Supplement to J. K. Lasser's 1,001 Deductions and Tax Breaks 2021

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The COVID-19 pandemic triggered numerous changes in tax law as reflected in the book. But tax law is not static and new legislation, IRS pronouncements, and court decisions continue to tweak tax rules. They affect reporting on 2020 returns as well as tax planning for 2021 and beyond.

The Consolidated Appropriations Act, 2021 (CAA), which runs 5,593 pages and was signed into law on December 27, 2020, made a number of changes impacting individuals. Some are reflected on 2020 returns; others do not take effect until 2021 and, thus, affect tax planning and estimated taxes for 2021.

The changes presented in this Supplement occurred after October 1, 2020, when this book was published. The changes are listed according to the chapters in which the subject matters appear.

Introduction

Above-the-line deductions. The above-the-line deduction for educator expenses of up to $250, which can be adjusted for inflation, will remain unchanged for 2021. However, the definition of "classroom expenses" has been expanded (see Chapter 13 below).

Tuition and fees deduction. The deduction for tuition and fees of up to $4,000 expired at the end of 2020, but has *not* been extended. However, education credits continue to be a way in which to reduce the out-of-pocket cost of education.

Standard deduction amounts. The basic standard deduction amounts are increased in 2021 due to cost-of-living adjustments:

- Married filing jointly and surviving spouses: $25,100 (up from $24,800).
- Heads of households: $18,800 (up from $18,650).
- Singles and married filing separately: $12,550 (up from $12,400).

Additional standard deduction amounts. For 2021, the additional standard deduction amount for age and/or blindness increases slightly to $1,700 for single filers and heads of households and $1,350 for married filers (filing jointly or separately) and surviving spouses.

Above-the-line deduction for charitable contributions. The $300 deduction for cash contributions to charity by individuals who do not itemize has been extended for 2021. What's more, the deduction in 2021 is per individual, so that joint filers can deduct up to $600. On 2020 returns, the deduction is per "tax unit," so the same $300 applies to singles and joint filers.

Chapter 1—Your Family

Dependents. While the personal and dependency exemptions are not deductible in 2018 through 2025, the definition of dependent continues to apply for various tax breaks (e.g., child tax credit; head of household status). The amount of income for a qualifying relative taken into account in determining dependent status in 2021 is unchanged at $4,300.

Child tax credit. CAA allows you to elect to use 2019 income to figure your 2020 child tax credit. This option is beneficial if 2019 income is greater so that a larger credit is allowed. But it should not be elected if it results in a reduction or elimination in the allowable credit.

There is no change in the amount of the child tax credit for 2021. The refundable credit amount remains at $1,400 per eligible child.

Earned income credit. CAA allows you to elect to use 2019 income to figure your 2020 earned income tax credit (the same option that applies for the child tax credit). This option is beneficial if income is greater so that a larger credit is allowed. But it should not be elected if it results in a reduction or elimination in the allowable credit.

The earned income credit amounts, including adjusted gross income limits, have been increased for 2021. As a result, the maximum earned income credit in 2021 is $3,618 for one qualifying child, $5,980 for two qualifying children, $6,728 for three or more qualifying children, and $543 for a taxpayer with no qualifying child.

Dependent care credit. There have been no changes in this tax credit.

Adoption credit. The adoption credit limit increases to $14,440 for 2021 (up from $14,300 in 2020). The modified adjusted gross income limits on eligibility for the credit have also been increased slightly for 2021.

Economic Impact Payments—round 2. The second round of Economic Impact Payments (EIP2) authorized in December 2020 by CAA was $600 per individual (compared with the initial payment of $1,200), plus $600 per child under age 17 at the end of the year (compared with the initial payment of $500). Payments were only made to individuals with adjusted gross income (AGI) in 2019 below a set amount. Full payments applied if 2019 AGI was no more than $75,000 for singles and married filing separately, $112,500 for heads of households, and $150,000 for joint filers and surviving spouses. The payment was reduced for those with AGI above these levels; no payment is made to taxpayers with no qualifying children once AGI reached $87,000 for singles (compared with $99,000 for the initial payment) and $174,000 for joint filers (compared with $198,000 for the initial payment). For each qualifying child, the phaseout endpoint was increased by $12,000.

