



ADAPT & RECOVER:
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WEBINAR SERIES



SESSION TWELVE

March 24, 2021 | 10 A.M. ET

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- All lines are muted
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 - Participants must be connected to the session (both audio and presentation) for its entirety
 - Participants must answer three questions/elements of engagement
 - One (1) hour of CPE in the field of tax will be granted if you meet these requirements

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➤ Meet Your Team for Today's Presentation

American Rescue Plan: Individual Impact



RUTHANN WOLL, CPA | *Partner, Tax Services Group*

Ruthann is a Partner in RKL's Tax Services Group. She oversees firm wide individual tax planning and compliance efforts and leads the firm's nonprofit tax niche. Ruthann comprehensively serves the tax accounting needs of high-net-worth and high-earning individual clients, helping them minimize tax exposure through strategies like gift and estate planning, tax-loss harvesting and charitable contributions.

COVID-19 Relief Summary for Employers



TRICIA RICHARDSON, CPP, SPHR, SHRM-SCP | *Senior Consultant, Human Capital Management*

Tricia is a Senior Consultant in RKL's Human Capital Management Practice. With expertise in payroll and human resources, she works with companies to align their HR policies with the final payroll product. Tricia also helps clients implement and adhere to payroll and human resource regulatory compliance and best practices.

2021 Federal Tax Outlook



ERIC WENGER, CPA, MST | *Partner, Tax Services Group*

Eric serves as Managing Partner of the Lancaster Office. Throughout his more than two decades in public accounting, Eric has enjoyed the ongoing challenge of applying evolving tax and financial regulations for the benefit of his clients. As Partner in RKL's Tax Services Group, he primarily advises closely held and family owned companies regarding tax and general business matters, including succession planning.

➤ Our Journey Together



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AMERICAN RESCUE PLAN: INDIVIDUAL IMPACT

➤ American Rescue Plan Act of 2021

- \$1.9 trillion in additional relief to address continued impact of COVID-19 on economy
 - Provides funding for multiple programs:
 - Schools and child care
 - Economic relief for states, local governments
 - Pension plans
 - Public health including funding for COVID-19 vaccines
 - Small business relief:
 - Modifications to PPP
 - Restaurant Revitalization Grants
 - Provisions included that:
 - Extend unemployment benefits
 - Send Recovery Rebates to individuals
 - Expand child tax credit
 - Provide premium assistance for certain health insurance coverage
 - Update student loan forgiveness

➤ PPP Update

- The Act appropriates an additional \$7.25 billion to SBA
- Expands the organizations and entities eligible to receive PPP loans
- Program deadline is currently March 31, 2021
- Nonprofit eligibility expanded
 - All organizations described in section 501(c), except for (c)4 are eligible to receive PPP loans


➤ Unemployment Compensation

- Extension of CARES Act unemployment provisions
 - Benefits extended through September 6, 2021
 - Federal unemployment Insurance payments will remain at \$300 per week
 - Includes unemployment reimbursement for nonprofit and government employers
 - From April 1, 2021 through September 6, 2021, the reimbursement rate increases from 50% to 75%

PANDEMIC UNEMPLOYMENT ASSISTANCE

EMAIL QUESTIONS

UCPUA@PA.GOV

 *This email address is for PUA questions only. Emails not related to PUA will not receive a response.*

CALL 855-284-8545

available M-F from 8AM- 3PM

LEARN MORE:
www.uc.pa.gov/PUA

➤ Unemployment Compensation

- Federal income taxes are waived
 - First \$10,200 UE received in 2020 (and \$20,400 if MFJ and both received)
 - \$150,000 of modified adjusted gross income
- Federal unemployment programs and state unemployment insurance fund programs apply
- IRS developing a new worksheet for this calculation
- IRS and software companies need time to update forms
- IRS has asked that anyone who needs to amend returns wait to file

