NATP
National Association of Tax Professionals

TAXPRO MONTHLY

Issue 1
Volume 43
January 2021

National IP PIN Opt-In Program

IRS to announce availability in January

By Charles R. Markham, MST, EA

Identity theft has become a national concern over the past decade. To combat criminals who illegally e-file fictitious tax returns and collect fraudulent refunds, the IRS created the IP PIN, which stands for "Identity Protection Personal Identification Number." This is a random, six-digit code issued annually by the IRS and assigned to each identified victim of ID theft. This code is mailed to those individuals on an IRS Notice CP01A, typically in early January. The code must be present on the e-filed return, or the return will be rejected. It should also be present on a taxpayer's paper filed return. There's a spot for it near the signature line. If it isn't present, the paper return will be processed but will be subject to additional scrutiny, according to the IRS.

Initially, the only way to obtain an IP PIN was by being a victim of ID theft. Then, the IRS began to allow taxpayers to "opt in" and preventively obtain an IP PIN if the taxpayer resided in one of a few states with demonstrably high identity theft rates, such as Florida or Georgia. The *Taxpayer First Act*, which was signed into law on July 1, 2019, requires the IRS to allow any taxpayer nationally to opt in and receive the six-digit IP PIN.

Starting in January 2021, the IRS will roll out the IP PIN opt-in program to the entire country. It's likely substantial media coverage will follow. Tax professionals should be prepared to discuss this option with their clients. They should also adjust their practice procedures to allow for the fact that, going forward, a significant number of their clients will eventually opt in to this system. It would also be helpful if professional tax software recognized this fact by allowing professionals to easily track which clients are using IP PINs.

Tax professionals are likely familiar with the IRS Notice CP01A that's mailed each year in January to taxpayers who have been issued an IP PIN and have

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2020 Highlights

Issues related to pandemic account for majority of changes

By Rhonda Collins, CPA, EA

Draft forms and instructions

The Internal Revenue Service (IRS) continues to release draft forms and their accompanying instructions. Items to note include the following:

- IRS Notice 1444, *Your Economic Impact Payment*, was issued to taxpayers who received an Economic Impact Payment (EIP), which is not taxable for federal income tax purposes but reduces their recovery rebate credit. Use this information to complete the Recovery Rebate Credit worksheet and report the credit, if any, on Form 1040, Line 30.
- Form 1040-NR, *U.S. Nonresident Alien Income Tax Return*, has been revised to more closely follow the format of Form 1040, *U.S. Individual Income Tax Return*, and Form 1040-SR, *U.S. Tax Return for Seniors*. Beginning in 2020, Form 1040-NR will use Schedules 1, 2 and 3.
- Taxpayers who don't itemize deductions on Schedule A (Form 1040), *Itemized Deductions*, may qualify to take a deduction for charitable contributions of up to $300 on Form 1040, Line 10b.
- The *Coronavirus Aid, Relief, and Economic Security Act* (CARES) permits certain individuals who file Schedule SE (Form 1040), *Self-Employment Tax*, or Schedule H (Form 1040), *Household Employment Taxes*, to defer the payment of 50% of the Social Security tax imposed for the period beginning on March 27, 2020, and ending Dec. 31, 2020.
- The *Families First Coronavirus Relief Act* (FFCRA) helps self-employed individuals affected by coronavirus by providing paid sick leave and paid family leave credits equivalent to those that employers are required to provide their employees for qualified sick leave wages and qualified family leave wages paid during the period beginning April 1, 2020, and ending Dec. 31, 2020.

Payment agreements and other relief

The IRS announced a number of changes designed to help struggling taxpayers impacted by COVID-19 more easily settle their tax debts with the IRS.

The IRS assessed its collection activities to see how it could apply relief for taxpayers who owe but are struggling financially because of the pandemic, expanding taxpayer options for making payments and alternatives to resolve balances owed.

"The IRS understands that many taxpayers face challenges, and we're working hard to help people facing issues paying their tax bills," said IRS Commissioner Chuck Rettig. "Following up on our People First Initiative earlier this year, this next phase of our efforts will help with further taxpayer relief efforts."

Taxpayers who owe always had options to seek help through payment plans and other tools from the IRS, but the new IRS Taxpayer Relief Initiative is expanding on those existing tools even more.

The revised COVID-related collection procedures will be helpful to taxpayers, especially those who have a record of filing their returns and paying their taxes on time. Among the highlights of the Taxpayer Relief Initiative:

- Taxpayers who qualify for a short-term payment plan option may now have up to 180 days to resolve their tax liabilities instead of 120 days.
- The IRS is offering flexibility for some taxpayers who are temporarily unable to meet the payment terms of an accepted Offer in Compromise.
- The IRS will automatically add certain new tax balances to existing installment agreements for individual and out-of-business taxpayers. This taxpayer-friendly approach will occur instead of defaulting the agreement, which can complicate matters for those trying to pay their taxes.
- To reduce burden, certain qualified individual taxpayers who owe less than $250,000 may set up installment agreements without providing a financial statement or substantiation if their monthly payment proposal is sufficient.
- Individual taxpayers who only owe for the 2019 tax year and who owe less than $250,000 may qualify to set up an installment agreement without a notice of federal tax lien filed by the IRS.
- Additionally, qualified taxpayers with existing direct debit installment agreements may now be able to use the online payment agreement tool to propose lower monthly payment amounts and change their payment due dates.

