



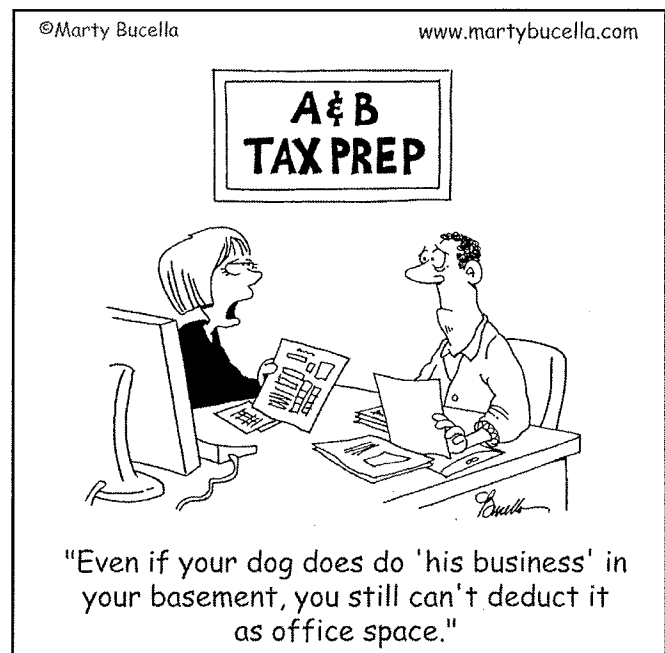
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2021–22 INCOME TAX BULLETIN

This publication is provided as a service to our clients. It focuses on the following topics:

- Federal Tax Issues
- Oregon Tax Law Changes
- Transportation and Travel Expenses
- Retirement and Health Care Plans
- Administration and Reporting Issues
- Supplemental Charts



OUTLINE

Section	Topic	Applicability	Pages
FEDERAL TAX ISSUES	Federal Legislation and Regulations Issued in March – August 2020 <ul style="list-style-type: none"> • Families First Act • CARES Act • Paycheck Protection Program (PPP) Loan Forgiveness • IRS Notice 2020-127 • SBA Regulations re PPP Loans 	<i>Individuals</i>	3-10
	Consolidated Appropriations Act – December 27, 2020 American Rescue Plan of 2021 Infrastructure Investment and Jobs Act of 2021 Economic Impact Payments and Recovery Rebate Credit IRC Sec 168(k) Bonus Depreciation IRC Sec 179 Expense Election Child Tax Credit Dependent Care Credit Like Kind Exchanges	<i>Small Business and Individuals</i>	<i>Small Business and Individuals</i>
OREGON TAX LAW CHANGES	Oregon Reduced Tax Rates Business Alternative Income Tax Earned Income and Working Family Tax Credits Oregon College Savings Plan Surplus Refund “Kicker” Credit Reconnect to Federal Law Payroll Tax for Paid Family Leave Oregon W-4 Corporate Activity Tax (CAT) Transient Lodging Taxes	<i>Individuals and Small Business</i>	11-14
TRANSPORTATION AND TRAVEL EXPENSES	Auto Expenses <ul style="list-style-type: none"> • Standard Mileage Rates • Depreciation Limits Travel Expense per Diem Rates	<i>Small Business</i>	15
RETIREMENT AND HEALTH CARE PLANS	Qualified Charitable Distributions Social Security and Medicare <ul style="list-style-type: none"> • Payroll Tax Rates for Employers • Taxable Wage Bases • Earnings Needed to Accrue Benefits • Earned Income Limits for Retirees under Full Retirement Age • Medicare Premiums and Surcharges Estate and Gift Tax Exemption Levels and Planning Contribution and Benefit Limits for Retirement Plans and Health Savings Accounts	<i>Individuals</i>	15-18
ADMINISTRATION AND REPORTING ISSUES	IRS Interest Rates on Tax Deficiencies and Overpayment/Abatement IRS Backlog 1099 Information Reporting and Related Penalties Failure to File Penalties	<i>All Taxpayers</i>	18-20
SUPPLEMENTAL CHARTS	2021 Pension Comparison Table Charitable Contributions Documentation Meals and Entertainment Deductions	<i>All Employers Individuals</i>	21 22 23-24

FEDERAL LEGISLATION AND REGULATIONS ISSUED IN MARCH – AUGUST 2020

Source: Thomson Reuters and Tax Speaker

The COVID-19 pandemic resulted in numerous pieces of economic stimulus legislation with related IRS announcements and SBA regulations during the months of March – August 2020, including ongoing amendments. These include the Families First Act; Coronavirus Aid, Relief, and Economic Security (CARES) Act; Paycheck Protection Program (PPP) Forgiveness Act; IRS Notice 2020-127 re rollover relief for required minimum distributions, and SBA regulations surrounding the loan programs created by the CARES Act. Following is a list of the topics. We are available to discuss any that might impact or interest you. Note that some of these provisions were expanded or modified by the Consolidated Appropriations Act in December 2020 discussed in the next article.

Business Law Changes for Economic Stimulus and Employment Preservation

Families First Act

Mandated sick/FMLA paid leave for COVID-19 related absences – subsidized by payroll tax credits and expanded by the Consolidated Appropriations Act

CARES Act

Grants and loans through the Small Business Administration's (SBA) Economic Injury and Disaster Loan (EIDL) programs

- Paycheck Protection Program loans eligible for forgiveness through the SBA if funds are used for qualifying expenses, including payroll, rent, utilities, and certain interest costs
- Payroll Retention Credit and Payroll Delayed Deposit – payroll tax credit or deferral for payroll-related costs of employers experiencing economic hardships related to COVID-19
- Qualified leasehold improvement property eligible for accelerated depreciation – retroactive technical correction of 2017 Tax Cuts and Jobs Act
- Net operating loss carrybacks to the 5 prior tax years allowed for losses arising in 2018 through 2020
- \$250,000 limitation on deducting business losses delayed until 2021 and not applicable for 2018 – 2020

Paycheck Protection Program Forgiveness Act

This law changed a number of the parameters defining the opportunity to obtain forgiveness of all or a portion of the loan proceeds, including the time period for spending and percentage of expenses eligible for forgiveness in relation to the total.

Individual Tax Law Changes from the CARES Act and IRS Notice 2020-127

- “Stimulus payments”: Advance rebate/credit for 2020 issued in April – October 2020 to eligible US taxpayers equal to the sum of \$1,200 for each individual taxpayer plus \$500 for each qualifying child of the taxpayer(s). Taxpayers who did not receive a rebate payment or were entitled to a higher amount based on 2020 AGI received a tax credit on their 2020 income tax returns.
- Charitable contribution deduction for non-itemizers: For 2020 a \$300 charitable contribution deduction is allowed for taxpayers who elect not to itemize but make contributions to qualifying charities. The Consolidated Appropriations Act passed in December increased the maximum for joint filers to \$600 beginning in 2021.
- AGI limit for charitable contributions raised for itemizers: For tax year 2020, the limit on charitable contribution deductions of cash to qualified public charities was raised from 60% to 100% of AGI. The Consolidated Appropriations Act extended this through 2021.

- Waiver of required minimum distributions: Required minimum distributions for certain qualified retirement plans and all IRAs were waived for 2020 only. No waiver is available for 2021 and later years.
- Waiver of mandatory federal income tax withholding on qualified plan distributions for 2020 only
- Waiver of 10% excise tax on coronavirus-related 2020 distributions up to \$100,000 for taxpayers under age 59 ½
- Coronavirus-related distributions may be re-deposited within 3 years and eligible for removal of taxation on amended tax returns
- Qualified plan loans limit increased to \$100,000 and allowed for 180 days
- Health savings account rules were modified to allow the use of telehealth services without meeting deductible limits.