For those whose income was below the filing threshold so that no return was filed for 2019 (i.e., there was no AGI that the IRS could use to figure a payment), the IRS worked with the Social Security Administration, the Railroad Retirement Board, and the Veterans Administration to get payments to eligible individuals.

Individuals who did not receive a second round payment, or who received less than the full amount, may be able to claim an additional amount on their 2020 return, in the form of the Recovery Rebate Credit, based on their 2020 AGI and family status.

Chapter 2—Medical Expenses

Individual mandate. A case concerning the constitutionality of the Affordable Care Act is before the U.S. Supreme Court. While oral arguments have been heard, no decision has yet been handed down. It is unclear what a decision that the law is unconstitutional would mean. For example, would the premium tax credit automatically become void? Would there be any retroactive impact? Continue to monitor this issue.

Premium tax credit. This refundable tax credit, which continues to apply despite repeal of the individual mandate, is designed to help individuals pay for the cost of health coverage for themselves and their dependents. To be eligible for the premium tax credit, your household income must be at least 100%, but no more than 400% of the federal poverty line for your family size. Eligibility for the credit in 2021 is based on 2020 federal poverty guidelines for the 48 contiguous states and District of Columbia as shown in the following table.

Persons in the family/household	Poverty guideline (100%)
1	$12,760
2	$17,240
3	$21,720
4	$26,200
5	$30,680
6	$35,160
7	$39,640
8	$44,120
More than 8	Add $4,480 for each additional person

*The guidelines are higher in Alaska and Hawaii; see https://aspe.hhs.gov/poverty-guidelines.

Health coverage tax credit. This credit has been set to expire at the end of 2020, but has been extended through 2025.

Itemized medical expenses. The adjusted gross income (AGI) floor for deducting itemized medical expenses, which is 7.5% for 2020, had been scheduled to rise to 10% in 2021. However, CAA has made the 7.5%-of-AGI floor permanent. This floor applies for all taxpayers; it is not age dependent.

For 2021, the IRS medical expense mileage rate is 16¢ per mile (down from 17¢ per mile in 2020).

The IRS has not ruled specifically on whether any COVID-19-related expenses (e.g., masks, hand sanitizers) are qualified medical expenses. There is no mention of such items in the draft of 2020 Publication 502, *Medical and Dental Expenses.*

Long-term care coverage. The portion of long-term care insurance premiums that are treated as a deductible medical expense has increased in 2021 for each age group. The cap for those who are age 70 and older in 2021 is $5,640.

Flexible spending arrangements (FSAs). In 2021, the maximum salary contribution to an FSA is capped at $2,750 (unchanged from 2020). But CAA made a number of changes in FSAs:

- You may be allowed by the plan to make mid-year election changes in 2021. This means opting to participate, opting out of participation, or changing your salary reduction contribution. A change only applies going forward.
- You may carry over unused contributions to the following year if the plan allows it. This means that any of the used contribution in 2020 (up to the annual limit of $2,750) can be carried over to 2021, and any unused contribution in 2021 (up to the annual limit of $2,750) can be carried over to 2022.
- If your plan offers a grace period, it normally would run only up to March 15 of the following year, but CAA extended the grace period for the entire year. This applies for 2020 and 2021. Thus, unused contributions for 2020 and be used at any time in 2021, provided your plan has a grace period.
- If you cease to participate during the year because you've left the job, you can be reimbursed for unused amounts. This applies for 2020 and 2021.

