



Summary of Year-End Coronavirus Relief Act

This document provides a brief summary of key tax provisions contained in the Consolidated Appropriations Act, 2021, [H.R. 133](#), that was signed into law on Dec. 27, 2020. This resource also serves as a supplement to engagement letters, organizers, checklists and practice guides contained in the AICPA Tax Section's [2020 Annual Tax Compliance Kit](#). Further research and analysis are recommended based on each client's facts and circumstances.

Additional refundable tax credit

The Act provides a refundable tax credit in the amount of \$600 per eligible family member (Sec. 6428A). The credit is \$600 per taxpayer (\$1,200 for married taxpayers filing jointly), in addition to \$600 per qualifying child.

The credit phases out starting at \$75,000 of modified adjusted gross income (\$112,500 for heads of household and \$150,000 for married taxpayers filing jointly) at a rate of \$5 per \$100 of additional income.

Deductibility of PPP-funded expenses

Effective as of the date of enactment of the CARES Act, the Act clarifies that gross income does not include any amount that would otherwise arise from the forgiveness of a Paycheck Protection Program (PPP) loan.

Deductions are allowed for otherwise deductible expenses paid with the proceeds of a PPP loan that is forgiven and the tax basis and other attributes of the borrower's assets will not be reduced as a result of the loan forgiveness. The forgiveness will be treated as tax-exempt income for the purposes of the stock basis increase for PPP recipients that are partnerships or S corporations.

Tax extenders

Made permanent:

- Sec. 213(f) reduction in medical expense deduction floor, which allows individuals to deduct unreimbursed medical expenses that exceed 7.5% of adjusted gross income (previously 10%)
- Sec. 179D deduction for energy-efficient commercial buildings (the amount will be inflation-adjusted after 2020)
- Sec. 139B gross income exclusion for certain benefits provided to volunteer firefighters and emergency medical responders
- Sec. 45G railroad track maintenance credit; however, the credit rate is reduced from 50% to 40%

5-year extensions (through 2025):

- Sec. 45D new markets tax credit
- Sec. 45S employer credit for paid family and medical leave (note this credit is different than the payroll tax credits for paid sick and family leave)
- Sec. 51 work opportunity credit
- Sec. 108(a)(1)(E) gross income exclusion for discharge of indebtedness on a principal residence; note that the amount of exclusion is lowered to \$750,000 (\$375,000 for married individuals filing separately) from \$2 million (\$1 million for married individuals filing separately)
- Sec. 127(c)(1)(B) exclusion for certain employer payments of student loans
- Sec. 168(e)(3)(C)(ii) seven-year recovery period for motorsports entertainment complexes
- Sec. 181 special expensing rules for certain film, television and live theatrical productions
- Sec. 954(c)(6) lookthrough treatment of payments of dividends, interest, rents and royalties received or accrued from related controlled foreign corporations under the foreign personal holding company rules
- Sec. 1391(d) empowerment zone designation
- Sec. 4611 Oil Spill Liability Trust Fund financing rate

Tax extenders (cont.)

2-year extensions (through 2022):

- Sec. 25D residential energy-efficient property credit (the Act also makes qualified biomass fuel property expenditures eligible for the credit)
- Sec. 45Q carbon oxide sequestration credit (through 2025)
- Sec. 48 energy investment tax credit for solar and residential energy-efficient property

1-year extensions (through 2021):

- Sec. 25C 10% credit for qualified nonbusiness energy property
- Sec. 30B credit for qualified fuel cell motor vehicles
- Sec. 30C 30% credit for the cost of alternative (nonhydrogen) fuel vehicle refueling property
- Sec. 30D 10% credit for plug-in electric motorcycles and two-wheeled vehicles
- Sec. 35 health coverage tax credit
- Sec. 40(b)(6) credit for each gallon of qualified second-generation biofuel produced
- Sec. 45(e)(10)(A)(i) production credit for Indian coal facilities
- Sec. 45(d) credit for electricity produced from certain renewable resources
- Sec. 45A Indian employment credit
- Sec. 45L energy-efficient homes credit
- Sec. 45N mine rescue team training credit
- Sec. 163(h) treatment of qualified mortgage insurance premiums as qualified residence interest
- Sec. 168(e)(3)(A) three-year recovery period for racehorses two years old or younger
- Sec. 168(j)(9) accelerated depreciation for business property on Indian reservations
- Sec. 4121 Black Lung Disability Trust Fund increase in excise tax on coal
- Sec. 6426(c) excise tax credits for alternative fuels and Sec. 6427(e) outlay payments for alternative fuels
- The American Samoa economic development credit (P.L. 109-432, as amended by P.L. 111-312)

CARES Act extensions and related provisions

Educator expenses for protective equipment: The Act requires the Treasury to issue regulations or other guidance providing that the cost of personal protective equipment and other supplies used for the prevention of the spread of COVID-19 is treated as an eligible expense for purposes of the Sec. 62(a)(2)(D)(ii) educator expense deduction (currently \$250). The regulations or guidance will apply retroactively to March 12, 2020.

Waiver of information filing requirements: The Act waives the information filing requirements for any amount excluded from income due to the exclusion of loan forgiveness, emergency financial aid grants or other business financial assistance provided under the CARES Act.

Farmer NOL carrybacks: The Act allows farmers who elected a two-year net operating loss (NOL) carryback prior to the CARES Act to elect to retain that two-year carryback rather than claim the five-year carryback provided in the CARES Act. This allows farmers who previously waived an election to carry back an NOL to revoke the waiver.