CONSOLIDATED APPROPRIATIONS ACT

Source: AICPA and Tax Speaker

On December 27, 2020 this second round of economic stimulus legislation provided approximately \$900 billion of federal funding through tax benefits, unemployment compensation, a second round of cash payments to individual taxpayers, and more PPP loan funding plus relaxation of some of the loan forgiveness requirements. Provisions impacting the taxation of business and individuals for 2020 and 2021 include the following.

Paycheck Protection Loan Rules

- Forgiven amounts are tax-free! No PPP loan forgiven amount is included in gross income as debt forgiveness. All related expense deductions are allowed in full. No tax attributes are reduced, and no basis increase is denied for the forgiven amounts. The amounts will be treated (for flow-through entities) as if they were equivalent to municipal bond income and thus increase basis.
 - The above rules apply to PPP loans from before the new act and to new PPP loans after the act, without regard to the date forgiven.
 - There are no dollar limits – these rules apply to all loans.
- Economic Injury and Disaster Loan advances and SBA-made EIDL loan payments will not reduce the maximum amount of PPP loan forgiveness, and are neither taxable, nor do they reduce related expenses. The EIDL program was extended through December 31, 2021.
- Non-payroll costs are expanded to include many other things like computer costs, some inventory, human resources, and protective equipment.
- Payroll costs include “group life, disability, vision or dental insurance”
- The Act directed the SBA to design a new 1-page form for PPP loan forgiveness when the loan amount is less than \$150,000. The new rules apply to pre-existing loans (even if forgiven) and new loans.
- The Act created a new first or second PPP loan for businesses with less than 300 employees, at 2.5 times the last 12 months average monthly payroll (Farmers use 2019’s gross revenues up to \$100,000). For the second loan the applicant must also show that its gross receipts must have declined by at least 25% when compared to the 1st, 2nd or 3rd quarter of 2019 and extend the new loan period through March 31, 2021. The second draw program also extends loan possibilities to new groups.

New Provisions

For Individuals

- The Act allows teachers to include the cost of Personal Protective Equipment (PPE) in the \$250 educator expense deduction retroactive for expenses paid after March 11, 2020.
- A second recovery rebate of \$600 for individuals and their dependent children was paid in cash or debit card through January 15, 2021 or available as a 2020 tax credit.

- Lower income taxpayers may use 2019's earned income, by election, to calculate their 2020 earned income and child tax credit.
- The Act expands the possibility of up to \$100,000 in penalty-free distributions from an eligible retirement plan by clarifying several questions raised by the CARES Act:
 - Eliminates the requirement that the account owner prove a financial impact by COVID-19 by replacing it with a requirement of being in a qualified disaster area and noting that the entire country has been declared a disaster area due to COVID.
 - Eliminates the requirement that the distribution occur in 2020, so this could be a planning item for 2021.

For Business

- The Act allows a 100% deduction for most business meals from a "restaurant" paid or incurred in 2021 and 2022. IRS Notice 2021-25 clarified that the "restaurant" must prepare and sell food or beverages at retail for immediate consumption. Prepackaged food sellers do not qualify.
- A health or dependent care flex spending account may carry over unspent amounts for 2020 or 2021 to the next year.
- The COVID Sick Pay and Family Medical leave qualifying wage credits from earlier legislation were extended through March 31, 2021 and the rules for self-employed persons to receive the credit were eased.
- The Employee Retention credit had major modifications. It is now retroactively allowed for PPP loan recipients (but not on the same wages used for forgiveness). For qualifying wages paid from January 1 – June 30, 2021 the credit now is per employee, per quarter and has been increased to 70% of the first \$10,000 of wages per employee, per quarter. The newer credit is available for any quarter where gross receipts are 20% or less of same 2019 quarter and ends the first day of the following quarter when gross receipts are 80% or more of the same 2019 quarter. An alternative measurement is allowed based on the preceding quarter, which means that qualification of the first or second quarter based on actual receipts automatically qualifies the succeeding quarter.

Extension of Expired Provisions from Laws Prior to 2020

Permanently Extended Items

- The medical expense deduction floor is now permanently 7.5% of AGI
- Energy efficient commercial buildings deduction
- Exclusion from income of certain tax benefits for volunteer firefighters and emergency medical responder
- Repeal of deduction for qualified tuition and related expenses, replaced with increased income limitation on lifetime learning credit

Extended through December 31, 2021

- Treatment of mortgage insurance premiums as qualified residence interest
- Credit for health insurance costs of eligible individuals
- Nonbusiness energy property credit
- Qualified fuel cell motor vehicles credit
- Alternative fuel refueling property credit
- Two-wheeled plug-in electric vehicle credit
- Energy efficient homes credit

Extended through December 31, 2023

- Residential energy-efficient property credit (think solar 26% and 22%); and
- Energy credit under Code Sec 48.

Items Extended through December 31, 2025

- Work opportunity credit
- Exclusion from gross income of discharge of qualified principal residence indebtedness, but at a new lower \$750,000 amount
- Employer credit for paid family and medical leave
- Exclusion from income for certain employer payments of student loans

AMERICAN RESCUE PLAN ACT

Source: Tax Speaker and Internal Revenue Service

In March 2021 Congress passed the American Rescue Plan Act of 2021 that has tax law changes for individuals and small business effective in 2020 and 2021. The 2020 effective date for some provisions provides refund opportunities on amended returns, although the IRS stated they would change returns automatically. The major effects are summarized as follows:

Unemployment Insurance Benefits for 2020 only

- First \$10,200 of benefits per taxpayer exempt from tax
- Exemption phased out at \$150,000 adjusted gross income (AGI) with unemployment benefits, regardless of filing status

Health Insurance Premium Tax Credit – 2020 and 2021

- 2020 no repayment required regardless of AGI level
- 2021 and 2022 replaces the 400% of poverty level income threshold with a limit of 8.5% of gross income
- 2021 and 2022 unemployment benefit receipt will count only up to 133% of poverty level

Child Tax Credit - 2021

- Extended qualifying child to under age 18
- Credit increase to \$3,000 per child (\$3,600 for under age 6)
- New phaseout amount for additional credit amounts
- Refundable in 2021 for most taxpayers
- Creates an advanced child tax credit payment

Child and Dependent Care Credit - 2021

- Dollar limit amount increased to \$8,000 for one qualifying person and \$16,000 for two or more qualifying persons.
- Increased tax credit rate from 30% to 50%
- Increased income phaseout floor from \$15,000 to \$125,000
- Refundable in 2021 for most taxpayers
- Increased the maximum exclusion amount for flexible spending account and employer-provided dependent care benefits to \$10,500

Earned Income Tax Credit - 2021

- Expansion for taxpayers with no qualifying children – 2021 only
- Raises investment income floor to \$10,000 – years after 2020
- Allows 2021 filers to use 2019 earned income if 2021 is less
- Rules for separated spouses

2021 Sick and FMLA Changes

- Optional non-mandatory sick leave for wages extended through 9/30/21
- Adds reasons qualifying for sick leave to now qualify for FMLA
- Raises cap on FMLA wages to \$12,000 per employee

- Adds coverage for COVID testing, vaccine, and recovery
- Extends applicability to self-employeds

2021 Employee Retention Credit

- Continues 70% credit up to \$10,000 wages
- Extended qualified wages from first 2 quarters to all 4 quarters of 2021 (but Infrastructure Bill in November eliminated the fourth quarter)
- Expands to some startup businesses
- Clarifies 20% rule applies to same or prior quarter in 2019

Targeted EIDL Advance is nontaxable and expenses are deductible

Expanded Qualifications of PPP Loans to Non-Profit Organizations

Student Loan Debt Forgiveness now eligible for partial exclusion

- Refer to IRC Sec 108 Cancellation of Debt Income
- Watch for limitations

INFRASTRUCTURE INVESTMENT AND JOBS ACT OF 2021

Source: The Tax Adviser

Employee Retention Credit

The Infrastructure Act ends the employee retention credit (ERC) early, making wages paid after September 30, 2021, ineligible for the credit (except for wages paid by an eligible recovery startup business).