Additional details on the Taxpayer Relief Initiative: The IRS offers options for short-term and long-term payment plans, including installment agreements via the Online Payment Agreement (OPA) system. In general, this service is available to individuals who owe $50,000 or less in combined income tax, penalties and interest or businesses that owe $25,000 or less combined who have filed all tax returns. The short-term payment plans are now able to be extended from 120 to 180 days for certain taxpayers.

Installment agreement options are available for taxpayers who cannot fully pay their balance but can pay their balance over time. The IRS expanded installment agreement options to remove the requirement for financial statements and substantiation in more circumstances for balances owed up to $250,000 if the monthly payment proposal is sufficient. The IRS also modified installment agreement procedures to further limit requirements for federal tax lien determinations for some taxpayers who only owe for tax year 2019.

In addition to payment plans and installment agreements, the IRS offers the following additional tools to assist taxpayers who owe taxes.

Temporarily delaying collection: Taxpayers can contact the IRS to request a temporary delay of the collection process. If the IRS determines a taxpayer is unable to pay, it may delay collection until the taxpayer's financial condition improves.

Offer in compromise: Certain taxpayers qualify to settle their tax bill for less than the amount they owe by submitting an offer in compromise. To help determine eligibility, use the offer in compromise pre-qualifier tool. Now, the IRS is offering additional flexibility for some taxpayers who are temporarily unable to meet the payment terms of an accepted offer in compromise.

Relief from penalties: The IRS is highlighting reasonable cause assistance available for taxpayers with failure to file, pay and deposit penalties. First-time penalty abatement relief is also available for the first time a taxpayer is subject to one or more of these tax penalties.

Many taxpayers requesting payment plans, including installment agreements, can apply through IRS.gov without ever having to talk to a representative.

Other requests, including this new relief, can be made by contacting the number on the taxpayer's notice or responding in writing. However, to request relief, the IRS reminds taxpayers they must be responsive when they receive a balance due notice.

PPP loan forgiveness factsheet

Paycheck Protection Program (PPP) borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent or utilities during either the 8- or 24-week period after disbursement.

A borrower can apply for forgiveness once it has used all loan proceeds for which the borrower is requesting forgiveness. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred and borrowers will begin making loan payments to their PPP lender.

For additional information, please review the PPP Forgiveness Factsheet at sba.gov.

Applicable Federal Rates for December 2020

		Annual	Semiannual	Quarterly	Monthly
Revenue Ruling 2020-26	**Short-term** (3 years or less)	0.15	0.15	0.15	0.15
	Mid-term	0.48	0.48	0.48	0.48
	Long-term (More than 9 years)	1.31	1.31	1.31	1.31

December §7520 rate = 0.6%
Blended rate for 2020 = 0.89%

Deducting Meal Costs

Proposed regs become final

By Sherrie Weldon, EA

In light of the *Tax Cuts and Jobs Act* (TCJA), rendering entertainment, amusement or recreation expenses nondeductible raised many questions among tax professionals.

It's been nearly three years since the TCJA was enacted, but confusion persists on how the act changed, if at all, the deductibility of meals, food or beverages. Many questions were raised regarding what is still deductible, what is no longer deductible, what is deductible at 100% and what is deductible at 50%.

Early in 2020, the IRS published REG-100814-19, which contained proposed regulations providing guidance under §274 to further address the elimination of the deduction under §274 for expenditures related to entertainment, amusement or recreation activities. It also provided guidance on determining whether an activity is of a type generally considered to be entertainment. The proposed regulations also addressed the limitation on the deduction of food and beverage expenses for business meals [§274(k)] and when the 50% limitation applies [§274(n)]. The proposed regulations also included the applicability of some of the exceptions to the expenses being nondeductible listed under §274(e). This includes clarification on expenses treated as compensation [§274(e)(2)], reimbursed expenses [§274(e)(3)], recreational, social or similar expenditures for employees [§274(e)(4)], items available to the public [§274(e)(7)], entertainment sold to customers [§274(e)(8)] and expenses included in income of independent contractors [§274(e)(9)]. These proposed regulations (Reg. §§1.274-11, 1.274-12) were finalized in September 2020.

Business meals continue to be 50% deductible. These are ordinary and necessary food and beverage costs that are not lavish or extravagant. No deduction is allowed if the taxpayer or employee is not present.

Until 2026, the 50% limitation on food and beverage costs provided to employees for the convenience of the employer through an existing facility meets the requirements for de minimis fringe. This means that a de minimis fringe is excluded entirely from the employee's compensation but is only 50% deductible by the employer.

Any expenses treated as employee compensation, such as cafeteria charges or moving expenses, are 100% deductible to the employer. Similarly, reimbursed expenses of employees, with clear substantiation, are 100% deductible, as are reimbursements to qualified independent contractors. In the latter case, the contractor would count the reimbursement as income, and then claim qualified meal expenses as a deduction, subject to the 50% expense reduction.

