Quickfinder®

1040
Quickfinder® Handbook
(2020 Tax Year)

Updates for December 2020 Legislation and Other Recent Guidance

Instructions: This packet contains "marked up" changes to the pages in the *1040 Quickfinder® Handbook* that were affected by December 2020 legislation, which was enacted after the *Handbook* was published. Additionally, changes were made based on other guidance issued after the Handbook was published. To update your *Handbook*, you can make the same changes in your *Handbook* or print the revised page and paste over the original page.

2020 States Quick Reference

Tab 2 Topics

State Individual Income Tax Quick Reference Chart (2020)

State	Website	Maximum Rate	Return Due Date[1]	Resident Tax Form Number	Accepts Federal Extension?	State Extension/ Payment Voucher
Alabama	**https://revenue.alabama.gov**	5.00%	April 15	40	No	40V[2]
Alaska	**www.revenue.state.ak.us**	N/A—no individual income tax				
Arizona	**https://azdor.gov**	4.50	April 15	140	Yes	204[3]
Arkansas	**www.dfa.arkansas.gov**	6.60	April 15	AR1000F	Yes	AR1055-IT[4]/ AR1000ES[5]
California	**www.ftb.ca.gov**	12.30	April 15	540	No	3519[2]
Colorado	**www.colorado.gov/pacific/tax**	4.55	April 15	104	No	0158-I[2]
Connecticut	**https://portal.ct.gov/drs**	6.99	April 15	CT-1040	Yes	CT-1040EXT[3]
Delaware	**https://revenue.delaware.gov**	6.60	April 30	200-01	Yes[6]	1027[3]
District of Columbia	**https://otr.cfo.dc.gov**	8.95	April 15	D-40	Yes	FR-127[3]
Florida	**https://floridarevenue.com/taxes**	N/A—no individual income tax				
Georgia	**https://dor.georgia.gov**	5.75	April 15	500	Yes	IT-303[4]/IT-560[5]
Hawaii	**https://tax.hawaii.gov**	11.00	April 20	N-11	No	N-101A[2]
Idaho	**https://tax.idaho.gov**	6.925	April 15	40	No	51[2]
Illinois	**www2.illinois.gov/rev/**	4.95	April 15	IL-1040	No	IL505-I[2]
Indiana	**https://in.gov/dor**	3.23	April 15	IT-40	Yes	IT-9[3]

Table continued on the next page

State Individual Income Tax Quick Reference Chart (2020) (Continued)

State	Website	Maximum Rate	Return Due Date[1]	Resident Tax Form Number	Accepts Federal Extension?	State Extension/ Payment Voucher
Iowa	**https://tax.iowa.gov**	8.53%	April 30	IA 1040	No	IA 1040V[2]
Kansas	**https://ksrevenue.org**	5.70	April 15	K-40	Yes	K-40V[2]
Kentucky	**https://revenue.ky.gov**	5.00	April 15	740	Yes	40A102[3]
Louisiana	**https://revenue.louisiana.gov/**	6.00	May 15	IT-540	No	R-2868V[5,9]
Maine	**https://maine.gov/revenue**	7.15	April 15	1040ME	No	1040EXT-ME[2]
Maryland	**https://marylandtaxes.gov**	5.75	April 15	502	Yes	PV[6]
Massachusetts	**https://mass.gov/orgs/ massachusetts-department-of-revenue**	12.00	April 15	1	No	M-4868[2]
Michigan	**https://michigan.gov/taxes**	4.25	April 15	MI-1040	Yes	4[2]
Minnesota	**https://revenue.state.mn.us**	9.85	April 15	M1	No	[9]
Mississippi	**https://dor.ms.gov**	5.00	April 15	80-105	Yes	80-106[2]
Missouri	**https://dor.mo.gov**	5.40	April 15	MO-1040	Yes	MO-60[3]
Montana	**https://mtrevenue.gov**	6.90	April 15	2	No	EXT-15[5, 7]
Nebraska	**https://revenue.nebraska.gov**	6.84	April 15	1040N	Yes	4868N[3]
Nevada	**https://tax.nv.gov**	N/A—no individual income tax				
New Hampshire	**https://revenue.nh.gov**	7.70	April 15	DP-10/1040-NH	No	DP-59-A[2], BT-EXT[2]
New Jersey	**https://state.nj.us/treasury/ taxation**	10.75	April 15	NJ-1040	Yes	NJ-630[3]
New Mexico	**https://tax.newmexico.gov**	4.90	April 15	PIT-1	Yes	RPD-41096[3]
New York	**https://tax.ny.gov**	8.82	April 15	IT-201	No	IT-370
North Carolina	**https://ncdor.gov**	5.25	April 15	D-400	Yes	D-410
North Dakota	**http://nd.gov/tax**	2.90	April 15	ND-1	Yes	101[4]/ND-1EXT[5]
Ohio	**https://tax.ohio.gov**	4.797	April 15	IT 1040	Yes	IT 40P[5]
Oklahoma	**https://ok.gov/tax**	5.00	April 15	511	Yes	504-I[3]
Oregon	**https://oregon.gov/dor**	9.90	April 15	OR-40	Yes	40-V[3]
Pennsylvania	**https://revenue.pa.gov**	3.07	April 15	PA-40	Yes	REV-276[3]
Rhode Island	**www.tax.ri.gov**	5.99	April 15	RI-1040	Yes	RI-4868[3]
South Carolina	**https://dor.sc.gov**	7.00	April 15	SC1040	Yes	SC4868[3]
South Dakota	**https://dor.sd.gov**	N/A—no individual income tax				
Tennessee	**www.tn.gov/revenue**	1.00	April 15	INC 250	Yes	INC 251[3]
Texas	**https://comptroller.texas.gov/**	N/A—no individual income tax				
Utah	**https://tax.utah.gov**	4.95	April 15	TC-40	No	TC-546[2]
Vermont	**https://tax.vermont.gov**	8.75	April 15	IN-111	No	IN-151
Virginia	**https://tax.virginia.gov**	5.75	May 1	760	No	760IP[2]
Washington	**https://dor.wa.gov**	N/A—no individual income tax				
West Virginia	**https://revenue.wv.gov**	6.50	April 15	IT-140	Yes	Sch L[3]
Wisconsin	**https://revenue.wi.gov**	7.65	April 15	1	Yes	1-ES[8]
Wyoming	**http://revenue.wyo.gov**	N/A—no individual income tax				

[1] See *Return due date* on Page 2-3.
[2] File only if tax due. If no tax due, return is extended without any action by taxpayer.
[3] File if federal Form 4868 not filed or if tax due.
[4] File if federal Form 4868 not filed.
[5] Use to pay any tax due.
[6] File if Form 4868 not filed and tax is due. If Form 4868 not filed and no tax due, request extension online.
[7] Automatic extension granted if certain requirements met.
[8] Use to remit payment if tax due. If no federal 4868 filed, attach a statement to the return.
[9] Extension filed electronically.

Arkansas

Website: www.dfa.arkansas.gov

Tax assistance: 501-682-1100

2020 Quick Tax Method—For Taxable Income of:										
All Filing Statuses	$ 0	–	4,599	×	0.0%	minus	$ 0.00	=	Tax
	4,600	–	9,099	×	2.0	minus	91.98	=	Tax
	9,100	–	13,699	×	3.0	minus	182.97	=	Tax
	13,700	–	22,599	×	3.4	minus	237.77	=	Tax
	22,600	–	37,899	×	5.0	minus	424.00	=	Tax
	37,900	–	80,800	×	5.9	minus	765.00	=	Tax
	80,801	and above		×	6.6	minus	807.00	=	Tax

Filing requirements. Residents must file if:

Marital status is:	Filing Status is:	Gross income of at least:
Single	Single	$ 12,675
	HOH with ≤ 1 dependent	18,021
	HOH with ≥ 2 dependents	21,482
Married	MFJ with ≤ 1 dependent	$ 21,375
	MFJ with ≥ 2 dependents	25,726
	MFS	8,400
Widowed in 2018 or 2019 and not remarried in 2020	QW with ≤ 1 dependent	$ 18,021
	QW with ≥ 2 dependents	21,482
~~**Note:** 2020 amounts not available at time of publication. Amounts shown are 2019.~~		

Part-year residents must file if:

Filing status is:	Taxable income is at least:
All Filing Statuses	$1 (while an Arkansas resident)

Nonresidents must file if:

Filing status is:	Taxable income is at least:
All Filing Statuses	$1 of Arkansas-source income

Arkansas form to file:

- Resident: Form AR1000F (Arkansas Individual Income Tax Return).
- Part-year and nonresident: Form AR1000NR (Arkansas Individual Income Tax Return).

Return due date: April 15

Extension form. Form AR1055-IT (Request for Extension of Time for Filing Income Tax Returns).

Allowable extension:

- Arkansas allows an automatic six-month extension if federal Form 4868 is filed *or*
- File Form AR1055-IT to request a 180-day extension (to October 15).

California

Website: www.ftb.ca.gov

Tax assistance: 800-852-5711

2020 Quick Tax Method—For Taxable Income of:[1]										
Single, MFS, RDP[2] Filing Separately	$ 0	–	8,932	×	1.0%	minus	$ 0.00	=	Tax
	8,933	–	21,175	×	2.0	minus	89.32	=	Tax
	21,176	–	33,421	×	4.0	minus	512.82	=	Tax
	33,422	–	46,394	×	6.0	minus	1,181.24	=	Tax
	46,395	–	58,634	×	8.0	minus	2,109.12	=	Tax
	58,635	–	299,508	×	9.3	minus	2,871.36	=	Tax
	299,509	–	359,407	×	10.3	minus	5,866.44	=	Tax
	359,408	–	599,012	×	11.3	minus	9,460.51	=	Tax
	599,013	and over		×	12.3	minus	15,450.63	=	Tax
MFJ, QW, RDP[2] Filing Jointly	$ 0	–	17,864	×	1.0%	minus	$ 0.00	=	Tax
	17,865	–	42,350	×	2.0	minus	178.64	=	Tax
	42,351	–	66,842	×	4.0	minus	1,025.64	=	Tax
	66,843	–	92,788	×	6.0	minus	2,362.48	=	Tax
	92,789	–	117,268	×	8.0	minus	4,218.24	=	Tax
	117,269	–	599,016	×	9.3	minus	5,742.72	=	Tax
	599,017	–	718,814	×	10.3	minus	11,732.88	=	Tax
	718,815	–	1,198,024	×	11.3	minus	18,921.02	=	Tax
	1,198,025	and over		×	12.3	minus	30,901.26	=	Tax
HOH	$ 0	–	17,876	×	1.0%	minus	$ 0.00	=	Tax
	17,877	–	42,353	×	2.0	minus	178.76	=	Tax
	42,354	–	54,597	×	4.0	minus	1,025.82	=	Tax
	54,598	–	67,569	×	6.0	minus	2,117.76	=	Tax
	67,570	–	79,812	×	8.0	minus	3,469.14	=	Tax
	79,813	–	407,329	×	9.3	minus	4,506.70	=	Tax
	407,330	–	488,796	×	10.3	minus	8,579.99	=	Tax
	488,797	–	814,658	×	11.3	minus	13,467.95	=	Tax
	814,659	and over		×	12.3	minus	21,614.53	=	Tax

[1] Does not include the mental health services tax (1% of taxable income over $1 million).
[2] Registered domestic partner.

Filing requirements. Residents, part-year, and nonresidents must file if:

Dependents:	0	1	2 or more
California gross income exceeds:			
Single or HOH under age 65	$18,496	$31,263	$40,838
Single or HOH age 65 or over	24,696	34,271	41,931
Married/RDP (joint or separate) both under 65	36,996	49,763	59,338
Married/RDP (joint or separate) one taxpayer age 65 or over	43,196	52,771	60,431
Married/RDP (joint or separate) both 65 or over	49,396	58,971	66,631
QW under age 65	N/A	31,263	40,838
QW 65 or older	N/A	34,271	41,931
or California AGI exceeds:			
Single or HOH under age 65	$14,797	$27,564	$37,139
Single or HOH age 65 or over	20,997	30,572	38,232
Married/RDP (joint or separate) both under 65	29,599	42,366	51,941
Married/RDP (joint or separate) one taxpayer age 65 or over	35,799	45,374	53,034
Married/RDP (joint or separate) both 65 or over	41,999	51,574	59,234
QW under 65	N/A	27,564	37,139
QW 65 or older	N/A	30,572	38,232

Dependent, any filing status, any age: Income exceeds standard deduction.

Taxpayers must also file if they owe any of the following:

- Tax on a lump-sum distribution.
- Tax on a qualified retirement plan, IRA or medical savings account.
- Tax for children under age 19 or full-time students under age 24 who have investment income greater than $2,200.
- Alternative minimum tax.
- Recapture taxes.
- Deferred tax on certain installment obligations.
- Tax on an accumulation distribution of a trust.

California form to file:
- Resident: Form 540 (California Resident Income Tax Return).
- Nonresident and part-year resident: Form 540NR (California Nonresident or Part-Year Resident Income Tax Return).

Return due date: April 15

Allowable extension. California allows an automatic six-month extension without written request. Tax due is required to be paid with Form FTB 3519 (Payment for Automatic Extension for Individuals) or online at **www.ftb.ca.gov/pay/index.html?WT.mc_id=akPayChoices** by the original return due date to avoid penalties and interest.

Colorado

Website: www.colorado.gov/pacific/tax
Tax assistance: 303-238-7378

2020 Tax Rate	
Income tax rate	4.55%

Filing requirements. Colorado income tax return must be filed if the taxpayer is a:
- Full-year resident of Colorado, part-year resident of Colorado with taxable income while a resident *or* nonresident of Colorado with Colorado-source income *and*
- Is required to file a federal income tax return *or* has a current-year Colorado income tax liability.

Colorado form to file:
- Resident, part-year, and nonresident: Form 104 (Colorado Individual Income Tax).
- Part-year and nonresident: Form 104PN (Part-Year Resident/Nonresident Tax Calculation Schedule)—attachment to Form 104.

Return due date: April 15

Allowable extension. Colorado allows an automatic six-month extension without written request. To make a payment, use Form DR 0158-I (Extension Payment Voucher for Colorado Individual Income Tax) or pay online at **www.colorado.gov/revenueonline**.

Connecticut

Website: https://portal.ct.gov/drs
Tax assistance: 860-297-5962, CT 800-382-9463

2020 Quick Tax Method—For Taxable Income of:									
Single, MFS	$ 0 –	10,000	×	3.00%[1]	minus	$ 0	=	Tax
	10,001 –	50,000	×	5.00	minus	200	=	Tax
	50,001 –	100,000	×	5.50	minus	450	=	Tax
	100,001 –	200,000[2]	×	6.00	minus	950	=	Tax
	200,001 –	250,000	×	6.50	minus	1,950	=	Tax
	250,001 –	500,000	×	6.90	minus	2,950	=	Tax
	500,001	and over	×	6.99	minus	3,400	=	Tax
MFJ, QW	$ 0 –	20,000	×	3.00%[1]	minus	$ 0	=	Tax
	20,001 –	100,000	×	5.00	minus	400	=	Tax
	100,001 –	200,000	×	5.50	minus	900	=	Tax
	200,001 –	400,000[2]	×	6.00	minus	1,900	=	Tax
	400,001 –	500,000	×	6.50	minus	3,900	=	Tax
	500,001 –	1,000,000	×	6.90	minus	5,900	=	Tax
	1,000,001	and over	×	6.99	minus	6,800	=	Tax
HOH	$ 0 –	16,000	×	3.00%[1]	minus	$ 0	=	Tax
	16,001 –	80,000	×	5.00	minus	320	=	Tax
	80,001 –	160,000	×	5.50	minus	720	=	Tax
	160,001 –	320,000[2]	×	6.00	minus	1,520	=	Tax
	320,001 –	400,000	×	6.50	minus	3,120	=	Tax
	400,001 –	800,000	×	6.90	minus	4,720	=	Tax
	800,001	and over	×	6.99	minus	5,440	=	Tax

[1] The 3% rate is phased out and amount is taxed at 5% for taxpayers with CT AGI > $56,500 Single, $50,250 MFS, $78,500 HOH and $100,500 MFJ/QW.

