

Table of Contents

Individual Tax Updates	1
Economic Impact Payments	1
History.....	1
New law	2
Coronavirus Aid Relief and Economic Security (CARES) Act.....	2
Consolidated Appropriations Act, 2021 (CAA).....	2
American Rescue Plan Act of 2021 (ARP Act).....	3
Eligibility	4
Valid SSN.....	5
Deceased taxpayers.....	6
Resident aliens.....	7
Incarcerated individuals	7
Only one spouse with valid SSN.....	7
Qualifying dependents.....	7
Children born, adopted or placed into foster care.....	9
Form of payment	9
EIP debit card	9
EIP3 vs. EIP1 & EIP2.....	10
Recovery rebate credit reconciliation	10
Plus-up payments.....	11
1444 notices	11
Earned Income Tax Credit	15
New law	15
Consolidated Appropriations Act, 2021 (CAA).....	15
American Rescue Plan Act of 2021 (ARP Act).....	15
Eligibility	16
Qualifying child.....	18
Earned income.....	19

Investment income.....	21
Improper claim and Form 8862	23
Schedule EIC	23
Due diligence requirements	26
Form 8867	27
Child and Dependent Care Credit.....	35
New law	35
American Rescue Plan Act of 2021 (ARP Act)	35
Qualifications	36
Qualifying person	36
Earned income	37
Work-related expenses	38
Dependent care benefits.....	41
Amount of credit	41
Child Tax and Other Dependents Credits.....	44
New law	44
Consolidated Appropriations Act (CAA)	44
American Rescue Plan Act of 2021 (ARP Act)	44
Qualifying child	45
Limitation	46
Additional child tax credit	47
Calculation	48
Other dependents credit.....	48
Qualifying dependent	48
Advanced child tax credit payments	49
Advance child tax credit payment online tools	50
Due diligence	53
Tax planning.....	54

Charitable Contributions	57
New law	58
CARES Act	58
Consolidated Appropriations Act (CAA)	58
Qualified contribution	58
Election.....	59
Ordering rule	60
Non-itemizers.....	61
Unemployment Compensation	64
CARES Act	64
Consolidated Appropriations Act	64
American Rescue Plan Act of 2021 (ARP Act).....	64
Premium Tax Credit	69
New law	69
American Rescue Plan Act of 2021 (ARP Act).....	69
Eligible taxpayers.....	70
Calculation	72
Excess APTC	72
Form 1095-A	73
Filing requirement.....	73
Education Provisions.....	74
Consolidated Appropriations Act	74
Student Loan Forgiveness	74
American Rescue Plan Act of 2021 (ARP Act).....	74
Kiddie Tax.....	76
Subject to kiddie tax	76
Unearned income.....	77
Age	77
Filing requirement for dependents	78

Reporting requirements	79
Form 8814	79
Form 8615	83
Net investment income tax.....	91
Moving Expense	94
Deduction suspended	94
Military personnel	94
Reimbursement taxable	95
Work Opportunity Tax Credit.....	98
Targeted groups	98
Pre-screening and certification.....	100
Flexible Spending Account (Health FSA).....	101
Medical Expense Limitation	103
Tax planning.....	103
Home Mortgage Interest and Home Equity Loans.....	106
Tax planning.....	107
Federally Declared Disaster Area Casualty Loss Deduction	107
Disaster relief	108
Affected taxpayers.....	108
Disaster related casualty loss	109
Increased standard deduction reporting	110
Other relief	110
Virtual Currency	110
Definition.....	111
Basis	111
Purchase.....	111
Received for goods or services	112
Gift.....	113
Hard fork.....	113

Sale or exchange	113
Cost identification.....	114
Character of gain or loss	115
Holding period	116
Taxable income	116
Mining	116
Hard fork.....	117
Nontaxable events	119
Soft fork.....	119
Transfer between wallets	119
Charitable contributions	119
Reporting requirements	119
Sale or exchange	120
Received for goods or services	121
Report of Foreign Bank and Financial Accounts	122
Compliance efforts.....	122
Case	123
2021 Significant Tax Changes in Retirement.....	128
SECURE Act	128
Repeal of maximum age.....	128
Partial elimination of stretch IRAs.....	129
Penalty-free birth or adoption withdrawals.....	131
Taxable non-tuition fellowship and stipend payments	135
Tax-exempt difficulty-of-care payments	135
QCD guidance	136
CARES Act.....	140
Waiver of 10% penalty.....	141
Qualified coronavirus-related distribution	141
Adverse financial consequences	141
Eligible retirement plan	142