➤ Economic Impact Payments

- Third round of recovery rebates will be issued by IRS
- Payment amounts
 - \$1,400 per individual
 - \$2,800 married filing jointly
 - \$1,400 additional for every dependent claimed on a tax return
 - Not limited to qualifying children under age 17
- Adjusted gross income limitations
 - \$75,000 for single (\$80,000 phase out)
 - \$112,500 for head of household (\$120,000 phase out)
 - \$150,000 for MFJ (\$160,000 phase out)

➤ Economic Impact Payments

- Most recently filed tax return will be used to base AGI limitations as well as dependents claimed
- For taxpayers who have not yet filed 2020 tax returns:
 - If 2019 AGI is above AGI limits and 2020 is less, file if you can to get your recovery rebate sooner
 - If 2020 AGI is above AGI limits and 2019 is less, do not file until you receive your stimulus payment
- IRS will do a true-up review this summer to push out stimulus for those who qualified based on 2020 return
- Reconciliation will be done on 2021 tax return
- Direct deposits started going out last week
- Online IRS website is up and running to check timing of your payment and the account the payment will be going to

➤ Child Tax Credit

- The current credit of \$2,000 has been increased for 2021
 - \$3,600 for children under age 6
 - \$3,000 for other children under age 18
- Children age 17 years old have now been included in the credit
- Advance payments will be made during 2021
 - Starting July 1
 - 50% will be paid in advance with periodic payments
 - Monthly payments are expected
 - IRS online portal to update relevant data for mid-year payment adjustments
- Credit is now fully refundable
 - Earned income can be \$0

➤ Child Tax Credit

- The increased credit (extra \$1,000 or \$1,600) is gradually phased out
 - MFJ AGI of \$150,000 or more
 - HOH AGI of \$112,500 or more
 - Single AGI of \$75,000 or more
 - Credit is reduced by \$50 for each \$1,000 of AGI over the applicable threshold amount
- Pre-existing phase out is applied to the remaining credit (\$2,000)
 - MFJ AGI of \$400,000 or more
 - Single and HOH AGI of \$200,000 or more

➤ Child Tax Credit Examples

- Example #1
 - Married couple with one child, age 4 and AGI of \$160,000 for 2021
 - Since AGI is over \$150,000, the increased (new) credit is reduced by \$500 ($\50×10)
 - $\$1,600 - \$500 = \$1,100$
 - \$2,000 original credit allowed
 - Total credit will be \$3,100
 - Half will be paid beginning in July 2021
 - \$1,550 will be claimed on 2021 tax return
- Example #2
 - Same as above except AGI is \$415,000
 - No increased (new) credit allowed
 - \$2,000 original credit will be reduced by \$750 ($\50×15)
 - \$1,250 is the total credit

➤ Dependent Care Benefits

- Increased Child Care Tax Credit
 - 2021 tax year only
 - Up to 50% of \$8,000 in expenses for one child
 - \$16,000 in expenses for two or more children
 - Credit percentage phases down to 20%
 - Phase out for taxpayers earning between \$125,000 and \$400,000
 - AGI exceeds \$400,000, credit percentage phases down 1% for each \$2,000
- Dependent Care Exclusion increase
 - Through FSA with employer
 - \$10,500 (\$5,250 for MFS)
 - Cafeteria plans may be amended retroactively by the last day of the plan year in which the amendment is effective

➤ Affordable Care Act Update

- Refresher
 - Premium tax credit is a refundable tax credit designed to help eligible families with low income afford health insurance purchased through the Health Insurance Marketplace
 - Credit is calculated based off of income from the prior year
- 2020
 - Individuals do not need to repay these excess premium tax credits
 - Advanced premium tax credits in excess of the amount to which an individual is entitled
 - Awaiting update to forms
- 2021 and 2022
 - Premium tax credits for health insurance purchased on marketplace are increased
 - Eligibility for the credits for those two years is expanded
 - Individuals with household incomes exceeding 400% of the federal poverty level

