Lally&Co.
CPAs and Business Advisors

The EVERGREEN
Quarterly Journal for Clients & Friends

Fall 2021 – Volume XXXVI

This Issue:

The Evergreen. Always Growing.

Like the evergreen tree, Lally & Co. is always growing. With the support and loyalty of our clients and friends we have grown into a firm of 48 individuals serving clients in many diverse fields. Our growth gives us the ability to better serve our clients and provide 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.

412.367.8190

Dear Clients and Friends,

We trust that you are enjoying the holiday season thus far. We understand that tax and accounting concerns might be the farthest thing from your mind. It is our goal to keep you up to date with timely and informative news happening in our world.

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/.

IRS Releases 2022 Inflation-Adjusted Tax Tables, Standard Deduction, AMT and Other Amounts

The IRS has released the annual inflation adjustments for 2022 for the income tax rate tables, plus more than 56 other tax provisions. The IRS makes these cost-of-living adjustments (COLAs) each year to reflect inflation.

2022 Income Tax Brackets
For 2022, the highest income tax bracket of 37 percent applies when taxable income hits:

- $647,850 for married individuals filing jointly and surviving spouses,
- $539,900 for single individuals and heads of households,
- $323,925 for married individuals filing separately, and
- $13,450 for estates and trusts.

2022 Standard Deduction
The standard deduction for 2022 is:

- $25,900 for married individuals filing jointly and surviving spouses,
- $19,400 for heads of households, and
- $12,950 for single individuals and married individuals filing separately.

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

- $1,150 or
- the sum of $400, plus the dependent's earned income.

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Firm Announcements

Blaise J. DiNatale, CPA and his wife, Jenna, welcomed baby boy, Luca Alexander DiNatale on June 25th 2021.

Aaron J. McFadden, CPA joined the Firm's Tax Department in August as a Manager.

Amanda M. Lynch, CPA joined the Firm's Audit Department in August as a Supervisor.

Zachary E. Miles, CPA and his wife, Adrienne, welcomed baby girl, Tinsley Rose Miles, on August 4th 2021.

Alexis M. Petach, CPA married her fiancé, Jonathan Shuster, on November 5th, 2021.

Kathryn A. Sewall joined the Firm's Tax Department in November as a Tax Associate.

William C. Fullerton joined the Firm's Tax Department in December as a Tax Associate.

Gina A. Deluliis, CPA has been promoted to Director of the Tax Department.

Lisa M. Wiegand, CPA has been promoted to Manager in the Tax Department.

Chris A. Hart has been promoted to Supervisor in the Tax Department.

Matthew M. McClure , CPA has been promoted to Supervisor in the Tax Department.

Alexis M. Petach, CPA has been promoted to Supervisor in the Tax Department.

Joseph D. Krebs, J.D. has been promoted to Supervisor in the Tax Department.

Michael L. Ament has been promoted to Senior in the Tax Department.

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

- $1,400 for married taxpayers and surviving spouses, or
- $1,750 for other taxpayers.

Alternative Minimum Tax (AMT) Exemption for 2022
The AMT exemption for 2022 is:

- $118,100 for married individuals filing jointly and surviving spouses,
- $75,900 for single individuals and heads of households,
- $59,050 for married individuals filing separately, and
- $26,500 for estates and trusts.

The exemption amounts phase out in 2022 when AMTI exceeds:

- $1,079,800 for married individuals filing jointly and surviving spouses,
- $539,900 for single individuals, heads of households, and married individuals filing separately, and
- $88,300 for estates and trusts.

Expensing Code Sec. 179 Property in 2022
For tax years beginning in 2022, taxpayers can expense up to $1,080,000 in section 179 property. However, this dollar limit is reduced when the cost of section 179 property placed in service during the year exceeds $2,700,000.

Estate and Gift Tax Adjustments for 2022
The following inflation adjustments apply to federal estate and gift taxes in 2022:

- the gift tax exclusion is $16,000 per donee, or $164,000 for gifts to spouses who are not U.S. citizens;
- the federal estate tax exclusion is $12,060,000; and
- the maximum reduction for real property under the special valuation method is $1,230,000.

