From a tax perspective, the tax world has experienced a myriad of changes. The recent Texas winter storm resulted in a disaster declaration and the IRS has extended the due date for affected taxpayers. A host of tax law changes occurred as a result of COVID-19 through the 2020 CARES Act and the 2021 Consolidated Appropriations Act (CAA). The IRS also made changes to how partnership capital accounts must be reported. Below are a few of the recent updates that may impact you as an individual, as well as your business if you are a business owner. These provisions must be evaluated to determine how they might apply to your particular facts and circumstances.

Tax Filing Due Dates

Federal Filing and Payment Dates

The IRS has announced (IR-2021-43) that victims of the recent Texas winter storms will have until June 15, 2021 to file various individual and business tax returns, and pay the associated tax, if the original deadlines fell on February 11, 2021 or later.

Returns and payments to which the June 15, 2021, deadline applies include:

- 2020 individual and business returns (generally due on March 15 or April 15, 2021)
- Quarterly estimated income tax payments (due on April 15, 2021)
- Quarterly payroll and excise tax returns (due on April 30, 2021)
- 2020 returns for tax-exempt organizations operating on a calendar-year basis (due on May 17, 2021)
- 2020 IRA contributions (due on April 15, 2021)

This relief is available to taxpayers in the entire state of Texas, and those in other states affected by the winter storms that received similar FEMA disaster declarations. A current list of eligible localities is available on the IRS disaster relief page. In addition, the IRS said it will work with affected taxpayers who live outside the disaster area but whose records are located in the affected area.

100% Deduction of Restaurant Business Meals

Congress made the business meals temporarily 100% deductible. Businesses will be permitted to fully deduct business meals that would normally be 50% deductible. The deduction applies to amounts paid or incurred after December 31, 2020 and before January 1, 2023. Although this deduction will not affect your 2020 return, the savings will offer a 100% deduction in 2021 and 2022 for food and beverage provided by a restaurant.

Forgiven PPP Loans (Income Exclusion & Expense Deductibility)

Federally-backed loans made to businesses under the PPP must be used to fund payroll and certain other expenses.

Income Exclusion

Businesses that use the loans in the manner described above can apply to have the loans forgiven. The CARES Act provides that any income arising from having the PPP loans forgiven is excluded from gross income.

Deductibility of PPP “Forgivable” Expenses

The CAA resolved the issue of whether taxpayers can take deductions for expenses paid for with forgiven PPP loans. The act clarified that deductions are allowed for otherwise deductible expenses paid with the proceeds of a PPP loan that is forgiven and that the tax basis and other attributes of the borrower’s assets will not be reduced as a result of the loan forgiveness.

Excess Business Losses and NOLs

The CARES Act suspended the disallowance of the “excess business losses” for tax years beginning before 2021.

The CARES Act allows for Net Operating Losses (NOLs) arising in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years and then carried forward indefinitely.

Partnership Tax Returns: Tax Basis Partner Capital Accounts

The 2020 Form 1065, U.S. Return of Partnership Income, instructions require partnerships to report each partner’s capital account on a tax basis regardless of how the capital account was previously reported. The partnership must establish the January 1, 2020 partner capital account using the transactional approach or one of three alternative methods (modified outside basis method, modified previously taxes capital method, or the Section 704(b) method). This can potentially add a significant level of complexity to the preparation of the 2020 Form 1065.

Charitable Contributions

The CARES Act allows individual taxpayers who make qualified charitable contributions to a $300 above-the-line deduction for 2020 (and similar deduction for 2021). Qualified charitable contributions are cash contributions to public charities. Taxpayers may take the $300 above-the line deduction even if they do not itemize.

The CARES Act increased the limits on deducting “qualified contributions”

- Individuals: up to 100% of contribution base (AGI)
- Corporations: up to 25% of taxable income

- Qualified contributions are cash contributions to public charities if taxpayer elects the new limit.
- Effective for 2020-2021 only.

HSAs & FSAs

The CARES Act permits distributions from HSAs and reimbursements from FSAs for over-the-counter medicine. The change applies to distributions and reimbursements after 2019.

Medical Expense Deduction

Medical expenses are deductible to the extent that they exceed a certain threshold of a taxpayer's adjusted gross income. The threshold has been changed at various times. The CAA made the 7.5% threshold permanent.

Required Minimum Distribution (RMD)

The CAA amended the RMD provisions to increase the age at which RMD's from qualified plans must begin from 70 ½ to 72.

RMD's now must begin by April 1 of the calendar year following the later of:

- Calendar year in which the employee attains age 72, or
- In the case of an employer plan, the calendar year of retirement.

The CCA also changed the RMD provisions for inherited retirement accounts (defined contributions plans and IRAs) to require all funds to be distributed by the end of the 10th calendar year following the year of death. There is no requirement to distribute any minimum amount before that date.

Current rules still apply that require taking RMD's over many years for certain designated beneficiaries, including surviving spouses, minor children, and those who are not more than 10 years younger than the deceased.

Applies to distributions with respect to those who dies after 12/31/19.

IRA Contributions

The CAA eliminated the age restriction, formerly 70 ½ for contributions to IRAs. The CAA reduces the amount of tax-free distributions from an IRA by taxpayers who are age 70 ½ or older for charitable contributions up to $100,000 by the amount of the contribution made to the IRA after the age 70 ½.

These changes apply to contributions and distributions made for taxable years beginning after 12/31/19.