➤ Student Loan Update

- Student loan forgiveness is not currently offered through this Act
- If a taxpayer has forgiveness of student loans from 1/1/21 through 12/31/25
 - The Act will not include the debt forgiveness as taxable income
 - Applies to loans expressly provided for postsecondary education expenses
 - Does not apply to discharges resulting from provision of services to the educational organization or the lender
- Exclusion for certain employer payments of student loans
 - Nontaxable payments of up to \$5,250 to employees
 - Applies to the payment by an employer of principal or interest on any qualified education loan incurred by the employee
 - Paid to employee or lender
 - Tax Certainty and Disaster Tax Relief Act extended through 2025

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

COVID-19 RELIEF SUMMARY FOR EMPLOYERS

➤ Families First Coronavirus Response Act (FFCRA)

- Optional for employers with 500 or less FTEs for leave beginning January 1, 2021 to September 30, 2021

Beginning April 1, 2021:

- Additional 10 days of Emergency Paid Sick Leave (EPSL), if previous 10 days were exhausted
- First two weeks of Emergency Family and Medical Leave Expansion Act are now paid, totaling 12 weeks of paid family leave
- Total amount of qualified family wages that may be counted toward credit for family leave wages increased to \$12,000; daily max remains at \$200
- Non-discrimination rules for equitable application – must be offered to all employees if offering to one
- Extends credit eligibility to certain government employers previously excluded
- Leave is no longer exempt from employer Social Security tax when paid – but can still be applied to the credit (*941 change – credit against employer Medicare not Social Security*)

➤ **Q:** What are the additional reasons that someone can qualify for Emergency Paid Sick Leave and Emergency Family and Medical Leave Expansion Act?

Additional reasons to qualify for leave is expanded to include:

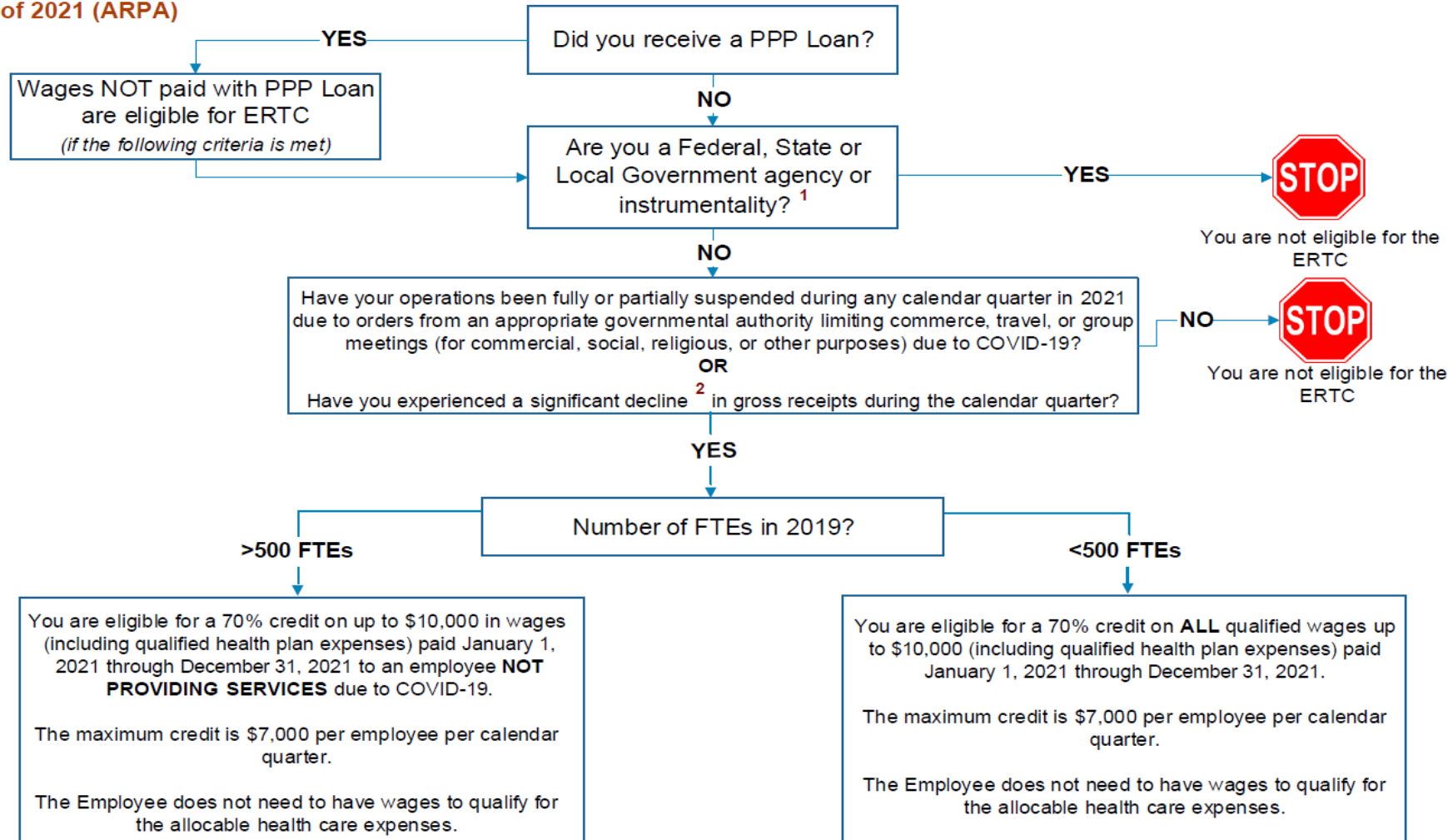
- Employee is being vaccinated for COVID
- Employee is recovering from COVID vaccination