Cryptoasset Reporting

The legislation imposes new cryptoasset information reporting on brokers. The definition of “broker” is expanded to include anyone who for consideration effectuates transfer of digital assets on behalf of another person. For these purposes, “digital asset” is defined as “any digital representation of value which is recorded on a cryptographically secured distributed ledger or any similar technology”. **The IRS added another part to the cryptoasset question on business and individual income tax returns for 2021, which asks if the taxpayer “sold or transferred” any digital assets during the year; a response is required, so it will be part of your tax preparation process. If you or your company bought or sold virtual currency, or accepted it as payment, or used it to pay bills, your tax preparer needs detailed information.**

Disaster Relief

The legislation modifies the automatic extension of certain deadlines for taxpayers affected by federally declared disasters.

Other tax provisions

Miscellaneous provisions include extension of various highway related taxes, extension and modification of superfund excise taxes, plus allowance of private activity bonds for qualified broadband projects and carbon dioxide capture facilities.

ECONOMIC IMPACT PAYMENTS AND RECOVERY REBATE CREDIT

Source: Internal Revenue Service & Tax Speaker

The 2020-21 tax acts authorized three Economic Impact (Stimulus) Payments in the form of advance rebates of 2020 and 2021 federal income tax, with eligibility based on the taxpayer’s prior year AGI:

- ✓ EIP #1: April – October 2020; \$1,200 per taxpayer and \$500 per qualifying dependent
- ✓ EIP #2: December 2020 – January 2021; \$600 per taxpayer and dependent; lower AGI threshold

- ✓ EIP #3: March 2021; \$1,400 per eligible individual, including self, spouse, dependents with SSN (as well as college students and qualifying relatives); even lower AGI threshold

Special rules apply to deceased taxpayers, depending on the date of death.

If a taxpayer's actual AGI for 2020 or 2021 is lower than the threshold used to calculate the Economic Impact Payments, any portion of EIP #1, 2, or 3 that was denied may be restored as a "recovery rebate credit" on the actual tax returns and reduce the tax liability (or increase the overpayment) at year-end. The IRS is delaying the processing of 2020 income tax returns claiming this credit in order to reconcile the EIP's actually issued with what is reported in the return. The issuance of paper checks and debit cards to some taxpayers, rather than direct deposit, has resulted in the IRS adjusting some returns with a recovery rebate credit that disagrees with IRS records. The IRS has information on its website for requesting the reissuance of lost checks and debit cards. IRS form 3911 is also available for this purpose.

IRC SECTION 168(k) BONUS DEPRECIATION

Source: Thomson Reuters and Tax Speaker

The first-year bonus depreciation deduction under IRC Sec. 168(k) was extended through 2027 as part of the Tax Cuts and Jobs Act of 2017 (TCJA). The previous rate of 50% was increased to 100% effective September 28, 2017 and phases down at the rate of 20% per year starting in 2023. Extension beyond 2027 would require new legislation. Unlike the section 179 expense deduction discussed next, the bonus depreciation deduction is not limited to smaller companies or capped at a certain dollar level. Qualified property is virtually any equipment, building or leasehold improvement with a cost recovery period by statute of no more than 20 years. The requirement that the property be "new" was eliminated for acquisitions after September 28, 2017. First-year bonus depreciation applicable to vehicles is limited to \$8,000. As an exception that continues under prior law, Sport Utility Vehicles (SUVs) and pickup trucks with a gross vehicle weight rating in excess of 6,000 pounds are exempt from the luxury car depreciation caps discussed later. These qualify for a separate cap of \$25,000 in Sec.179 or 168(k) expense.

IRC SECTION 179 EXPENSE ELECTION

Source: Thomson Reuters and Tax Speaker

Under Code Sec. 179, businesses can elect to recover all or part of the cost of qualifying property, up to a limit, by deducting it in the year it is placed in service. The Code Sec. 179-dollar limitation for 2021 and 2022 is \$1,050,000 and \$1,080,000 respectively with a \$2,620,000 investment ceiling for 2021 and \$2,700,000 for 2022. These limits were set by the TCJA. Qualified property must be tangible personal property, which is actively used in the business, and for which a depreciation deduction would be allowed. Qualified property must be newly purchased new or used property, rather than property that was previously owned and recently converted to business use. Orchards and vineyards (including capitalized planting costs) qualify, but not until the year in which the fruit is first harvested. Also qualifying are off-the-shelf computer software, single purpose agricultural structures, qualified improvements to real estate, HVAC, and roofs on commercial property. If qualified purchases for the year exceed the expensing dollar limit, the business can decide to split the expensing election among the new assets. As long as newly purchased business equipment is placed in service before the end of the tax year, the entire expensing deduction is allowed for that year. The expense depends on the date the qualified property is placed in service; not when it is purchased or paid.

The TCJA extended qualifying assets to include roofs on commercial property; personal property in residential rental; HVAC units; security, fire, and alarm systems. The qualified retail, restaurant, and leasehold improvement rules were replaced by a new qualified improvement property group defined as "interior modifications to commercial property". The CARES Act included technical corrections that qualify it for Sec 179, bonus depreciation under Sec 168(k) or a 15-year depreciable recovery period. Although the differences between bonus depreciation and Code Sec. 179 expensing would now be narrowed if both offer 100-percent write-offs for new or used property, some advantages and disadvantages for each would remain. For example, Code Sec. 179 property is subject to recapture if business use of the property during a tax year falls to 50 percent or less; but Code Sec. 179 allows a taxpayer to select for expensing particular qualifying assets within any asset class, whereas Code Sec. 168(k) requires an election for all assets within a class.

Rev. Proc. 2019-8 defines qualified real property and explains how taxpayers can elect to treat certain qualified real property as section 179 property. The TCJA amended § 179(f) by defining qualified real property as (1) any qualified improvement property described in § 168(e)(6) and (2) any of the following improvements to nonresidential real property placed in service after the date such property was first placed in service: roofs, heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.

CHILD TAX CREDIT

Source: Tax Speaker

Summary of old (2020) rules for the child credit

2020 individual tax returns qualified for a child credit of \$2,000 for children under age 17 on the last day of the year with a social security number claimed as a dependent on the return. Up to \$1,400 was refundable. The credit began phasing out at \$400,000 of AGI for joint returns and \$200,000 for other returns. Key points of old law:

- Permanent part of law
- Under age 17 on last day of year
- Must be a dependent with a social security number by the due date of the return
- \$2,000 credit per dependent
- \$1,400 refundable credit per dependent
- Credit obtained when filing return for the year

Summary of new (2021 and beyond) rules for the child credit

2021 individual tax returns qualify for a child credit of \$3,000 (\$3,600 if under 6 at 12/31/2021) for children under age 18 on the last day of the year with a social security number claimed as a dependent on the return. The full amount is refundable. The increased amounts begin phasing out at \$150,000 on a joint return down to \$2,000, which begins phasing out at the 2020 levels as before. \$112,500 and \$75,000 begin the higher amount phaseouts for heads of household and single returns respectively, also dropping to \$2,000 and phasing out at the 2020 amounts. This means for 2021 there is a stairstep phaseout of none up until \$150k (MFJ), then partial to a \$2,000 safe harbor until \$400k MFJ, and complete after that.

