Lally&Co.
CPAs and Business Advisors

The EVERGREEN

Quarterly Journal for Clients & Friends

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The Evergreen. Always Growing.

Like the evergreen oak tree, Lally & Co. is always growing. With the support and loyalty of our clients and friends we have grown into a firm of 46 individuals serving clients in many diverse fields. Our growth gives us the ability to better serve our clients and provide cost effective solutions to their needs. If you have questions about your business or personal tax situation, please contact us. We welcome your call and are always looking for ways to better serve you.

Contact our office or visit our website for more information.

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Dear Clients and Friends,

As we are now a month into the new year, many clients are asking how they can prepare for the 2020 tax filing season and the 2021 tax year. This newsletter discusses new tax regulations and items to be aware of in the upcoming year.

As you read through *The Evergreen*, please do not hesitate to contact us if you have questions regarding an article or regarding your business or personal tax situation. We would be happy to hear from you! This and past issues of *The Evergreen* are available on our website at http://lallycpas.com/newsletters/.

Paycheck Protection Program Round 2

On December 21, 2020, Congress approved, as part of a larger spending bill, a $900 billion package designed to aid small businesses and American households currently struggling because of the pandemic. The bill, signed into law on December 27, 2020, includes a total of $284.5 billion for Paycheck Protection Program loans.

"Second-draw Loans"
Businesses that have exhausted their initial PPP loan may apply for a second loan, provided they meet certain requirements.

To qualify for a second round of funding, the following requirements must be met:

- Have no more than 300 employees,
- have used or will use the full amount of the first PPP loan,
- have at least a 25% reduction in annual gross receipts for any quarter of 2020 compared with the same quarter in 2019,
- have not permanently closed, (businesses that have temporarily closed or suspended operations can receive a second-draw loan).

Second-draw PPP loans are available to eligible businesses, certain nonprofits, self-employed individuals, independent contractors, sole proprietors, housing cooperatives, veterans' organizations, small agricultural cooperatives, and tribal businesses.

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How much will businesses receive for a second PPP loan? The formula for calculating the loan amount for a second-draw PPP loan is similar to that of the initial loan. Borrowers can receive up to 2.5 times their average monthly payroll cost. Hotels, restaurants, and other accommodation and food service businesses with a sector 72 NAICS code can borrow up to 3.5 times their average monthly payroll costs. The maximum amount for second-draw PPP loans is $2 million, which is much less than the initial loan maximum amount of $10 million.

How will the loan be forgiven? Second-draw funds will be forgiven provided they are spent on covered costs. Covered costs have expanded to now include:

- Payroll costs, including paid sick leave,
- operating costs, including mortgage payments, rent, utilities, software, human resources, and accounting needs,
- property damage sustained during protests and disturbances in 2020 if not covered by insurance,
- payments to a supplier covering contracts and purchase orders in effect before taking out the second-draw loan,
- personal protective equipment and modification made to meet health and safety requirements.

To qualify for full loan forgiveness, at least 60% of the total loan amount must be used on payroll expenses and the funds must be used within 8 to 24 weeks of receiving the loan. Business owners who borrow $150,000 or less can submit a one-page forgiveness certification that details the following:

- The total loan amount,
- proof of qualifying revenue loss, if not already provided to the lender,
- the number of employees they retained because of the loan,
- an estimate of total loan amount spent on payroll costs.

Business owners who borrow more than $150,000 will complete the same forgiveness process required for their first PPP loan.

How to Apply
Businesses can apply through any existing SBA 7(a) lender or through any participating federally insured depository institution, federally insured credit union, and Farm Credit System. Businesses seeking $150,000 or more will need to submit documents to verify revenue loss, such as tax forms or bank statements. Borrowers seeking $150,000 or less do not need to prove revenue loss when applying for a second-draw loan.

IRS Warns Taxpayers and Tax Professionals Against Scams and Identity Theft Schemes

This year marks the 5th Annual National Tax Security Awareness Week-a collaboration by the IRS, state tax agencies and the tax industry. The IRS and the Security Summit partners have issued warnings to all taxpayers and tax professionals to beware of scams and identity theft schemes by criminals taking advantage of the combination of holiday shopping, the approaching tax season and coronavirus concerns. The 5th Annual National Tax Security Awareness Week coincided with Cyber Monday, the traditional start of the online holiday shopping season.