➤ Employee Retention Tax Credit Changes

- **Effective dates:**
 - Wages paid January 1, 2021 to December 31, 2021
- **Maximum 2021 credit:**
 - \$7,000 per employee per quarter = \$28,000 per employee for 2021
- **Recovery Startup Business eligibility extended for new business if:**
 - Established after February 15, 2020
 - Revenue declined by 90% compared to same calendar quarter of previous year
 - Capped at \$50,000 per quarter

Provisions per the
March 11, 2021
American Rescue Plan Act
of 2021 (ARPA)

The Employee Retention Tax Credit (ERTC) Effective: January 1, 2021 – December 31, 2021



¹ Tax-Exempt public colleges, universities and hospitals that are described in IRC Section 501(c)(1) may be eligible and are treated as carrying on a trade or business for purposes of the ERTC.

² A significant decline in gross receipts exists if there has been a decline of more than 20% for the relevant quarter in 2021 compared with the same calendar quarter in 2019 (or 2020 if 2019 is not applicable). Employers can also compare the gross receipts in the immediately preceding calendar quarter to the corresponding quarter in 2019 to perform the calculation.

➤ Employee Retention Tax Credit Changes

Step 1: Are you eligible?

- Eligible business type
- 2020 - 50% or more decline in gross receipts (when comparing the 2020 quarter with the same quarter in 2019)
- 2021 - 20% or more decline in gross receipts (when comparing the 2021 quarter with the same quarter in 2019) *can use 4Q20 compared with 1Q21 as an option
- Full or partial shutdown - (*the specific business “line” impacted is at least 10% of the “normal” revenue source)

Step 2: For what period of time are you eligible?

- For gross receipt reduction
 - 2020 - the quarter that begins the 50% reduction until the quarter where receipts are recovered to 80%
 - 2021 - any quarter with the 20% reduction
- For full or partial shutdown - the days of the shutdown

➤ Employee Retention Tax Credit Changes

Step 3: What are you eligible for?

- 2020 - 50% of qualified wages up to \$10,000 (\$5,000 per employee) per year
- 2021 - 70% of qualified wages up to \$10,000 (\$7,000 per employee) per quarter

Step 4: What are qualified wages?