Additionally, ARPA requires the IRS to pay half of the credit in advance in 6 monthly payments beginning in July, 2021 for individuals maintaining a principal residence in the United States for over half the year. This advance payment will be estimated based on 2020 returns (2019 if not yet filed) and then reconciled upon filing the 2021 return. The IRS opened a primary portal on July 1, 2021 where taxpayers can elect out of advance payments or update their 2021 income, filing status or qualifying children. Key points of new law:

- Under age 18 on last day of year
- Must be a dependent with a social security number by the due date of the return
- \$3,000 per dependent; \$3,600 if dependent is under age 6 at 12/31/2021
- Fully refundable
- 50% of credit paid in 6 payments in advance **beginning 7/15/2021** (unless taxpayer opted out)
- Remainder refundable with 2021 return when filed

The advance credit will then be reconciled when filing the 2021 return. Any additional credits due will be refunded with the return. The advance payments are to be electronically paid using the same mechanism used to send the stimulus checks. The portals can also be used to add new babies or dependents which would increase the 2021 credit. **Any excess advance payments are taxable with the 2021 return and are reported to the taxpayer by the IRS on form 6419, which must be provided to the tax preparer.**

Older dependents will still qualify for the old \$500 credit but will not qualify for the advance payment program. Unlike the stimulus check where divorced parents might have qualified for a dependent credit, the child credit will only apply to whomever claims the child on the 2021 tax return.

DEPENDENT CARE CREDIT

Source: Tax Speaker

Summary of old (2020) rules for the dependent care credit

2020 individual tax returns qualified for a non-refundable credit at a rate of up to 35% on the first \$3,000 of expenses for 1 dependent and up to \$6,000 for more than 1 dependent. The credit was provided so that a taxpayer or their spouse could work or go to school, and it was based on the earned income of the lesser earner. (Or \$250 monthly for a student).

Dependents include children under 13, disabled spouses and other disabled dependents of the taxpayer. Qualified expenses include care for the dependent while working and various other costs. Qualified expenses must be reduced by employer-paid excluded amounts. Key points:

- Non-refundable
- Graduated rate from 35% down to 20%
- \$3,000 maximum for 1 dependent, \$6,000 for more than 1 dependent
- Reduce expenses by excluded employer paid amounts
- Credit reduction begins at AGI of \$15,000
- Credit did not phaseout, stayed at 20% minimum
- Pre-tax Sec 125 cafeteria maximum deferral \$5,000

Summary of new (2021) rules for the dependent care credit

2021 individual tax returns qualify for a refundable credit at a rate of up to 50% for the first \$8,000 of expenses for 1 dependent and up to \$16,000 expenses for more than 1 dependent. AGI reduction base amounts were increased almost ten-fold and the maximum Sec. 125 cafeteria plan deferral was doubled. Key points:

- Refundable
- Graduated rate from 50% down to 20%
- \$8,000 maximum for 1 dependent, \$16,000 for more than 1 dependent
- Reduce expenses by excluded employer paid amounts
- Must live in United States for at least ½ of the year
- Credit begins phaseout at AGI of \$125,000 and fully phases out at \$438,000
- Pre-tax Sec 125 cafeteria maximum deferral \$10,500

LIKE KIND EXCHANGES

Source: Tax Speaker

IRS Regulations issued in November 2020 eased the personal property taxability rule in Sec 1031 like kind exchanges, after the 2017 Tax Cuts and Jobs Act limited such transactions to real estate. The regulations state that real property improvements which were part of a cost segregation study qualify for deferral of gain under Sec 1031 when part of a like kind exchange. This is true even if the improvements used a shorter life and faster depreciation method than the buildings. However, Sec 1245 depreciation recapture still applies to the personal property. Incidental personal property with a fair market value < 15% of the total is also treated as qualifying. Other personal property, such as equipment and automobiles, no longer qualifies for tax deferred exchanges. Instead, gain is recognized on the property traded, and the full cost of the new property is eligible for accelerated depreciation.

OREGON TAX LAW CHANGES
Source: Oregon Department of Revenue

OREGON REDUCED TAX RATES ON PASS-THROUGH ENTITY INCOME

Oregon did not adopt the Qualified Small Business Income deduction in the federal TCJA, so this deduction is added back to taxable income on the Oregon individual return. However, Oregon previously enacted a provision in 2014 that allows an annual election to claim a 2% reduction in the tax rate on qualifying net income from pass-through entities that employ at least one Oregon employee for 1,200 or more hours during the tax year. Qualifying income does not include wages or guaranteed payments to owners, or any income taxed on the federal return with long term capital gain tax rates. For 2018 and later years sole proprietorships and single member limited liability companies were added to the definition of qualifying “pass-through entities”. Unlike the federal deduction, net income from real estate rental activities does not qualify for the Oregon reduced tax rate. The election must be made by the due date of the Oregon return and cannot be claimed by an amendment filed after that date.

SB 139 passed in 2021 makes changes to this law beginning in tax year 2022, with regulations not yet issued:

- **Removes the need for an election by the due date of the original return; lower tax rates are automatic for qualifying income, so can be claimed on an amended return, a welcomed change**
- Qualifying income is defined as “non-passive pass-through” income
- Limits qualifying businesses to those with ordinary business income not in excess of \$5 million; the tax rate reduction is graduated, with the full 2% reduction under existing law limited to \$250,000 of income
- Requires the business entity to meet either:
 - An employee to employer ratio using 1,200 hours for a qualifying employee, OR
 - A 3-year average limit on distributions of income as a percentage of ordinary business income

BUSINESS ALTERNATIVE INCOME TAX (BAIT)

SB 727 passed in 2021 creates a new elective income tax on pass-through entities for tax years 2022 and 2023. If paid, the business owners are allowed an offsetting income tax credit on their Oregon personal income tax returns based on their pro rata share of the entity tax. This election allows the state income tax on the pass-through income to be effectively transferred from an itemized deduction on the individual returns of the members to a business deduction of the entity. It avoids the existing \$10,000 limit on itemized deductions for state and local taxes under the 2017 Tax Cuts and Jobs Act. If the federal cap is repealed, this Oregon law will also be repealed.

EARNED INCOME AND WORKING FAMILY DEPENDENT CARE TAX CREDITS

HB 2433 made the following changes to these individual tax credits:

Earned Income Tax Credit (EITC)

- Allows the credit to be claimed by taxpayers who are unable to claim the EITC on their federal return due to lack of a Social Security card for a child. Applies to tax years 2022-2025
- Oregon EITC is 9% of the federal EITC, but a dependent who is younger than age 3 at the end of the tax year increases the Oregon EITC to 12% of the federal credit. (no change from prior law)

Working Family Household and Dependent Care Credit (WFHDC)

- Available for students with children beginning in the 2022 tax year.
- Student must seek a degree.
- Income deemed to be \$1,000 per month (\$2,000 if 2 or more children)
- Separate calculation for these taxpayers

OREGON COLLEGE SAVINGS PLAN

The Oregon College Savings Plan, (OCSP) is an IRC Sec 529 plan that enables families to accumulate tax-free investment earnings to fund qualified higher education expenses. Contributions made to accounts in the Plan are also deductible for Oregon tax purposes only up to annual limits. Distributions are entirely tax-free as long as the proceeds are used for qualified expenses. Nonqualified distributions are taxable on the Oregon return to the extent of earnings and prior contribution deductions. Oregon did not adopt the federal changes in the TCJA to include payments for certain K-12 education in qualified expenses.

Mechanics of the Oregon Credit

Oregon House Bill 2164 eliminated the subtraction from taxable income for contributions to the OCSP after December 31, 2019. The subtraction was replaced by a credit directly against tax. The credit is calculated as a percentage of the contribution, with a decreasing percentage as the taxpayer's income increases as follows:

Adjusted Gross Income	Tax Credit % of OCSP Contribution
<\$30,000	100%
\$30,000 - \$70,000	50%
\$70,000 - \$100,000	25%
\$100,000 - \$250,000	10%
>\$250,000	5%

The total credit is limited to \$300 on a "married filing joint" return and \$150 for all others. Contributions must be funded by December 31 of the tax year for which the credit is claimed.