[2] Additional tax of up to $3,150 Single/MFS, $4,920 HOH and $6,300 MFJ/QW for taxpayers with CT AGI in excess of $200,000 Single/MFS, $320,000 HOH and $400,000 MFJ/QW.

Filing requirements. Residents must file if they:
- Have Connecticut income taxes withheld,
- Made estimated or extension tax payment to Connecticut,
- Meet the gross income test (see below),
- Have a federal alternative minimum tax liability or
- Claim the Connecticut earned income tax credit.

Filing status:	Gross income exceeds:
Single	$ 15,000
Filing Separately	12,000
HOH	19,000
Filing Jointly or QW	24,000

Part-year residents and nonresidents must file if they meet the gross income test and have any Connecticut-source income, have Connecticut withholding or estimated payments or had a federal AMT liability.

Connecticut form to file:
- Resident: Form CT-1040 (Connecticut Resident Income Tax Return).
- Part-year and nonresident: Form CT-1040NR/PY (Connecticut Nonresident and Part-Year Resident Income Tax Return).

Return due date: April 15

Allowable extension. Connecticut allows an automatic six-month extension to file if (1) no additional tax due and a federal extension request filed with IRS or (2) the taxpayer pays his expected Connecticut income tax due using a credit care on or before the due date. If additional tax is due and paid with the extension request (or no federal extension was filed), file Form CT-1040 EXT (Application for Extension of Time to File Connecticut Income Tax Return for Individuals).

Delaware

Website: https://revenue.delaware.gov
Tax assistance: 302-577-8200

2020 Quick Tax Method—For Taxable Income of:									
All Filing Statuses	$ 0 –	2,000	×	0.00%	minus	$ 0.00	=	Tax
	2,001 –	5,000	×	2.20	minus	44.00	=	Tax
	5,001 –	10,000	×	3.90	minus	129.00	=	Tax
	10,001 –	20,000	×	4.80	minus	219.00	=	Tax
	20,001 –	25,000	×	5.20	minus	299.00	=	Tax
	25,001 –	60,000	×	5.55	minus	387.50	=	Tax
	60,001	and over	×	6.60	minus	1,017.51	=	Tax

Filing requirements. Residents must file if:

Filing status:	Age:	Delaware AGI exceeds:
Single, MFS, HOH, CU[1] filing separate	Under 60	$ 9,400
	60 to 64	12,200
	65 and over or blind	14,700
	65 and over and blind	17,200
MFJ, CU[1] filing joint	Under 60	$ 15,450
	60 to 64	17,950
	65 and over or blind	20,450
	65 and over and blind	22,950
Dependent on another person's return	Under 60	$ 5,250
	60 to 64	5,250
	65 and over or blind	7,750
	65 and over and blind	10,250

[1] Civil Union.

2020 Quick Tax Method—For Taxable Income of:									
All Filing Statuses	$ 0	–	1,666	×	0.33%	minus	$ 0.00	=	Tax
	1,667	–	3,332	×	0.67	minus	5.66	=	Tax
	3,333	–	6,664	×	2.25	minus	58.31	=	Tax
	6,665	–	14,994	×	4.14	minus	184.26	=	Tax
	14,995	–	24,990	×	5.63	minus	407.67	=	Tax
	24,991	–	33,320	×	5.96	minus	490.14	=	Tax
	33,321	–	49,980	×	6.25	minus	586.77	=	Tax
	49,981	–	74,970	×	7.44	minus	1,181.53	=	Tax
	74,971	and over		×	8.53	minus	1,998.70	=	Tax

Filing requirements. Residents must file if:

Filing status:	Net income is:
Single	More than $ 9,000
Single (65 or older)	More than 24,000
Other than single	More than 13,500
Other than single (one or both spouses 65 or older)	More than 32,000
Dependent on another person's return	$5,000 or more

Note: Net income includes income from both spouses and any pension/retirement income exclusion and any social security phase-out amount must be added back.

Residents must also file if they are:

- In the military service with Iowa legal residence *or*
- Subject to Iowa lump-sum tax.

Nonresidents and part-year residents must file if they have Iowa-source net income of at least $1,000 (unless their all-source net income is below the income thresholds above) or are subject to Iowa lump-sum tax or Iowa alternative minimum tax.

Iowa form to file:

- Resident, part-year, and nonresident: Form IA 1040 (Iowa Individual Income Tax Form).
- Part-year and nonresident: Form IA 126 (Iowa Nonresident and Part-Year Resident Credit Schedule)—attachment to IA 1040.

Return due date: April 30

Allowable extension. Automatic six-month extension without written request if at least 90% of tax liability is paid. Use IA 1040V (Individual Income Tax Payment Voucher) to make a tax payment.

Reciprocity agreements: Illinois. Iowa residents with Illinois wage income are only taxed in Iowa. Illinois residents with Iowa wage income are only taxed in Illinois.

Kansas

Website: https://ksrevenue.org

Tax assistance: 785-368-8222

2020 Quick Tax Method—For Taxable Income of:									
MFJ	$ 5,001	–	30,000	×	3.10%	minus	$ 0.00	=	Tax
	30,001	–	60,000	×	5.25	minus	645.00	=	Tax
	60,001	and over		×	5.70	minus	915.00	=	Tax
Single, HOH, MFS	$ 2,501	–	15,000	×	3.10%	minus	$ 0.00	=	Tax
	15,001	–	30,000	×	5.25	minus	322.50	=	Tax
	30,001	and over		×	5.70	minus	457.50	=	Tax

Filing requirements. Residents and part-year residents must file if they are required to file a federal income tax return *or* Kansas AGI exceeds Kansas standard deduction and exemption allowance.

Residents not required to file a federal return must file based on the following table:

Filing status:	Age:	Gross income of at least:
Single	Under 65	$ 5,250
	65 or older or blind	6,100
	65 or older and blind	6,950
MFJ	Under 65 (both spouses)	$ 12,000
	65 or older or blind (one spouse)	12,700
	65 or older or blind (both spouses)	13,400
	65 or older and blind (one spouse)	13,400
	65 or older or blind (one spouse) and 65 or older and blind (other spouse)	14,100
	65 or older and blind (both spouses)	14,800
HOH	Under 65	$ 10,000
	65 or older or blind	10,850
	65 or older and blind	11,700
MFS	Under 65	$ 6,000
	65 or older or blind	6,700
	65 or older and blind	7,400

Minor dependents must file if gross income exceeds the greater of $500 or earned income up to $3,000.

Nonresidents must file if they receive any Kansas-source income.

Kansas form to file:

- Resident, part-year and nonresident: Form K-40 (Kansas Individual Income Tax).
- Part-year and nonresident: Schedule S (Kansas Supplemental Schedule) Part B (Income Allocation for Nonresidents and Part-Year Residents)—attachment to Form K-40.

Return due date: April 15

Allowable extension. Kansas allows a six-month automatic extension if federal Form 4868 is filed with the IRS. Use Form K-40V (Individual Income Tax Payment Voucher) to make an extension payment of Kansas income tax. No extension is required if receiving Kansas refund.

Kentucky

Website: https://revenue.ky.gov

Tax assistance: 502-564-4581

2020 Tax Rate	
Income tax rate	5%

Filing requirements. Resident must file if:

- Modified gross income (MGI) exceeds the amount in *Chart A* on Page 2-9 and Kentucky AGI exceeds the amount in *Chart B* on Page 2-10.
- If the filing requirements above are not met, a return must be filed to claim a refund of the Kentucky taxes withheld.

Chart A	
Family Size	***Modified gross income (MGI) is greater than:***
One	$ 12,760
Two	17,240
Three	21,720
Four or more	26,200

~~**Note:** 2020 amounts not available at time of publication. Amounts shown are for 2019.~~

Proprietors carrying on business activity within New Hampshire must file Form NH-1040 if they had gross income in excess of $50,000 from self-employment reported on federal Schedule C; income from rental, including farm rental, reported on federal Schedule E or farm income reported on federal Schedule F. Gain or loss on assets used in one of these businesses must also be considered.

New Hampshire form to file. Individuals who were New Hampshire residents for any part of the tax year: Form DP-10 (Interest and Dividends Tax Return); Form NH-1040 (Business Profits Tax Return).

Return due date: April 15

Extension forms. Form DP-59-A (Payment Form and Application for 7-Month Extension of Time to File Interest and Dividends Tax Return) and Form BT-EXT (Payment Form and Application for 7 Month Extension of Time to File Business Tax Return).

Allowable extension. New Hampshire allows an automatic seven-month extension without written request if 100% of tax is paid by the original return due date. File Form DP-59-A or Form BT-EXT to make additional payments.

New Jersey

Website: https://state.nj.us/treasury/taxation

Tax assistance: 609-292-6400

2020 Quick Tax Method—For Taxable Income of:										
Single, MFS, CU[1] filing separate	$	0	–	20,000	×	1.400%	minus	$ 0.00	=	Tax
		20,001	–	35,000	×	1.750	minus	70.00	=	Tax
		35,001	–	40,000	×	3.500	minus	682.50	=	Tax
		40,001	–	75,000	×	5.525	minus	1,492.50	=	Tax
		75,001	–	500,000	×	6.370	minus	2,126.25	=	Tax
		500,001	and over		×	8.970	minus	15,126.25	=	Tax
MFJ, HOH, QW, CU[1] filing joint	$	0	–	20,000	×	1.400%	minus	$ 0.00	=	Tax
		20,001	–	50,000	×	1.750	minus	70.00	=	Tax
		50,001	–	70,000	×	2.450	minus	420.00	=	Tax
		70,001	–	80,000	×	3.500	minus	1,154.50	=	Tax
		80,001	–	150,000	×	5.525	minus	2,775.00	=	Tax
		150,001	–	500,000	×	6.370	minus	4,042.50	=	Tax
		500,001	and over		×	8.970	minus	17,042.50	=	Tax

[1] Civil Union.
Note: Income over $1 million is taxed at 10.75%.

Filing requirements. Residents, part-year, and nonresidents must file if:

Filing status:	Gross income from all sources everywhere exceeds:
Single, MFS, CU partner filing separate	$ 10,000
MFJ, HOH, QW, CU couple filing joint	20,000

Nonresidents and part-year residents must file a return if their gross income was more than the threshold amounts even if their New Jersey sourced income was equal to or less than such amounts.

New Jersey form to file:

- Resident and part-year resident: NJ-1040 (Income Tax—Resident Return).
- Nonresident (and part-year residents if NJ-source income received while nonresident): NJ-1040NR (Income Tax—Nonresident Return).

Return due date: April 15

Extension form. Form NJ-630 (Application for Extension of Time to File New Jersey Gross Income Tax Return).

Allowable extension. New Jersey allows up to a six-month extension if at least 80% of tax due is paid and the taxpayer attaches a copy of federal Form 4868 to New Jersey return *or* files NJ Form NJ-630. Use Form NJ-630 to remit any tax due.

Reciprocity agreements. Pennsylvania. Compensation to Pennsylvania residents employed in New Jersey is not subject to New Jersey income tax.

New Mexico

Website: https://tax.newmexico.gov

Tax assistance: 505-827-0700; 866-285-2996

2020 Quick Tax Method—For Taxable Income of:										
Single	$	0	–	5,500	×	1.7%	minus	$ 0.00	=	Tax
		5,501	–	11,000	×	3.2	minus	82.50	=	Tax
		11,001	–	16,000	×	4.7	minus	247.50	=	Tax
		16,001	and over		×	4.9	minus	279.50	=	Tax
MFJ, QW, HOH	$	0	–	8,000	×	1.7%	minus	$ 0.00	=	Tax
		8,001	–	16,000	×	3.2	minus	120.00	=	Tax
		16,001	–	24,000	×	4.7	minus	360.00	=	Tax
		24,001	and over		×	4.9	minus	408.00	=	Tax
MFS	$	0	–	4,000	×	1.7%	minus	$ 0.00	=	Tax
		4,001	–	8,000	×	3.2	minus	60.00	=	Tax
		8,001	–	12,000	×	4.7	minus	180.00	=	Tax
		12,001	and over		×	4.9	minus	204.00	=	Tax

Filing requirements. Residents must file if they are required to file a federal income tax return.

Nonresidents and part-year residents must file if they are required to file a federal income tax return and receive New Mexico-source income.

New Mexico form to file:

- Resident, part-year, and nonresident: Form PIT-1 (New Mexico Personal Income Tax Return).
- Resident, part-year, and nonresident who allocate and apportion income from both inside and outside of New Mexico: Form PIT-B (Schedule of New Mexico Allocation and Apportionment of Income)—attachment to Form PIT-1.

Return due date: April 15; May 1 if both federal and New Mexico return are filed electronically.

Extension form. Form RPD-41096 (Application for Extension of Time to File).

Allowable extension. Automatic six months if federal Form 4868 is filed. If additional time is needed or federal Form 4868 is not filed, file Form RPD-41096. Payments can be made using Form PIT-EXT (Personal Income Tax Extension Payment Voucher).

New York

Website: https://tax.ny.gov

Tax assistance: 518-457-5181

Carolina income tax return to show how his adjusted gross income and deductions were determined.

A part-year resident must file if his total income for the tax year exceeds the amount for his filing status shown in the chart above and he:

- Received income while a resident of North Carolina or
- Received income while a nonresident that is:
  - Attributable to ownership of any interest in real or tangible personal property in North Carolina;
  - Derived from a business, trade, profession or occupation carried on within North Carolina or
  - Derived from gambling activities in North Carolina.

A nonresident must file if his total income from all sources—both inside and outside of North Carolina—exceeds the amount for his filing status as shown in the chart above and he received income for the tax year from North Carolina sources that was:

- Attributable to ownership of any interest in real or tangible personal property in North Carolina;
- Derived from a business, trade, profession, or occupation carried on in North Carolina or
- Derived from gambling activities in North Carolina.

North Carolina form to file:

- Resident, part-year, and nonresident: Form D-400 (Individual Income Tax Return).
- Part-year and nonresidents: D-400, page 4, D-400 Schedule S (Supplement Schedule); Part D (Computation of North Carolina Taxable Income for Part-Year Residents and Nonresidents).

Return due date: April 15

Extension form. Form D-410 (Application for Extension for Filing Individual Income Tax Return).

Allowable extension. North Carolina allows an automatic six-month extension if granted a federal extension. Only file Form D-410 to make a payment or if Form 4868 was not filed.

North Dakota

Website: http://nd.gov/tax

Tax assistance: 701-328-7088; 877-328-7088

2020 Quick Tax Method—For Taxable Income of:										
Single	$	0	–	40,125	×	1.10%	minus	$ 0.00	=	Tax
		40,126	–	97,150	×	2.04	minus	377.18	=	Tax
		97,151	–	202,650	×	2.27	minus	600.62	=	Tax
		202,651	–	440,600	×	2.64	minus	1,350.43	=	Tax
		440,601	and over		×	2.90	minus	2,495.99	=	Tax
MFJ, QW	$	0	–	67,050	×	1.10%	minus	$ 0.00	=	Tax
		67,051	–	161,950	×	2.04	minus	630.27	=	Tax
		161,951	–	246,700	×	2.27	minus	1,002.76	=	Tax
		246,701	–	440,600	×	2.64	minus	1,915.55	=	Tax
		440,601	and over		×	2.90	minus	3,061.11	=	Tax
MFS	$	0	–	33,525	×	1.10%	minus	$ 0.00	=	Tax
		33,526	–	80,975	×	2.04	minus	315.14	=	Tax
		80,976	–	123,350	×	2.27	minus	501.38	=	Tax
		123,351	–	220,300	×	2.64	minus	957.77	=	Tax
		220,301	and over		×	2.90	minus	1,530.55	=	Tax
HOH	$	0	–	53,750	×	1.10%	minus	$ 0.00	=	Tax
		53,751	–	138,800	×	2.04	minus	505.25	=	Tax
		138,801	–	224,700	×	2.27	minus	824.49	=	Tax
		224,701	–	440,600	×	2.64	minus	1,655.88	=	Tax
		440,601	and over		×	2.90	minus	2,801.44	=	Tax

Filing requirements. Residents must file if they are required to file a federal income tax return.