- 2020
 - If 100 or less FTEs in 2019, all wages paid (including PTO)
 - If more than 100 FTEs in 2019, wages paid to employees who were not working (excluding PTO, holidays)
- 2021
 - If 500 or less FTEs in 2019, all wages paid (including PTO)
 - If more than 500 FTEs in 2019, wages paid to employees who were not working (excluding PTO, holidays)

➤ Employee Retention Tax Credit Changes

8. What is the definition of "qualified wages"? (IRS FAQ)

Qualified wages are wages (as defined in section 3121(a) of the Internal Revenue Code) and compensation (as defined in section 3231(e) of the Code)...

Not included:

- Expense reimbursements
- Annuity plans
- Pensions
- Deferred compensation

Included:

- Group term life taxable amount
- Tips

➤ Employee Retention Tax Credit Changes

1. Verify and document **your eligibility** – you will need to have this as part of your records
2. Payroll provider:
 - “Button” for 2021 credit calculation – make sure you are eligible for that quarter and are not using those wages for PPP 2
 - Ask your payroll provider if you can amend the 941 (2020 or 2021) for the ERTC – this will give you the opportunity to wait to confirm your eligibility until the quarter’s end
 - Credits are toward 941 payments only – you may have additional credits available – how are you getting those? (Form 7200, refund on 941)
3. You will have to tell the payroll provider – they will not know
4. Calculate the credit using wages first – then go back and add health insurance (daily rate)

➤ Q: Are S Corps eligible for the ERTC?

If they meet the other eligibility requirements, the company is eligible.

However, the following wages are not “qualified”:

- S Corp shareholders with more than 50% ownership and their
 - child or a descendant of a child;
 - brother, sister, stepbrother or stepsister;
 - father or mother or an ancestor of either;
 - stepfather or stepmother;
 - niece or nephew;
 - aunt or uncle;
 - son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law.

➤ COBRA Health Insurance Subsidy

- 100% subsidy of COBRA health insurance premiums at no cost to the terminated employee for coverage effective April 1, 2021 through September 30, 2021 (includes 2% administrative fee)
- Credit is received in the same way as ERTC or FFCRA
- Employees who voluntarily separate are not eligible
- Eligible if terminated from a job or hours have been reduced
- COBRA subsidy is not retroactive
- Employees are no longer eligible once they become eligible for coverage under another group health plan
- Excluded from PPP forgiveness

➤ Q: Does the American Rescue Plan Act provide grants to small businesses?

Yes. Businesses meeting certain criteria can apply for grants directly from the Small Business Administration. Grants are reduced by previously received Employee Retention Credit and PPP loan forgiveness.

Priority is given to grant applications for business owned by certain protected classes of business owners. Business owners who received grants previously **are not** eligible.

<https://www.sba.gov/funding-programs/loans/covid-19-relief-options>

➤ Q: What are the changes to Dependent Care Assistance?

Increased limit to \$10,500, from \$5,000, for income exclusion for employee-provided dependent care assistance.

➤ Prepare for New Forms

- W-4 correction for the child tax credit advances
- New 941 for relief changes (FFCRA, COBRA credit, ERTC, employee Social Security deferral, etc.)

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

2021 FEDERAL TAX OUTLOOK

➤ The Current Political Situation

- Democrats control D.C.
 - White House, Senate (with VP's tie-breaking vote) and House
- Democratic priorities
 - American Rescue Plan – \$1.9 trillion
 - Next proposal – amount TBD, but early reports indicate \$3 trillion
 - Infrastructure and clean energy
 - “Care economy” – Pre-K, childcare, free community college
- How to fund?
 - Issue more U.S. government debt? Raise taxes? Both?
- Dynamics
 - At a minimum, Senate needs every Democratic vote, from moderates to progressives
 - Objective per W.H. Press Secretary: “Reform the tax code.”