Reimbursing employees for substantiated meal expenses is limited to 50% if paid under an accountable plan. If reimbursed under a nonaccountable plan, the reimbursement is included in the employee's wages and, in effect, 100% deductible.

For independent contractors who separately state or adequately account for meal expenses, the payer is subject to the 50% limitation. Conversely, if the independent contractor does not account for the meals separately, the payer deducts the reimbursement as nonemployee compensation, which, in effect, means the meals are 100% deductible. In such a case, the independent contractor is subject to the 50% limitation.

Employee social or recreational expenses, such as company picnics or holiday parties, are still 100% deductible, provided they do not favor highly compensated employees or only involve highly compensated employees.

Items available to the public are 100% deductible, provided the public consumes more than 50% of the items. If the public consumes less than 50%, the amount allocable to the public is a deduction at 100% and the balance, consumed internally, is deductible at 50%.

Example: ABC, Inc. provides beverages and snacks for its employees in the breakroom during tax season. Coffee, tea, water, candy and granola bars are provided in the lobby for the public and employees. The employees consume less than 50% of the total of these items. The break room items are deductible at 50%. The lobby items are deductible at 100%.

Expenses for goods and services sold to customers for full consideration are 100% deductible as a cost of sales.

Another exception is a restaurant or other venue in the business of selling such food and beverages. If the employer offers these to the employee free of charge before, during or after the employee's shift, this is still a non-taxable fringe benefit 100% deductible by the employer.

Meals required to be provided by federal law to employees of commercial vessels and meals of certain offshore oil and gas platforms or drilling rigs are 100% deductible. ▶

Activity	Employer Deductible Amount
Meals during business travel	50%
Business meals with current or potential clients	50%
Entertainment costs for current or potential clients (e.g., concert or sporting event tickets, golf expenses)	Nondeductible
Meals provided during a business meeting with employees, stockholders, agents or directors	50%
Meals at a business league, chamber of commerce or other board of trade meeting	50%
De minimis food and beverages provided to employees in the workplace (e.g., bottled water, coffee, snacks)	50%
Meal and entertainment expenses included in the employee's taxable compensation	100%
Recreational and social activities for employees (e.g., company picnic or holiday party)	100%
Meals provided for the convenience of the employer	50%
Meals provided in an employer-operated eating facility	50%
Meal and entertainment expenses included in income reported to an independent contractor	100%
Food and beverages, services and facilities made available for free to the general public	100%
Food and beverages and items sold to customers	100%
Meals provided in conjunction with entertainment that are separately billed (or separately stated in an invoice)	50%
Meals provided in conjunction with entertainment that are not separately billed (or separately stated in an invoice)	Nondeductible
Meals required to be provided under federal law to crew members on certain commercial vessels or oil and gas platforms or drilling rigs (or related support camp)	100%

Quick Reference Guide

A tool for preparing 2020 returns

By Liza Corbisier, EA

At the close of every year, NATP's Tax Knowledge Center pulls together a list of common facts and figures that tax professionals can reference throughout the coming tax season while preparing returns and advising clients.

Personal exemption

For 2018–2025, the personal exemption deduction for taxpayer, spouse and dependents is zero. However, the personal exemption amount for other purposes (for example, the qualifying relative gross income test) is $4,300 for 2020 and 2021.

Standard deduction

The standard deduction amounts increased; however, the additional amount for age or blindness remains the same in 2021.

Filing Status	2020	2021
MFJ/Surviving Spouse (SS)	$24,800	$25,100
HH	$18,650	$18,800
Single	$12,400	$12,550
MFS	$12,400	$12,550
Additional for age or blindness		
MFJ/SS	$1,300	$1,350
Single or HH	$1,650	$1,700

For 2020 and 2021, the standard deduction for dependents who only have unearned income is $1,100.

If the dependent has both earned and unearned income, the standard deduction is the greater of:

- $1,100, or
- The dependent's earned income plus $350, but not more than the basic standard deduction for his or her filing status

Itemized deductions

For 2018–2025, the overall limitation (Pease limitation) on itemized deductions for taxpayers with AGI exceeding an applicable threshold does not apply.

Medical expense deduction: For 2020, the *Consolidated Appropriations Act, 2021* permanently sets the limitation for deducting medical expenses to the 7.5%-of-AGI limitation regardless of age.

Capital gains rates

The top tax rate for capital gains and qualified dividends is permanently set at 20% for taxpayers with taxable income in the highest tax bracket. The net investment income tax (NIIT) of 3.8% makes the overall capital gain rate for higher income taxpayers effectively 23.8%.

For tax years beginning after 2017, the 0% rate applies to capital gain below the maximum 0% rate amount. The 15% rate applies to capital gain at or above the 0% rate amount and below the maximum 15% rate amount. The 20% rate applies to capital gain at or above the 15% rate amount. These amounts will be indexed for inflation.