Nonresidents must file if they are required to file a federal return and received gross income from North Dakota sources. Part-year residents must file if they are required to file a federal return and received income from any source while a resident *or* received North Dakota-source income while a nonresident.

North Dakota form to file:

- Resident, part-year, and nonresident: Form ND-1 (Individual Income Tax Return).
- Part-year and nonresident: Schedule ND-1NR (Tax Calculation for Nonresidents and Part-Year Residents)—attachment to Form ND-1.

Return due date: April 15

Extension form. Form 101 (Application for Extension of Time to File a North Dakota Tax Return).

Allowable extension: An extension of time to file a taxpayer's federal return is recognized for North Dakota purposes. If there is no federal extension, file Form 101 to request an extension of time to file (Form 101 is not an automatic extension). Use Form ND-1EXT (Individual Extension Payment Voucher) to make a payment.

Reciprocity agreements. Minnesota and Montana. Minnesota residents are not required to file a North Dakota return if only North Dakota source of income is compensation and the taxpayer maintains a home in Minnesota and returns to the home at least once each month. Montana residents are not required to file a North Dakota return if only North Dakota source of income is wages.

Ohio

Website: https://tax.ohio.gov

Tax assistance: 800-282-1780

2020 Quick Tax Method—For Taxable Income of:										
All Filing Statuses	$	0	–	22,150	×	0.000%	minus	$ 0.00	=	Tax
		22,151	–	44,250	×	2.850	minus	315.10	=	Tax
		44,251	–	88,450	×	3.326	minus	525.73	=	Tax
		88,451	–	110,650	×	3.802	minus	946.75	=	Tax
		110,651	–	221,300	×	4.413	minus	1,622.82	=	Tax
		221,301	and over		×	4.797	minus	2,472.61	=	Tax

Filing requirements. Residents and part-year residents are required to file unless one of the following exceptions applies:

- Ohio AGI is less than or equal to $0.
- The total of the taxpayer's senior citizen credit, lump-sum distribution credit and joint filing credit is equal to or exceeds his income tax liability and he is not liable for school district income tax.
- The taxpayer's exemption amount is the same as or more than his Ohio AGI.

Nonresidents are required to file if they have Ohio-sourced income.

Ohio form to file:

- Resident, part-year, and nonresident: Form IT 1040 (Individual Income Tax Return).
- Part-year and nonresidents: Schedule D (Nonresident/Part-Year Resident Credit) (Form IT 1040, page 4).

Return due date: April 15

Extension form. Ohio does not have a separate extension form.

Allowable extension. Ohio allows an extension based on the federal extension. Use Form IT 40P (Income Tax Payment Voucher) to make any payments by the original return due date.

Quick Facts Data Sheet (Continued)

		2021	2020	2019	2018	2017
Business Deductions						
Section 179 deduction:						
Overall limit		$ 1,050,000	$ 1,040,000	$ 1,020,000	$ 1,000,000	$ 510,000
SUV limit (per vehicle)		26,200	25,900	25,500	25,000	25,000
Qualifying property phase-out threshold		2,620,000	2,590,000	2,550,000	2,500,000	2,030,000
Depreciation limit—autos (1st year)		[3,9]	10,100[3]	10,100[3]	10,000[3]	3,160[3]
Depreciation limit—trucks and vans (1st year)		[3,9]	10,000[3]	10,100[3]	10,000[3]	3,560[3]
Standard mileage allowances:						
Business		56¢	57.5¢	58¢	54.5¢	53.5¢
Charity work		14¢	14¢	14¢	14¢	14¢
Medical/moving		16¢	17¢	20¢	18¢	17¢
Qualified business income (QBI) deduction taxable income thresholds:						
MFJ		$ 329,800	$ 326,600	$ 321,400	$ 315,000	N/A
Single, HOH, QW, or MFS		164,900[4]	163,300	160,700[4]	157,500	N/A
Excess business loss disallowance limits:						
MFJ		$ 524,000	$ 518,000	$ 510,000	$ 500,000	N/A
Single, HOH, QW, or MFS		262,000	259,000	255,000	250,000	N/A
Health Care Deductions/Exclusions/Credits						
Health savings accounts (HSAs):						
Self-only coverage:	Contribution limit	$ 3,600	$ 3,550	$ 3,500	$ 3,450	$ 3,400
	Plan minimum deductible	1,400	1,400	1,350	1,350	1,300
	Plan out-of-pocket limit	7,000	6,900	6,750	6,650	6,550
Family coverage:	Contribution limit	7,200	7,100	7,000	6,900	6,750
	Plan minimum deductible	2,800	2,800	2,700	2,700	2,600
	Plan out-of-pocket limit	14,000	13,800	13,500	13,300	13,100
Additional contribution limit—age 55 or older		1,000	1,000	1,000	1,000	1,000
Long-term care insurance—deduction limits:						
Age 40 and under		$ 450	$ 430	$ 420	$ 420	$ 410
Age 41 – 50		850	810	790	780	770
Age 51 – 60		1,690	1,630	1,580	1,560	1,530
Age 61 – 70		4,520	4,350	4,220	4,160	4,090
Age 71 and older		5,640	5,430	5,270	5,200	5,110
Long-term care—excludible per diem		$ 400	$ 380	$ 370	$ 360	$ 360
Medical savings accounts (MSAs):						
Self-only coverage:	Plan minimum deductible	$ 2,400	$ 2,350	$ 2,350	$ 2,300	$ 2,250
	Plan maximum deductible	3,600	3,550	3,500	3,450	3,350
	Plan out-of-pocket limit	4,800	4,750	4,650	4,550	4,500
Family coverage:	Plan minimum deductible	4,800	4,750	4,650	4,550	4,500
	Plan maximum deductible	7,150	7,100	7,000	6,850	6,750
	Plan out-of-pocket limit	8,750	8,650	8,550	8,400	8,250
Health flexible spending arrangement—contribution limit		$ 2,750	$ 2,750	$ 2,700	$ 2,650	$ 2,600
Advance payment of health insurance premium tax credit—repayment limit:[5]						
Household income < 200% of federal poverty line (FPL)		$ 650	$ 650	$ 600	$ 600	$ 600
Household income ≥ 200% of FPL, but < 300%		1,600	1,600	1,600	1,550	1,500
Household income ≥ 300% of FPL, but < 400%		2,700	2,700	2,650	2,600	2,550
Household income ≥ 400% of FPL		No Limit	No Limit	No Limit	No Limit	No Limit
Individual mandate—penalty for failure to maintain coverage (per individual)		N/A	N/A	N/A	$ 695	$ 695
Qualified small employer HRA reimbursement limits:						
Employee only		$ 5,300	$ 5,250	$ 5,150	$ 5,050	$ 4,950
Employee and family		10,700	10,600	10,450	10,250	10,000
Small employer health insurance credit—average wage limit		$ 27,800	$ 27,600	$ 27,100	$ 26,600	$ 26,200
Education Tax Incentives						
Education savings accounts (ESAs) phase-out begins at AGI of:						
MFJ		$ 190,000	$ 190,000	$ 190,000	$ 190,000	$ 190,000
Single, HOH, QW, or MFS		95,000	95,000	95,000	95,000	95,000
Hope/American opportunity credit—maximum credit (per student)		$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500
Lifetime learning credit (LLC)—maximum credit (per return)		$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000
Education credit phase-out begins at AGI of:						
MFJ:	Hope/American opportunity	$ 160,000	$ 160,000	$ 160,000	$ 160,000	$ 160,000
	LLC	119,000	118,000	116,000	114,000	112,000
Single, HOH or QW:	Hope/American opportunity	80,000	80,000	80,000	80,000	80,000
	LLC	59,000	59,000	58,000	57,000	56,000
MFS		Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
Student loan interest deduction limit		$ 2,500	$ 2,500	$ 2,500	$ 2,500	$ 2,500
Student loan interest deduction phase-out begins at AGI of:						
MFJ		$ 140,000	$ 140,000	$ 140,000	$ 135,000	$ 135,000
Single, HOH, or QW		70,000	70,000	70,000	65,000	65,000
MFS		Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed

Earned Income Credit (EIC) Worksheet (2020)

See Earned Income Credit on Page 12-7.

Pub. 596. Use Worksheet 1 in IRS Pub. 596 if any of the following apply.

- The taxpayer is filing Schedule E.
- The taxpayer is reporting income from the rental of personal property not used in a trade or business.
- The taxpayer is filing Form 8814 (relating to the election to report child's interest and dividends on the taxpayer's return).
- The taxpayer has income or loss from a passive activity.

Law Change Alert: The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTRA) allows the taxpayer to elect to use the prior year earned income in calculating the earned income credit amount if the 2020 earned income amount is less than 2019 (Sec. 211 of the TCDTRA).

1) Enter the amount from line 1 of Form 1040 reduced by the following, if included on line 1:
   a) Taxable scholarships or fellowships not reported on Form W-2.
   b) Amount received for an inmate's work in a penal institution (put "PRI" and the amount subtracted next to line 1 of Form 1040).
   c) Any amount received as a pension or annuity from a nonqualified deferred-compensation plan or a nongovernmental Section 457 plan (put "DFC" and the amount subtracted next to line 1 of Form 1040).
   d) Medicaid waiver payment excluded from income.

   Add all nontaxable combat pay, if elected. ..... 1) _____

   For clergy and church employees, see step 2 and *Church employees* and *Clergy* at the bottom of this worksheet.

2) *Clergy and church employees filing Schedule SE:* Enter SE income from Schedule SE, Section A, line 3, or Section B, Line 3, whichever applies. Add any amounts from lines 4b and 5a in Section B of Schedule SE. Subtract amounts from Schedule SE, Section A, line 6, or Section B, line 13, whichever applies ..... 2) _____

3) *Self-employed individuals not required to file Schedule SE:* Enter net farm profit or (loss) from Schedule F, line 34 and from farm partnerships, Schedule K-1 (Form 1065), box 14, Code A. Enter any net profit or (loss) from Schedule C, line 31, or Schedule K-1 (Form 1065) box 14, Code A (other than farming). Reduce Schedule K-1 amounts by partnership Section 179 expense, depletion on oil and gas properties, and unreimbursed partnership expenses.

   Caution: Do not include on this line any statutory employee income, any net profit from services performed as a notary public, any amount exempt from self-employment tax as a result of the filing and approval of Form 4029 or Form 4361, or any other amounts exempt from self-employment tax..... 3) _____

4) *Statutory employees:* Enter the amount from line 1 of Schedule C filed as a statutory employee ..... 4) _____

5) **Earned Income.** Add lines 1 through 4 ..... 5) _____

6) Using the amount from line 5, look up the amount in the *2020 Earned Income Credit (EIC) Table* on Page 1-14 and enter the amount here ..... 6) _____

7) Enter amount from line 11 of Form 1040 ..... 7) _____

   If the amounts on lines 5 and 7 are the same, skip line 8 and enter the amount from line 6 on line 9.

8) Is the amount on line 7 less than: $8,800 ($14,700 MFJ) with no qualifying children, or $19,350 ($25,250 MFJ) with one or more qualifying children?

   Yes ☐ Leave line 8 blank and enter amount from line 6 on line 9.

   No ☐ Using the amount from line 7, look up the amount in the *2020 Earned Income Credit (EIC) Table* on Page 1-14 and enter the amount here ..... 8) _____

9) If an amount is entered on line 8, enter the smaller of line 8 or line 6. Otherwise, enter the amount from line 6. **Line 9 equals the earned income credit** ..... 9) _____

Church employees. Determine how much of the amount on Form 1040, line 1 was also reported on Schedule SE, Section B, line 5a. Subtract that amount from the amount on Form 1040, line 1, and enter the result on line 1 of this worksheet.

Clergy. If Schedule SE is filed and the amount on line 2 of that schedule includes an amount that was also reported on Form 1040, line 1, enter "Clergy" on the dotted line next to Form 1040, line 27. Also determine how much of the amount on Form 1040, line 1 was also reported on Schedule SE, line 2. Subtract that amount from the amount on Form 1040, line 1, and enter the result on line 1 of this worksheet.

Recovery Rebate Credit Worksheet

1) Can taxpayer, or spouse if filing a joint return, be claimed as a dependent on another person's return?

☐ **Yes.** Taxpayer cannot take the credit. **Stop** here.
☐ **No.** Go to line 2.

2) Does taxpayer's tax return include a valid social security number for taxpayer and, if filing a joint return, taxpayer's spouse?

☐ **Yes.** Skip lines 3 and 4 and go to line 5.
☐ **No.** Go to line 3.

3) Is taxpayer filing a joint return for 2020?

☐ **Yes.** Go to line 4.
☐ **No.** Taxpayer cannot take the credit. **Stop** here.

4) Was taxpayer or spouse a member of the U.S. Armed Forces at any time during 2020?

☐ **Yes.** Go to line 5.
☐ **No.** Taxpayer cannot take the credit. **Stop** here.

If economic impact payment (EIP) 1 was $1,200 ($2,400 if married filing jointly) plus $500 for each qualifying child in 2020, skip lines 5 and 6, enter zero on lines 7 and 16, and go to line 8.

5) For EIP 1, enter $1,200 ($2,400 if married filing jointly) ..... 5) _____

6) Multiply $500 by the number of qualifying children for whom taxpayer entered a valid social security number in the dependents section of Form 1040 ..... 6) _____

7) Add lines 5 and 6 ..... 7) _____

If EIP 2 was $600 ($1,200 if married filing jointly) plus $600 for each qualifying child in 2020, skip lines 8 and 9, enter zero on lines 10 and 19, and go to line 11.

8) For EIP 2, enter $600 ($1,200 if married filing jointly) ..... 8) _____

9) Multiply $600 by the number of qualifying children for whom taxpayer entered a valid social security number in the dependents section of Form 1040 ..... 9) _____

10) Add lines 8 and 9 ..... 10) _____

11) Enter the amount from line 11 of Form 1040 ..... 11) _____

12) Enter the amount shown for the taxpayer's filing status ..... 12) _____

- Single or MFS—$75,000
- HOH — $112,500
- MFJ — $150,000
- QW — $75,000

13) Is the amount on line 11 more than the amount on line 12?