QSEHRAs. The maximum employer reimbursement under a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) for individually-obtained health insurance in 2020 is $5,300 for self-only coverage and $10,700 for family coverage (up from $5,250 and $10,600 respectively for 2020).

Health savings accounts (HSAs). The 2021 minimum and maximum amounts for high-deductible health plans (a prerequisite for HSAs) as well as contribution limits to HSAs have increased slightly:

High-deductible health plans and HSAs for 2021

Type of plan	Minimum deductible under the plan	Maximum out-of-pocket costs	Maximum contribution*
Self-only coverage	$1,400	$7,000	$3,600
Family coverage	$2,800	$14,000	$7,200

*Those age 55 or older by the end of 2021 can add another $1,000, but no contributions are allowed if enrolled in Medicare.

Archer medical savings accounts (MSAs). There are still some individuals covered by these health plans. Again, contributions to MSAs can only be made for those covered by a high-deductible health plan. The limits for 2021 have increased slightly:

High-deductible health plans for MSAs in 2021

Type of plan	Minimum deductible under the plan	Maximum deductible under the plan	Cap on out-of-pocket expenses
Self-only coverage	$2,400	$3,600	$4,800
Family coverage	$4,800	$7,150	$8,750

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2020 is $400 (up from $380 in 2020). Excess amounts are taxable to the extent they exceed actual long-term care costs.

ABLE accounts. This type of savings account is designed to pay certain costs of a qualified disabled individual without costing him or her eligibility for government assistance. As of January 2021, ABLE accounts have gone live in 42 states and the District of Columbia.

Medicare. The "standard" premium for Part B coverage in 2021, the premium paid by most beneficiaries, is $148.50 per month (compared with $144.60 per month on average for 2020). Those who fall within a "hold harmless" definition pay a lower monthly premium for 2021. The following tables (one for Part B and one for Part D) show the 2021 surcharges and total premiums for higher-income taxpayers, which are based on modified adjusted gross income (MAGI) in 2019.

Part B Premiums for 2021:

2019 MAGI for joint filers	***2019 for other filers****	***Total monthly Part B premium for 2021***	***Total monthly Part D premium for 2021***
Up to $176,000	Up to $88,000	$148.50 unless held harmless	Your premium
$176,001 but not over $222,000	$88,001 but not over $111,000	$207.90	$12.30 + your premium
$222,001 but not over $276,000	$111,001 but not over $138,000	$297.00	$31.80 + your premium
$276,001 but not over $330,000	$138,001 but not over $165,000	$386.10	$51.20 + your premium
$330,001 but not over $750,000	$165,001 but not over $750,000	$475.20	$70.70 + your premium
$750,000 or greater	$500,000 or greater	$504.90	$77.10 + your premium

* Married persons filing separately for 2019 who did not live apart for the entire year are subject to a monthly premium for 2021 of $475.20 for Part B and $70.70 for Part D if 2019 MAGI was over $88,000 and under $412,000, or $504.90 for Part B and $77.10 for Part D if 2019 MAGI was $412,000 or more.

Medical insurance rebates. Private insurers paid out $2.7 billion in Medical Loss Ratio rebates in 2020 (up from $1.3 billion in 2019). These rebates to eligible individuals were to be paid by insurers by September 30, 2020.

Chapter 3—Education Costs

Employer assistance with student loan repayment. In 2020, you could receive employer assistance with your student loan debt up to $5,250 if your employer had an educational assistance plan. This break has been extended through 2025. The dollar limit has not changed.

American opportunity credit. There is no change in the modified adjusted gross income limit (MAGI) limits in 2021 for eligibility to claim the credit.

Lifetime learning credit. The modified adjusted gross income thresholds above which the credit is phased out have been aligned with those for the American opportunity credit. This means that the same MAGI limits and phase-out ranges apply after 2020. Thus, there is no change for 2020 returns (the 2020 limits are in the book).