Beginning of Capital Gain Tax Brackets

2020	0%	15%	20%
MFJ, SS	$0	$80,001	$496,601
HH	$0	$53,601	$469,051
S	$0	$40,001	$441,451
MFS	$0	$40,001	$248,301
Estates and trusts	$0	$2,651	$13,151

2021	0%	15%	20%
MFJ, SS	$0	$80,001	$501,601
HH	$0	$54,101	$473,751
S	$0	$40,401	$445,851
MFS	$0	$40,401	$250,801
Estates and trusts	$0	$2,701	$13,251

The ordinary income tax rates for short-term capital gain, the unrecaptured §1250 rate of 25% and the collectible rate of 28% continue to apply.

Additional Medicare tax

An additional Medicare tax of 0.9% applies to an individual's wages, *Railroad Retirement Tax Act* compensation and self-employment income if such compensation exceeds the following threshold amounts, which are not indexed for inflation:

- $250,000 for MFJ
- $125,000 for MFS
- $200,000 for all others (SS, HH, S)

Net investment income tax (NIIT)

A 3.8% Medicare tax is applied against net investment income of individuals, estates and trusts. For this purpose, "individual" means any natural person, except those who are nonresident aliens. As such, NIIT applies only to citizens or residents of the U.S. The NIIT is 3.8% of the lesser of:

- Net investment income for the year.
- The excess of modified adjusted gross income over the threshold amount of $250,000 for MFJ and SS; $125,000 for MFS; and $200,000 for HH and S.
- Estates and trusts do not have any threshold as defined in §1411. They pay tax on the lesser of undistributed net investment income or the amount of adjusted gross income that exceeds the highest tax bracket of $12,950 for 2020 and $13,050 for 2021.

Alternative minimum tax (AMT)

	2020 Exemption	2020 Phaseout
MFJ, SS	$113,400	$1,036,800–$1,490,400
S, HH	$72,900	$518,400–$810,000
MFS	$56,700	$518,400–$745,200
For a child subject to kiddie tax	$7,900 plus child's earned income not to exceed $72,900	$518,400–$810,000
Estates and trusts	$25,400	$84,800–$186,400

	2021 Exemption	2021 Phaseout
MFJ, SS	$114,600	$1,047,200–$1,505,600
S, HH	$73,600	$523,600–$818,000
MFS	$57,300	$523,600–$752,800
For a child subject to kiddie tax	$7,950 plus child's earned income not to exceed $73,600	$523,600–$818,000
Estates and trusts	$25,700	$85,650–$188,450

Income Tax Rates

2020 Threshold for Tax Rates							
	10%	12%	22%	24%	32%	35%	37%
S	$0	$9,876	$40,126	$85,526	$163,301	$207,351	$518,401
MFJ, SS	$0	$19,751	$80,251	$171,051	$326,601	$414,701	$622,051
MFS	$0	$9,876	$40,126	$85,526	$163,301	$207,351	$311,026
HH	$0	$14,101	$53,701	$85,501	$163,301	$207,351	$518,401
Trusts and estates	$0	N/A	N/A	$2,601	N/A	$9,451	$12,951

2021 Threshold for Tax Rates							
	10%	12%	22%	24%	32%	35%	37%
S	$0	$9,951	$40,526	$86,376	$164,926	$209,426	$523,601
MFJ, SS	$0	$19,901	$80,051	$172,751	$329,851	$418,851	$628,301
MFS	$0	$9,951	$40,526	$86,376	$164,926	$209,426	$314,151
HH	$0	$14,201	$54,201	$86,351	$164,901	$209,401	$523,601
Estates and trusts	$0	N/A	N/A	$2,651	N/A	$9,551	$13,051

Kiddie tax

For 2020 and 2021, kiddie tax applies to a child who is required to file a tax return, does not file a joint return, has at least one living parent, has more than $2,200 of unearned income and is any one of the following:

- Under age 18 at the end of the year
- Age 18 and did not have earned income that was more than half of their support
- A full-time student over age 18 and under age 24 at the end of the year, and did not have earned income that was more than half of their support
- For tax years beginning after 2019, the child's unearned income is taxed at the parents' tax rates if the parents' rates are higher than the child's rates

Adoption credit

The maximum nonrefundable credit increased to $14,300 for 2020. The credit begins to phase out when MAGI exceeds $214,520 and is completely phased out when MAGI reaches $254,520.

The maximum credit increases to $14,440 for 2021. The credit begins to phase out when MAGI exceeds $216,660 and completely phases out when MAGI reaches $256,660.

Child and dependent care credit

The minimum child and dependent care credit is 20%, and the maximum is 35% based on AGI. The amount of eligible expenses is $3,000 for one child and $6,000 for two or more children.

Child tax credit

For 2018–2025, the maximum child tax credit is $2,000 for each qualifying child. Furthermore, the maximum refundable child tax credit is $1,400 per child for 2020 and 2021, but is limited to the greater of:

- 15% of earned income above $2,500, or
- The excess of the taxpayer's Social Security taxes for the year over the earned income credit for the year for taxpayers with three or more qualifying children

The *Tax Cuts and Jobs Act* (TCJA) also added a $500 nonrefundable credit for each dependent who is not a qualifying child for purposes of the child tax credit. In other words, taxpayers can claim the $500 other dependent credit (ODC) for qualifying children age 17 or older and for qualifying relatives.