☐ **Yes.** Subtract line 12 from line 11.
☐ **No.** Skip line 14. Enter the amount from line 7 on line 15 and the amount from line 10 on line 18. ..... 13) _____

14) Multiply line 13 by 5% (0.05) ..... 14) _____

15) Subtract line 14 from line 7. If zero or less, enter -0- ..... 15) _____

16) Enter the amount, if any, of EIP 1 the taxpayer received (before offset) as shown on Notice 1444. If filing a joint return, include spouse's payment as shown on spouse's Notice 1444. If taxpayer filed a joint return for 2019 and received EIP 1, each spouse is treated as having received half of the payment ..... 16) _____

17) ~~Recovery rebate credit.~~ Subtract line 16 from line 15. If zero or less, enter -0-. ~~Enter the result here and, if more than zero, on Form 1040, line 30.~~ If line 16 is more than line 15, taxpayer does not have to pay back the difference ..... 17) _____

18) Subtract line 14 from line 10. If zero or less, enter -0- ..... 18) _____

19) Enter the amount, if any, of EIP 2 that the taxpayer received as shown on Notice 1444-B ..... 19) _____

20) Subtract line 19 from line 18. If zero or less, enter -0-. If line 19 is more than line 18, taxpayer does not have to pay back the difference ..... 20) _____

21) Recovery rebate credit. Add lines 17 and 20. Enter the result here and, if more than zero, on Form 1040, line 30 ..... 21) _____

Where to File 2020 Form 1040
Due Date: April 15, 2021

	Address to: ***"Department of the Treasury Internal Revenue Service"***	Address to: **"Internal Revenue Service"**	
Taxpayer lives in:	**Without payment**	**With payment**	
AL, GA, NC, SC, TN	Kansas City, MO 64999-0002	P.O. Box 1214	Charlotte, NC 28201-1214
AK, CA, HI, OH, WA	Fresno, CA 93888-0002(through June 18, 2021) Ogden, UT 84201-0002 (starting June 19, 2021)	P.O. Box 802501	Cincinnati, OH 45280-2501
AZ, CO, ID, KS, MI, MT, ND, NE, NM, NV, OR, SD, UT, WY	Ogden, UT 84201-0002	P.O. Box 802501	Cincinnati, OH 45280-2501
AR, DE, IL, IN, IA, KY, ME, MA, MN, MO, NH, NJ, NY, OK, VT, VA, WI	Kansas City, MO 64999-0002	P.O. Box 931000	Louisville, KY 40293-1000
CT, DC, MD, PA, RI, WV	Ogden, UT 84201-0002	P.O. Box 931000	Louisville, KY 40293-1000
FL, LA, MS, TX	Austin, TX 73301-0002	P.O. Box 1214	Charlotte, NC 28201-1214
A foreign country, U.S. possession or territory; or uses an APO or FPO address; or files Form 2555 or 4563; or is a dual-status alien. If taxpayer lives in American Samoa, Puerto Rico, Guam, U.S. Virgin Islands, or the Northern Mariana Islands, see Pub 570.	Austin, TX 73301-0215 USA	P.O. Box 1303	Charlotte, NC 28201-1303 USA

Where to File Form 1040-ES for 2021
Due Dates: See *Estimated Tax Payments—Due Dates* on Page 16-6.

Address to: ***"Internal Revenue Service"***		
Taxpayer lives in:	**Send to:**	
AR, CT, DE, DC, IL, IN, IA, KY, ME, MD, MA, MN, MO, NH, NJ, NY, OK, PA, RI, VT, VA, WV, WI	P.O. Box 931100	Louisville, KY 40293-1100
AL, FL, GA, LA, MS, NC, SC, TN, TX	P.O. Box 1300	Charlotte, NC 28201-1300
AK, AR, CA, CO, HI, ID, KS, MI, MT, NE, NV, NM, OH, OR, ND, SD, UT, WA, WY	P.O. Box 802502	Cincinnati, OH 45280-2502
A foreign country, U.S. possession or territory; or uses an APO or FPO address; or files Form 2555 or 4563; or is a dual-status alien. If taxpayer lives in American Samoa, Puerto Rico, Guam, U.S. Virgin Islands, or the Northern Mariana Islands, see Pub 570.	P.O. Box 1303	Charlotte, NC 28201-1303, USA

Where to File Form 4868 for 2020 Return
Due Date: April 15, 2021

	Address to: ***"Department of the Treasury, Internal Revenue Service Center"***	Address to: ***"Internal Revenue Service"***	
Taxpayer lives in:	**Without payment**	**With payment**	
AL, GA, NC, SC, TN	Kansas City, MO 64999-0045	P.O. Box 1302	Charlotte, NC 28201-1302
AK, CA, HI, OH, WA	Fresno, CA 93888-0045 (through June 18, 2021) Ogden, UT 84201-0045 (starting June 19, 2021)	P.O. Box 802503	Cincinnati, OH 45280-2503
AZ, CO, ID, KS, MI, MT, ND, NE, NM, NV, OR, SD, UT, WY	Ogden, UT 84201-0045	P.O. Box 802503	Cincinnati, OH 45280-2503
AR, DE, IL, IN, IA, KY, ME, MA, MN, MO, NH, NJ, NY, OK, VT, VA, WI	Kansas City, MO 64999-0045	P.O. Box 931300	Louisville, KY 40293-1300
CT, DC, MD, PA, RI, WV	Ogden, UT 84201-0045	P.O. Box 931300	Louisville, KY 40293-1300
FL, LA, MS, TX	Austin, TX 73301-0045	P.O. Box 1302	Charlotte, NC 28201-1302
A foreign country, American Samoa, or Puerto Rico; or is excluding income under IRC Sec. 933; or using an APO or FPO address; or filing Form 2555 or 4563; or is a dual-status alien; or is a nonpermanent resident of Guam or the U.S. Virgin Islands.	Austin, TX 73301-1303 USA	P.O. Box 1303	Charlotte, NC 28201-1303 USA
All foreign estate and trust Form 1040-NR filers	Kansas City, MO 64999-0045 USA	P.O. Box 1303	Charlotte, NC 28201-1303 USA
All other Form 1040-NR, 1040-PR, and 1040-SS filers	Austin, TX 73301-0045 USA	P.O. Box 1302	Charlotte, NC 28201-1302 USA

Taxable and Nontaxable Income		
General rule: All income is taxable unless specifically excluded from tax by law.		
	Taxable[1]	**Not Taxable**
Bartering	• FMV of property or services received in barter. • Generally report on Schedule C unless income from the property or service provided is ordinarily reported on another schedule.	Informal exchange of similar services on a noncommercial basis (for example, a carpool).
Canceled Debt	• Amount of debt no longer owed if the taxpayer was personally liable for payment of the debt. • If the debt is a nonbusiness debt, report the canceled amount on Form 1040, Schedule 1, line 8. If it is a business debt, report the amount on Schedule C or on Schedule F, if the debt is farm debt, and the taxpayer is a farmer.	• Canceled debt (including interest) that would have been deducted if paid. • Canceled qualified principal residence indebtedness discharged subject to a pre-2021 written arrangement. • Forgiven Paycheck Protection Program (PPP) loan proceeds (Notice 2020-32). • Discharge of student loan debt before 2026 for a person who is disabled or deceased [IRC Sec. 108(f)(5)]. • Student loan canceled after performance of work [IRC Sec. 108(f)]. • Debt canceled in a Title 11 bankruptcy case or because the taxpayer was insolvent (but only to extent of insolvency) (IRC Sec. 108). • Canceled debt described at *Qualified Farm Indebtedness COD Exclusion* on Page 6-19 or qualified real property business indebtedness [IRC Sec. 108(c) and (g)]. • Debt cancellation intended as a gift.
Employer Payments	• Wages, bonuses, commissions, overtime, sick time, vacation pay, accumulated sick leave, awards, prizes, back pay, retroactive pay increase, and advance commissions. • Settlements for back pay and other taxable compensation. • Severance pay, even if the employee signs a release that includes tort claims. • Expense reimbursement under a nonaccountable plan. • Payments for moving expenses (except for certain members of the Armed Forces). • Payment of employee's share of social security and Medicare taxes. • Holiday gifts of cash or gift certificates. • Fringe benefits: – Except those specifically excluded. – In excess of qualified amounts. • Manufacturer incentive payments received by a salesperson, whether paid directly by manufacturer or through employer. Report as other income on Form 1040, Schedule 1, line 8. • Survivor benefits paid by a decedent's employer to the surviving spouse or beneficiary because of the worker's death generally must be included in the recipient's income.	• Noncash gifts of nominal value, such as a holiday turkey. • Expense reimbursement under an accountable plan. • Contributions to a qualified retirement plan (at the time contributed). • Certain employee length-of-service and safety achievement awards of tangible personal property, limited to $1,600 ($400 for nonqualified awards). • Cost of up to $50,000 of group term-life insurance coverage, including coverage paid to a retiree. • Value of employer-provided accident and health plan coverage and most long-term care plan coverage, and HSA and MSA contributions. • Meals furnished on the employer's premises for its convenience. • Lodging on the employer's premises required for performing duties. See IRS Pub. 525 for special rules for faculty lodging. • Up to $14,300 (for 2020) of qualified adoption assistance. • Qualified transportation fringe benefits (transportation in commuter vehicles, transit passes, and parking). Monthly limits apply. • Up to $5,250 of qualified educational assistance. **Law Change Alert:** The CARES Act expands the types of education assistance to include student loan repayments paid after March 27, 2020 through December 31, 2020. The overall $5,250 annual cap applies to all educational assistance (including student loan repayments). The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTRA) extends the student loan repayment benefit through December 31, 2025. The interest cannot be deducted under IRC Sec. 221. • Qualified retirement planning services. • Value of employer-provided athletic facility on premises. • Qualified dependent care benefits. • Employee discounts on property/services normally offered to customers.
Gambling Winnings, Prizes, and Awards	• Gambling and lottery winnings. Proceeds from wagers including events sponsored by charities and comps from casinos. Losses from wagering transactions are deductible on Schedule A, but only to the extent of gambling income. Travel expenses are not deductible for nonprofessional gamblers. **Note:** Professional gamblers report their gambling income and expenses on Schedule C. For 2018–2025, professional gambler's expenses are deductible only to the extent of gambling income. • FMV of prizes and awards won in contests. • Scholarships given as contest prizes if the recipient is not required to use the prize for education.	Prize or award if: • Given for outstanding educational, literary, or civic achievement, winner is selected without any action on his part, winner is not required to perform services, and he assigns the prize to a government unit or tax-exempt charitable organization. • Winner refuses to accept the prize (Rev. Rul. 57-374).
Gifts and Inheritance	Income in respect of a decedent—items that would have been included in decedent's gross income if received before death (traditional IRA distributions, accrued interest and dividends, tax-deferred annuities, U.S. Savings Bond interest, etc.).	• Property received from a decedent. • Gifts, including cash, property, below-market sales, forgiven debts, part interests in property.
Insurance Claims and Lawsuits	• An award or settlement that replaces taxable income. • Interest on awards. • Damages paid on account of personal injuries that are not physical injuries—discrimination, breach of promise, invasion of privacy, libel, slander, defamation, harassment. • Insurance reimbursement of medical expenses deducted in an earlier year, to the extent of the tax benefit received. • Punitive damages, even if awarded in a case of physical injury, other than punitive damages in certain wrongful death claims.	• Damages received on account of physical injury or sickness, including emotional distress due to the injury [IRC Sec. 104(a)]. • Property damage. Payment that does not exceed basis. • Consumer claims. Refund of price paid for goods or services if the expense was not deducted. • Damages in cases of nonphysical injury equal to the amount of medical expenses for treatment of emotional distress. • Insurance reimbursements of medical expenses not previously deducted.
Life Insurance Proceeds	• Interest on proceeds held by the insurer after the insured's death. • Proceeds from a policy transferred for valuable consideration before the death of the insured. • Proceeds from the surrender of a life insurance policy in excess of the investment in the contract. • Accelerated death benefits paid to someone other than the insured if that person has a business relationship with the insured [IRC Sec. 101(g)(5)].	• Proceeds paid because of the death of the insured (IRC Sec. 101). • Accelerated death benefits if the insured is terminally ill (physician's certification that the insured's illness is reasonably expected to result in death within 24 months). • Accelerated death benefits paid to a chronically ill individual, if used for insured's long-term care services. Per diem benefits over $380 (for 2020) per day are taxable.

Signatures and Designees

Third Party Designee

A taxpayer can authorize a paid preparer, friend, family member or any other person to discuss the return with the IRS. Check the "Yes" box in the Third Party Designee section and enter the name, phone number and any five numbers the designee chooses as a PIN. By checking the box, the taxpayer is agreeing to allow the designee to:

- Contact the IRS for information about the processing of the return and the status of a refund or payment.
- Respond to IRS notices about math errors, offsets, and return preparation.
- Give the IRS any information that is missing from the return.
- Receive copies of notices or transcripts on request.

Authority with respect to a 2020 return ends automatically on the original due date for the 2021 return.

See IRS Pub. 947 for how to revoke the authorization before it automatically ends.

Signatures

Joint return. Both spouses must sign the return. See IRS Pub. 501 for when the spouse is unable to sign.

Deceased taxpayer. See *Filing Income Tax Returns for Decedent (Form 1040)* on Page 15-2.

Child's return. If the child cannot sign the return, either parent can sign the child's name and add "By (signature of signer), parent for minor child."

e-file. Taxpayers can use self-selected PINs to sign e-filed returns. See *Electronic Signature Requirement* on Page 16-7 for more information.

Daytime telephone number. Taxpayers are not required to list a number. If a joint return, either spouse's number can be listed.

Email address. Taxpayers are not required to provide an email address. If a joint return, either spouse's email can be listed.

Paid preparers. If a return is prepared by someone other than the taxpayer, and that person is paid, the preparer must complete the signature block for paid preparers. Paid preparers must enter their PTIN. See *Return Preparers and Representatives* on Page 16-9 for application information.

Victims of Identity Theft

Enter the six-digit identity protection (IP) PIN the taxpayer received from the IRS in the boxes to the right of the entry for spouse's occupation. IP PINs are valid for only one year. The IRS will issue a new IP PIN every year for three years after the identity theft incident (IP PINs generally are issued every January).

Note: Taxpayers may "opt-in" to get an IP PIN. The program has been recently expanded to allow certain state residents to be eligible for IP PINs. To be eligible for the online IP PIN Opt-In Program for 2020, taxpayers must have filed a federal return last year as a resident of Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Maryland, Michigan, Nevada, New Jersey, New Mexico, New York, North Carolina, Pennsylvania, Rhode Island, Texas, or Washington. See Pub. 5367 for details on the program.

Note: The IRS has expanded the "opt-in" IP PIN program to include all taxpayers for calendar year 2021. Taxpayers generally must access **IRS.gov/IPPIN** and use the "Get an IP PIN" tool. A new IP PIN must be obtained by the taxpayer for each filing season (IR-2021-9).

Practice Tip: A taxpayer uses Form 14039 (Identify Theft Affidavit) to report to the IRS that he is an actual or potential victim of identity theft and would like the IRS to mark his account to identify questionable activity. Taxpayers should be alert to possible identity theft if:

- They receive an IRS notice saying more than one tax return was filed for them.
- They have a balance due, refund offset, or collection actions taken against them for a year they did not file a tax return.
- IRS records indicate they received wages from an employer they do not know.

Form 1040

Note: If the taxpayer has engaged in a transaction involving virtual currency, the question must be answered on page 1 of Form 1040. In 2019, this question was on Schedule 1. See *Virtual Currency* on Page 7-10.

Wages, Salaries, Tips, Etc.

See IRS Pubs. 525 and 531 and *Form W-2, Box 12 Codes* on Page 4-3.

Taxable income reported on line 1:

- Wages, salaries, taxable fringe benefits and all other compensation from box 1 of Forms W-2 (other than Form W-2G).
- Allocated and unreported tip income.
- Taxable dependent care benefits from Form 2441. Enter "DCB" on the dotted line next to line 1.
- Taxable portion of scholarships and fellowship grants. Enter "SCH" and the amount on the dotted line next to line 1.
- Earnings as a household employee even if the employer was not required to issue Form W-2 because the individual's wages were less than $2,200 in 2020. Enter "HSH" and the amount on the dotted line next to line 1.
- Taxable employer-provided adoption benefits from Form 8839.
- Excess elective deferrals and corrective distributions reported on Form W-2 (box 12) or Form 1099-R.
- Disability pensions reported on Form 1099-R if the taxpayer has not met employer's minimum retirement age.
- Wages received by employee incorrectly treated as an independent contractor (from Form 8919).