Tuition and fees deduction. The above-the-line deduction for tuition and fees of up to $4,000, which expired at the end of 2020, has *not* been extended. This education tax break does not apply after 2020 returns.

Student loan interest deduction. The modified adjusted gross income (MAGI) thresholds above which the deduction is phased out for 2021 have not been increased. For singles, the 2021 phase-out starts at $70,000 and is completed at $85,000. The MAGI phase-out for joint filers starts at $140,000 and is completed at $170,000.

Interest on U.S. savings bonds. The modified adjusted gross income limits on eligibility to claim the exclusion for interest on bonds redeemed to pay qualified higher education costs have been increased slightly for 2021.

ABLE accounts. The annual contribution limit for 2021 is $15,000 (unchanged from 2020).

Chapter 4—Your Home

Mortgage insurance premiums. The ability to treat mortgage insurance premiums as deductible mortgage interest, which had been set to expire at the end of 2020, has been extended for through 2021.

Cancellation of mortgage debt. The exclusion for income resulting from the cancellation of debt up to $2 million on a principal residence, which has been set to expire at the end of 2020, has been extended for 5 years. However, after 2020, the cap on the exclusion is $750,000 of mortgage debt ($375,000 if married filing separately).

Real estate taxes. CAA did not make any changes to the $10,000 limit on the deduction for state and local taxes (“SALT cap”).

The IRS determined that the distributive net income passed through by partnerships and S corporations to partners and S corporation shareholders, which includes entity-level state and local tax payments, does not impact the owners' SALT cap.

Coop housing. In an IRS letter to a Congressional office, the IRS said that the SALT cap applies to co-op owners with respect to their share of property taxes allocated to them from their cooperative corporation.

Moving expenses. No deduction can be claimed for work-related moving expenses except for certain military personnel. Those who qualify can figure their move-related driving at 16¢ per mile in 2021 (down from 17¢ per mile in 2020).

Energy improvements. The nonbusiness energy property tax credit for making certain energy improvements to a principal residence, such as adding insulation or installing energy-efficient windows and exterior doors, expired at the end of 2020; it was extended for one year (2021). Keep in mind that $500 is a lifetime limit, so if you already used the credit, the extension does not affect you.

Disaster rules for casualties to your home. See Chapter 13.

Chapter 5—Retirement Savings

Traditional IRAs and Roth IRAs. The basic contribution limit for 2021 is $6,000, and the additional "catch-up" contribution limit of $1,000 for those who are at least 50 years old by the end of the year; both limits are unchanged from 2020. The modified adjusted gross income (MAGI) limits on eligibility to make deductible contributions to a traditional IRA are increased slightly for 2021, as are the MAGI limits for Roth IRAs.

401(k) and similar plans. The elective deferral contribution limit is unchanged for 2021 at $19,500, as is the additional contribution limit at $6,500 for those who are age 50 or older by the end of the year for 2021.

Self-employed retirement plans. The contribution, benefit, and other limits for these plans for are increased slightly for 2021. For example, the contribution limit for profit-sharing plans in 2021 is $58,000 (up from $57,000 in 2020).

Simplified Employee Pension plans (SEPs). Contribution limits for these plans for 2021 is $58,000 (up from $57,000 in 2020). The earnings threshold for including an employee in a SEP is increased slightly to $650 (up from $600 in 2020).

Savings Incentive Match Plans for Employees (SIMPLEs). The 2020 contribution limit for SIMPLEs and the additional contribution limit for those age 50 or older by the end of the year are $13,500 and $3,000 respectively (both unchanged from 2020).

Retirement saver's credit. The MAGI limits on eligibility to claim the retirement saver's credit for contributions to IRAs, 401(k)s, and similar plans, as well as to ABLE accounts, have been increased for 2021.

Coronavirus distributions. Qualified coronavirus distributions taken in 2020 are reported on Form 1099-R, even if they are repaid by the end of the year. Those reporting a distribution must file Form 8915-E.