➤ President Trump's Tax Cuts and Jobs Act (TCJA)

- Signature legislation passed at the end of 2017
- \$1.5 trillion in tax cuts
- Passed using budget reconciliation. Will history repeat itself?

➤ President Trump's Tax Cuts and Jobs Act (TCJA)

- Individual provisions of TCJA expiring beginning January 1, 2026:
 - 20% Qualified Business Income Deduction (QBI) §199A will be eliminated
 - Individual tax rates will revert to pre-2018 levels
 - Increased standard deduction will expire
 - Personal exemptions will return
 - Doubled Child Tax Credit will expire back to \$1,000
 - SALT tax deduction limitation (\$10,000) will expire
 - Expiration of higher AMT exemption and phase-out range
 - Increased estate tax exemption will expire

➤ President Biden's Tax Plan: Individual

- Return the top ordinary individual income tax rate to 39.6%
 - 37% would likely revert back to its previous rate of 39.6%
 - Presumably, the rate increases would simply take place at the current 37% bracket (approx. \$520K single; \$620K MFJ)
- Additional 12.4% Social Security tax on employees earning more than \$400,000
 - Under current law, employees and self-employed individuals pay a 12.4% Social Security tax on the first \$142,800 of wages or self-employment income, split evenly between the employer and employee (a self-employed taxpayer pays the full 12.4%)
 - Biden's plan would add an **additional 12.4% tax on wages or self-employment income in excess of \$400,000** which would again be split between employer and employee
 - Medicare tax of 2.9% continues on all payroll, split between employer and employee

➤ President Biden's Tax Plan: Individual (continued)

- Biden proposal: 39.6% capital gains and dividends rate on incomes greater than \$1 million
 - For those with income in excess of \$1 million, Biden would tax long-term capital gains and dividends at the same rate that is applied to ordinary income, or 39.6%
- Senators Wyden, Sanders, Warren: Tax unrealized gains and enact wealth taxes
- Treasury Secretary Janet Yellen on Sunday, 3/22/21 on *Meet the Press*:
 - *"Biden administration hasn't decided whether to pursue a wealth tax."*
- Potential compromises
 - 28% for millionaires + 3.8% surtax for net investment income
 - *Some D.C. tax policy organizations are predicting a capital gains tax increase would be RETROACTIVE to the date the legislation is introduced.*
 - Avoids an immediate rush to liquidate gains in December 2021
 - Meets objective of raising tax revenue ("surprise attack")
 - Potentially less disruption to stock market

➤ President Biden's Tax Plan: Individual (continued)

- Eliminate 20% Qualified Business Income deduction for incomes over \$400,000:
 - The TCJA allows taxpayers who operate business as an S corporation, partnership or sole proprietorship to claim a deduction equal to 20% of the qualified income earned in the business
 - Biden would eliminate the deduction for those taxpayers with taxable income in excess of \$400,000
 - $20\% \text{ deduction} \times 37\% \text{ current top rate} = 7.4\% \text{ effective rate impact}$

➤ President Biden's Tax Plan: Individual (continued)

- Changes to itemized deductions
 - After the TCJA doubled the standard deduction while limiting or eliminating many itemized deductions, the number of itemizers dropped from near 30% to under 10%
 - Biden's plan would further limit itemized deductions in two ways:
 1. Reinstate the "Pease limitation," which would reduce a taxpayer's overall itemized deductions when income exceeds \$400,000
 2. Cap the total benefit of itemized deductions at a rate of 28%. Thus, for a high-earning taxpayer, the final dollar of income would be taxed at 39.6%, while the final dollar of expense would yield only a 28% deduction
 - *Other potential proposals: Increase SALT cap from \$10K to \$20K*
- Changes to retirement contributions
 - Instead of a deduction/exemption from income, contributions would generate a refundable credit (estimated to be at a 26% rate)
 - Regardless of income, if taxpayer contributes \$1,000 to a 401(k) then they would get the same benefit: a \$260 (26%) refundable credit