COVID-19 Tax Alert: Leave-based donation programs provide employees the option to forgo vacation, sick, or personal leave in exchange for an employer's contribution to a charitable organization. The IRS announced that cash payments made by an employer under a leave-based donation program will not constitute employee wages if they are paid before January 1, 2021 to Section 170(c) organizations for the relief of COVID-19 victims. In addition, the IRS will not assert that the opportunity to participate in a leave-based donation program results in constructive receipt of gross income or employee wages (Notice 2020-46). Electing employees may not claim a charitable contribution deduction with respect to the value of the forgone leave.

Medicaid waiver payments. Certain Medicaid waiver payments a taxpayer receives for caring for someone living in his home may be nontaxable. See *Difficulty-of-care payments* on Page 13-3. If these payments were incorrectly reported in box 1 of Form W-2, and the taxpayer cannot get a corrected Form W-2, include the amount on line 1. Also, include on line 1 any Medicaid waiver payments the taxpayer elects to include in earned income for purposes of claiming a credit or other tax benefit (even if not reported on Form W-2). On Schedule 1, line 8, subtract the nontaxable amount of the payments from any income on line 8, and enter the result. If the result is less than zero, enter it in parentheses. Enter "Notice 2014-7" and the nontaxable amount on the dotted line next to line 8.

Statutory employees. If box 13 (Statutory employee) of the taxpayer's Form W-2 is checked, see *Statutory Employees* on Page 6-13.

Missing or incorrect Form W-2. If the taxpayer cannot get a correct Form W-2 from his employer, reconstruct wages and tax withholding on Form 4852 and attach it to the return. Taxpayers should check their social security statement online, and if the earnings on the Form 4852 are not shown, contact the SSA.

Interest Income

See *Schedule B—Interest and Dividends* on Page 5-20 and IRS Pubs. 550 and 1212.

📖 *Schedule B—Interest and Dividends* starts on Page 5-20.

Schedule A—Itemized Deductions

Tab 5 Schedule A Topics

Related Information

- *Contributions: Noncash Donations*—Tab 3
- *Home Mortgages*—Tab 15
- *Sales Tax Deduction Worksheet*—Tab 3

Phase-Out of Itemized Deductions

Before 2018, an individual's itemized deductions were reduced by 3% of the amount adjusted gross income (AGI) exceeded certain threshold amounts. This phase-out of itemized deductions was eliminated by the TCJA so it does not apply to 2020.

Medical Deductions

See also IRS Pub. 502

Deduction Threshold

Medical expenses in excess of 7.5%-of-AGI are deductible as itemized deductions [IRC Sec. 213(a)]. This AGI limit applies for both regular tax and AMT [IRC Sec. 56(b)(1)].

~~**Note:** The itemized medical expense deduction threshold is 10%-of-AGI for tax years beginning on or after January 1, 2021 [IRC Sec. 213(f)].~~

When to Deduct

Medical expenses are deductible in the year paid, regardless of when the expenses were incurred, and regardless of the taxpayer's accounting method [Reg. 1.213-1(a)].

Exceptions:

- *Credit card charge.* If paid with a bank credit card, the medical expense is deductible when charged, not when the credit card company is paid (Rev. Rul. 78-39).
- *Decedents.* An election can be made to deduct medical expenses paid by a decedent's estate within one year after the date of death on the decedent's final Form 1040, as if the expenses were paid when the medical services were provided. Thus, in some cases, an amended Form 1040 is filed. See *Itemized Deductions* on Page 15-2 for more information.

Medical Expenses Paid for Others

Deductible medical expenses include expenses paid for the taxpayer's spouse and for any person who qualifies as the taxpayer's dependent (qualifying child or qualifying relative), except that some of the tests do not have to be met to deduct an individual's medical expenses.

Dependents, for deducting medical expenses, must be U.S. citizens or nationals or residents of the U.S., Canada or Mexico, and the taxpayer's:

- Child, foster child, stepchild, sibling, half-sibling, step-sibling, and any of their descendants, if that person met the following tests:
  - Was under age 19 (or under age 24 and a full-time student) at the end of the tax year or permanently and totally disabled,
  - Lived with the taxpayer for more than half the year, and
  - Did not provide more than half of his own support.
- Child, stepchild, foster child, a descendant of any of them (for example, grandchild), sibling or half-sibling (or a child of theirs), parent or an ancestor or sibling of either of them (for example, grandparent, aunt, or uncle), step-sibling, stepparent, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law or any other person if that person lived as a member of the taxpayer's household all year (provided the relationship does not violate local law) and for whom the taxpayer provided more than half the support for the year.
- Former spouse, if the marriage existed either when the bills were incurred or at the time of payment.
- Adopted child before adoption, if child qualified as a dependent when the medical expenses were incurred or paid. After an adoption is final, an adopted child is treated as the taxpayer's own child. Note that an adopted child does not have to be a U.S. citizen or national, or a resident of the U.S., Canada or Mexico if the parent claiming the medical expense deduction is a U.S. citizen or national with whom the adopted child lived as a member of the household during the year the medical expenses were paid.

Observation: Taxpayers can deduct medical expenses paid for some individuals who don't qualify as their dependent, such as a parent for whom the taxpayer provides over half the support, but the parent's gross income exceeds $4,300 (for 2020) [IRC Sec. 213(a)]. Likewise, medical expenses for a married child who doesn't qualify as the taxpayer's dependent only because he files a joint return are deductible.

Medical expenses a taxpayer pays for a dependent he claims under a multiple support agreement are also deductible [Reg. 1.213-1(a)(3)]. But, medical expenses paid by others who joined the taxpayer in the agreement are not deductible.

Example: Leon and his three brothers each provide one-fourth of their mother's total support. Under a multiple support agreement, Leon claims his mother as a dependent. Leon paid all of her medical expenses, but was reimbursed by his brothers for three-fourths of the amount. Leon can only deduct one-fourth of his mother's medical expenses. His brothers cannot deduct any part of the expenses that they repaid to Leon.

Variation: Assume Leon and his brothers share the nonmedical support items equally, but Leon separately pays all of his mother's medical expenses. Now, he can deduct the unreimbursed amount he paid for her medical expenses.

Divorced parents. A divorced (or separated) parent can deduct medical expenses paid for a child (regardless of which parent claims the child's dependency exemption) if the two parents together provide more than half of the child's support and the child is in the custody of one or both parents for more than half the year [IRC Sec. 213(d)(5); Rev. Proc. 2008-48]. This does not apply if the child's exemption is being claimed under a multiple support agreement.

Second Home

Assuming the home is treated as the second home under the qualified residence interest expense rules, points are treated as follows.

Personal use only. Points are amortized as mortgage interest expense over the entire loan period.

Rental and personal use:

1) If personal use is not more than the greater of 14 days or 10% of the days the home is rented, the second home is treated as a rental property. Amortize and deduct the rental portion of the points over the life of the loan. Points allocated to personal use are non-deductible.
2) If personal use exceeds the 14-day or 10% use rule, divide the points proportionately based on rental and personal use. Amortize and deduct the amount attributable to the rental activity against the rental income, and amortize and deduct the balance as qualified residence interest expense.

Note: See *Renting Out a Home* on Page 8-1.

Other Mortgage Interest Deduction Rules

Late Payment Charges

Late payment charges are generally deductible as mortgage interest if they are not for a specific service such as a collection fee.

Land Rent (Redeemable Ground Rent)

Periodic lease payments made for the use of land on which a home is located can be deductible as mortgage interest. To be deductible, all of the following must be true.

1) The land lease term is more than 15 years, including renewal periods, and is freely assignable by the lessee;
2) The lessee has the right to terminate the lease and purchase the lessor's land by paying a specific amount; and
3) The lessor's interest in the land is a security interest to protect the entitlement to rental payment.

Construction Loans

Interest on construction loans or loans to buy a lot is qualified residence interest if the following requirements are met:

1) A home under construction is treated as a qualifying home for up to 24 months provided that when ready for occupancy, the house is used as a main or second home. The deduction was allowed even when the home was never completed because the taxpayers could not obtain financing (*Rose*, TC Summary Opinion 2011-117).
2) If the construction period exceeds 24 months, the interest for the remaining months is considered personal interest.
3) Loan proceeds must be directly traceable to home construction expenses, including the purchase of a lot.
4) Before construction begins, the loan does not qualify as acquisition debt and interest incurred during that period is treated generally as personal interest.
5) *90-day rule.* A loan incurred within 90 days after construction is complete may also qualify to the extent of construction expenses made within the period starting 24 months before completion of the house and ending on the date of the loan (Notice 88-74).

Timeshares

Homes owned under a time-sharing plan can be considered second homes for deducting interest expense. A time-sharing plan is an arrangement between two or more people that limits each person's interest in the home or right to use it to a certain part of the year. However, if any portion of the timeshare is rented to a third party, the ability to claim a deduction for the personal portion of the mortgage interest may be lost.

Boats, Mobile Homes, and House Trailers

For the qualified residence interest deduction, a qualified home includes a boat, mobile home, house trailer, or similar property that has sleeping, cooking, and toilet facilities. However, local law must allow for such use. A houseboat would not qualify if moored at a marina where overnight sleeping is prohibited. Interest paid on a boat or mobile home used on a transient basis generally is not deductible for alternative minimum tax. See *AMT for Individuals—Adjustments and Preferences (2020)* on Page 12-15.

Prepaid Mortgage Interest

Mortgage interest prepaid in 2020 that fully accrues by January 15, 2021, may be included in Form 1098, box 1. However, this prepaid interest is not deductible in 2020; it should be deducted in 2021 (Pub. 936).

Note: Some lenders apply prepaid amounts to both interest and principal; others apply prepayments to principal only.

Reverse Mortgages

A reverse mortgage is used to convert home equity into cash. The homeowner receives payments (as a line of credit, a lump sum, monthly payments for a specified number of years, or payments over his life). The amount received is a loan, so it is tax-free and will not affect social security benefits.

When a reverse mortgage comes due, the lender recovers the amount owed from the borrower (or the heirs).

Mortgage interest. Mortgage interest is added to the loan balance over the term of the loan, and isn't normally paid until the loan is paid off in full. The debt is typically treated as home equity debt and therefore, interest paid in 2020 is not deductible.

Mortgage Insurance Premiums

Caution: The deduction for mortgage insurance premiums expires December 31, 2021 unless extended by Congress.

For 2007–2021, mortgage insurance premiums paid or accrued during the year in connection with acquisition debt on a taxpayer's primary or second home are deductible as residence interest [IRC Sec. 163(h)(3)(E)]. The deduction phases out ratably by 10% for each $1,000 (or portion thereof) by which the taxpayer's AGI exceeds $100,000. Phase-out amounts are halved for married filing separately. Thus, it is not available for taxpayers with AGI greater than $109,000 ($54,500 for MFS). Only amounts paid on mortgage insurance contracts issued after 2006 qualify.

Charitable Contributions

See also IRS Pubs. 526 and 561 and Donation Guides in Tab 3

Deductible Contributions

Includes money or property given to:

- Churches, synagogues, temples, mosques, and other religious organizations.
- Federal, state and local governments, if contribution is solely for public purposes.
- Nonprofit schools, hospitals, and volunteer fire companies.
- Public parks and recreation facilities.

- Public charities such as Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy/Girl Scouts, Boys/Girls Clubs of America, etc.
- War veterans' groups.

Charitable travel. Travel expenses such as transportation, meals, and lodging are deductible if there is not a significant element of personal pleasure, recreation, or vacation in the travel. Car expenses can be deducted using actual cost or a standard mileage rate of 14¢ per mile.

> **Court Case:** Charitable deductions were allowed for the cost of lodging in deluxe hotels while traveling on behalf of a charitable organization. These costs were considered reasonable because the taxpayer was an important person in the organization and to effectively perform his job, he needed to stay at or near the hotel where the function was being held (*Cavalaris*, TC Memo 1996-308).

Volunteer out-of-pocket expenses when serving a qualified organization. Deductible expenses include unreimbursed out-of-pocket expenses that directly benefit a qualified charity. For example, scout leaders can deduct the cost of uniforms (and cleaning) that are worn when performing donated services, but that are not suitable for everyday wear.

Text message. Contributions made by text message are deductible in the year the text message is sent if the contribution is charged to the individual's telephone or wireless account.

Credit card. Contributions charged to a bank credit card are deductible in the year the charge is made (Rev. Rul. 78-38).

Delegate to a church convention. Deduct the unreimbursed expenses of attending. A person must be a delegate and not merely attending on his own.

Exchange students. Deduct up to $50 per school month for housing an exchange student (grade 12 or lower) sponsored by a qualified organization. The student does not have to be a foreign student as long as the student becomes a member of the taxpayer's household under a written agreement between the taxpayer and the charitable organization.

Foster parents. If there is no profit or profit motive, deduct expenses exceeding payments received from a charitable organization for providing support for qualified foster care individuals placed in the home.

Canadian, Mexican, and Israeli charities. Donations to certain Canadian, Mexican, and Israeli charities may be deductible under an income tax treaty with that country. Special rules or limits may apply. U.S. income tax treaties with these countries can be found on the IRS website.

Nondeductible Contributions

Money or property given to:

- Civic leagues, social and sports clubs, labor unions, and chambers of commerce.
- Foreign organizations (other than certain Canadian, Mexican, and Israeli charities).
- Groups that are run for personal profit.
- Groups whose purpose is to lobby for law changes.
- Homeowners' associations.
- Individuals.
- Political groups or candidates for public office.

Cost of raffle, bingo, or lottery tickets.

Dues, fees or bills paid to country clubs, lodges, fraternal orders, or similar groups.

Tuition (secular or religious).

Value of blood given to a blood bank.

Value of time or services rendered by the taxpayer.

Rental value of a right to use property donated to charity, such as the right to stay at a vacation home for one week. The entire ownership interest in the property must be donated to charity to make the contribution deductible.

Payments for the right to purchase tickets or seating at a college athletic event. A payment made to a college or university in exchange for a right to buy tickets for seating at a sporting event.

Special Considerations

Law Change Alert: For tax years beginning in 2020, taxpayers who do not itemize can take an above-the-line deduction of up to $300 per taxpayer for certain cash donations to public charities [IRC Sec. 62(a)(22) and (f)].

Charitable distribution from IRA. See *Qualified Charitable Distributions (QCDs)* on Page 14-14.

IRS shuts down real estate tax credit workarounds. Some states have enacted legislation that allows taxpayers to make payments to state-established charitable funds in exchange for credits against their state and local taxes. Under final regulations, taxpayers must reduce their otherwise deductible charitable contribution for such payments by the amount of state or local tax credit received or expected to be received, for payments made after August 27, 2018 [Reg. 1.170A-1(h)(3)]. However, the rules don't apply if the state tax credit does not exceed 15% of the taxpayer's payment (IR-2019-109).

Observation: The IRS issued the regulation cited above to prevent taxpayers from circumventing the TCJA's $10,000 deduction limit on state and local taxes by treating payments for real estate taxes as charitable contributions. See Notice 2019-12 and ~~Prop.~~ Reg. 1.164-3(j) for the safe harbor rule that generally allows an individual who itemizes deductions to treat would be charitable contribution deductions that are disallowed under the final regulations as state or local taxes for federal purposes.

Limits on Charitable Contribution

Increased limit. The TCJA raised the AGI percentage limitation to 60% for cash contributions to 50% charities for tax years 2018–2025. The other limits of 50%, 30%, and 20% remain unchanged.

For 2020 ~~only~~, charitable deduction limitations for cash donations to certain organizations are increased to 100% of the amount that the contribution base exceeds total allowable deductions for other charitable contributions (CARES Act Sec. 2205). This applies, at the taxpayer's election, to donations to charitable organizations described in IRC Sec. 170(b)(1)(A) (see *Examples of 50% limit organizations* on Page 5-14) other than donor advised funds, supporting organizations, or private foundations.

Overall limit. An overall 50%-of-AGI limit generally applies to a taxpayer's aggregate deductible contributions (including those subject to the separate 20% or 30% limitation). However, this limit does not apply to contributions subject to the 60%-of-AGI limit, the 2020 100% limit, certain disaster relief qualified contributions, or certain qualified conservation contributions (see *Qualified Conservation Contributions* on Page 5-14).