The following are a few basic steps which taxpayers and tax professionals should remember as the 2021 tax season approaches:

- Use an updated security software for computer and mobile phones,

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- the purchased anti-virus software must have a feature to stop malware and a firewall that can prevent intrusions,
- don't open links or attachments on suspicious emails because this year, fraud scams related to COVID-19 and the Economic Impact Payment are common,
- use strong and unique passwords for online accounts,
- use multi-factor authentication whenever possible which prevents thieves from easily hacking accounts,
- shop at sites where the web address begins with "https" and look for the "padlock" icon in the browser window,
- don't shop on unsecured public Wi-Fi in places like a mall,
- secure home Wi-Fis with a password,
- back up files on computers and mobile phones, and
- consider creating a virtual private network to securely connect to your workplace if working from home.

In addition, taxpayers can check out security recommendations for their specific mobile phone by reviewing the Federal Communications Commission's Smartphone Security Checker. The Federal Bureau of Investigation has issued warnings about fraud and scams related to COVID-19 schemes, anti-body testing, healthcare fraud, cryptocurrency fraud and others. COVID-related fraud complaints can be filed at the National Center for Disaster Fraud. Moreover, the Federal Trade Commission also has issued alerts about fraudulent emails claiming to be from the Centers for Disease Control or the World Health Organization.

Life Expectancy and Distribution Period Tables for RMDs Updated

The IRS has issued final regulations to update the life expectancy and distribution period tables under the required minimum distribution (RMD) rules. The tables reflect the general increase in life expectancy. The tables would apply for distribution calendar years beginning on or after January 1, 2022, with transition relief.

RMDs apply to qualified plans, including 401(k) plans and profit sharing plans. They also apply to IRAs (including SEP and SIMPLE IRAs), inherited Roth IRAs, Tax Sheltered Annuity plans, and eligible deferred compensation plans. In general, RMDs must begin for the year the individual reaches age 72. An RMD for a calendar year is determined by dividing the participant's account balance by the applicable distribution period.

Distribution periods are based on life expectancies and are found in one of three tables, depending on the circumstances:

- During the employee's lifetime (including year of death), the applicable distribution period is determined by the Uniform Lifetime Table. The figures in that table are the joint and last survivor life expectancy for the employee and a hypothetical beneficiary 10 years younger,
- if an employee's sole beneficiary is the employee's surviving spouse and the spouse is more than 10 years younger than the employee, then the applicable distribution period is the joint and last survivor life expectancy of the employee and spouse under the Joint and Last Survivor Table,
- after the employee's death, the distribution period is generally based on the designated beneficiary's age using the Single Life Expectancy Table.

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Firm Announcements

Alexis M. Petach, CPA became engaged to Jonny Shuster in September 2020.

Amy L. Mitchell became engaged to Zach Rankin in October 2020.

Brian P. Burnett, CPA and his wife, Jordan, became first time parents to baby boy, Finnegan Sherrow Burnett, on October 12, 2020.

Christopher D. Bukoskey and his wife, Aly, became first time parents to baby boy, Miles Thomas Bukoskey, on November 17, 2020.

Hannah I. Tajuddin joined the Firm's A&A Department in November as an Associate.

Joseph D. Krebs joined the Firm's Tax Department in December as a Senior.

Elizabeth J. Perich joined the Firm's A&A Department in January as an Associate.

Alex M. Hann joined the Firm's Tax Department in January as an Associate.

Important Dates

February 28, 2021 - 2020 Form 1099-INT and 1099-DIV Due

March 15, 2021 - 2020 Partnership & S-Corp Tax Returns Due

April 15, 2021 - 2021 1st Quarter Estimated Tax Payments Due

April 15, 2021 - 2020 C-Corporation Tax Returns Due; 2020 Individual Tax Returns Due; 2020 Form 114 - FBAR Returns Due; and 2020 Form 1041 Trust Returns Due

Updated Tables

Distribution periods under the new rules would generally increase between one and two years.