Beginning with tax year 2018, no child tax credit is allowed for a qualifying child if such child does not have a Social Security number (SSN) by the due date of the tax return (including extensions). However, children without a valid SSN may still qualify for the ODC if they have an individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN) by the due date, including extensions.

The child tax credit phaseout begins:

Filing Status	MAGI
MFJ	$400,000
All others	$200,000

Earned income tax credit

The maximum amount of income a taxpayer can earn and still be eligible for the earned income tax credit increased. If earned income or AGI exceeds the following amounts, the earned income tax credit is zero.

2020

Taxpayer	MFJ	Other Than MFJ	Max. Credit
With one child	$47,646	$41,756	$3,584
With two children	$53,330	$47,440	$5,920
With three or more children	$56,884	$50,954	$6,660
With no children	$21,710	$15,820	$538

2021

Taxpayer	MFJ	Other Than MFJ	Max. Credit
With one child	$48,108	$42,158	$3,618
With two children	$53,865	$47,915	$5,980
With three or more children	$57,414	$51,464	$6,728
With no children	$21,920	$15,890	$543

The maximum amount of investment income a taxpayer may have and still be eligible for the credit is $3,650 for 2020 and $3,650 for 2021.

New law: Under the *Taxpayer Certainty and Disaster Tax Relief Act of 2020* (TCDTR), which is part of The *Consolidated Appropriations Act, 2021,* (CAA, 2021) in determining the Child Tax Credit (CTC) and the Earned Income Credit (EIC) for 2020, taxpayers may elect to substitute the earned income for the preceding tax year, if greater than the earned income for 2020. For joint returns, the taxpayers' earned income for the preceding tax year is the sum of each spouse's earned income for that preceding tax year (TCDTR Sec. 211).

Education credits

2020

Credit	Maximum Amount
Lifetime learning credit	$2,000
American opportunity tax credit	$2,500

2021

Credit	Maximum Amount
Lifetime learning credit	$2,000
American opportunity tax credit	$2,500

The maximum lifetime learning credit is the lesser of 20% of the first $10,000 of qualified higher education expenses or $2,000.

The maximum American opportunity tax credit (AOTC) is 100% of the first $2,000 of qualified higher education tuition and related expenses, plus 25% of the next $2,000 of such expenses paid during the tax year, equaling a maximum credit of $2,500. Up to 40% of the credit may be refundable, unless it is claimed by a child who could be subject to the kiddie tax provisions no matter how much unearned income the child has.

2020 Phaseout

Filing Status	AOTC	Lifetime Learning Credit
MFJ	$160,000–$180,000	$118,000–$138,000
S, HH, QW	$80,000–$90,000	$59,000–$69,000
MFS	Not available	Not available

2021 Phaseout

Filing Status	AOTC	Lifetime Learning Credit
MFJ	$160,000–$180,000	$160,000–$180,000
S, HH, QW	$80,000–$90,000	$80,000–$90,000
MFS	Not available	Not available

Educator expense deduction

An eligible educator can take an above-the-line deduction for out-of-pocket classroom-related expenses. For 2020 and 2021, the deduction may not exceed $250.

New law: COVIDTRA provides an expansion of qualified educator expenses to include personal protective equipment (PPE), disinfectant and other supplies purchased after March 12, 2020, and used for the prevention of the spread of COVID-19. It provides that guidance and clarification will be issued no later than Feb. 28, 2021, to apply this new provision (added by COVIDTRA Sec. 275).

Student loan interest deduction

Taxpayers can deduct up to $2,500 of interest paid on qualified education loans that were used for qualified education expenses of the taxpayer, spouse or dependents when the loan was taken out. To deduct the amount paid, the taxpayer must be legally liable for the loan.

2020

Filing Status	Phaseout
MFJ, SS	$140,000–$170,000
All others	$70,000–$85,000
MFS	Not available

2021

Filing Status	Phaseout
MFJ, SS	$140,000–$170,000
All others	$70,000–$85,000
MFS	Not available

Health savings account (HSA)

Like IRAs, funds in HSAs are 100% tax-deferred until distributed. A non-dependent taxpayer insured by a high deductible health plan (HDHP) may deduct monthly HSA contributions up to an annual limit.

2020 HSA

Coverage	Annual Contribution Limit	HDHP Minimum Deductible	HDHP Max. Out of Pocket
Individual	$3,550	$1,400	$6,900
Family	$7,100	$2,800	$13,800

2021 HSA

Coverage	Annual Contribution Limit	HDHP Minimum Deductible	HDHP Max. Out of Pocket
Individual	$3,600	$1,400	$7,000
Family	$7,200	$2,800	$14,000

If the HSA beneficiary is age 55 or older at the end of the year, the annual contribution limit is increased by $1,000 [§223(b)(3)]. If both spouses are age 55 or older and eligible individuals, they can each contribute an additional $1,000 to their own HSA.

