



## Individual Tax Provisions Highlights in the New Law signed on December 28, 2020

### RECOVERY REBATE/ECONOMIC IMPACT PAYMENT

**The Act provides for a refundable recovery rebate credit** for 2020 that will be paid in advance to eligible individuals early in 2021. These payments are **in addition** to the direct payments provided for earlier this year in the CARES Act (Economic Impact Payments-EIP).

The amount of this rebate is \$600 per eligible family member-\$600 per taxpayer (\$1,200 for married filing jointly), plus \$600 per qualifying child (dependent child under the age of 17). Thus, a married couple with two qualifying children will receive \$2,400, unless a phase-out applies. The credit is phased out starting at \$150,000 of modified adjusted gross income for marrieds filing jointly and surviving spouses, \$112,500 for heads of household, and \$75,000 for single taxpayers.

The advance payments are based on the information on 2019 tax returns. Taxpayers who receive an advance payment that exceeds the amount of their eligible credit (as later calculated on the 2020 return) will not have to repay any of the payment. If the amount of the credit determined on a taxpayer's 2020 return exceeds the amount of the advance payment, taxpayers receive the difference as a refundable tax credit.

### DEDUCTIONS

**\$250 educator expense deduction applies to PPE, other COVID-related supplies.** The Act provides that eligible educators can claim the existing \$250 above-the-line educator expense deduction for personal protective equipment, disinfectant, and other supplies used for the prevention of the spread of COVID-19 that were bought after March 12, 2020.

**7.5%-of-AGI "floor" on medical expense deductions is made permanent.** The Act makes permanent the 7.5%-of-adjusted-gross-income threshold on medical expense deductions, which was to have increased to 10% of adjusted gross income after 2020.

**Mortgage insurance premium deduction is extended by one year.** The Act extends through 2021 the deduction for qualifying mortgage insurance premiums, which was due to expire at the end of 2020.

**Above-the-line charitable contribution deduction is extended through 2021.** For 2020, individuals who don't itemize deductions can take up to a \$300 above-the-line deduction for cash contributions to "qualified charitable organizations." The Act extends this above-the-line deduction through 2021 and increases the deduction allowed on a joint return to \$600 (it remains at \$300 for other taxpayers).

**Extension through 2021 of allowance of charitable contributions up to 100% of an individual's adjusted gross income.** In response to the COVID pandemic, the limit on cash charitable contributions by an individual in 2020 was increased to 100% of the individual's adjusted gross income. (The usual limit is 60% of adjusted gross income.) The Act extends this rule through 2021.

## EXCLUSIONS FROM INCOME

### **Exclusion for benefits provided to volunteer firefighters and emergency medical responders made permanent.**

Emergency workers who are members of a "qualified volunteer emergency response organization" can exclude from gross income certain state or local government payments received and state or local tax relief provided on account of their volunteer services.

**Exclusion for discharge of qualified mortgage debt is extended, but limits on the amount of excludable discharge are lowered.** Usually, if a lender cancels a debt, such as a mortgage, the borrower must include the discharged amount in gross income. But under an exclusion that was due to expire at the end of 2020, a taxpayer can exclude from gross income up to \$2 million (\$1 million for married individuals filing separately) of discharge-of-debt income if "qualified principal residence debt" is discharged. The Act extends this exclusion through the end of 2025, but lowers the amount of debt that can be discharged tax-free to \$750,000 (\$375,000 for married individuals filing separately).

**Extension of exclusion for certain employer payments of student loans.** Qualifying educational assistance provided under an employer's qualified educational assistance program, up to an annual maximum of \$5,250, is excluded from the employee's income. The CARES Act added "eligible student loan repayments" made after March 27, 2020, and before Jan. 1, 2021 to the types of payments that are eligible for this exclusion. These payments, which are subject to the overall \$5,250 per employee limit for all educational payments, are payments of principal or interest on a qualified student loan by the employer, whether paid to the employee or a lender. The Act extends the exclusion for eligible student loan repayments through the end of 2025.

## TAX CREDITS

**Individuals may elect to base 2020 refundable child tax credit (CTC) and earned income credit (EIC) on 2019 earned income.** For both of these credits, earned income means wages, salaries, tips, and other employee compensation, if includible in gross income for the tax year. But for determining the refundable CTC and the EIC for 2020, the Act allows taxpayers to elect to substitute the earned income for the preceding tax year, if that amount is greater than the taxpayer's earned income for 2020.

**Health coverage tax credit (HCTC) for health insurance costs of certain eligible individuals is extended by one year.** A refundable credit is allowed for 72.5% of the cost of health insurance premiums paid by certain individuals (i.e., individuals eligible for Trade Adjustment Assistance due to a qualifying job loss, and individuals between 55 and 64 years old whose defined-benefit pension plans were taken over by the Pension Benefit Guaranty Corporation). The HCTC was due to expire at the end of 2020, but the Act extended it through 2021.

**New Markets tax credit extended.** The New Markets credit provides a substantial tax credit to either individual or corporate taxpayers that invest in low-income communities. This credit was due to expire at the end of 2020, but the Act extended it through the end of 2025. Carryovers of the credit were extended, as well.

**Nonbusiness energy property credit extended by one year.** A credit is available for purchases of "nonbusiness energy property"-i.e., qualifying energy improvements to a taxpayer's main home. The Act extends this credit, which was due to expire at the end of 2020, through 2021.

**Qualified fuel cell motor vehicle credit extended by one year.** The credit for purchases of new qualified fuel cell motor vehicles, which was due to expire at the end of 2020, was extended by the Act through the end of 2021.

**2-wheeled plug-in electric vehicle credit extended by one year.** The 10% credit for highway-capable, two-wheeled plug-in electric vehicles (capped at \$2,500) was extended until the end of 2021 by the Act.

**Residential energy-efficient property (REEP) credit extended by two years, bio-mass fuel property expenditures included.** Individual taxpayers are allowed a personal tax credit, known as the residential energy efficient property credit, equal to the applicable percentages of expenditures for qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, and qualified geothermal heat pump

property. The REEP credit was due to expire at the end of 2021, with a phase-down of the credit operating during 2020 and 2021. The Act extends the phase-down period of the credit by two years-through the end of 2023; the REEP credit won't apply after 2023. The Act also adds qualified biomass fuel property expenditures to the list of expenditures qualifying for the credit, effective beginning in 2021.

## **DISASTER-RELATED CHANGES IN RETIREMENT PLAN RULES**

**10% early withdrawal penalty does not apply to qualified disaster distributions from retirement plans.** A 10% early withdrawal penalty generally applies to a distribution from employer retirement plan to an employee who is under the age of 59½. The Act provides that the 10% early withdrawal penalty doesn't apply to any "qualified disaster distribution" from an eligible retirement plan. The aggregate amount of distributions received by an individual that may be treated as qualified disaster distributions for any tax year may not exceed the excess (if any) of \$100,000, over the aggregate amounts treated as qualified disaster distributions received by that individual for all prior tax years.

**Increased limit for plan loans made because of a qualified disaster.** Generally, a loan from a retirement plan to a retirement plan participant cannot exceed \$50,000. Plan loans over this amount are considered taxable distributions to the participant. The Act increases the allowable amount of a loan from a retirement plan to \$100,000 if the loan is made because of a qualified disaster and meets various other requirements.