Disaster distributions. See Chapter 12.

Required minimum distributions (RMDs). These were suspended for 2020. RMDs apply in 2021.

Chapter 6—Charitable Giving

Extension of charitable contribution breaks. The two tax breaks for charitable giving created by the CARES Act for 2020 have been extended for one year by CAA:

- Non-itemizers may deduct up to $300 in cash contributions to charity. For 2021, this limit applies per individual, so joint filers have a $600 total limit. For 2020 returns, a couple may only deduct up to $300 on a joint return.
- Itemizers may elect to deduct cash contributions to charity in 2021 up to 100% of adjusted gross income.

Chapter 7—Your Car

Business use of your personal car. The IRS announced that the standard mileage rate, used in lieu of deducting the actual costs of business driving, is 56¢ per mile in 2021 (down from 57.5¢ per mile in 2020). If you use the standard mileage rate, you must reduce the basis of your vehicle by 26¢ per mile in 2021 (down from 27¢ per mile in 2020).

The dollar limits on depreciating passenger cars, trucks, and vans placed in service in 2021 are unchanged from 2020. The inclusion amounts for leased vehicles are slightly different.

The dollar limit on first-year expensing for a heavy SUV (exempt from the annual depreciation dollar limits) is increased to $26,200 for 2021 (up from $25,900 for 2020).

Electric drive vehicles. The credit for 2-wheel vehicles, which was set to expire at the end of 2020, has been extended for one year (2021).

Chapter 8—Investing

Taxable income breakpoints for capital gains rates. The following table shows the break points for capital gain rates for 2021:

Rate	**Married filing jointly (and surviving spouse)**	**Head of household**	**Single**	**Married filing separately**
0%	Up to $80,800	Up to $54,100	Up to $40,400	Up to $40,400
15%	$80,801 - $501,600	$54,101 - $473,750	$44,001 - $445,850	$40,401 - $250,800
20%	Over $501,600	Over $473,750	Over $445,850	Over $250,800

Gain on Opportunity Zone assets. Generally, gain on the sale of assets can be deferred by investing them in a qualified opportunity fund (QOF) within 180 days. Deferral continues until the earlier of an inclusion event or December 31, 2026. And if there is an inclusion event, a rollover of gain from a QOF is permissible. During COVID-19, the IRS provided relief for meeting certain key deadlines (e.g., making a reinvestment within 180 days). The relief for individuals ran through the end of 2020. Monitor any additional relief that may be provided in 2021.

Cryptocurrency. If you engaged in any cryptocurrency (e.g., Bitcoin) transaction in 2020, you must answer "yes" to the question on page 1 of Form 1040 or 1040-SR. A transaction includes buying or selling cryptocurrency, receiving it in exchange for goods, services, or any other property, or transferring it for free (including from an airdrop or hard fork). The IRS has clarified that merely holding cryptocurrency in a wallet or account or transferring it from one wallet or account to another is not a transaction.

Chapter 9—Travel

Business travel per diem rates. The maximum federal per diem rate for travel starting October 1, 2020, through September 30, 2021, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $151 per day ($96 for lodging and $55 for M&IE). These rates are unchanged from the prior fiscal year. The per diem rates for travel to certain areas have been increased. These rates can be found here (https://www.gsa.gov/about-us/newsroom/news-releases/fy2021-per-diem-rates-for-federal-travelers-released-08142020A).

The high-low substantiation rates for areas within CONUS for the period October 1, 2020, through September 30, 2021, are $292 for travel to high-cost localities and $198 for travel to all other areas with CONUS (slightly lower than the rates for fiscal year 2020). Of these rates, the meal portion remains at $71 for high-cost areas and $60 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2020-71 for details).

Driving your car for medical purposes or by military personnel under certain conditions. The IRS standard mileage rate for 2021 is 16¢ per mile (down from 17¢ per mile in 2020).