Disaster Relief Alert: The 2019 Disaster Act temporarily suspends the charitable contribution deduction AGI percentage limitations for certain qualified contributions made by individuals from January 1, 2018 through February 18, 2020.

Practice Tip: The deduction limit percentage for many charities is available online as part of the Tax Exempt Organization Search at **https://apps.irs.gov/app/eos/**. In addition, the IRS has ruled that individuals may rely on the IRS's online database of tax-exempt organizations for determining an organization's tax-exempt status; in the event the IRS determines that an organization ceases to qualify as tax-exempt, donations by individuals unaware of the change continue to be deductible until the IRS makes a public announcement of the change in status (Rev. Proc. 2018-32).

Up to 60%-of-AGI limit. Donation of cash to a publicly supported charity or foundation qualifying as a 50% limit organization.

Line G. See *Passive Activities* on Page 8-4.

Line H. Check the *"new business"* box if the business was started or acquired in 2020 (or if restarted or reopened and no Schedule C was filed in 2019 for the business).

Note: When this box is checked, it's possible the taxpayer will have (and the IRS will look for) Section 195 start-up costs. See *Starting a Business* on Page 6-13 for details on start-up costs.

Lines I and J. Schedule C includes questions asking if the sole proprietor made any payments during the year that would require the filing of Forms 1099 and if so, whether the Forms 1099 were filed. For example, payments totaling $600 or more are made to a service provider (who is not a corporation) during the year.

Note: For nonemployee compensation payments made after 2019, Form 1099-MISC, box 7, will be not be used for payments to service providers (who are not corporations). New Form 1099-NEC (Nonemployee Compensation) will be used in 2020 (and later years) instead of Form 1099-MISC for payments made to a payee of at least $600.

Part I—Income

Report income consistently from year to year under the accounting method chosen on line F.

Line 1: Gross receipts or sales. Enter gross receipts or sales from the business, including any taxable amounts reported on Forms 1099-K, 1099-MISC, or 1099-NEC. If the total income reported in box 1 of Form 1099-NEC and box 3 of Form 1099-MISC received in connection with the taxpayer's trade or business is more than the amount the taxpayer reports on Schedule C, line 1, attach a statement explaining the difference. Taxpayers are not required to reconcile their gross receipts to amounts reported on Form 1099-K.

Note: An employer who claims (and receives) refundable payroll tax credits for qualified sick and/or family leave under the 2020 Families First Coronavirus Response Act (FFCRA) must report such credits as gross income (rather than reduce the related wage, payroll tax, and qualified health expense deductions).

Caution: In Notice 2020-32, the IRS ~~has~~ indicated that loan proceeds from a forgiven Paycheck Protection Program (PPP) loan pursuant to the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act are nontaxable, and any business expenses paid with forgiven loan proceeds are nondeductible. ~~Tax professionals should watch for further guidance and legislation.~~

COVID-19 Tax Alert: The COVID-related Tax Relief Act of 2020 (COVIDTRA) reverses the guidance in Notice 2020-32 regarding deductible expenses paid with the proceeds of a PPP loan. Taxpayers with forgiven PPP loans are allowed deductions for otherwise deductible expenses paid with PPP loan proceeds, and tax basis and other attributes of the borrower's assets will not be reduced as a result of loan forgiveness (Sec. 276 of COVIDTRA).

Strategy: If the information on Form 1099-MISC or 1099-NEC is incorrect, request a corrected copy from the payer. If the payer will not issue a corrected form, attach an explanation to the tax return. Also, although the IRS is not matching amounts reported to sole proprietors on Form 1099-K to the Schedule C, taxpayers whose amounts reported on Form 1099-K make up a higher than expected portion of gross receipts may be asked to provide additional information to the IRS.

If the business engaged in any bartering transactions, include the FMV of goods or services received. Do not include interest earned from a business bank account. Report interest income on Schedule B.

Statutory employees. See *Statutory Employees* on Page 6-13. Be sure to check the box next to line 1 of Schedule C.

Line 2: Returns and allowances. Enter amounts for returned sales, rebates or allowances from the sales price.

Line 4: Cost of goods sold. See instructions for *Lines 33–42* under *Part III—Cost of Goods Sold* on Page 6-5.

Line 6: Other income. List business-related items including:

- Finance reserve income.
- Scrap sales.
- Bad debts recovered.
- Interest received (such as on notes and accounts receivable).
- State gasoline or fuel tax refunds received in the current tax year.
- Income from trade or business shown on Form 1099-PATR.
- Recapture of excess depreciation (including any Section 179 deduction) from Form 4797 (Sales of Business Property) when business use of listed property drops to 50% or less.
- Prizes and awards received related to the trade or business.
- Credit for federal tax paid on gasoline or other fuels claimed on the prior year Form 1040.
- Cancellation of debt (COD) income related to the sole proprietor's business. (See *Canceled Debt* on Page 4-4 for situations when COD is not taxable.)

Part II—Expenses

Deductible business expenses must be ordinary and necessary in carrying on a trade or business (IRC Sec. 162). Certain expenses attributable to the production or acquisition of property for resale cannot be deducted currently. They must be included in inventory costs or capitalized. See instructions for *Lines 33–42* under *Part III—Cost of Goods Sold* on Page 6-5.

Observation: Business expenses paid with a third-party credit card should be deductible when charged, not when the credit card bill is paid, based on IRS rulings that addressed charitable contributions and medical expenses paid by credit card (Rev Ruls. 78-38 and 78-39).

Expenses paid after close of business. If expenses incurred in prior years are paid in the current year by a cash method taxpayer, they are deductible on Schedule C even if the business has been discontinued (Rev. Rul. 67-12).

Line 8: Advertising. The expenses must bear a reasonable relationship to the business activity. Advertising to influence legislation is not deductible.

Line 9: Car and truck expenses. Expenses are deducted under one of the following methods:

1) *Actual cost.* Deduct the business-use percentage times the actual cost of operating the vehicle (gas, oil, repairs, insurance, tires, license, etc.). Show depreciation on line 13 and rent/lease payments on line 20a.
2) *Standard mileage.* For 2020, the business standard mileage rate is 57.5¢ per mile. The standard rate includes all vehicle operating and ownership costs—except the business percentage of auto loan interest, auto personal property taxes, and business parking and tolls (these amounts can be deducted in addition to the standard mileage rate).

Information on vehicle. If any car or truck expenses are deducted, Part IV of Schedule C or Part V of Form 4562 must be completed. Use Form 4562 to answer the mileage questions only if that form is required for other reasons (such as claiming a depreciation, amortization, or Section 179 deduction). Otherwise, use Schedule C.

See Tab 11 for claiming deductions for the business use of vehicles.

Line 10: Commissions and fees. Deduct commissions and fees other than amounts paid for contract labor.

The $5,000 immediate deduction is reduced dollar for dollar (but not below zero) by the taxpayer's cumulative start-up expenditures in excess of $50,000. Amounts that cannot be deducted currently (either because they exceed $5,000 or because of the $50,000 rule) are amortized over 180 months, beginning with the month the business begins.

Amortization of start-up costs is reported on Part VI of Form 4562 and the deduction is carried to the "other expenses" line on Schedule C (or F).

Net Operating Loss (NOL)

See also IRC Sec. 172 and IRS Pub. 536

Calculating an NOL

1) *Complete the tax return.* Adjusted gross income minus the standard or itemized deductions must be less than zero to have a potential NOL.
2) *Separate business and nonbusiness income and deductions.* An NOL must be caused by deductions from a trade or business or rental property, or from casualty losses or moving expenses. Use *Net Operating Loss Worksheet #1* on Page 3-9 to determine business/nonbusiness income and deductions.
   - Nonbusiness income is income that is not related to the taxpayer's trade or business or employment. This includes annuity income, oil and gas royalties, dividends and interest on investments, plus any nonbusiness income from partnerships, LLCs and S corporations.
   - Pro-rate state and local income taxes between business-source and nonbusiness-source income.
   - Rental real estate activities (portion recognized after passive loss limitations) are considered business-source income or loss.
   - Casualty losses are business deductions even if they involve nonbusiness property.
3) *Separate business and nonbusiness capital gains and losses.* In general, a net capital loss is not included in an NOL. However, business and nonbusiness capital transactions still must be separated and used in the NOL calculation. The holding period is not considered for NOL purposes.
   - *Business capital transactions.* Sale of goodwill and the sale of business assets that receive capital gain or loss treatment under IRC Sec. 1231.
   - *Nonbusiness capital transactions.* Sale of stock and other investment property.
4) *Compute current year NOL.* In general, NOL rules do not allow net capital losses, nonbusiness losses, nonbusiness deductions or NOLs from other years. Use *Net Operating Loss Worksheet #2—Computation of NOL* on Page 3-10 (or Form 1045, Schedule A) to make the necessary adjustments.
   - Nonbusiness deductions are deductible to the extent of nonbusiness income plus nonbusiness net capital gain.
   - Nonbusiness capital losses are deductible to the extent of nonbusiness capital gains.
   - The Section 199A qualified business income deduction is not allowed when computing an NOL.

If the adjustments on Worksheet #2 result in a negative amount, an NOL exists.

Carryback/Carryover Rules

The TCJA generally limited NOLs arising after 2017 to 80% of taxable income and generally eliminated the ability to carry NOLs back to prior tax years. The CARES Act modifies the TCJA's treatment of NOL carrybacks. For losses arising in a tax year beginning in 2018, 2019, or 2020, taxpayers may carry back NOLs to the prior five tax years, then to the extent not utilized carry them forward indefinitely. NOLs arising in later years may not be carried back but are carried forward indefinitely.

Note: NOLs that are carried back must be carried back to the earliest year first. For example, a 2019 calendar year NOL is first carried back to 2014 (then 2015, etc.).

Practice Tip: NOLs that arose in tax years that began before January 1, 2018, will be subject to the two-year carryback/20-year carryforward rule and the special rules that applied under pre-TCJA law. Taxpayers will have to distinguish between types of NOLs when computing the NOL deduction.

The CARES Act also temporarily removes the taxable income limitation to allow an NOL carryforward to fully offset income. For tax years beginning before 2021, taxpayers can take an NOL deduction equal to 100% of taxable income (rather than the 80% limitation per the TCJA). In tax years beginning after 2020, taxpayers will be allowed—

1) A 100% deduction for NOLs arising in tax years beginning before 2018, and
2) A deduction limited to 80% of modified taxable income for NOLs arising in tax years beginning after 2017.

NOLs from farming. Special rules apply to any part of an NOL arising in a tax year beginning after 2020 that is a farming loss. A farming loss is the lesser of:

- The amount that would be the NOL if only considering income and deductions attributable to farming business, or
- The amount of the NOL for the tax year.

NOLs arising in tax years beginning in 2018, 2019, and 2020 that are farming losses are carried back five years and carried forward indefinitely. NOLs arising in tax years beginning after 2020 are carried back two years and carried forward indefinitely.

COVID-19 Tax Alert: The COVID-related Tax Relief Act of 2020 (COVIDTRA) clarifies that farmers who elected a two-year NOL carryback prior to the CARES Act may elect to retain that two-year carryback rather than claim the five-year carryback provided in the CARES Act. Farmers who previously waived an election to carryback an NOL may revoke the waiver (Sec. 281 of COVIDTRA).

Deducting an NOL Carryback

To claim a refund from an NOL deduction, file either:

- *Form 1045 (Application for Tentative Refund).* May be used to apply an NOL to all available carryback years. It must be filed no later than one year after the close of the NOL year.
- *Form 1040-X (Amended U.S. Individual Income Tax Return).* Must use a separate Form 1040-X for each carryback year to which the NOL is applied. Must file within three years after the due date (including extensions) for filing the return for the NOL year. Check the box next to line 1 and write "Carryback Claim" at the top of page 1 of the Form 1040-X.

Decrease in tax computation. To calculate the decrease in tax for a carryback year, refigure the following (if available or claimed in the carryback year), taking into account a refigured AGI that includes the NOL:

- Special allowance for passive losses from rental real estate activity.
- Taxable social security or tier 1 railroad retirement benefits.
- IRA deduction.
- Student loan interest deduction.
- Tuition and fees deduction.
- Excludable savings bond interest.
- Excludable employer-provided adoption benefits.
- Deductions for medical expenses, casualty and theft losses, and qualified mortgage insurance premiums, as well as miscellaneous deductions subject to the 2%-of-AGI limit.
- Phaseouts for itemized deductions and personal exemptions.
- Tax credits that are based on or limited by the amount of tax.
- Other taxes (such as alternative minimum tax).

Do not refigure charitable contributions in an NOL carryback year.

Observation: This treatment generally mirrors the rules for cooperatives in former IRC Sec. 199 (the DPAD) before it was repealed.

When a cooperative passes through a portion of its deduction to a taxpayer, the allocable deduction must be identified in a written notice by the cooperative and mailed to the taxpayer before September 15 of the following year (assuming a calendar year taxpayer) [IRC Sec. 199A(g)(2)(A)(ii)]. The deduction allowed is the lesser of the amount allocated by the cooperative or taxable income after all other QBI deductions have been claimed.

Example: Jonathan and Diane raise corn on their farm. Their 2020 taxable income of $120,000 is less than the $326,600 QBI deduction threshold, so they are not subject to the wage/investment limit. Their farm net income (QBI) for the year is $100,000, of which $80,000 is related to sales to a cooperative. In addition, the cooperative passed through a qualified production activities deduction of $5,000 for the year. The farm paid wages of $20,000 for seasonal labor during the year.

Before consideration of sales to the cooperative, Jonathan and Diane would be eligible for a QBI deduction of $20,000 ($100,000 × 20%). Under the special rule for sales to cooperatives, this amount must be reduced by the lesser of (1) $7,200 ($80,000 × 9%) or (2) $8,000 [$16,000 (80% of wages are allocable to cooperative sales) × 50% limitation], for a net QBI deduction of $12,800. In addition, they are allowed the pass-through deduction from the cooperative of $5,000, for a total QBI deduction of $17,800.

Variation: Jonathan and Diane pay only $6,000 in wages for seasonal help. In this case, the QBI deduction is $17,600 [$20,000 – lesser of (1) $7,200 or (2) $2,400 ($6,000 × 80% × 50%)]. In addition, they are allowed the pass-through deduction from the cooperative of $5,000, for a total QBI deduction of $22,600.

Observation: Prop. Regs. 1.199A-7 through 1.199A-12 were published in 2019 to provide guidance to cooperatives and their patrons. Final regulations were published in January 2021.

Other Considerations

Caution: The IRS does not allow a QBI deduction on a substitute return filed under IRC Sec. 6020(b) (SBSE-04-1219-0054).

Keep the following in mind when calculating the QBI deduction:

- The deduction applies only for income tax purposes—it doesn't reduce self-employment tax [IRC Sec. 199A(f)(3)].
- The deduction isn't taken into account in determining adjusted gross income (AGI) [IRC Sec. 62(a)]. However, the deduction (1) can be taken by taxpayers who don't itemize their deductions, (2) isn't subject to the limits on itemized deductions and (3) may be taken into account in determining withholding allowances.
- For AMT purposes, QBI is determined without regard to any adjustments under IRC Secs. 56 through 59 [IRC Sec. 199A(f)(2)].

Accuracy-Related Penalty

For taxpayers claiming the Section 199A deduction, the 20% accuracy-related penalty for a substantial understatement of tax applies if the understatement is more than 5% (rather than the customary 10%) of the tax required to be shown [IRC Sec. 6662(d)(1)(C)].

Observation: This change to the penalty indicates that Congress is aware of the potential for gamesmanship and is attempting to discourage aggressive positions with respect to the deduction. This may be an issue particularly for taxpayers trying to claim that their SSTB is a non-service business.