Payroll tax credits: The Act extends the refundable payroll tax credits for paid sick and family leave, enacted in the Families First Coronavirus Response Act, P.L. 116-127, through the end of March 2021. It also modifies the payroll tax credits so that they apply as if the corresponding employer mandates were extended through March 31, 2021. The Act also allows individuals to elect to use their average daily self-employment income from 2019 rather than 2020 to compute the credit.

Employee retention tax credit modifications: The Act extends the CARES Act employee retention tax credit (ERTC) through June 30, 2021. It also expands the ERTC and contains technical corrections. A noteworthy modification provides that employers who receive PPP funds may still qualify for the ERTC with respect to wages that are not paid with forgiven PPP proceeds.

Deferral of employees' portion of payroll tax: The Act extends the repayment period through Dec. 31, 2021 on employees' share of certain payroll taxes deferred from Sept. 1, 2020 through Dec. 31, 2020 through Dec. 31, 2021.

Miscellaneous tax provisions

Temporary allowance of full deduction for business meals: The Act temporarily allows a 100% business expense deduction for meals (rather than the current 50%) if the expense is for food or beverages provided by a restaurant. This provision is effective for expenses incurred after Dec. 31, 2020 and expires at the end of 2022.

Certain charitable contributions deductible by nonitemizers: The Act extends and modifies the \$300 charitable deduction for nonitemizers for 2021 and increases the maximum amount that may be deducted to \$600 for married couples filing jointly. Note that for tax year 2020, \$300 is the maximum allowed per tax return, regardless of filing status. The Sec. 6662 penalty is increased from 20% to 50% of the underpayment for taxpayers who overstate this deduction.

Education expenses: The Act repeals the Sec. 222 deduction for qualified tuition and related expenses but in its place increases the phaseout limits on the lifetime learning credit (so the phaseout limits match the American opportunity credit), effective for tax years beginning after Dec. 31, 2020.

Minimum low-income housing tax credit rate: The Act establishes a 4% rate floor for calculating credits related to acquisitions and housing bond-financed developments for purposes of the Sec. 42 low-income housing tax credit, effective in 2021.

Depreciation of certain residential rental property over 30-year period: The Act provides that the recovery period applicable to residential rental property placed in service before Jan. 1, 2018 and held by an electing real property trade or business is 30 years.

Waste energy recovery property eligible for energy credit: The Act makes waste energy recovery property eligible for the Sec. 48 energy investment tax credit, effective for 2021 through 2023. Waste energy recovery property generates electricity from the heat from buildings or equipment.

Extension of energy credit for offshore wind facilities: The Act extends the Sec. 48 investment tax credit for electing offshore wind facilities that begin construction through 2025.

Minimum rate of interest for certain determinations related to life insurance contracts: The Act updates the Sec. 7702 fixed interest rate for life insurance contracts and ties the rate going forward to benchmark interest rates that are periodically updated.

Minimum age for distributions during working retirement: The Act modifies Sec. 401(a) to allow certain qualified pensions to make distributions to workers who are 59½ or older and who are still working. For certain construction and building trades workers, the age is lowered to 55.

Temporary rule preventing partial plan termination: The Act provides that qualified plans will not be treated as having a partial termination under Sec. 411(d)(3) during any plan year that includes the period March 13, 2020, through March 31, 2021, as long as the number of active participants covered by the plan on March 31, 2021, is at least 80% of the number covered on March 13, 2020.

Temporary special rule for determination of earned income: The Act allows taxpayers to refer to earned income from the immediately preceding tax year for purposes of determining the Sec. 32 earned income tax credit and the Sec. 24(d) additional child tax credit for tax year 2020.

Modification of limitations on charitable contributions: This Act extends for one year (through 2021) the increased limit of 100% (from 60%) of individual's adjusted gross income from the CARES Act on deductible charitable contributions for individual taxpayers who itemize. The Act also extends for one year (through 2021) the increased limit of 25% (from 10%) of corporation's taxable income from the CARES Act on qualified cash contributions.

Temporary special rules for health and dependent care flexible spending arrangements: The Act allows taxpayers to roll over unused amounts in their health and dependent care flexible spending arrangements from 2020 to 2021 and from 2021 to 2022. This provision also permits employers to allow employees to make a 2021 midyear prospective change in contribution amounts.

Excise taxes: The Act makes various excise tax changes for beer, wine and distilled spirits.

Disaster tax relief

Use of retirement funds for disaster mitigation: The Act allows residents of qualified disaster areas (as defined in the Act) to take a qualified distribution of up to \$100,000 from a retirement plan or individual retirement account (IRA) without penalty. Amounts withdrawn are included in income over three years or may be recontributed to the plan. The Act also increases the allowable amount of a loan from a retirement plan to \$100,000 (from \$50,000) if the loan is made due to a qualified disaster and meets various other requirements.

Employee retention credit for disaster zones: The Act allows a tax credit of 40% of wages (up to \$6,000 per employee) to employers who conducted an active trade or business in a qualified disaster zone (as defined in the Act). The credit applies to wages paid without regard to whether the employee performed any services associated with those wages.

Qualified disaster relief contributions: The Act modifies the CARES Act's modification of the charitable contribution limits for 2020 to allow corporations to make qualified disaster relief contributions of up to 100% of their taxable income.

Qualified disaster-related personal casualty losses: The Act permits individuals who have a net disaster loss (as modified by the Act) to increase their standard deduction amount by the amount of the net disaster loss.

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