Frequent flyer miles. The IRS has not made any further determinations affecting the tax treatment of frequent flyer miles.

Chapter 10—Real Estate

Like-kind exchanges. Proposals have been made in Congress to cap the value of property for which like-kind exchange tax treatment could be used. No such changes have been enacted.

Deduction for energy-efficient commercial buildings. The ability to deduct up to $1.80 per square foot for an energy-efficient building, which had been set to expire at the end of 2020, has been made permanent. What's more, the $1.80 per square foot amount will be indexed for inflation starting in 2021 (this amount has not yet been announced).

Special breaks for certain disaster victims. See Chapter 4 on relief for losses on personal residences.

Chapter 11—Borrowing and Interest

Home mortgage interest. See Chapter 4.

Student loan interest. See Chapter 3.

Borrowing from retirement plans. See Chapter 5.

Investment-related interest. See Chapter 8.

Chapter 12—Insurance and Catastrophes

Economic Impact Payments. There is no doubt that the pandemic has been a catastrophe. One of the key breaks provided by Congress to ameliorate the financial crush has been Economic Impact Payments (EIPs). EIP1 payments are discussed in the book: EIP2 payments are explained in the Introduction, above.

Disaster losses. CAA provided a number of relief measures for victims of federal disasters occurring on or after January 1, 2020 (other than COVID-19) and through February 25, 2021. These include:

Qualified disaster distributions from a retirement plan or IRA up to $100,000. These distributions are exempt from the 10% early distribution penalty. The distribution is reported over 3 years unless you opt to report the full amount in the year of the distribution. The distribution may be recontributed within three years.

Qualified disaster loans. The limits and repayment terms on these loans have been modified. They mirror the rules for loans taken in 2020 from qualified retirement plans by those impacted by COVID-19.

Net disaster losses. Losses to personal-use property, such as a home and furnishings, can be claimed by those who do not itemize as an additional standard deduction amount. The loss not covered by insurance must be reduced by $500; there is no 10%-of-adjusted-gross-income reduction.

Find a list of all federal disaster areas for 2020 disasters from FEMA. Looking ahead, designated disasters in 2021 will be listed by FEMA (https://www.fema.gov/disasters).

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2021 is $400 (up from $380 from 2020); excess amounts are taxable to the extent they exceed actual long-term care costs.

Chapter 13—Your Job

Educator expenses. If you are an educator, the same $250 cap on the above-the-line deduction for classroom expenses applies in 2021 as it does for 2020. However, the definition of classroom expenses has been changed to include personal protective equipment (PPE) and other materials and supplies designed to stem the spread of COVID-19, effective as of March 12, 2020.

Fringe benefits. Note changes in dollar limits and other changes for certain employee benefits, including:

Transportation fringe benefits. The monthly exclusion for free parking, transit passes, and van pooling for 2021 is $270 (unchanged from 2020).

Adoption assistance. The exclusion amount in 2021 for employer-provided adoption assistance is $14,440 (up from $14,300 in 2020).

Dependent care assistance. If you participant in your employer's dependent care FSA, you may be permitted to change your salary reduction election mid-year in 2021. This means opting into participation, opting out, or changes your contribution amount. Also, unused amounts from 2020 can be carried over to 2021, and used amounts from 2021 can be carried over to 2022.

Income earned abroad. The maximum foreign earned income exclusion for 2021 is $108,700 (up from $107,600 in 2020).

The time requirement for the foreign earned income exclusion is waived for certain countries. Due to the global health emergency caused by COVID-19, the minimum time requirements necessary to meet the bona fide residence test or physical presence test for the foreign earned income exclusion have been waived if leaving the foreign country was required. This applies to leaving:

- The People's Republic of China (excluding Hong Kong and Macau) on or after December 1, 2019, but on or before July 15, 2020; or
- Another foreign country on or after February 1, 2020, but on or before July 15, 2020 (unless the IRS provides additional relief).