Limit on Excess Business Losses

Under the TCJA, for tax years beginning after 2017 and before 2026, *excess business losses* of a taxpayer other than a C corporation were not allowed for the tax year. Such losses were carried forward and treated as part of the taxpayer's net operating loss (NOL) carryforward in subsequent tax years.

Law Change Alert: The CARES Act retroactively suspends the TCJA excess business loss limitation rule by amending the provision to apply to tax years beginning after December 31, 2020 (rather than December 31, 2017) [IRC Sec. 461(l)].

IRS Forms for the Qualified Business Income Deduction	
Form 8995 (Qualified Business Income Deduction Simplified Computation)	Complete Form 8995 if taxable income is less than $326,600 if MFJ ($163,300 if Single, HOH, or MFS) and not a patron of an agricultural or horticultural cooperative.
Form 8995-A (Qualified Business Income Deduction)	Complete schedules for Form 8995-A (A, B, C, and/or D) as applicable before starting to complete Form 8995-A.
Schedule A (Form 8995-A) (Specified Service Trades or Businesses)	Complete Schedule A only if the trade or business is a specified service trade or business (SSTB) and taxable income is more than $326,600 but not more than $426,600 if MFJ (more than $163,300 but not more than $213,300 if Single, HOH, or MFS). Complete Schedule D (Form 8995-A) before beginning Schedule A. If taxable income equals or exceeds $426,600 if MFJ ($213,300 if Single, HOH, or MFS), the SSTB does not qualify for the deduction.
Schedule B (Form 8995-A) (Aggregation of Business Operations)	If taxpayer has more than one aggregated group, complete and attach as many Schedules B as needed. Number the first aggregation "1" and any additional aggregations in numerical order.
Schedule C (Form 8995-A) (Loss Netting and Carryforward)	If taxpayer has more than three trades, businesses, or aggregations, complete and attach as many Schedules C as needed.
Schedule D (Form 8995-A) (Special Rules for Patrons of Agricultural or Horticultural Cooperatives)	Complete Schedule D only if a patron of an agricultural or horticultural cooperative. If more than three trades, businesses, or aggregations, attach as many Schedules D as needed.

Schedule C—Principal Business or Professional Activity Codes

The six-digit codes are based on the North American Industry Classification System (NAICS).
Select the category that best describes the primary business activity. Then, select the activity that best identifies the principal source of sales or receipts.

Principal Business or Professional Activity Codes

These codes for the Principal Business or Professional Activity classify sole proprietorships by the type of activity they are engaged in to facilitate the administration of the Internal Revenue Code. These six-digit codes are based on the North American Industry Classification System (NAICS).

Select the category that best describes your primary business activity (for example, Real Estate). Then select the activity that best identifies the principal source of your sales or receipts (for example, real estate agent). Now find the six-digit code assigned to this activity (for example, 531210, the code for offices of real estate agents and brokers) and enter it on Schedule C, line B.

Note. If your principal source of income is from farming activities, you should file Schedule F.

Accommodation, Food Services, & Drinking Places

Accommodation

721310 Rooming & boarding houses, dormitories, & workers' camps
721210 RV (recreational vehicle) parks & recreational camps
721100 Traveler accommodation (including hotels, motels, & bed & breakfast inns)

Food Services & Drinking Places

722514 Cafeterias & buffets
722410 Drinking places (alcoholic beverages)
722511 Full-service restaurants
722513 Limited-service restaurants
722515 Snack & non-alcoholic beverage bars
722300 Special food services (including food service contractors & caterers)

Administrative & Support and Waste Management & Remediation Services

Administrative & Support Services

561430 Business service centers (including private mail centers & copy shops)
561740 Carpet & upholstery cleaning services
561440 Collection agencies
561450 Credit bureaus
561410 Document preparation services
561300 Employment services
561710 Exterminating & pest control services
561210 Facilities support (management) services
561600 Investigation & security services
561720 Janitorial services
561730 Landscaping services
561110 Office administrative services
561420 Telephone call centers (including telephone answering services & telemarketing bureaus)
561500 Travel arrangement & reservation services
561490 Other business support services (including repossession services, court reporting, & stenotype services)
561790 Other services to buildings & dwellings
561900 Other support services (including packaging & labeling services, & convention & trade show organizers)

Waste Management & Remediation Services

562000 Waste management & remediation services

Agriculture, Forestry, Hunting, & Fishing

112900 Animal production (including breeding of cats and dogs)
114110 Fishing
113000 Forestry & logging (including forest nurseries & timber tracts)
114210 Hunting & trapping

Support Activities for Agriculture & Forestry

115210 Support activities for animal production (including farriers)
115110 Support activities for crop production (including cotton ginning, soil preparation, planting, & cultivating)
115310 Support activities for forestry

Arts, Entertainment, & Recreation

Amusement, Gambling, & Recreation Industries

713100 Amusement parks & arcades
713200 Gambling industries
713900 Other amusement & recreation services (including golf courses, skiing facilities, marinas, fitness centers, bowling centers, skating rinks, miniature golf courses)

Museums, Historical Sites, & Similar Institutions

712100 Museums, historical sites, & similar institutions

Performing Arts, Spectator Sports, & Related Industries

711410 Agents & managers for artists, athletes, entertainers, & other public figures
711510 Independent artists, writers, & performers
711100 Performing arts companies
711300 Promoters of performing arts, sports, & similar events
711210 Spectator sports (including professional sports clubs & racetrack operations)

Construction of Buildings

236200 Nonresidential building construction
236100 Residential building construction

Heavy and Civil Engineering Construction

237310 Highway, street, & bridge construction
237210 Land subdivision
237100 Utility system construction
237990 Other heavy & civil engineering construction

Specialty Trade Contractors

238310 Drywall & insulation contractors
238210 Electrical contractors
238350 Finish carpentry contractors
238330 Flooring contractors
238130 Framing carpentry contractors
238150 Glass & glazing contractors
238140 Masonry contractors
238320 Painting & wall covering contractors
238220 Plumbing, heating & air-conditioning contractors
238110 Poured concrete foundation & structure contractors
238160 Roofing contractors
238170 Siding contractors
238910 Site preparation contractors
238120 Structural steel & precast concrete construction contractors
238340 Tile & terrazzo contractors
238290 Other building equipment contractors
238390 Other building finishing contractors
238190 Other foundation, structure, & building exterior contractors
238990 All other specialty trade contractors

Educational Services

611000 Educational services (including schools, colleges, & universities)

Finance & Insurance

Credit Intermediation & Related Activities

522100 Depository credit intermediation (including commercial banking, savings institutions, & credit unions)
522200 Nondepository credit intermediation (including sales financing & consumer lending)
522300 Activities related to credit intermediation (including loan brokers)

Insurance Agents, Brokers, & Related Activities

524210 Insurance agencies & brokerages
524290 Other insurance related activities

Securities, Commodity Contracts, & Other Financial Investments & Related Activities

523140 Commodity contracts brokers
523130 Commodity contracts dealers
523110 Investment bankers & securities dealers
523210 Securities & commodity exchanges
523120 Securities brokers
523900 Other financial investment activities (including investment advice)

Health Care & Social Assistance

Ambulatory Health Care Services

621610 Home health care services
621510 Medical & diagnostic laboratories
621310 Offices of chiropractors
621210 Offices of dentists
621330 Offices of mental health practitioners (except physicians)
621320 Offices of optometrists
621340 Offices of physical, occupational & speech therapists, & audiologists
621111 Offices of physicians (except mental health specialists)
621112 Offices of physicians, mental health specialists
621391 Offices of podiatrists
621399 Offices of all other miscellaneous health practitioners
621400 Outpatient care centers
621900 Other ambulatory health care services (including ambulance services, blood, & organ banks)

Hospitals

622000 Hospitals

Nursing & Residential Care Facilities

623000 Nursing & residential care facilities

Social Assistance

624410 Child day care services
624200 Community food & housing, & emergency & other relief services
624100 Individual & family services
624310 Vocational rehabilitation services

Information

511000 Publishing industries (except Internet)

Broadcasting (except Internet) & Telecommunications

515000 Broadcasting (except Internet)
517000 Telecommunications & Internet service providers

Data Processing Services

518210 Data processing, hosting, & related services
519100 Other information services (including news syndicates & libraries, Internet publishing & broadcasting)

Motion Picture & Sound Recording

512100 Motion picture & video industries (except video rental)
512200 Sound recording industries

Manufacturing

315000 Apparel mfg.
312000 Beverage & tobacco product mfg.
334000 Computer & electronic product mfg.
335000 Electrical equipment, appliance, & component mfg.
332000 Fabricated metal product mfg.
337000 Furniture & related product mfg.
333000 Machinery mfg.
339110 Medical equipment & supplies mfg.
322000 Paper mfg.
324100 Petroleum & coal products mfg.
326000 Plastics & rubber products mfg.
331000 Primary metal mfg.
323100 Printing & related support activities
313000 Textile mills
314000 Textile product mills
336000 Transportation equipment mfg.
321000 Wood product mfg.
339900 Other miscellaneous mfg.

Chemical Manufacturing

325100 Basic chemical mfg.
325500 Paint, coating, & adhesive mfg.
325300 Pesticide, fertilizer, & other agricultural chemical mfg.
325410 Pharmaceutical & medicine mfg.
325200 Resin, synthetic rubber, & artificial & synthetic fibers & filaments mfg.
325600 Soap, cleaning compound, & toilet preparation mfg.
325900 Other chemical product & preparation mfg.

Food Manufacturing

311110 Animal food mfg.
311800 Bakeries, tortilla, & dry pasta mfg.
311500 Dairy product mfg.
311400 Fruit & vegetable preserving & speciality food mfg.
311200 Grain & oilseed milling
311610 Animal slaughtering & processing
311710 Seafood product preparation & packaging
311300 Sugar & confectionery product mfg.

Schedule C—Principal Business or Professional Activity Codes (Continued)

311900 Other food mfg. (including coffee, tea, flavorings, & seasonings)

Leather & Allied Product Manufacturing

316210 Footwear mfg. (including leather, rubber, & plastics)
316110 Leather & hide tanning & finishing
316990 Other leather & allied product mfg.

Nonmetallic Mineral Product Manufacturing

327300 Cement & concrete product mfg.
327100 Clay product & refractory mfg.
327210 Glass & glass product mfg.
327400 Lime & gypsum product mfg.
327900 Other nonmetallic mineral product mfg.

Mining

212110 Coal mining
211120 Crude petroleum extraction
212200 Metal ore mining
211130 Natural gas extraction
212300 Nonmetallic mineral mining & quarrying
213110 Support activities for mining

Other Services

Personal & Laundry Services

812111 Barber shops
812112 Beauty salons
812220 Cemeteries & crematories
812310 Coin-operated laundries & drycleaners
812320 Drycleaning & laundry services (except coin-operated) (including laundry & drycleaning drop-off & pickup sites)
812210 Funeral homes & funeral services
812330 Linen & uniform supply
812113 Nail salons
812930 Parking lots & garages
812910 Pet care (except veterinary) services
812920 Photofinishing
812190 Other personal care services (including diet & weight reducing centers)
812990 All other personal services

Repair & Maintenance

811120 Automotive body, paint, interior, & glass repair
811110 Automotive mechanical & electrical repair & maintenance
811190 Other automotive repair & maintenance (including oil change & lubrication shops & car washes)
811310 Commercial & industrial machinery & equipment (except automotive & electronic) repair & maintenance
811210 Electronic & precision equipment repair & maintenance
811430 Footwear & leather goods repair
811410 Home & garden equipment & appliance repair & maintenance
811420 Reupholstery & furniture repair
811490 Other personal & household goods repair & maintenance

Professional, Scientific, & Technical Services

541100 Legal services
541211 Offices of certified public accountants
541214 Payroll services
541213 Tax preparation services
541219 Other accounting services

Architectural, Engineering, & Related Services

541310 Architectural services
541350 Building inspection services
541340 Drafting services
541330 Engineering services
541360 Geophysical surveying & mapping services
541320 Landscape architecture services
541370 Surveying & mapping (except geophysical) services
541380 Testing laboratories

Computer Systems Design & Related Services

541510 Computer systems design & related services

Specialized Design Services

541400 Specialized design services (including interior, industrial, graphic, & fashion design)

Other Professional, Scientific, & Technical Services

541800 Advertising & related services
541600 Management, scientific, & technical consulting services
541910 Market research & public opinion polling
541920 Photographic services
541700 Scientific research & development services
541930 Translation & interpretation services
541940 Veterinary services
541990 All other professional, scientific, & technical services

Real Estate & Rental & Leasing

Real Estate

531100 Lessors of real estate (including miniwarehouses & self-storage units)
531210 Offices of real estate agents & brokers
531320 Offices of real estate appraisers
531310 Real estate property managers
531390 Other activities related to real estate

Rental & Leasing Services

532100 Automotive equipment rental & leasing
532400 Commercial & industrial machinery & equipment rental & leasing
532210 Consumer electronics & appliances rental
532281 Formal wear & costume rental
532310 General rental centers
532283 Home health equipment rental
532284 Recreational goods rental
532282 Video tape & disc rental
532289 Other consumer goods rental

Religious, Grantmaking, Civic, Professional, & Similar Organizations

813000 Religious, grantmaking, civic, professional, & similar organizations

Retail Trade

Building Material & Garden Equipment & Supplies Dealers

444130 Hardware stores
444110 Home centers
444200 Lawn & garden equipment & supplies stores
444120 Paint & wallpaper stores
444190 Other building materials dealers

Clothing & Accessories Stores

448130 Children's & infants' clothing stores
448150 Clothing accessories stores
448140 Family clothing stores
448310 Jewelry stores
448320 Luggage & leather goods stores
448110 Men's clothing stores
448210 Shoe stores
448120 Women's clothing stores
448190 Other clothing stores

Electronic & Appliance Stores

443142 Electronics stores (including audio, video, computer, & camera stores)
443141 Household appliance stores

Food & Beverage Stores

445310 Beer, wine, & liquor stores
445220 Fish & seafood markets
445230 Fruit & vegetable markets
445100 Grocery stores (including supermarkets & convenience stores without gas)
445210 Meat markets
445290 Other specialty food stores

Furniture & Home Furnishing Stores

442110 Furniture stores
442200 Home furnishings stores

Gasoline Stations

447100 Gasoline stations (including convenience stores with gas)

General Merchandise Stores

452000 General merchandise stores

Health & Personal Care Stores

446120 Cosmetics, beauty supplies, & perfume stores
446130 Optical goods stores
446110 Pharmacies & drug stores
446190 Other health & personal care stores

Motor Vehicle & Parts Dealers

441300 Automotive parts, accessories, & tire stores
441222 Boat dealers
441228 Motorcycle, ATV, & all other motor vehicle dealers
441110 New car dealers
441210 Recreational vehicle dealers (including motor home & travel trailer dealers)
441120 Used car dealers

Sporting Goods, Hobby, Book, & Music Stores

451211 Book stores
451120 Hobby, toy, & game stores
451140 Musical instrument & supplies stores
451212 News dealers & newsstands
451130 Sewing, needlework, & piece goods stores
451110 Sporting goods stores

Miscellaneous Store Retailers

453920 Art dealers
453110 Florists
453220 Gift, novelty, & souvenir stores
453930 Manufactured (mobile) home dealers
453210 Office supplies & stationery stores
453910 Pet & pet supplies stores
453310 Used merchandise stores
453990 All other miscellaneous store retailers (including tobacco, candle, & trophy shops)

Nonstore Retailers

454110 Electronic shopping and mail-order houses
454310 Fuel dealers (including heating oil & liquefied petroleum)
454210 Vending machine operators
454390 Other direct selling establishments (including door-to-door retailing, frozen food plan providers, party plan merchandisers, & coffee-break service providers)