2022 Inflation Adjustments for Other Tax Items
The maximum foreign earned income exclusion amount in 2022 is $112,000.

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.

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Effective Date of 2022 Adjustments
These inflation adjustments generally apply to tax years beginning in 2022, so they affect most returns that will be filed in 2023. However, some specified figures apply to transactions or events in calendar year 2022.

2022 Inflation Adjustments for Pension Plans, Retirement Accounts Released

The 2022 cost-of-living adjustments (COLAs) that affect pension plan dollar limitations and other retirement-related provisions have been released by the IRS. In general, many of the pension plan limitations will change for 2022 because the increase in the cost-of-living index due to inflation met the statutory thresholds that trigger their adjustment. However, other limitations will remain unchanged.

The 2022 cost-of-living adjustments (COLAs) were released for:

- pension plan dollar limitations, and
- other retirement-related provisions.

Highlights of Changes for 2022
The contribution limit has increased from $19,500 to $20,500 for employees who take part in:

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

The catch-up contribution limit for employees aged 50 and over in the plans above remains $6,500.

The annual limit on contributions to an IRA remains unchanged at $6,000. The $1,000 IRA catch-up contribution amount is not subject to inflation adjustments.

The income ranges increased for determining eligibility to make deductible contributions to:

- IRAs,
- Roth IRAs, and
- to claim the Saver's Credit.

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

- Single taxpayers covered by a workplace retirement plan, the phase-out range is $68,000 and $78,000, increased from between $66,000 and $76,000.
- Joint filers, when the spouse making the contribution takes part in a workplace retirement plan, the phase-out range is $109,000 and $129,000, increased from between $105,000 and $125,000.
- An IRA contributor, who is not covered by a workplace retirement plan but their spouse is, the phase out is between $204,000 and $214,000, increased from between $198,000 and $208,000.
- For a married individual filing a separate return who is covered by a workplace plan, the phase-out range remains $0 to $10,000.
- The phase-out ranges for Roth IRA contributions are:
- $129,000 to $144,000, for singles and heads of household,
- $204,000 to $214,000, for joint filers, and
- $0 to $10,000 for married separate filers.

Finally, the income limit for the Saver' Credit is:

- $68,000 for joint filers,
- $51,000 for heads of household, and
- $34,000 for singles and married filing separately.

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PPP Tax-exempt Income Timing and Basis Adjustment Guidance Issued

The IRS has released additional Paycheck Protection Program (PPP) loan forgiveness guidance. The guidance addresses (1) timing issues; (2) partner and consolidated group member basis adjustments; and (3) filing of amended partnership returns and information statements.

Timing of Tax-exempt Income
A taxpayer that received a PPP loan may treat tax-exempt income resulting from the partial or complete forgiveness of the PPP loan as received or accrued as follows:

- As the taxpayer pays or incurs eligible expenses. Under the safe harbor that allows certain taxpayers who relied on prior guidance and did not deduct certain PPP-related expenses on a tax return filed before the COVID Tax Relief Act was enacted, to deduct the expenses in the next tax year. A taxpayer that has elected to use the safe harbor will be treated as paying or incurring the eligible expenses during the taxpayer's immediately subsequent tax year following the taxpayer's 2020 tax year in which the expenses were actually paid or incurred, as described in Rev. Proc. 2021-20;
- When the taxpayer files an application for forgiveness of the PPP loan; or;
- When the PPP loan forgiveness is granted.

The timing treatment also applies to the extent tax-exempt income resulting from the partial or complete forgiveness of a PPP loan is treated as gross receipts under a federal tax provision.

If a taxpayer received PPP loan forgiveness of less than the amount that the taxpayer previously treated as tax-exempt income, the taxpayer must file an amended return, information return, or administrative adjustment request as applicable.