Carryovers from Years Prior to 2020

As a result of the HB 2164 change from a subtraction to a credit, a provision needed to be made for those taxpayers who have made contributions in excess of the annual deduction limit and are carrying those excess contribution deductions forward. Those taxpayers have four years in which to use up the excess deductions at the rate of the present annual limit. Any remaining unused carryforward at the end of that time will expire.

SURPLUS REFUND "KICKER" CREDIT

The 2020 "kicker" is a refundable personal income tax credit equal to the kicker percentage (17.341%) x 2020 tax liability before all credits except the credit for taxes paid to another state. It is claimed on the 2021 income tax return in the section for tax payments. The taxpayer (including decedents) must have incurred a 2020 income tax liability to create a kicker credit, but need not have a 2021 tax liability to use the credit, since it is refundable.

RECONNECT TO FEDERAL LAW

Oregon tax law is primarily tied to federal law with specific exceptions. Oregon taxable income usually begins with federal adjusted gross income followed by additions, subtractions and adjustments specifically allowed by Oregon. The most recent reconnect date was April 1, 2021 (following passage of the federal American Rescue Plan Act).

PAYROLL TAX FOR PAID FAMILY LEAVE

The Oregon legislature in 2019 created a new payroll tax to fund family leave. Business owners and human resource managers should become familiar and consult legal counsel if necessary. New posters are available from the Bureau of Labor and Industries (BOLI). The implementation dates were delayed by HB3893, because the Employment Department was overwhelmed by COVID-19 claims.

A summary of the provisions follows:

- Up to 12 weeks of paid family leave beginning September 3, 2023
- Funded by payroll tax on employees (60%) and employers (40%) beginning January 1, 2023

- The tax rate will be set by the Oregon Employment Division
- Employers with less than 25 employees are exempt from tax, but their employees are not
- Covered leave
 - Bonding time with new child (born, adopted, newly placed foster)
 - Serious health condition of employee or “family member” (broad definition)
 - Safe leave (domestic violence, sexual assault, stalking or harassment)
- Non-covered leave
 - Bereavement
 - Sick child (non-serious)
 - Oregon Military Family Leave

CORPORATE ACTIVITY TAX (CAT)

Legislation and Applicability

- HB 3427, HB2164 and HB4202
- Applies to all business entity types – C corporations, S corporations, partnerships, sole proprietorships, and other business entity types
- The CAT is measured on Oregon commercial activity (does not apply to non-Oregon sources)
- CAT was a calendar year tax for 2020 and 2021, with an option for fiscal year entities to use the data from their most recent fiscal year-end, as long as the return is filed by the April 15 deadline and estimated tax requirements for calendar year taxpayers are followed.
- For tax years beginning after January 1, 2021 fiscal year entities must convert to filing the CAT using the same tax year as their income tax returns. This will require the filing of a short period return for January 1, 2021 through the end of their fiscal year that ends in 2021 with all thresholds and exemptions pro rated.

Commercial Activity

- The total amount realized by a business, arising from transactions and activity in the regular course of the trade or business, without deduction for expenses incurred
- Over 40 items are excluded from commercial activity
- A 35% subtraction is allowed for certain expenses

Registration and Filing Requirements

Threshold	Amount
Excluded	\$750,000 or less of Oregon commercial activity
Registration	Over \$750,000 of Oregon commercial activity
Filing	Over \$1 million of Oregon commercial activity
Tax Payment	Over \$1 million of Oregon taxable commercial activity after expense subtractions

- Taxpayers must register within 30 days of exceeding the \$750,000 registration threshold
- Annual registration requirement was eliminated in 2020 for repeat filers
- Penalty for failure to register is \$100 per month up to \$1,000 annually
- Registration is available online through Revenue Online at www.oregon.gov.dor.
- CAT returns are filed separately from income tax returns

Unitary Groups

- United by more than 50% common ownership
- Must have one of the following:
 - Centralized management
 - Centralized administrative services
 - Flow of goods, capital resources or services demonstrating functional integration

CAT subtraction

- 35% of either “cost inputs” or labor costs attributable to commercial activity
- “Cost inputs” are defined as “Cost of Goods Sold” from the taxpayer’s federal income tax return, including materials, subcontractors, and direct labor.
- May not exceed 9% of commercial activity
- HB4202 clarified subtraction provisions and how costs are apportioned

Cost inputs

- HB 4202 created a special definition of cost inputs for farming operations that do not report cost of goods sold
- Farming operations selling agricultural commodities may determine amount of out-of-state sales by either:
 - Obtaining certificate from purchasing broker or wholesaler stating % sold out of state, or
 - Applying industry average % from USDA

Sourcing of commercial activity

- Sales of tangible personal property
 - Gross receipts of Oregon sales vs out-of-state sales
 - Wholesalers can certify, but applies to each sale separately
- Sales of property other than tangible personal – leases or delivery of service

HB4202 and CAT estimated payment penalty

- Taxpayers expecting to owe at least \$10K of CAT for 2021 are required to make quarterly estimated tax payments by April 15, July 31, October 31, 2021 and January 31, 2022.
- HB4202 modifies penalty for underpayment
 - Reduces penalty from 20% to 5%
 - Adds safe harbor provision and extends 80% threshold for estimated tax payments through 2021

Information Resources

- Visit www.oregon.gov/dor for the most current information, or to sign up for the Department of Revenue mailing list. Click on the Corporate Activity Tax link, or type “CAT” in the search bar.
- Specific questions can be sent directly to: cat.help.dor@oregon.gov

Our firm can prepare Oregon CAT returns for applicable business clients. Registration is the responsibility of the business.

TRANSIENT LODGING TAXES

The Oregon Department of Revenue is now administering both state and local lodging taxes, so both taxes can be reported and admitted with form OR-TLT-V filed with the Department of Revenue.

PORTLAND METRO – NEW INCOME TAXES

Ballot measures in 2020 approved two new income taxes effective January 1, 2021 that impact businesses and residents of Multnomah, Washington, and Clackamas counties:

- Metro Supportive Housing Services – 1% tax on taxable income over specified thresholds
- Metro Preschool for All – 1.5% and 3% tax on taxable income over specified thresholds

Filing requirements are imposed on individuals and all business entities. Withholding requirements are imposed on employers and estimated tax requirements on individuals not subject to withholding.

TRANSPORTATION and TRAVEL EXPENSES

AUTO EXPENSES – STANDARD MILEAGE RATES AND DEPRECIATION LIMITS

2021 and 2022 standard mileage rates in lieu of actual auto expenses:

RATES PER MILE:	2021	2022
Business Use	56¢	58.5¢
Charitable Use	14¢	14¢
Medical and Moving Expense	16¢	18¢

The personal use of an employer-provided vehicle must be treated as income to the employee. One of the optional valuation methods allows each personal mile to be valued at the business standard mileage rate, but only if the fair market value of the vehicle when first provided to the employee does not exceed a specified value. For all types of vehicles placed in service, the value is \$51,100 for 2021 and \$56,100 for 2022.

For passenger cars, SUVs, trucks, and vans weighing less than 6,000 lb. placed in service in 2021, the maximum depreciation allowances are as follows:

<u>Classification</u>	<u>First Year</u>	<u>Second Year</u>	<u>Third Year</u>	<u>Subsequent Years</u>
Vehicles for which no bonus depreciation is claimed under Code Sec. 168(k)	\$10,200	\$16,400	\$9,800	\$5,860
Bonus Depreciation under 168(k)	\$ 8,000	-0-	-0-	-0-

If depreciation exceeds the annual cap, the excess is deducted beginning in the year after the vehicle's regular depreciation period ends at the maximum rate of \$5,860 per year.