Unemployment benefits. Regular unemployment benefits paid by your state, as well as the Pandemic Unemployment Assistance (the $600 extra that was paid for up to 14 weeks through the end of July 2020 and the $300 extra that began on December 27, 2020, for a maximum of 11 weeks) are taxable compensation. If you anticipate the receipt of unemployment benefits in 2021, consider opting for voluntary withholding by filing Form W-4V. Federal income tax withholding from all benefits is then taken at the flat rate of 10%.

Wage withholding. If your employer opted to defer your Social Security tax (part of FICA) on your wages from September 1, 2020, through December 31, 2020, there is additional withholding to cover the deferred amount. This is spread throughout 2021.

If your circumstances have changed since 2020 (e.g., a spouse began to work or stopped working, you had or adopted a child), you may want to file a new withholding form (Form W-4) for 2021 to better estimate tax liability.

Chapter 14—Your Business

Qualified business income (QBI) deduction. The taxable income threshold is slightly higher for 2021, at $329,800 for joint filers, $165,925 for married persons filing separately, and $165,900 for all other filers.

Losses and the QBI deduction. Generally, previously disallowed losses due to the taxable income limitation, and the formula that applies to those with TI above the applicable threshold amount, are taken into account in the following year. The amended regulations factor in business losses disallowed under Code Sec. 461(l) (excess business losses of noncorporate taxpayers, but not for 2018, 2019, and 2020). Excess business losses are treated as an NOL carryover in a subsequent year and the regulations instruct how to handle them for QBI deduction purposes.

Previously disallowed losses or deductions under the at-risk rules, the passive activity loss rules, 704(d) and 1366(d) are taken into account for computing QBI. Losses are used on a FIFO basis (per category). Previously disallowed losses or deductions are treated as losses from a separate trade or business in the year they are taken into account in taxable income. Attributes (e.g., whether a deduction is attributable to a trade or business) are determined in the year the loss or deduction is incurred.

Equipment purchases. Some dollar limits and percentages have changed:

- *First-year expensing.* The deduction limit for 2021 is $1,050,000. This amount begins to phase out when purchases in 2021 exceed $2,620,000.
- *Bonus depreciation.* Bonus depreciation remains at 100% for 2021 and applies through 2022. Thereafter it begins to decline so that the rate will be 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026. (There is an additional year for property with long production periods.)

Employment-related tax credits. The Indian employment, which had been set to expire at the end of 2020, has been extended for one year. The empowerment zone credit, which has also been set to expire at the end of 2020, has *not* been extended; it has expired now.

The work opportunity credit and the paid family and medical leave credit (not the mandatory COVID-19-related paid sick leave and family leave credits), which had been set to expire at the end of 2020, have been extended for 5 years (through 2025).

Self-employment tax. The wage base for the Social Security portion of the self-employment tax in 2021 is $142,800 (up from $137,700 in 2020).

Reminder: Those who opted to defer one half of Social Security tax (part of self-employment tax) for 2020 must pay 50% of the deferred amount by the end of 2021. This should be factored into estimated taxes for 2021.

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, is 56¢ per mile for 2021 (down from 57.5¢ per mile in 2020).

Those who own their vehicles and use the standard mileage rate for 2021 must reduce the vehicle's basis by 26¢ per mile (down from 27¢ per mile in 2020).

Business-related tax credits. Various other business-related tax credits listed in Table 14.2 had been set to expire at the end of 2020. Some credits did expire, others were made permanent, while still others were extended for various periods, as follows:

Permanent: Railroad track maintenance credit.

Five-year extension: New markets credit.

Two-year extension: Carbon oxide sequestration credit; energy investment tax credit.

One-year extension: Qualified fuel cell motor vehicles credit; credit for alternative fuel vehicle refueling property; credit for plug-in electric drive 2-wheel vehicles (motorcycles); credit for second-generation biofuel produced; credit for Indian coal facilities, credit for electricity produced from certain renewable resources; credit for building energy-efficient homes; mine rescue training credit.