Partnership Allocations and Basis Adjustments
If covered partnerships meet certain requirements, the IRS will treat the covered taxpayer's allocation of amounts treated as tax exempt income and allocation of deductions as determined in accordance with Code Sec. 704(b). A partner's basis in its interest is increased by the partner's distributive share of tax exempt income and is decreased by the partner's distributive share of deductions. If certain conditions are met, the treatment generally applies in connection with:

- deductions and amounts treated as tax exempt income arising in connection with the forgiveness of a PPP loan;
- deductions and amounts treated as tax exempt income arising in connection with payments made by the SBA on behalf of the taxpayer with respect to a covered loan under § 1112(c) of the CARES Act; and
- the allocation of deductions and amounts treated as tax exempt income arising in connection with the taxpayer receiving a Supplemental Targeted EIDL Advance or a Restaurant Revitalization Grant.

Consolidated Group Members
For consolidated group members, the IRS will treat any amount excluded from gross income under § 7A(i) of the Small Business Act, § 276(b) of the COVID Tax Relief Act, or § 278(a)(1) of the COVID Tax Relief Act, as applicable, as tax exempt income for purposes of Reg. §1.1502-32(b)(2)(ii) investment adjustments. For the treatment to apply, the consolidated group must attach a signed statement to its consolidated tax return.

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Amended Returns
Eligible partnerships subject to the centralized partnership audit regime (BBA partnerships) that filed a Form 1065 and furnished all required Schedules K-1 for tax years ending after March 27, 2020 and before Rev. Proc. 2021-50 was issued may file amended partnership returns and furnish amended Schedules K-1 on or before December 31, 2021. The amended returns must take into account tax changes under Rev. Proc. 2021-48 or Rev. Proc. 2021-49, but eligible BBA partnerships may make any additional changes on their amended returns.

The amended return applies to any partnership tax year ending after March 27, 2020 and before the issuance of Rev. Proc. 2021-48 and Rev. Proc. 2021-49. The BBA partnership must clearly indicate the application of this revenue procedure on the amended return and write "FILED PURSUANT TO REV PROC 2021-50" at the top of the amended return and attach a statement with each amended Schedule K-1 furnished to its partners with the same notation.

Special rules apply to pass-through partners. A partnership under examination that wishes to use this amended return procedure must notify the revenue agent coordinating the partnership's examination.

Guidance on Applying Per Diem Rules to Fully Deductible Restaurant Meals

The IRS issued guidance related to the application of the per diem rules under Rev. Proc. 2019-48 to the temporary 100-percent deduction for business meals provided by a restaurant. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (P.L. 116-260) temporarily increased the deduction from 50 percent to 100 percent for a business's restaurant food and beverage expenses for 2021 and 2022.

Application of Per Diem Rules
Under Rev. Proc. 2019-48, taxpayers using the per diem rules to substantiate deductible food and beverage expenses must still apply the 50-percent limitation. According to the IRS guidance, taxpayers that follow Rev. Proc. 2019-48 may treat the entire meal portion of a the per diem or allowance as being attributable to food or beverages provided by a restaurant.

Effective Date
This IRS guidance is effective for the meal portion of per diem allowances for lodging and M&IE, or for M&IE only that are paid or incurred by an employer after December 31, 2020, and before January 1, 2023.

G20 Endorses Global Corporate Minimum Tax Rate of 15-Percent

All members of the G20 on October 30 endorsed a global corporate minimum tax rate of 15 percent in an effort to eliminate countries slashing corporate tax rates and creating tax shelters to attract large multinational corporations.

The agreement comes on the heels of an international agreement in October among 136 of the 140 Organization for Economic Cooperation and Development (OECD) members, that featured two pillars. Under Pillar One, taxing rights will be reallocated to market jurisdictions to ensure that market economies receive tax revenue even in locations where large multinational enterprises (MNEs) lack a physical presence. MNEs with global sales above 20 billion euro and profitability above 10 percent will be covered by the new rules, with 25 percent of profit above the 10 percent threshold to be reallocated to market jurisdictions.

Pillar Two introduces the global minimum corporate tax rate set at 15 percent, which applies to companies with revenue above 750 million euro.