TRAVEL EXPENSE PER DIEM RATES

The 2021 simplified "high-low" per diem rates for travel in the continental U.S. (excluding Alaska and Hawaii) that employers can use to reimburse employees who are away from home overnight on business are \$292 for high-cost areas, and \$198 for all other areas. The \$292 per day rate breaks down to \$221 for lodging and \$71 for meals and incidentals for high-cost areas. For low-cost areas, the breakdown is \$138 and \$60 respectively. The same rates are deductible on the tax returns of employees who are not reimbursed. Self-employed persons can use the per diems to substantiate meals only. They must separately substantiate lodging (cannot use \$292/\$198 rates). The high-low per diem rates for meals and incidentals in 2022 will increase to \$74 for high cost areas and \$69 for all others. Taxpayers using per diem rates may also deduct or be reimbursed for transportation and mailing expenses. The per diem rate for the incidental expenses only deduction is \$5 per day for 2021 and 2022 travel.

RETIREMENT AND HEALTH CARE PLANS

QUALIFIED CHARITABLE DISTRIBUTIONS

Source: Tax Speaker

A qualified charitable distribution (QCD) is a nontaxable direct transfer of funds from the IRA custodian, payable to a qualified charity. QCDs can be counted toward satisfying required minimum distributions (RMDs) for the year, as long as certain rules are met. In addition to the benefits of giving to charity, a QCD excludes the amount donated from taxable income, which is unlike regular withdrawals from an IRA. Keeping taxable income lower may reduce the impact to certain tax credits and deductions, including Social Security and Medicare. Also, QCDs don't require that you itemize, which due to the recent tax law changes, means you may decide to take advantage of the higher standard deduction, but still use a QCD for charitable giving.

While many IRAs are eligible for QCDs—Traditional, Rollover, Inherited, SEP (inactive plans only), and SIMPLE (inactive plans only)*—there are requirements:

- You must be 70½ or older to be eligible to make a QCD. The 2017 TCJA, which increased the age for RMDs to 72, did not increase the age for QCD's.
- QCDs are limited to the amount that would otherwise be taxed as ordinary income. They may not be used for non-taxable transfers of after-tax deposits.
- The maximum annual amount that can qualify for a QCD is \$100,000 per taxpayer, per year. This applies to the sum of QCDs made to one or more charities in a calendar year. (If, however, you file taxes jointly, your spouse can also make a QCD from his or her own IRA within the same tax year for up to \$100,000 as well.)
- For a QCD to count towards the current year's RMD, the funds must come out of the IRA by your RMD deadline, generally December 31.

Contributing to an IRA may result in a reduction of the QCD amount you can deduct. (The aggregate amount of deductible IRA contributions you make to your IRA after you turn 70 1/2 will reduce the amount of the QCD that is not includible in your gross income.) Any amount donated above your RMD does not count toward satisfying a future year's RMD.

Funds distributed directly to the IRA owner, and which they then give to charity do not qualify as a QCD.

The charity must be a 501(c)(3) organization, eligible to receive tax-deductible contributions. These types of charities do not qualify for QCDs:

- Private foundations
- Supporting organizations: i.e., charities carrying out exempt purposes by supporting other exempt organizations, usually other public charities.
- Donor-advised funds, which public charities manage on behalf of organizations, families, or individuals

A QCD is reported as a normal distribution on IRS Form 1099-R for any non-Inherited IRAs. For Inherited IRAs or Inherited Roth IRAs, the QCD will be reported as a death distribution. Itemization is not required to make a QCD. While the QCD amount is not taxed, you may not then claim the distribution as a charitable tax deduction.

To report a qualified charitable distribution on Form 1040, you generally report the full amount of the charitable distribution on the line for IRA distributions. On the line for the taxable amount, enter only the portion that was not a qualified charitable distribution. Enter "QCD" next to this line. A QCD is not subject to withholding.

When making a QCD, you must receive the same type of acknowledgement of the donation that you would need to claim a deduction for a charitable contribution.

SOCIAL SECURITY AND MEDICARE

Payroll Tax Rates for Employees

	<u>2021</u>	<u>2022</u>
Social Security (FICA)	6.20%	6.20%
Medicare	<u>1.45%</u>	<u>1.45%</u>
Combined	7.65%	7.65%

Taxable Wage Bases

Social Security (FICA)	\$142,800	\$147,000
Medicare		No Limit

Earnings Needed to Accrue Benefits

Wages Needed to Earn one "Credit" (to determine benefits)	\$1,470	\$1,510
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Earned Income Limits for Retirees Under Full Retirement Age

Before normal retirement age	\$18,960	\$19,560
Year of normal retirement age	\$50,520	\$51,960

Medicare Part B Premiums per month

	\$149.50	\$170.10
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Medicare Premium Surcharges

Couples with AGIs over \$182,000 and singles with more than \$91,000 of AGI for 2019 or 2020 owe an additional premium for 2021 and 2022 respectively. The surcharges range from \$68 to \$408 per month.

ESTATE AND GIFT TAX EXEMPTION LEVELS AND PLANNING

	<u>2021</u>	<u>2022</u>
Federal estate tax exemption	\$11,700,000	\$12,060,000
Annual gift tax exclusion	\$15,000	\$16,000
Oregon estate tax exemption	\$1,000,000	\$1,000,000
Washington estate tax exemption	\$2,193,000	\$2,193,000

The annual exclusion for gifts in 2021 is \$15,000 and 2022 is \$16,000. Above this exemption, taxable gifts are subtracted from an individual's lifetime estate- and gift-tax exemption, which is the same as the estate tax exemptions in the chart above. In an alternative strategy, givers can "bunch" five years of annual excludable gifts to a 529 education-savings plan, typically for children or grandchildren by filing Form 709 and making the appropriate election.

While the filing of a gift tax return (Form 709) is not required for gifts to individuals not exceeding the increased \$16,000 annual exclusion per donee, a gift tax return is required if making gifts above the \$16,000 annual exclusion. Though many gifts to trusts will qualify for annual exclusion treatment and not require disclosure by filing a gift tax return, many trusts do not qualify for such treatment and will require the filing of a gift tax return. Additionally, gift tax returns are required to "gift split" – where one spouse makes a gift in excess of the annual exclusion amount and the couple wishes to treat the gift as being made by both spouses in order to utilize the annual exclusion treatment for both spouses. To do this, both spouses need to "consent" to the treatment on the gift tax returns each will file.

The basic exemption amount for estates is \$11,700,000 for 2021 and \$12,060,000 for 2022. This increase in the exemption is set to lapse after 2025. There are also unlimited deductions for qualifying transfers during life and at death to charities and spouses. In November 2018, the Treasury Department and the IRS issued proposed regulations that would allow individuals who make large gifts between 2018 and 2025 to retain the tax benefit of the higher exemption, even if it reverts to pre-2018 levels.

It is important to note that if a decedent's gross estate (the fair market value of the decedent's assets on the date of death plus prior taxable gifts) does not exceed the new increased lifetime exemption amounts noted above, an estate tax return is not required to be filed. However, in such circumstance, if an estate tax return is filed, the decedent's unused lifetime estate and gift tax exemption may be transferred to the decedent's surviving spouse for use during the spouse's lifetime or at death. This concept is known as portability, and to take advantage of this beneficial election, an estate tax return must be filed.

CONTRIBUTION AND BENEFIT LIMITS FOR RETIREMENT PLANS AND HEALTH SAVINGS ACCOUNTS

The dollar limits on contributions and benefits under qualified plans are as follows.