Long-term care premiums annual deductible limit

Taxpayer's age at the close of the tax year	2020	2021
40 or under	$430	$450
More than 40 but not more than 50	$810	$850
More than 50 but not more than 60	$1,630	$1,690
More than 60 but not more than 70	$4,350	$4,520
More than 70	$5,430	$5,640

Archer medical savings account (MSA)

2020

Health Plan	Annual Deductible	Max. Out-of-Pocket Expenses	Annual Maximum Deduction*
Individual	$2,350–$3,550	$4,750	65% of deductible
Family	$4,750–$7,100	$8,650	75% of deductible

2021

Health Plan	Annual Deductible	Max. Out-of-Pocket Expenses	Annual Maximum Deduction*
Individual	$2,400–$3,600	$4,800	65% of deductible
Family	$4,800–$7,150	$8,750	75% of deductible

* If the plan is established by a self-employed individual, the limit is the lesser of the related trade or business earned income or the applicable percentage.

Health flexible spending arrangement (FSA)

Voluntary employee salary reduction contributions to a health FSA cannot exceed $2,750 for 2020 and 2021.

New Law: Under the CAA, employers may permit extended grace periods or expanded carryovers for health and dependent care flexible spending accounts (FSAs) for plan years ending in 2020 and 2021. This will allow active participants to use FSA funds during a healthcare FSA grace period of up to 12 months in length or temporarily permit unlimited carryovers (without regard to the $550 limit generally imposed on an FSA carryover) for healthcare FSA (HFSA) and dependent care FSAs (DFSA).

QSEHRA

For 2020, the total amount of payments and reimbursements under a qualified small employer health reimbursement arrangement (QSEHRA) cannot exceed $5,250 ($10,600 for family coverage). For 2021, this amount increases to $5,300 ($10,700 for family coverage).

Refundable credit: Qualified health plan

The limitation on tax imposed under §36B(f)(2)(B) for excess advance credit payments is determined using the following tables:

2020

If household income (expressed as a percent of the poverty line) is:	Limitation amount for single filers	Limitation amount for MFJ, SS, HH, MFS
Less than 200%	$325	$650
At least 200%, but less than 300%	$800	$1,600
At least 300%, but less than 400%	$1,350	$2,700

2021

If household income (expressed as a percent of the poverty line) is:	Limitation amount for single filers	Limitation amount for MFJ, SS, HH, MFS
Less than 200%	$325	$650
At least 200%, but less than 300%	$800	$1,600
At least 300%, but less than 400%	$1,350	$2,700

IRA: Contribution limit to traditional and Roth IRAs

For 2020 and 2021, the contribution limit to a traditional or Roth IRA is $6,000 ($7,000 for taxpayers age 50 or older). Starting in 2020, there is no age limit on making contributions to a traditional IRA if the taxpayer has earned income such as wages or self-employment.

IRA: Deduction phaseout for traditional IRAs

2020

Filing Status	Taxpayer Covered by Employer Plan
S, HH	$65,000–$75,000
MFJ, SS	$104,000–$124,000
MFS*	$0–$10,000

Filing Status	Spouse of Covered Employee
S, HH	N/A
MFJ, SS	$196,000–$206,000
MFS*	$0

2021

Filing Status	Taxpayer Covered by Employer Plan
S, HH	$66,000–$76,000
MFJ, SS	$105,000–$125,000
MFS*	$0–$10,000

Filing Status	Spouse of Covered Employee
S, HH	N/A
MFJ, SS	$198,000–$208,000
MFS*	$0

IRA: MAGI phaseout for Roth IRA contributions

2020

Filing Status	Phaseout
MFJ	$196,000–$206,000
MFS (lived with spouse)	$0–$10,000
S, HH, SS, or MFS*	$124,000–$139,000

2021

Filing Status	Phaseout
MFJ	$198,000–$208,000
MFS (lived with spouse)	$0–$10,000
S, HH, SS, or MFS*	$125,000–$140,000

* If a taxpayer is filing MFS and did not live with their spouse at any time during the year, they are considered single for IRA deduction purposes.

Social Security

For 2020, the maximum wages subject to Social Security tax is $137,700. For 2021, the maximum wage amount increases to $142,800.

Annual gift tax exclusion

For 2020 and 2021, the annual gift tax exclusion is $15,000 per person. The 2020 annual exclusion to a spouse who is not a citizen of the United States is $157,000. This annual exclusion increases to $159,000 for tax year 2021.

Estate tax exclusion

The estate tax exclusion is $11,580,000 for 2020. This amount increases to $11,700,000 for 2021.

Foreign earned income exclusion

For 2020, a qualified individual may exclude up to $107,600 of qualified foreign earned income using Form 2555, *Foreign Earned Income*. For 2021, this amount increases to $108,700.