Repayment over three years.....	142
Waiver of 2020 RMDs	144
Distributions before age 59½.....	144
Medical expenses	146
Unemployed individuals for medical insurance.....	147
First-time homebuyer expenses	147
On account of an IRS levy.....	149
To a former spouse pursuant to a divorce decree.....	149
Coronavirus-related distribution	149
Qualified disaster distributions	149
Updated tables	151
Amended Returns.....	154
When to file an amended return	155
When not to file an amended return	155
Filing an amended return	157
Electronic filing of amended returns	157
Filing Form 1040-X by paper	159
Where to file.....	159
Timeline for filing an amended return	161
Amended return timeline exceptions	161
Miscellaneous amended return info.....	163
Scenarios	165
Unemployment compensation.....	165
Advance premium tax credit	167
CP 09 notice	168
Practical application	169
Potential Legislation	173
Summary of tax proposals.....	173
Tax Deadline Simplification Act	173
American Families Plan	173

Building the Economy for Families Act.....	176
Sensible Taxation and Equity Promotion (STEP) Act	177
99.5 Percent Act	177
Additional Tax Planning Opportunities	177
Federal income tax withholding.....	179
Tax planning.....	180
Education credits	180
Tax planning.....	181
Dependency	181
Tax planning.....	181
Itemized deductions	182
Tax planning.....	182
Sale of rental property	183
Tax planning.....	183
Marital status	183
Tax planning.....	183
Retirement plan contributions and distributions.....	185
Tax planning.....	185
Social security benefits	187
Tax planning.....	188
Capital gains and capital loss carryforwards.....	188
Tax planning.....	188
Summary.....	188
Best Office Practices.....	191
Understanding cybersecurity and data protection	191
Clients and security	197
Using DocuSign	198
Send.....	198
Sign	198
Manage.....	199

Section 7216 toolkit.....	199
Required format and content.....	200
Recent Court Cases	204
§72(t) early withdrawal penalty	204
Facts.....	204
Ruling.....	205
Charitable deduction for home donated as salvage.....	205
Facts.....	206
Ruling.....	206
Forms 1099-A and 1099-C	207
Foreclosures and Form 1099-A.....	207
Foreclosure	208
Sale of property.....	208
Debt cancellation and Form 1099-C.....	215
When is debt canceled?.....	216
Co-signers and guarantors.....	217
Form 1099-C	218
Reporting	220
Pass-through entities.....	222
Partnerships.....	222
S corporations	222
Suspended passive losses	223
Exclusions for COD income.....	223
Other income exceptions	228
Form 1099-K.....	231
Business	232
Corporate Transparency Act (CTA)	232
Reporting requirements – who does or does not file?.....	233
What is a beneficial owner?	234
What information will be required?	234

Acceptable identification documents	235
Applicant.....	235
Timelines.....	235
Will the data be secured?	236
Reporting violations and penalties	236
Unauthorized disclosure or use	236
Criminal and civil penalties.....	237
Unauthorized disclosure or use violations	237
Employee Retention Credit (ERC).....	240
CARES Act.....	240
Consolidated Appropriations Act, 2021 (CAA)	241
American Rescue Plan Act of 2021 (ARP Act).....	242
Tax planning opportunities.....	244
Paid Sick and Family Leave Credits	247
CARES Act.....	247
Sick leave.....	247
Family leave	248
Claiming paid sick and family leave credits	249
Self-employed individuals.....	249
Consolidated Appropriations Act (CAA)	250
American Rescue Plan Act of 2021 (ARP Act).....	250
Tax planning opportunities.....	251
Paycheck Protection Plan (PPP) Loan Expenses	255
CARES Act.....	255
Consolidated Appropriations Act, 2021 (CAA)	255
Tax planning for the PPP and the ERC	257
Premium Assistance for COBRA Benefits.....	257
American Rescue Plan Act of 2021 (ARP Act).....	257

Employee Social Security Tax Deferral	259
Consolidated Appropriations Act (CAA)	259
Excess Business Loss Limitation	260
CARES Act.....	260
ARP Act	262
Educational Assistance Programs	262
CARES Act.....	262
Consolidated Appropriations Act (CAA)	262
New Forms for 2021	263
Travel Expenses	264
Standard mileage rate.....	265
Business meals	266
Large Employer Shared Responsibility Penalty	268
Social Security Earnings Limit	269
Deduction for Energy Efficient Improvements to Commercial Buildings ... 271	
Calculation	271
Certification requirement	272
Charitable Contributions	272
Carryover	273
Food inventory	273
Employer leave-based donation programs.....	274
Background	274
2021 update	274
Schedule C – Hobby vs. Business	275
Safe harbor presumption	276
Postponing determination	276
Factors to make determination.....	278
Manner in which taxpayer carries on activity.....	279
Expertise of taxpayer or advisors.....	280
Time and effort expended by taxpayer in activity	281

Expectation that assets will appreciate	281
Success of taxpayer in carrying on other activities	282
Taxpayer's history of income or losses.....	283
Amount of occasional profits	285
Financial status of the taxpayer	286
Elements of personal pleasure or recreation	287
Internet sales	288
Reporting requirements	289
Income.....	289
Expenses	289
Proper classification	291
Schedule E – Rental Activities	295
Airbnb	295
Type of rental activity	295
Limited rental use (14 days or less).....	296
Both rental and personal use.....	299
Very limited personal use.....	301
Depreciation.....	301
Reporting rental income and expenses	303
Hotels, motels, inns.....	304
Bed and breakfast inn	304
Schedule E vs. Schedule C	305
Passive activity loss limitations	306
Exceptions	307
Special \$25,000 loss allowance	308
Sale of Home Converted to Rental	318
Section 121 exclusion	319
Net Operating Losses.....	326
Who can claim	326
Who cannot claim.....	327