For example, a 72-year-old IRA owner who applied the prior Uniform Lifetime Table to calculate RMDs used a life expectancy of 25.6 years. Applying the new Uniform Lifetime Table, a 72-year-old IRA owner will use a life expectancy of 27.4 years to calculate RMDs. As another example, a 75-year-old surviving spouse who is the employee's sole beneficiary and applied the prior Single Life Table to compute RMDs used a life expectancy of 13.4 years. Under these regulations, a 75-year-old surviving spouse will use a life expectancy of 14.8 years.

Retirees and beneficiaries would be able to withdraw slightly smaller amounts from their plans each year. They could leave amounts in tax-favored retirement accounts for a slightly longer period of time, to account for the possibility that they may live longer.

Applicability Date

The life expectancy tables and Uniform Lifetime Table under these regulations apply for distribution calendar years beginning on or after January 1, 2022. Thus, for an IRA owner who attained age 70.5 in February of 2020 (so that the individual attains age 72 in August of 2021 and the individual's required beginning date is April 1, 2022), these regulations do not apply to the RMD for the individual's 2021 distribution calendar year (which is due April 1, 2022) but will apply to the RMD for the individual's 2022 distribution calendar year (which is due December 31, 2022).

These regulations include a transition rule that applies if an employee died before January 1, 2022, and the distribution period that applies for calendar years following the calendar year of the employee's death is equal to a single life expectancy calculated as of the calendar year of the employee's death, reduced by one for each subsequent year.

IRS Releases 2021 Inflation-Adjusted Tax Tables, Standard Deduction, AMT and Other Amounts

The IRS has released the annual inflation adjustments for 2021 for the income tax rate tables, and for over 50 other tax provisions. The IRS makes these cost-of-living adjustments (COLAs) each year to reflect inflation.

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2021 Income Tax Brackets
For 2021, the highest income tax bracket of 37 percent applies when taxable income hits:

- $628,300 for married individuals filing jointly and surviving spouses,
- $523,600 for single individuals and heads of households,
- $314,150 for married individuals filing separately, and
- $13,050 for estates and trusts.

2021 Standard Deduction
The standard deduction for 2021 is:

- $25,100 for married individuals filing jointly and surviving spouses,
- $18,800 for heads of households, and
- $12,550 for single individuals and married individuals filing separately.

The standard deduction for a dependent is limited to the greater of:

- $1,100 or
- the sum of $350 plus the dependent's earned income.

Individuals who are blind or at least 65 years old get an additional standard deduction of:

- $1,350 for married taxpayers and surviving spouses, or
- $1,700 for other taxpayers.

AMT Exemption for 2021
The alternative minimum tax (AMT) exemption for 2021 is:

- $114,600 for married individuals filing jointly and surviving spouses,
- $73,600 for single individuals and heads of households,
- $57,300 for married individuals filing separately, and
- $25,700 for estates and trusts.

The exemption amounts begin to phase out when alternative minimum taxable income (AMTI) exceeds:

- $1,047,200 for married individuals filing jointly and surviving spouses,
- $523,600 for single individuals, heads of households, and married individuals filing separately, and
- $85,650 for estates and trusts.

Expensing Section 179 Property in 2021
For tax years beginning in 2021, taxpayers can expense up to $1,050,000 in Code Sec. 179 property. However, this dollar limit is reduced when the Section 179 property placed in service during the year exceeds $2,620,000.

Estate and Gift Tax Adjustments for 2021
The following inflation adjustments apply to federal estate and gift taxes in 2021:

- the gift tax exclusion is $15,000 per donee, or $159,000 for gifts to spouses who are not U.S. citizens;
- the federal estate tax exclusion is $11,700,000; and
- the maximum reduction for real property under the special valuation method is $1,190,000.

2021 Inflation Adjustments for Other Tax Items
The maximum foreign earned income exclusion amount in 2021 is $108,700.

The IRS also provided inflation-adjusted amounts for the:

- adoption credit,
- lifetime learning credit,
- earned income credit,
- excludable interest on U.S. savings bonds used for education,
- various penalties, and
- many other provisions.