Saver's credit

A saver's credit can be claimed using Form 8880, *Credit for Qualified Retirement Savings Contributions*. The credit is calculated by multiplying the applicable rate by the qualified retirement plan contributions not to exceed $2,000. The maximum credit is $1,000 per person. The applicable credit rate determined by filing status and MAGI for 2020 and 2021 are shown below:

2020

Filing Status	50%	20%	10%	No Credit
MFJ	$0–$39,000	$39,001–$42,500	$42,501–$65,000	Over $65,000
HH	$0–$29,250	$29,251–$31,875	$31,876–$48,750	Over $48,750
All others	$0–$19,500	$19,501–$21,250	$21,251–$32,500	Over $32,500

2021

Filing Status	50%	20%	10%	No Credit
MFJ	$0–$39,500	$39,501–$43,000	$43,001–$66,000	Over $66,000
HH	$0–$29,625	$29,626–$32,250	$32,251–$49,500	Over $49,500
All others	$0–$19,750	$19,751–$21,500	$21,501–$33,000	Over $33,000

BUSINESS TAX ISSUES

Cash method of accounting

For tax years beginning after 2017, the gross receipts limit under §448(c) for using the cash method of accounting for corporations and partnerships increased under the TCJA to $25 million for 2018. This amount increased to $26 million for 2020 and 2021.

§179 expensing

For 2020, taxpayers may expense up to $1,040,000 of qualifying property acquired for use in a trade or business, while the SUV limit is $25,900. The deduction phaseout begins at $2,590,000 on purchases of qualifying property, including qualified real property.

For property placed in service in tax years beginning after 2017, qualified real property means:

- Qualified improvement property, and
- Any of the following improvements to nonresidential real property: roofs, heating, ventilation, and air conditioning (HVAC) property, fire protection and alarm systems, security systems

For 2021, the aggregate amount taxpayers may expense increases to $1,050,000, and the SUV limit increases to $26,200. However, the deduction is reduced when the cost of qualifying property exceeds $2,620,000.

Luxury automobile depreciation limits for vehicles first placed in service in 2020

Passenger autos and light trucks and vans all have the same limits.

	Purchased after 9/27/17
1st year – 2020	$10,100
1st year with bonus	$18,100
2nd year	$16,100
3rd year	$9,700
Succeeding years	$5,760

Standard mileage rates

	2020	2021
Business mileage	57.5¢	56¢
Medical or moving mileage	17¢	16¢
Charity	14¢	14¢
Depreciation component	27¢	26¢

Per diem allowance substantiation method

Standard Rate*	M&IE	Lodging	Total
Oct. 1, 2019 – Sept. 30, 2020	$55	$96	$151
Oct. 1, 2020 – Sept. 30, 2021	$55	$96	$151

* See gsa.gov for rates for specific cities.

The incidentals allowance is $5 for travel both inside and outside the United States.

Per diem meal allowance for transportation industry

	2019 – 2020	2020 – 2021
Travel inside the U.S.	$66	$66
Travel outside the U.S.	$71	$71

Day care per diem for meals

The standard meal and snack rates allowed for day care facilities are equal to the Tier 1 reimbursement rates established by the Child and Adult Care Food Program (CACFP). The Department of Agriculture changes the rates every July; therefore, the IRS uses the rates in effect as of Dec. 31 of the prior year for the entire year (for example, Dec. 31, 2020, rates apply for all of 2021), even though the CACFP rates change in July (http://www.fns.usda.gov/cacfp/reimbursement-rates).

The taxpayer is required to keep a log for the number of meals and snacks served to each child. The rate represents the amount allowed as a deduction per child for the corresponding type of meal served.

2020

Meal	Contiguous States	Alaska	Hawaii
Breakfast	$1.33	$2.12	$1.54
Lunch and Supper	$2.49	$4.04	$2.92
Snack	$0.74	$1.20	$0.87

2021

Meal	Contiguous States	Alaska	Hawaii
Breakfast	$1.39	$2.22	$1.62
Lunch and Supper	$2.61	$4.24	$3.06
Snack	$0.78	$1.26	$0.91

Qualified business income (QBI) deduction

The QBI deduction may be phased out or limited when taxable income exceeds the following thresholds.

Filing Status	2020	2021
Single, HH	$163,300	$164,900
MFJ	$326,600	$329,800
MFS	$163,300	$164,925

Excess business loss

For 2018 – 2025, an excess business loss limitation applies to taxpayers (other than C corporations). Section 461(l) limits the ability of noncorporate taxpayers to use trade or business losses against other sources of income, such as wages, interest, dividends and capital gains.

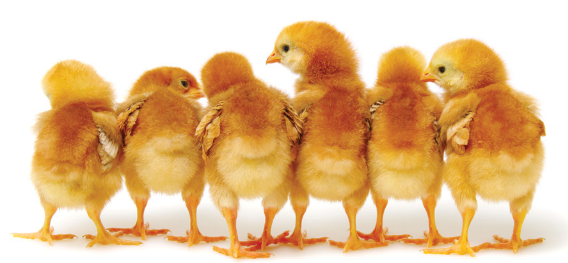
The CARES Act suspended the excess business loss limitations for tax years 2018 – 2020.

For 2021, noncorporate business losses are limited to $262,000 ($524,000 if MFJ).