Where to calculate	327
Does a taxpayer have an NOL?	327
Figuring the NOL.....	328
Deductions that can create NOL	330
Items not allowed when figuring NOL	330
Other items and NOL	331
NOL process flowchart.....	333
Utilize the NOL.....	334
General rules.....	334
Waiving the carryback period	336
2018-2020 returns	337
Late election	338
Applicable carryback periods	340
Farming business.....	340
Tax Planning – Should taxpayers carryback an NOL?.....	341
Statute of limitations	341
Summary.....	343
Claim the NOLD	343
Priority of multiple NOLs.....	344
Deducting a carryback.....	344
Form 1045	345
Where to file	346
Supporting documentation.....	346
Processing the application	347
Disallowance of the application	348
Excessive allowances.....	348
Completing Form 1045	348
Form 1040-X.....	349
Calculate the NOL carryover	350
Modified taxable income	351

Modifications.....	351
AGI-based adjustments.....	352
Form 1045, Schedule B	354
Using software	355
Excess business loss.....	355
Filing status changes.....	357
Allocation chart	359
Community property states	360
Business Planning	361
General	361
Business structure	361
Entity selection.....	363
Final Form 1040 and Form 1041	368
Final Form 1040, Filing Status & Refunds.....	368
Responsibility for filing the return	369
Transferee liability	372
Surviving spouse liability.....	372
Signing the return	373
Married decedent's filing status	374
Personal exemption	376
Standard deduction	377
Estimated tax.....	377
Refunds.....	378
Decedent's Income.....	380
Matching issues.....	380
Matching in later years	383
Title to assets.....	383
Wages	385
Interest	387

Bond income.....	387
Owner of bonds after death	388
Dividends	389
Capital gains and losses.....	389
Tax refunds	390
Alimony received.....	390
Schedule C business income	390
Farm income.....	391
Rental real estate	391
Depreciation.....	392
Partnership interests.....	392
S corporation income	395
Health savings account	396
Social Security death benefit.....	397
Death from terrorist, military actions or as an astronaut.....	397
Decedent's Deductions and Credits	398
Deductions in respect of a decedent.....	398
Medical expenses	400
Medical expenses not paid by estate	401
Insurance reimbursements	401
Long-term care expenses	401
Nursing home expenses.....	401
Decedent's carryovers	402
Alimony payments	403
IRA contributions	403
Mortgage interest and costs.....	403
Tax credits.....	404
Earned income tax credit.....	404
Child tax credit.....	405
Credit carryovers	405

Foreign tax credit	405
General business credit	406
Adoption credit	406
Wrapping Up	407
Request for prompt assessment of tax	407
Request for discharge of personal liability.....	409
Comprehensive Example	410
Elaine Clemons' final Form 1040	410
Facts.....	410
Completed example — Final 1040	413
The Taxpayer's Estate	427
How property passes.....	427
Administrative issues	428
Form 1041 and estate income.....	429
Accounting period.....	430
Accounting method.....	431
Due date and extensions.....	431
Amended Form 1041	432
Information returns	432
Header.....	432
Estate income	433
Interest income	442
Dividend income	442
Business income or loss.....	443
Capital gains and losses.....	444
Income in respect of a decedent	451
Inherited property subject to debt.....	452
Community property	452
Sale of former personal residence	453
Retirement plans	454

Rental real estate activities	455
Farm income or loss.....	456
Installment sales.....	456
Canceled debt	456
Miscellaneous income	457
Estate deductions, taxes and credits	457
Income tax or estate tax deduction	458
Deductions in respect of decedent.....	458
Deductible expenses.....	458
Estimated tax payments.....	472
Credit for taxes paid or withheld.....	474
Final year deductions	474
Elections and termination	475
Election to treat trust as part of estate.....	475
Termination of the estate	478
Final distribution	479
Residuary charities	479
Remaining carryovers.....	480
Exemptions.....	481
Items the IRS will look for	481
Summary of items placed on Form 706, Form 1041 and Form 1040.....	483
Comprehensive example: Estate Form 1041.....	484
Facts:.....	484
Completed example: Estate Form 1041	487
Appendix	509
Client questionnaire	509
2021 Draft Forms	510
Form 1040, Page 1	510
Form 1040, Page 2	511
Schedule 1 (Form 1040), Page 1	512

Schedule 1 (Form 1040), Page 2	513
Schedule 2 (Form 1040), Page 1	514
Schedule 2 (Form 1040), Page 2	515
Schedule 3 (Form 1040), Page 1	516
Schedule 3 (Form 1040), Page 2	517
Schedule 8812, Page 1.....	518
Schedule 8812, Page 2.....	519
Schedule 8812, Page 3.....	520