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COVID Relief Bill Signed Into Law By President

The recent bill passed by Congress (Consolidated Appropriations Act [CAA]) finally became law after being signed by President Trump on Sunday, December 27th. It was feared disagreements over individual stimulus amounts and other various provisions deemed "wasteful spending" by the President would lead to a stalemate and ultimately to a pocket veto and subsequent death of the bill. Cooler heads prevailed, however, with businesses and individuals getting another financial shot in the arm. Below is a summary of the major highlights from the 5,600+ page law and the tax implications therein.

Individual Taxpayer Provisions:

First and foremost, on the mind of most individuals impacted by COVID-19 are the second wave of stimulus payments and the unemployment benefits extension. Individuals will each be receiving a stimulus check in the amount of $600* ($1,200 per couple) as well as $600 per dependent child, e.g., a family of four will receive $2,400. These benefits will begin to phase-out when AGI reaches $75,000 ($150,000 for couples filing jointly) at a rate of $5 per $100 in excess of AGI thresholds. As with the first round of stimulus, these checks will be tax-free and will likely be reported as advance payment of credits on each taxpayer's 1040.

**President Trump pushed back on this bill and advocated for stimulus checks of $2,000 per individual but staunch opposition from the Senate tabled these suggestions for what could be yet another stimulus under the next administration.*

In addition to the $600 stimulus checks, Congress voted to extend the federal unemployment supplement albeit at a reduced rate of $300 per week (down from $600 under the CARES Act) through March 14, 2021. Along with the unemployment subsidy comes extensions of the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) programs as well.

Further notable tax provisions as they relate to individuals are as follows:

- Special charitable contribution deductions for non-itemizers of $300 ($600 for married filing joint returns) for the 2021 tax year
- Extended suspension of the 60% charitable contribution limitation through 2021
- Extended deferral period for employee's share of Social Security tax to December 31, 2021
- Permanent extension of the reduced medical expense deduction floor (7.5% of AGI)
- Ability for lower-income individuals to use 2019 earned income to calculate earned income tax credit and a refundable portion of the child tax credit (helps those who had lower earned income in 2020 due to COVID-19 receive potentially larger refunds)
- Permits rollover of unused amounts in health and dependent care flexible spending arrangements

Business Taxpayer Provisions

The biggest provision of the Consolidated Appropriations Act, 2021 in the business arena was the decision to reverse the IRS position regarding the deductibility of expenses used for PPP loan forgiveness as well as a second wave of PPP loans. Details of these provisions can be found in our recent blog post here. For the purpose of this post, we will address the other main tax provisions for businesses found in the CAA.

The existing Employee Retention Tax Credit (ERTC) was modified retroactive to the beginning of the CARES Act. Before the passage of the CAA, businesses had to choose whether they would take advantage of PPP loan forgiveness OR claim the ERTC. Now, for 2020, businesses can request forgiveness of their PPP loans AND claim the ERTC. Provisions in the law state wages paid for with PPP loan proceeds cannot be used in calculating the ERTC in order to prevent double-dipping but for businesses with enough wages and other expenses to qualify for both, that option now exists. For 2020, the ERTC calculation is the same. The credit is capped at 50% of $10,000 of wages per employee for the year.

The law also provides for an extension of the ERTC into 2021 which increases the credit available to 70% of wages up to $10,000 per employee **per calendar quarter**. In addition, it raises the number of employees counted when determining relevant qualified wages from 100 to 500, reduces required year-over-year decrease in gross receipts from 50% to 20%, and clarifies that group health plan costs can be considered qualified wages EVEN WHEN no other wages are paid.

Other notable business provisions include:

- Extension of Families First Coronavirus Response Act (FFCRA) paid sick leave and expanded FMLA sick leave tax credits through March 31, 2021
- Full expensing of “restaurant” meals purchased in 2021 and 2022 provided other requirements for deductibility are met
- Five-year extension of the Work Opportunity Tax Credit (WOTC)
- Five-year extension of the employer credit for paid family and medical leave
- Extended suspension of the corporate 60% charitable contribution limitation through 2021

Due to the sheer volume of text in the Consolidate Appropriations Act, 2021, it is impossible to capture everything in this post. As always, please contact your William Vaughan adviser to discuss how we can help you navigate the myriad of provisions provided for by this Act to best serve you and your business.

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