Self-employment optional methods

In 2020, the following dollar limits apply:

- Under the farm optional method, if the individual's gross farm income is $8,460 or less or net farm income is less than $6,017, net earnings from self-employment equals the smaller of two-thirds of gross farm income (not less than zero) or $5,640. The individual can use this method year after year. There is no limit on the number of years a taxpayer can use this method.
- Under the nonfarm optional method, if net nonfarm profits are less than $6,107 and also less than 72.189% of gross nonfarm income, and net earnings from self-employment were at least $400 in two of the prior three years, net earnings from self-employment equal the smaller of two-thirds of gross nonfarm income (not less than zero) or $5,640. There is a five-year lifetime limit on the use of the nonfarm optional method. However, the five years do not have to be consecutive. ▸



Cost-of-Living Adjustments for Qualified Retirement Plans				
Annual Elective Deferral Limit	2021	2020	2019	2018
§401(k)	$19,500	$19,500	$19,000	$18,500
§401(k) age 50 or older*	$26,000	$26,000	$25,000	$24,500
§403(b) annuity	$19,500	$19,500	$19,000	$18,500
§403(b) age 50 or older*	$26,000	$26,000	$25,000	$24,500
SARSEP	$19,500	$19,500	$19,000	$18,500
SARSEP age 50 or older*	$26,000	$26,000	$25,000	$24,500
SIMPLE and SIMPLE 401(k)	$13,500	$13,500	$13,000	$12,500
SIMPLE and SIMPLE 401(k) age 50 or older*	$16,500	$16,500	$16,000	$15,500
§457 (government and exempt organizations)	$19,500	$19,500	$19,000	$18,500
§457 age 50 or older*	$26,000	$26,000	$25,000	$24,500
Annual benefit limit for defined benefit plan	$230,000	$230,000	$225,000	$220,000
Annual benefit limit for defined contribution plan	$58,000	$57,000	$56,000	$55,000
Annual benefit limit for defined contribution plan age 50 or older	$64,500	$63,500	$62,000	$61,000
Annual compensation limit	$290,000	$285,000	$280,000	$275,000
SEP minimum compensation limit	$650	$600	$600	$600
Highly compensated employee (based on previous year's compensation)	$130,000	$130,000	$125,000	$120,000
Key employee compensation in top-heavy plan	$185,000	$185,000	$180,000	$175,000
IRA or Roth**	$6,000	$6,000	$6,000	$5,500
IRA or Roth age 50 or older**	$7,000	$7,000	$7,000	$6,500

* A participant who is projected to attain age 50 before the end of a calendar year is deemed to be age 50 as of January 1 of that year. This optional provision must first be elected by the pension plan sponsor (employer).

** Lesser of this or earned income.

National IP PIN Opt-In Program, continued from page 1

Form 14039, *Identity Theft Affidavit*, on file with the IRS. However, the IRS has announced taxpayers who have an opt-in IP PIN will not typically have Notice CP01A mailed to them. They must obtain the IP PIN electronically and then, annually, download their new IP PIN from the IRS website.

To request an opt-in IP PIN, a taxpayer must first register through IRS Secure Access and establish their own personal IRS account, which can then be used to access IRS transcripts online, make payments, etc. Registering for an IRS Secure Access account isn't easy. For security reasons, the IRS makes the process difficult. In fact, the author's experience is that only about 30% of potential taxpayers wind up being able to register. For example, the taxpayer needs to have a cell phone registered in their name. This means that, in a typical household with a family cellular plan, only one person will be able to obtain an account. Additionally, the taxpayer needs an email address. The taxpayer also must have filed a federal tax return in the last six years and know their most recent filing status. Finally, the taxpayer needs a financial account, such as a Visa, MasterCard or Discover credit card (not a debit card), or a student loan, auto loan or mortgage. The verification service draws information from the taxpayer's Experian credit bureau file, so if there's a block on that file, it must be removed.

Assuming the taxpayer is successful in establishing a Secure Access account (and that's a reasonably big "if"), the taxpayer can then navigate to the IP PIN opt-in page and have an IP PIN issued. They should immediately print out the information on the screen, since it won't be mailed to them. Once the taxpayer has opted in to this program, that status is permanent, although the IRS is considering an "opt-out" option in the future. Taxpayers who opt in using the IRS website must revisit the website annually to obtain that year's IP PIN.

As explained above, not every taxpayer will be able to successfully register for an online access account. Indeed, many taxpayers aren't internet savvy or don't even want to establish an online IRS account. For these taxpayers, the IRS will have a new form, Form 15227, *Application for an Identity Protection Personal Identification Number*, which will be available in 2021. Form 15227 is available only for taxpayers who made less than $72,000. If a taxpayer makes more than $72,000 and can't verify their identity online, they must make an in-person appointment at an IRS Taxpayer Assistance Center. Those higher-income taxpayers will then visit the Center in person to verify their identity. Unlike the taxpayers who establish their IP PIN online, a taxpayer who obtains an IP PIN by mailing in Form 15227 will receive an annual IRS Notice CP01A with a six-digit PIN. ▶

TAXPRO MONTHLY
(001-839) (ISSN 1535-5896)
is published monthly by NATP
National Association of Tax Professionals
3517 N. McCarthy Road
Appleton, WI 54913

Periodicals postage paid at Appleton, WI
and additional mailing office.

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