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

➤ President Biden's Tax Plan: Individual (continued)

- Changes to individual tax credits [portions already enacted but would need to be extended beyond 2021]:
 - Expand the Earned Income Tax Credit for childless workers aged 65
 - Strengthen the Child Tax Credit (CTC) for 2021 “as long as economic conditions require”
 - Increase the CTC to \$3,000 per child (ages 6-17) and \$3,600 (children under 6)
 - Make the CTC fully refundable
- Expanded Child and Dependent Care credit
 - Up to an \$8,000 credit for low and middle class families, increased from \$3,000
- New first-time homebuyer tax credit
 - Up to \$15,000
 - The credit is advanceable at the time real estate is purchased, instead of when the return is filed

➤ President Biden's Tax Plan: Estate

- Changes to estate tax
 - Elimination of tax-free “step up” in basis upon death, taxing any appreciation in assets at that time
 - Adjust estate tax exemption from \$11.7M to \$3.5M *per individual* (double for married)
 - Maximum rate would revert to its former rate of 45% (instead of current 40%)

➤ President Biden's Tax Plan: Corporate

- Increase the corporate income tax rate to 28%
 - The hallmark of the TCJA was the reduction in the corporate rate from 35% to 21%
 - Biden proposes increasing the rate to 28%
- Corporate minimum tax on book income
 - Biden plan would create a new “minimum tax” for corporations, requiring businesses with financial statement income in excess of \$100 million to pay the greater of their regular corporate income tax or a 15% tax on their financial statement income

Distribution of Federal Tax Change under Biden's Tax Plan

By expanded cash income percentile, 2022

Expanded cash income percentile ^a	AGI Starts at:	Percent change in after-tax income ^b	Share of total federal tax change (%)	Average federal tax change (\$)	Average federal tax rate ^c	
					Change (% points)	Under the proposal (%)
Lowest quintile	\$0	5.2	-14.1	-760	-5.1	-2.3
Second quintile	\$24,800	2.2	-13.1	-820	-2.1	5.2
Middle quintile	\$49,800	1.1	-9.9	-680	-0.9	11.6
Fourth quintile	\$88,500	0.5	-6.5	-540	-0.4	15.9
Top quintile	\$159,800	-4.8	143.1	14,090	3.7	27.6
All	n/a	-1.7	100.0	1,390	1.4	19.9
Addendum						
80–90	\$159,800	-0.1	1.0	190	0.1	19.6
90–95	\$234,300	-0.7	3.8	1,520	0.5	22.0
95–99	\$331,500	-2.2	16.0	8,230	1.7	25.5
Top 1 percent	\$788,100	-15.6	122.3	259,670	10.9	40.9
Top 0.1 percent	\$3,472,100	-21.3	75.3	1,559,790	14.8	45.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0920-1).

Notes: Estimates are for calendar year. Baseline is current law. Proposal includes all assumptions detailed in the appendix. Distributional estimates do not include the impact of proposals to increase tax compliance.

(a) Percentiles include both filing and nonfiling units but exclude those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks (in 2019 dollars) are: 20% \$24,800; 40% \$49,800; 60% \$88,500; 80% \$159,800; 90% \$234,300; 95% \$331,500; 99% \$788,100; 99.9% \$3,472,100. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(b) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(c) Average federal tax (including individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

Chart source: Tax Policy Center

➤ Tax Deadline Changes

- For personal tax returns:
 - Deadline for filing **AND** paying 2020 taxes owed is delayed from 4/15 until Monday, 5/17
 - Quarter 1 2021 estimated tax payment deadline remains at 4/15
 - Consider potential to fund at 5/17 with extension
- All other tax filing deadlines at 4/15 remain, including trusts, corporations, etc.

THANK YOU FOR PARTICIPATING

Questions?

- Contact your RKL advisor
- Visit rklcpa.com for more updates and guidance

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