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Each country will need to ratify the tax within its own governing structure.
"The final political agreement as set out in the Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy and in the Detailed Implementation Plan, released by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) on October 8, is a historic achievement through which we will establish a more stable and fairer international tax system," the final Rome Declaration states. "We call on the OECD/G20 Inclusive Framework on BEPS to swiftly develop the model rules and multilateral instruments as agreed in the Detailed Implementation Plan, with a view to ensure that the new rules will come into effect at global level in 2023."

Tax To Generate $60 Billion Annually for U.S.
A White House spokesperson said October 29 ahead of the formal G20 endorsement that the 15 percent global corporate minimum tax would generate at least $60 billion annually. The tax has been proposed as part of the current version of the Build Back Better Act (H.R. 5376) as a key revenue generator that will help offset the $1.75 trillion in new spending that is included in the legislation.

Use of E-Signatures Approved for Certain Forms

The IRS has allowed taxpayers to use electronic or digital signatures on certain paper forms they cannot file electronically. The Service has balanced the e-signature option with critical security and protection needed against identity theft and fraud. The IRS will accept a wide range of electronic signatures. Acceptable electronic signature methods include:

- a typed name typed on a signature block;
- a scanned or digitized image of a handwritten signature that's attached to an electronic record;
- a handwritten signature input onto an electronic signature pad;
- a handwritten signature, mark or command input on a display screen with a stylus device; and
- a signature created by a third-party software.

Moreover, the IRS will accept images of signatures (scanned or photographed) including common file types supported by Microsoft 365 such as tiff, jpg, jpeg, pdf, Microsoft Office Suite, or Zip. The IRS has allowed taxpayers and representatives to use electronic or digital signatures on paper forms, which they cannot file using IRS e-file, including for example:

- Form 11-C, Occupational Tax and Registration Return for Wagering;
- Form 637, Application for Registration (For Certain Excise Tax Activities);
- Form 706, U.S. Estate (and Generation-Skipping Transfer) Tax Return and other forms in the 706 series;
- Form 709, U.S. Gift (and Generation-Skipping Transfer) Tax Return;
- Form 730, Monthly Tax Return for Wagers;
- Form 1066, U.S. Income Tax Return for Real Estate Mortgage Investment Conduit;
- Form 1120-C, U.S. Income Tax Return for Cooperative Associations and other forms in the 1120 series;
- Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts; and
- Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner.

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President Biden Signs Infrastructure Bill

The bipartisan infrastructure bill passed the House of Representatives in a late night vote on November 5 by a 228-206 vote with 13 Republicans crossing the aisle to get the bill across the finish line after 6 Democrats voted the bill down. President Biden signed the infrastructure bill into law on November 15 after Congress came back from a week-long recess.

The $1.2 trillion Infrastructure Investment and Jobs Act (P.L. No. 117-58), includes a few tax provisions mixed in with the spending on to repair and rebuild the nation's bridges, climate issues and other items. It passed the Senate with a 69-30 vote in August.

Cryptocurrency Reporting And Other Tax Provisions

Among the tax provisions in the bill is an expansion of the reporting requirements available to cryptocurrency, which is one of the revenue generators to help offset the new spending in the bill. It is believed that a significant amount of cryptocurrency gains escape taxation due to underreporting. The bill also includes a few other tax changes meant to spur private infrastructure investment, raise revenue, and expand the scope and applicability of disaster declarations, in addition to typical extension of highway funding provisions. These other changes include:

- An extension of highway taxes to 2028 and highway trust fund expenditure authority to 2026;
- Inclusion of qualified broadband projects and carbon dioxide capture facilities among the other types of projects for which private activity bonds can be issued;
- A return of the exception for water and sewage disposal utilities from the rule requiring a corporation to recognize contributions in aid of construction (removed by the Tax Cuts and Jobs Act of 2017);
- A return of Superfund excise taxes on certain chemicals, last effective in the mid-1990s;
- Termination of the employee retention credit for employers closed due to COVID-19 after September 30, 2021; and
- Changes to the extension of tax deadlines due to declared disasters and service in a combat area, as well as expansion of extension authority to taxpayers impacted by wildfires.