC with respect to wages that are not paid with forgiven PPP proceeds.

Deferral of employees' portion of payroll tax: The Act extends the repayment period through Dec. 31, 2021 on employees' share of certain payroll taxes deferred from Sept. 1, 2020 through Dec. 31, 2020 through Dec. 31, 2021.

Miscellaneous tax provisions

Temporary allowance of full deduction for business meals: The Act temporarily allows a 100% business expense deduction for meals (rather than the current 50%) if the expense is for food or beverages provided by a restaurant. This provision is effective for expenses incurred after Dec. 31, 2020 and expires at the end of 2022.

Certain charitable contributions deductible by nonitemizers: The Act extends and modifies the \$300 charitable deduction for nonitemizers for 2021 and increases the maximum amount that may be deducted to \$600 for married couples filing jointly. Note that for tax year 2020, \$300 is the maximum allowed per tax return, regardless of filing status. The Sec. 6662 penalty is increased from 20% to 50% of the underpayment for taxpayers who overstate this deduction.

Education expenses: The Act repeals the Sec. 222 deduction for qualified tuition and related expenses but in its place increases the phaseout limits on the lifetime learning credit (so the phaseout limits match the American opportunity credit), effective for tax years beginning after Dec. 31, 2020.

Minimum low-income housing tax credit rate: The Act establishes a 4% rate floor for calculating credits related to acquisitions and housing bond-financed developments for purposes of the Sec. 42 low-income housing tax credit, effective in 2021.

Depreciation of certain residential rental property over 30-year period: The Act provides that the recovery period applicable to residential rental property placed in service before Jan. 1, 2018 and held by an electing real property trade or business is 30 years.

Waste energy recovery property eligible for energy credit: The Act makes waste energy recovery property eligible for the Sec. 48 energy investment tax credit, effective for 2021 through 2023. Waste energy recovery property generates electricity from the heat from buildings or equipment.

Extension of energy credit for offshore wind facilities: The Act extends the Sec. 48 investment tax credit for electing offshore wind facilities that begin construction through 2025.

Minimum rate of interest for certain determinations related to life insurance contracts: The Act updates the Sec. 7702 fixed interest rate for life insurance contracts and ties the rate going forward to benchmark interest rates that are periodically updated.

Minimum age for distributions during working retirement: The Act modifies Sec. 401(a) to allow certain qualified pensions to make distributions to workers who are 59½ or older and who are still working. For certain construction and building trades workers, the age is lowered to 55.

Temporary rule preventing partial plan termination: The Act provides that qualified plans will not be treated as having a partial termination under Sec. 411(d)(3) during any plan year that includes the period March 13, 2020, through March 31, 2021, as long as the number of active participants covered by the plan on March 31, 2021, is at least 80% of the number covered on March 13, 2020.

Temporary special rule for determination of earned income: The Act allows taxpayers to refer to earned income from the immediately preceding tax year for purposes of determining the Sec. 32 earned income tax credit and the Sec. 24(d) additional child tax credit for tax year 2020.

Modification of limitations on charitable contributions: This Act extends for one year (through 2021) the increased limit of 100% (from 60%) of individual's adjusted gross income from the CARES Act on deductible charitable contributions for individual taxpayers who itemize. The Act also extends for one year (through 2021) the increased limit of 25% (from 10%) of corporation's taxable income from the CARES Act on qualified cash contributions.

Temporary special rules for health and dependent care flexible spending arrangements: The Act allows taxpayers to roll over unused amounts in their health and dependent care flexible spending arrangements from 2020 to 2021 and from 2021 to 2022. This provision also permits employers to allow employees to make a 2021 midyear prospective change in contribution amounts.

Excise taxes: The Act makes various excise tax changes for beer, wine and distilled spirits.

Disaster tax relief

Use of retirement funds for disaster mitigation: The Act allows residents of qualified disaster areas (as defined in the Act) to take a qualified distribution of up to \$100,000 from a retirement plan or individual retirement account (IRA) without penalty. Amounts withdrawn are included in income over three years or may be recontributed to the plan. The Act also increases the allowable amount of a loan from a retirement plan to \$100,000 (from \$50,000) if the loan is made due to a qualified disaster and meets various other requirements.

Employee retention credit for disaster zones: The Act allows a tax credit of 40% of wages (up to \$6,000 per employee) to employers who conducted an active trade or business in a qualified disaster zone (as defined in the Act). The credit applies to wages paid without regard to whether the employee performed any services associated with those wages.

Qualified disaster relief contributions: The Act modifies the CARES Act's modification of the charitable contribution limits for 2020 to allow corporations to make qualified disaster relief contributions of up to 100% of their taxable income.

Qualified disaster-related personal casualty losses: The Act permits individuals who have a net disaster loss (as modified by the Act) to increase their standard deduction amount by the amount of the net disaster loss.

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CAPITAL ACCOUNTING PC

Tax Year 2020 Key Income Tax Figures

Individual Income Tax Rates	10%, 12%, 22%, 24%, 32%, 35%, 37%	
Additional Medicare Tax Rate	0.90%	
Net Investment Income Tax Rate	3.80%	
Standard Deductions	2020	2019
Single & Married Filing Separate	\$12,400	\$12,200
Married Filing Joint & Qualifying Widower	\$24,800	\$24,400
Head of Household	\$18,650	\$18,350
FICA Taxable Wages (Social Security)	2020	2019
	\$137,700	\$132,900
Child Tax Credit	\$2,000	\$2,000
Standard Mileage Rate		
Business	57.5¢	58¢
Medical and Moving	17¢	20¢
Charitable	14¢	14¢
Section 179	2020	2019
Maximum Amount 179	\$1,040,000	\$1,000,000
SUV Limitation	\$25,900	\$25,000
Retirement Plans	2020	2019
IRA - Contribution Limit/Catch up if Age 50	6,000/1,000	6,000/1,000
SIMPLE IRA - Contribution Limit/Catch up if Age 50	13,500/3,000	13,000/3,000
401(k), 403(b), & 457 - Contribution Limit/Catch Up Age 50	19,500/6,500	19,000/6,000
Defined Contribution - Contribution Limit	\$57,000	\$56,000
Health Savings Accounts (HSA)		
Individual - Contribution Limit	\$3,550	\$3,500
Family - Contribution Limit	\$7,100	\$7,000
Age 55 Catch Up	\$1,000	\$1,000