Effective Date
These inflation adjustments generally apply to tax years beginning in 2021, so they affect most returns that will be filed in 2022. However, some specified figures apply to transactions or events in calendar year 2021.

2021 Inflation Adjustments for Pension Plans, Retirement Accounts Released

The IRS has released the 2021 cost-of-living adjustments (COLAs) for pension plan dollar limitations and other retirement-related provisions.

Key Unchanged Amounts
The 2021 contribution limit remains unchanged at $19,500 for employees who take part in:

- 401(k) plans,
- 403(b) plans,
- most 457 plans, and
- the federal government's Thrift Savings Plan

The catch-up contribution limit for employees aged 50 and over who participate in these plans also remains unchanged at $6,500.

The limitation for SIMPLE retirement accounts is unchanged at $13,500.

For individual retirement arrangements (IRAs), the limit on annual contributions to an IRA remains unchanged at $6,000. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment, and so remains $1,000.

IRAs and Roth IRAs
The income ranges for determining eligibility to make deductible contributions to traditional IRAs and to contribute to Roth IRAs have increased for 2021.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. The deduction phases out if the taxpayer or his or her spouse takes part in a retirement plan at work. The deduction phase out depends on the taxpayer's filing status and income.

- For single taxpayers covered by a workplace retirement plan, the 2021 phase-out range is $66,000 to $76,000, up from $65,000 to $75,000 for 2020.
- For married couples filing jointly, when the spouse making the contribution takes part in a workplace retirement plan, the 2021 phase-out range is $105,000 to $125,000, up from $104,000 to $124,000 for 2020.
- For an IRA contributor who is not covered by a workplace retirement plan but who is married to someone who is covered, the 2021 phase out range is between $198,000 and $208,000, up from $196,000 and $206,000 for 2020.
- For a married individual who is covered by a workplace plan and is filing a separate return, the phase-out range is not subject to an annual COLA and remains $0 to $10,000.

The 2021 income phase-out ranges for Roth IRA contributions are:

- $125,000 to $140,000 for singles and heads of household (up from $124,000 to $139,000 in 2020),
- $198,000 to $208,000 for married filing jointly (up from $196,000 to $206,000 in 2020), and
- $0 to $10,000 for married filing separately.

IRS Spotlights Upcoming Tax Filing Season

As part of a series of reminders, the IRS has urged taxpayers get ready for the upcoming tax filing season. For more information, the IRS encourages taxpayers to review Pub. 5348, Get Ready to File, and Pub. 5349, Year-Round Tax Planning is for Everyone.

Income
Most income is taxable, so taxpayers should gather income documents such as Forms W-2 from employers, Forms 1099 from banks and other payers, and records of virtual currencies or other income. Other income includes unemployment income, refund interest and income from the gig economy.

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Forms and Notices
Beginning in 2020, individuals may receive Form 1099-NEC, Nonemployee Compensation, rather than Form 1099-MISC, Miscellaneous Income, if they performed certain services for and received payments from a business. The IRS recommends reviewing the Instructions for Form 1099-MISC and Form 1099-NEC to ensure clients are filing the appropriate form and are aware of this change.

Taxpayers may also need Notice 1444, Economic Impact Payment, which shows how much of a payment they received in 2020. This amount is needed to calculate any Recovery Rebate Credit they may be eligible for when they file their federal income tax return in 2021. People who did not receive an Economic Impact Payment in 2020 may qualify for the Recovery Rebate Credit when they file their 2020 taxes in 2021.

Additional Information
To see information from the most recently filed tax return and recent payments, taxpayers can sign up to view account information online. Taxpayers should notify the IRS of address changes and notify the Social Security Administration of a legal name change to avoid delays in tax return processing.

Meals 100% Deductible in 2021 and 2022
As a part of the stimulus package that was passed on December 21, 2020, a temporary provision has been enacted that allows a 100% deduction (rather than the standard 50% deduction) for any business meal expense incurred from January 1, 2021 through December 31, 2022. The provision is limited to “food or beverages provided by a restaurant.” The objective of this provision is to assist the restaurant industry. Further guidance is expected on what qualifies as a “restaurant.”