COVID-19 government assistance. CAA made a number of changes in the financing options available to small businesses.

PPP loan changes. The Paycheck Protection Program has been expanded by CAA in several ways:

- The program reopened, but is set to close again on March 31, 2021.
- The definition of “covered expenses” have been expanded to include covered operational expenses, such as software, cloud computing, and other human resource and accounting needs, covered property damage costs related to riots in 2020 not covered by insurance, covered supplier costs for expenditures pursuant to a contract, purchase order, or order for goods in effect prior to taking out the loan that are essential to the recipient’s operations at the time at which the expenditure was made, and covered worker protection expenditures like PPE.
- The covered period can end at the borrower’s choice of between 8 and 24 weeks after the origination of the loan.
- There is a simplified loan application for amounts under $150,000 (SBA Form 2483).
- “Second draw loans” can be obtained by smaller and harder-hit businesses. The maximum loan is $2 million and the maximum number of employees is 300. The business needs to demonstrate a specified reduction in gross receipts and that original PPP funds have or will be used in full. An application for second draw loans is made on SBA Form 2483-SD.

The IRS rule barring deductibility of expenses covered by forgiveness of PPP loans has been overturned, so that expenses—payroll, rent, utilities—are deductible under normal tax rules even if the loan is forgiven.

EIDL loan changes. The SBA’s Economic Injury Disaster Loans program has been extended. Initially, there was a $10,000 advance payment in the nature of a grant. CAA makes it clear that the grant is tax free. What’s more, those who obtained PPP loans as well don’t have to repay this amount.

Direct payments to certain businesses. There are direct payments by the SBA to live entertainment venues, independent movie theaters, talent representatives, and museums that have been forced to close due to government-mandated shutdowns ("shuttered venue operators"). These grants can be used for payroll costs, rents, utilities, and PPE. They're tax free, while expenses are tax deductible.

Special breaks for self-employed individuals, including independent contractors and gig workers. Various tax breaks for small businesses and employees apply as well, with some modifications, to self-employed individuals, including:

- *Financial assistance.* Self-employed individuals are eligible to request PPP loans, EIDL loans, and direct payments to "shuttered venue operators."
- *Tax credits equivalent to employer credits for paid sick leave and paid family leave*. These credits are extended through March 31, 2021. What's more, you can elect to use your average daily self-employment income from 2019 in figuring your 2020 credit amounts.
- *Pandemic unemployment assistance (PUA)*. Self-employed individuals can receive the additional weekly payments for up to 11 weeks. The second round of assistance runs to March 14, 2021. Individuals who have not exhausted the maximum weeks of state unemployment can receive the pandemic unemployment assistance through April 5, 2021. PUA payments are taxable income.

Chapter 15—Miscellaneous Items

IRS interest rate. The rate for underpayments and overpayments of federal by individuals is 3% for the first quarter of 2021 (the same as the last quarter of 2020). This rate may be adjusted quarterly.

Gifts you make. The annual exclusion amount for 2021 is $15,000 per recipient (unchanged from 2020). Of course, the recipient can receive any amount tax free (the exclusion impacts only the gift tax, if any, owed by the person making the gift).

Tax audits. The reasonable reimbursement rate for attorney's fees in 2021 when the IRS's position is not substantially justified and other requirements are met is $210 per hour (unchanged from 2020).

Exemption amounts. The AMT exemption amounts for 2021 are:

Filing status	2021 exemption
Married filing jointly/surviving spouse	$114,600
Single/head of household	$73,600
Married filing separately	$57,300

Exemption phase-out. The exemption amounts for 2021 start to phase out when alternative minimum taxable income (AMTI) exceeds $1,047,200 for married filing jointly and surviving spouses and $523,600 for other filers.

ABLE accounts. See Chapter 2.