	<u>2021</u>	<u>2022</u>
401(K) Elective Deferrals Annual Dollar Limit	\$19,500	\$20,500
401(K) Age 50+ Catch-up Contribution	\$6,500	\$6,500
SIMPLE Plan Elective Deferrals Annual Dollar Limit	\$13,500	\$14,000
SIMPLE Plan Age 50+ Catch-up Contribution	\$3,000	\$3,000
Annual Includible Compensation Limit (SEP and qualified plans)	\$290,000	\$305,000
Key Employee's Compensation Limit (SEP and qualified plans)	\$185,000	\$200,000
Highly Compensated Employee's Compensation Limit	\$130,000	\$135,000
Defined Contribution and SEP Annual Addition Limit	\$58,000	\$61,000
Defined Benefit Pension Plan Annual Benefit Limit	\$230,000	\$245,000
SEP Minimum Compensation Amount	\$650	\$650
457 Plan Elective Deferral Limit	\$19,500	\$19,500
Traditional IRA Contribution	\$6,000	\$6,000
Roth IRA Contribution	\$6,000	\$6,000
IRA Age 50+ Catch-up Contribution	\$1,000	\$1,000
HSA Contribution Limits: Family	\$7,200	\$7,300
Single	\$3,600	\$3,650
Age 55+ Extra	\$1,000	\$1,000
HSA Caps on Out-of-Pocket Reimbursements: Family	\$14,000	\$14,100
Single	\$7,000	\$7,050
HSA Minimum Deductible on HDHP: Family	\$2,800	\$2,800
Single	\$1,400	\$1,400
FSA Out-of-Pocket Maximum	\$2,750	\$2,850

ADMINISTRATION AND REPORTING ISSUES

IRS INTEREST RATES ON TAX DEFICIENCIES AND OVERPAYMENTS/ABATEMENT

Source: Internal Revenue Service

	<u>January 1 – December 31, 2021</u>	<u>January 1 – March 31, 2022</u>
Federal	3.0%	3.0%
Oregon	4.0%	4.0%

IRS BACKLOG

Source: Tax Speaker and Internal Revenue Service

On July 1, 2021 Erin Collins, the Taxpayer Advocate, released her annual IRS report. The Taxpayer Advocate Service has long been the fallback for thorny issues that remain unresolved after the taxpayer has exhausted the routine channels in the IRS. Here is some of the information in that report updated through September 11, 2021:

- The IRS has a current backlog of 10 million unprocessed individual and business tax returns that require manual processing. This is more than 5 times as many as were manually processed in 2019;
 - A little less than half of the backlog is paper tax returns awaiting processing, with most of the remainder being tax returns that were suspended during processing and requiring further review. Of the suspended returns, a large number were flagged because of discrepancies between recovery rebate credits claimed by taxpayers and what IRS records indicate the taxpayer qualifies for.
 - Also flagged were many returns of taxpayers who elected to use their 2019 earnings instead of their 2020 earnings to claim a larger earned income tax credit or additional child tax credit as allowed by the CARES Act.
 - 11 times as many unpostable returns as normal
 - Processing is taking longer than 21 days.
 - Adding to the backlog is a sharp increase in the number of returns flagged as suspicious: 3.7 million as of May 2021, compared with just 1.3 million in all of 2019.
 - All returns filed prior to April 2021 have been processed.
- 1.6 million unprocessed payroll tax forms 941, with 5,000 from prior to 2021
- No timeline available for processing net operating loss (NOL) carryback refund claims
- IRS received more phone calls during the 2021 filing season alone than it had ever received in a full fiscal year, with over four times as many calls as in the prior filing season.
 - The IRS's highest-volume phone line for individual income tax assistance clocked roughly 85 million calls, only 3 percent of which went through to a live IRS customer service representative.
- The timeline for processing responses to information requests is more than 60 days. Meanwhile, the Collections Division may continue sending deficiency notices.
- IRS employees were scheduled to return to their offices on September 15, 2021.

Due to continued escalation of requests from taxpayers for assistance in navigating the backlog, effective November 10, 2021 the Taxpayer Advocate Service is no longer accepting new cases, including amended returns.

1099 INFORMATION REPORTING AND RELATED PENALTIES

Source: CCH Federal Tax Weekly

Our office is available to prepare the 1099 information returns that are required to be issued by every business or individual that pays \$600 or more to an unincorporated entity for services, rent, interest, or dividends. We can provide you with a worksheet for compiling the necessary information to enable us to prepare these forms that are due by January 31, 2022. Form 1098 Mortgage Interest Statements can also be prepared from this worksheet if you change "Recipients of 1099 Income" to "Payers of Mortgage Interest."

Beginning with tax year 2020 the IRS created a separate form 1099-NEC to report Nonemployee Compensation. In years prior to 2020 it was reported in box 7 of form 1099-MISC. The new form is intended to reduce misclassification of this type of income, because it can be subject to self-employment Social Security tax, unlike other types of income reported on form 1099-NEC.

The Oregon Department of Revenue (ODR) requires that copies of all 1099s to Oregon recipients be filed electronically with ODR using its iWire system. Filing the federal copies with the IRS is not sufficient to meet the Oregon requirements.

The American Rescue Plan Act of 2021 eliminated the old 1099-K rules with a threshold of 200 transactions or \$20,000. Now third party networks will report at the \$600 threshold. Watch for an increase in 1099-K's for social media and internet activity. Venmo is excepted unless as an Etsy transaction.

In an audit of business returns, the IRS may assess penalties for failure to file correct 1099's, W-2's and similar information returns. The penalty cap for failure to file correct information returns and failure to furnish correct payee statements increased from \$1.5 million to \$3 million. The amount for each individual failure increased from as low as \$30 to as high as \$1,000. Lower penalty caps that apply when the penalty is corrected within 30

days or before August 1 have also doubled and tripled to \$500,000 and \$1.5 million, respectively. Lower limitations for persons with gross receipts of \$5 million or less have also been raised. The penalty amounts are indexed for inflation. The penalties apply for erroneous returns, as well as missing returns. However, there is a safe harbor. If an error is \$100 or less (\$25 in the case of errors involving tax withholding) the issuer is not required to file a corrected return and no penalty will be imposed. The recipient, however, can elect to have a corrected return issued.

FAILURE TO FILE PENALTIES

Source: Tax Speaker

In June 2019, the Taxpayers First Act included an increase in the maximum penalty for failure to file an income tax return to the lesser of \$330 (up from \$205) (indexed for inflation), or 100% of the amount required to be shown on the return.

2021 PENSION COMPARISON TABLE

Source: Bob Jennings/Tax Speaker

	Traditional IRA	Roth IRA	Non-Deductible IRA	Roth 401-K	Simple IRA	SEP	Solo 401-K	401-K
Highlights	Excellent savings plan for those not covered by other plans but who have earned income	Great long-term plan that offers tax-free accumulations and withdrawals	Worst of the 3 IRAs but better than nothing	Fantastic way to save big bucks with no future taxation, but must be employer sponsored	Excellent choice for side businesses, small businesses, and those with <\$50k annual income. 97% employee funded	Excellent contribution limits, no 5500 make this a winner, but 100% employer funded. Voluntary contributions	The best plan for family businesses, those with only part-time employees as long as they want to fund more than a SIMPLE. Better than a SEP in many cases.	Excellent plan, partly employee funded, but watch the dreaded top-heavy rules which can make this a bad choice for some businesses.
Max. Employee Contribution	\$6,000	\$6,000	\$6,000	\$19,500	\$13,500	-0-	\$19,500	\$19,500
Max. Employer Contribution	N/A	N/A	N/A	\$58,000	\$13,500	Lesser of 25% of W-2 or \$58,000	Lesser of 25% of W-2 or \$58,000	Lesser of 25% of W-2 or \$58,000
Max. Contribution All Sources	\$6,000	\$6,000	\$6,000	\$58,000	\$13,500 + 3% of W-2 Before Deferral	\$58,000	\$58,000	\$58,000
Over Age 49 Additional Catch-Up	\$1,000	\$1,000	\$1,000	\$6,500	\$3,000	N/A	\$6,500	\$6,500
Tax Deduction	Yes	No	No	No	Yes	Yes	Yes	Yes
Withdrawals	Taxed	Nontaxable	Earnings Taxed	Nontaxable	Taxed	Taxed	Taxed	Taxed
Earnings	Tax Deferred	Nontaxable	Tax Deferred	Nontaxable	Deferred	Deferred	Deferred	Deferred
Penalty Exceptions	Death, disability, education, 1 st home, more	Death, disability, education, 1 st time home, more	Death, disability, education, 1 st time home, more	Death, disability, education, 1 st time home, more	Most IRA exceptions	Most IRA exceptions	Most IRA exceptions	Most IRA exceptions
Form By (2021)	4/15/22	4/15/22	4/15/22	Due date + Extension	10/1/21	Due date + extension	Due date + Extension	Due date + Extension
Contribute By	4/15/22	4/15/22	4/15/22	Due date + Extension	Due date + Extension	Due date + Extension	Due date + Extension	Due date + Extension
Penalty Issues	10% before 59 ½	10% before 59 ½ on earnings only	10% before 59 ½	10% before 59 ½	25% 1 st 2 years	10% before 59 ½	10% before 59 ½	10% before 59 ½
Tests	1-Earned Income 2-Not covered by other plan 3-If covered, must be below income limits	1-Earned income 2-Max Income under \$144k single, \$214k MFJ	1-Earned Income	Employer sponsored	No other active plan	No other active plan	Family Only, Employer sponsored, other plans ok	Employer sponsored; other plans ok
Distributions	Start by 4/1 of year after turning 72	No requirement	Start by 4/1 of year after turning 72	Plan based Usually 72	Plan based Usually 72	Plan based Usually 72	Later of 72 or retirement	Later of 72 or retirement
Bankruptcy Protection	\$1,000,000 Infl. adj.	\$1,000,000 Infl. adj.	\$1,000,000 Infl. adj.	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
5500 Required?	No	No	No	Yes	No	No	Yes	Yes
More Information	Pub 590	Pub 590	Pub 590	Publications 560	Publications 560	Publications 560	Publications 560	Publications 560

For more information, visit the following websites:
<http://www.irs.gov/publications/p560or590/index.html>

DOCUMENTATION GUIDE FOR CHARITABLE CONTRIBUTIONS

Source: Thomson Reuters/PPC

PURPOSE: This table describes the types of documentation required to substantiate various types of charitable contributions made by individual taxpayers. Failing to maintain the proper documentation generally results in the donation being nondeductible.

TYPE OF DONATION	AMOUNT GIVEN IN A SINGLE DONATION			
	Less than \$250	\$250 to \$500	Over \$500, up to \$5,000	Over \$5,000
Cash	<ul style="list-style-type: none"> Bank record or written receipt from charity showing donee name, date, and amount of contribution unless donation is to a charitable remainder trust 	<ul style="list-style-type: none"> Bank record or written receipt from charity showing donee name, date, and amount of contribution Acknowledgment 	<ul style="list-style-type: none"> Bank record or written receipt from charity showing donee name, date, and amount of contribution Acknowledgment 	<ul style="list-style-type: none"> Bank record or written receipt from charity showing donee name, date, and amount of contribution Acknowledgment
Noncash:				
1. Publicly traded stock	<ul style="list-style-type: none"> Receipt or reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records
2. Nonpublicly traded stock	<ul style="list-style-type: none"> Receipt or reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records Qualified appraisal Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
3. Artwork	<ul style="list-style-type: none"> Receipt or reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records Qualified appraisal Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
4. Vehicles, boats, and airplanes	<ul style="list-style-type: none"> Receipt or reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records 	<ul style="list-style-type: none"> Acknowledgment 	<ul style="list-style-type: none"> Acknowledgment Qualified appraisal if deduction is FMV
5. All other noncash donations	<ul style="list-style-type: none"> Receipt or reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records 	<ul style="list-style-type: none"> Acknowledgment Reliable written records Qualified appraisal Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
6. Payroll deduction	<ul style="list-style-type: none"> Paystub, Form W-2, or other record from employer Pledge card from donee showing donee's name 	<ul style="list-style-type: none"> Paystub, Form W-2, or other reliable written record from employer Documentation from charity 	<ul style="list-style-type: none"> Paystub, Form W-2, or other reliable written record from employer Documentation from charity 	<ul style="list-style-type: none"> Paystub, Form W-2, or other reliable written record from employer Documentation from charity
7. Out-of-pocket expenses while serving as a volunteer	<ul style="list-style-type: none"> Receipt, cancelled check, or other reliable written records 	<ul style="list-style-type: none"> Receipt, cancelled check, or other reliable written records Acknowledgment 	<ul style="list-style-type: none"> Receipt, cancelled check, or other reliable written records Acknowledgment 	<ul style="list-style-type: none"> Receipt, cancelled check, or other reliable written records Acknowledgment

MEALS and ENTERTAINMENT DEDUCTIONS
Under Tax Cuts and Jobs Act of 2017
and Consolidated Appropriations Act of 2020

Type of Expense	TCJA 2018-2020 and 2023-2025	Consolidated Appropriations 2021-2022	Reference and Comments
Business Entertainment	No Deduction	No Deduction	IRC Section 274
Sky boxes	No Deduction	No Deduction	
Sporting/Theatre Tickets	No Deduction	No Deduction	
Other entertainment, amusement, or recreation expenses	No Deduction	No Deduction	Golf, lodges, trips, resorts, etc.
Business Meals where business is discussed during or immediately before or after the meal	50% Deductible as long as not lavish or extravagant and taxpayer or employee of taxpayer is present	100% Deductible as long as not lavish or extravagant and taxpayer or employee of taxpayer is present	
Business Meals at, before, or after an entertainment event such as dinner before a theatre	50% Deductible as long as not lavish, and taxpayer or employee of taxpayer is present	100% Deductible as long as not lavish, and taxpayer or employee of taxpayer is present	
Company Picnic or Holiday Events	100% Deductible	100% Deductible	De Minimis IRC Sec. 132(e)
Meals at Employer's Convenience (on premise rule)	100% Deductible	100% Deductible	IRC Sec. 199 Employer Convenience
Working Condition Fringe Meals	100% Deductible	100% Deductible	
Travel Meals	50% Deductible	100% Deductible	These are not meals subject to the entertainment limits, they are meals subject to travel limits
Meals reimbursed by employer under accountable plans	100% Deductible by employee, Employer subject to various tests which allow either a 50% deduction if business meals, or a 100% deduction if cost of providing service	100% Deductible by employee, Employer gets no deduction if business meals, 50% deduction if travel meals and 100% deduction if cost of providing service	
Business meeting meals of employees, stockholders and directors	50% Deductible	100% Deductible	
Meals sold to the general public (like cost of putting on an event – client seminars, etc.)	100% Deductible	100% Deductible	

MEALS and ENTERTAINMENT DEDUCTIONS

Business Related Meals	Deductible Percentage			
	100%	100% 2021 and 2022 Under CAA	50% in 2020	Non Deductible
Quiet Business Meals		X	X	
Occasional Employee Fringe Benefit Meals (Cocktail parties, picnics, Holidays)	X			
Meals for Public as Costs of Goods Sold	X			
Meals for Public as Advertising	X			
Meals overnight for Business		X	X	
Meals as part of Equipment Installation (Capitalize)	X			
Meals with Business Groups		X	X	
Meals before and after entertainment		X	X	
Meals on Premises – For employer convenience		X	X	
Business Related Entertainment				
Sporting, Hunting, Fishing				X
Plays, Theatres, Shows, Concerts				X
Games of any Sport				X
Tickets to clients for any of above				X
Dues: Country clubs, social clubs, athletic clubs, or organizations				X
Skybox, Sporting or Entertainment facility fees or leases				X
Business Meals Separately Stated as part of above entertainment		X	X	
Entertainment directly related to taxpayers' line of business (sporting goods salesperson going to ballgame)	X			