Transportation & Warehousing

481000 Air transportation
485510 Charter bus industry
484110 General freight trucking, local
484120 General freight trucking, long distance
485210 Interurban & rural bus transportation
486000 Pipeline transportation
482110 Rail transportation
487000 Scenic & sightseeing transportation
485410 School & employee bus transportation
484200 Specialized freight trucking (including household moving vans)
485300 Taxi, limousine, & ridesharing service
485110 Urban transit systems
483000 Water transportation
485990 Other transit & ground passenger transportation
488000 Support activities for transportation (including motor vehicle towing)

Couriers & Messengers

492000 Couriers & messengers

Warehousing & Storage Facilities

493100 Warehousing & storage (except leases of miniwarehouses & self-storage units)

Utilities

221000 Utilities

Wholesale Trade

Merchant Wholesalers, Durable Goods

423200 Furniture & home furnishing
423700 Hardware, & plumbing & heating equipment & supplies
423600 Household appliances & electrical & electronic goods
423940 Jewelry, watch, precious stone, & precious metals
423300 Lumber & other construction materials
423800 Machinery, equipment, & supplies
423500 Metal & mineral (except petroleum)
423100 Motor vehicle & motor vehicle parts & supplies
423400 Professional & commercial equipment & supplies
423930 Recyclable materials
423910 Sporting & recreational goods & supplies
423920 Toy & hobby goods & supplies
423990 Other miscellaneous durable goods

Merchant Wholesalers, Nondurable Goods

424300 Apparel, piece goods, & notions
424800 Beer, wine, & distilled alcoholic beverage
424920 Books, periodicals, & newspapers
424600 Chemical & allied products
424210 Drugs & druggists' sundries
424500 Farm product raw materials
424910 Farm supplies
424930 Flower, nursery stock, & florists' supplies
424400 Grocery & related products
424950 Paint, varnish, & supplies
424100 Paper & paper products
424700 Petroleum & petroleum products
424940 Tobacco & tobacco products
424990 Other miscellaneous nondurable goods

Wholesale Electronic Markets and Agents & Brokers

425110 Business to business electronic markets
425120 Wholesale trade agents & brokers

999999 Unclassified establishments (unable to classify)

—End of Tab 6—

Example #1: Alex bought a vacation home on January 1, 2008 for $200,000. On January 1, 2018, he converts the property into his principal residence, where he and his wife live until they sell the home on January 1, 2020 for $350,000. Alex's total ownership period is 12 years (2008–2020). However, 2009–2017 is a period of nonqualified use since the home was not Alex's principal residence during those years (years before 2009 are not counted). Alex must report a $112,500 gain, as follows:

Period of nonqualified use	9 years
Total ownership period	12 years
Total gain ($350,000 – $200,000)	$ 150,000
Nonexcludable gain (9/12 × $150,000)	$ 112,500

The remaining $37,500 ($150,000 – 112,500) of gain can be excluded under IRC Sec. 121 because Alex meets the two-year ownership and use tests for the home and has not excluded another gain in the previous two years.

Variation: Same facts as above except that Alex converted the vacation home to his principal residence on December 31, 2008. Here, his period of nonqualified use is zero, since only time after 2008 that the home is not used as a principal residence is counted. Alex can exclude his entire gain.

Note: Converting a principal residence to rental or investment property will not create a period of nonqualified use because periods after the last time the home was used as a principal residence are not counted. However, the gain exclusion will only be available if the taxpayer uses the home as a principal residence for two out of the five years before the sale. Waiting too long after the conversion from a principal residence could prevent the taxpayer from excluding any gain.

Effect of depreciation recapture. The nonexcludable gain due to a period of nonqualified use is based on the total gain less any gain recognized due to post-May 6, 1997 depreciation.

Example #2: Same facts as Example 1, except that Alex claimed $20,000 of depreciation on the home because he rented it out before it was converted to his principal residence. His total gain from the sale is $170,000 [$350,000 – ($200,000 – $20,000)]. He must report $20,000 as unrecaptured Section 1250 gain. His nonexcludable gain due to the period of nonqualifying use is $112,500 [9/12 × ($170,000 – $20,000)]. The remaining $37,500 ($170,000 – $20,000 – $112,500) gain is excluded under IRC Sec. 121.

Foreclosures

See also IRC Sec. 1038 and IRS Pubs. 544, 908, and 4681

If the borrower (owner) does not make payments due on a loan secured by property, the lender may foreclose on the mortgage or repossess the property. Or, the borrower may voluntarily transfer the property to the lender (deed in lieu of foreclosure).

Note: See *Real Property Repossessions By Seller* on Page 7-15 for the seller's treatment when property sold on the installment method is repossessed. See *Installment sales and repossessions* on Page 7-20 for special rules that apply when the property sold was the seller's principal residence. See also the IRS's *Real Estate Property Foreclosure and Cancellation of Debt Audit Technique Guide*, which is available at **www.irs.gov**.

COVID-19 Tax Alert: Certain taxpayers who have financial difficulties due to the current coronavirus economy may be eligible to request forbearance from foreclosure on their residence (CARES Act Sec. 4022). The borrower must submit a request to the borrower's loan servicer and affirm that he is adversely affected by the COVID-19 emergency.

Borrower's Gain or Loss

When the property is repossessed or foreclosed on, the borrower (owner) generally reports the transaction as if it is a sale.

Amount realized on sale (foreclosure) of property depends on type of financing:

- *Nonrecourse debt.* The borrower is not personally liable to repay the debt even if the value of the property is less than the outstanding debt. The amount realized is the full amount of debt canceled by the transfer of property.
- *Recourse debt.* The borrower is personally liable to pay any amount of the debt not satisfied by the value of the property. The amount realized is the lesser of the debt canceled or the FMV of the transferred property.

Cancellation of Debt (COD) Income

A borrower who is personally liable on the debt (recourse debt) may also have COD income when property securing the debt is foreclosed on, if the remaining loan balance is forgiven. The COD income equals the excess (if any) of the loan balance over the property's FMV. This income is separate from any gain or loss realized from the foreclosure.

Example: Chris bought a second home for $150,000. He paid $20,000 down and borrowed the remaining $130,000. Chris was not personally liable for the loan (nonrecourse), but pledged the property as security. When the balance due on Chris' loan was $100,000, the lender foreclosed because he had stopped making payments. The property's FMV was $90,000. Chris reports the foreclosure as a sale as follows:

Amount realized	$ 100,000
Basis	(150,000)
Loss on foreclosure (nondeductible personal loss)	$ (50,000)

Variation: Now assume Chris was personally liable for the loan (recourse debt). The lender takes the property in full satisfaction of the debt. In this case, Chris realizes a $60,000 loss of the foreclosure, as follows:

Amount realized (lesser of canceled debt or FMV)	$ 90,000
Basis	(150,000)
Loss on foreclosure (nondeductible personal loss)	$ (60,000)

Chris also must report $10,000 of COD income on line 8 of Form 1040, Schedule 1 (unless an exception applies—see *Report COD income* on Page 7-23), which equals the excess of the debt satisfied over the property's FMV ($100,000 – $90,000 = $10,000). This is the amount of the debt for which he was personally liable and that was forgiven in the transaction.

Report COD income. COD income related to a business or rental is reported as business or rental income (Sch. C, E, F, Form 4835) (IRS Pub. 4681). Report the income from cancellation of a nonbusiness debt as other income on line 8 of Form 1040, Schedule 1.

Exceptions: Generally, debt forgiveness in connection with real property is taxable, unless one of the exclusions under IRC Sec. 108 applies—that is, the debt forgiveness:

1) Is intended as a gift,
2) Occurs under Title 11 bankruptcy,
3) Occurs when the taxpayer is insolvent,
4) Is qualified farm indebtedness, or
5) Is qualified real property business indebtedness (other than C corporations).

If an exclusion applies, report the full amount of COD income on Form 982 [Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)]. Then, carry the taxable amount (if any) to the proper place on the return.

Note: Qualified principal residence indebtedness discharged (or subject to a written arrangement entered into) before January 1, 2026 is excluded from income [IRC Sec. 108(a)(1)(E)~~(ii)~~].

Forms 1099-A and 1099-C

A lender who acquires an interest in property in a foreclosure or repossession generally reports the information needed to figure gain or loss on Form 1099-A (Acquisition or Abandonment of Secured Property). This form includes a box that indicates whether the debt was recourse or nonrecourse. However, a lender that also cancels part of the debt must file Form 1099-C (Cancellation of Debt). In that case, the lender may include any information about the foreclosure or repossession on that form instead of on Form 1099-A.

Observation: Lenders do not always forgive the debt when property securing recourse debt is foreclosed on. Instead, they may pursue a deficiency against the borrower. Here, they would issue a Form 1099-A to report the foreclosure, but not a Form 1099-C, since the borrower has not yet been relieved of liability for any amount of debt over the property's FMV.

Report the sale. A foreclosure of business or rental property is reported on Form 4797. Investment-use or personal-use property (including a personal residence, unless there is a fully excludable gain) is reported on Form 8949 (and carried to Schedule D). Losses from personal-use property are not deductible.

Like-Kind Exchanges

Form 8824; see also IRC Sec. 1031 and IRS Pubs. 544 and 550

For exchanges completed after 2017, the TCJA provides that like-kind exchanges are available only with respect to real property held for productive use in a trade or business or for investment (that is, not held primarily for sale). Pre-TCJA, like-kind exchanges were also available to personal property held for productive use in a trade or business or for investment.

No gain or loss is recognized if real estate held for use in a trade or business or for investment is exchanged solely for property of a like kind to be held either for use in trade or business or for investment. However, the exchange must still be reported on Form 8824. Any gain or loss realized, but not recognized, adjusts the basis of like-kind property received in the exchange.

Recently, the IRS released proposed regulations (REG-117589-18) that reflect changes made by the TCJA. Taxpayers may rely on the proposed regulations, if followed consistently and in their entirety, for exchanges of real property beginning after December 31, 2017 and before the final regulations are published. Final regulations were released (TD 9935), which generally apply to exchanges beginning after December 2, 2020.

Proposed definition of real property. The guidance in Prop. Reg. 1.1031(a)-3, prior to December 2, 2020, provides some clarifying definitions. The term *real property* for this purpose means land and improvements to land, unsevered natural products of land, and water and air space superjacent to land. An interest in real property, including fee ownership, co-ownership, a leasehold, an option to acquire real property, an easement, or a similar interest, is real property for purposes of the proposed regulations and IRC Sec. 1031. *Improvements to land* means inherently permanent structures and the structural components of the same. *Inherently permanent structure* is any building or other structure that is a distinct asset, is permanently affixed to real property, and will ordinarily remain affixed for an indefinite period of time.

A *building* is any structure or edifice enclosing a space within its walls, and covered by a roof, the purpose of which is, for example, to provide shelter or housing, or to provide working, office, parking, display, or sales space. Buildings include the following distinct assets if permanently affixed: houses, apartments, hotels, motels, enclosed stadiums and arenas, enclosed shopping malls, factories and office buildings, warehouses, barns, enclosed garages, enclosed transportation stations and terminals, and stores.

Proposed new safe harbor for incidental personal property. The new guidance provides that real property may include some incidental personal property and qualify for a like-kind exchange. The proposed regulations, effective prior to December 2, 2020, disregard incidental personal property that in standard commercial transactions is typically transferred together with the real property and does not collectively exceed 15% of the aggregate fair market value of the replacement real property. The final regulations clarify that the 15% limitation is calculated by comparing the value of all of the incidental properties to the value of all of the replacement real properties acquired in the same exchange [~~Prop.~~ Reg. 1.1031(k)-1(g)(7)(iii) applying to exchanges beginning after December 2, 2020].

Like-Kind Property

Like-kind property means property of the same nature or character, not necessarily of the same grade or quality. For example, improved real estate can be exchanged for unimproved real estate.

Exchanges can include business for business, business for investment, investment for business, or investment for investment property.

Nonrecognition treatment for like-kind exchanges is mandatory rather than elective. A taxpayer who wants to recognize a realized gain or loss must structure the transaction around the statutory requirements for a like-kind exchange.

Other Highlights

Related taxpayers. If related taxpayers exchange properties and either party disposes of the exchanged property within two years, gain or loss deferred under the like-kind exchange rules is recognized in the year the disqualifying disposition occurs.

Boot. Property that is not like-kind property (including cash) included in the exchange is *boot*. The receipt of boot will cause a realized gain on an exchange to be recognized. Gain is realized if the FMV of the property received exceeds the tax basis of the property given. The amount of gain to recognize is the lesser of the boot received or the realized gain. Giving boot in the exchange triggers gain to the extent the boot's FMV exceeds its basis.

Liabilities. All liabilities transferred to the other party in an exchange are netted against all liabilities assumed by the taxpayer. The taxpayer is treated as receiving boot only if relieved of greater liabilities than those assumed.

Deferred exchanges. A deferred exchange is one in which the like-kind property received in the exchange (replacement property) is not received immediately upon the transfer of property given up (relinquished property). After transferring the relinquished property, the replacement property must be identified within 45 days and actually received within 180 days [or, if earlier, the due date (including extension) of the return for the year the property is relinquished].

Note: Like-kind exchanges are covered in detail at Tab 9 of the *Depreciation Quickfinder® Handbook*.

Qualified Opportunity Zone (QOZ) Investment

QOZs offer investors who have gains to defer the ability to elect to—

1) Temporarily defer certain eligible gains from the sale of property if such gain is reinvested in a qualified opportunity fund (QOF), or
2) Permanently exclude from income post-acquisition capital gains on the disposition of QOF investments held for 10 years.

Definitions

A *QOF* is, generally, an investment vehicle organized as a corporation or a partnership for the purpose of investing in QOZ property

Accountable Plan/Nonaccountable Plan

Accountable plan. Reimbursements made to an employee under an accountable plan are not included in the employee's income, and the employee does not deduct the expenses.

Nonaccountable plan. Reimbursements made to an employee under a nonaccountable plan are treated as taxable wages and reported on Form W-2.

Before 2018, employees deducted unreimbursed expenses on Form 2106 and Schedule A, subject to the 2%-of-AGI limit. The TCJA suspended the deduction for miscellaneous itemized deductions subject to the 2%-of-AGI limit for 2018–2025 [IRC Sec. 67(g)].

An employee who receives payments under a nonaccountable plan cannot convert the payments to an accountable plan by voluntarily accounting to the employer or returning excess payment.

Accountable plan requirements [IRC Sec. 62(c)]:

1) *Business connection.* The reimbursement must be for job-related expenses the employee would reasonably be expected to incur. A plan that reimburses personal expenses does not qualify as an accountable plan.
2) *Substantiation.* The employee must substantiate the expense by providing receipts or other documentation to the employer within a reasonable period of time.
3) *Return of excess reimbursement.* The employee must be required to return any excess reimbursement to the employer within a reasonable period of time.

Caution: Individuals who receive a salary or commission with the understanding that they will pay their own expenses are not covered by an accountable plan. Also, employers cannot merely treat a portion of compensation as a nontaxable reimbursement, even if they require their employees to pay certain business expenses (Rev. Rul. 2012-25).

Reasonable period of time. The following situations are considered within a reasonable period of time for the accountable plan rules:

1) The employee receives an advance within 30 days of the time the expense is incurred.
2) The employee adequately accounts for the expense within 60 days of the time the expense was paid or incurred.
3) Any excess reimbursement is returned to the employer within 120 days after the expense was paid or incurred.
4) The employer provides a statement to the employee (at least quarterly) asking the employee to either return or adequately account for outstanding advances, and the employee complies within 120 days of the statement.

Above-the-Line Deduction for Certain Employees

Government officials paid on a fee basis, qualified performing artists, Armed Forces reservists, and educators can claim business expenses as an adjustment to income [IRC Secs. 62(a)(2) and 162].

Practice Tip: Currently, these and employees with impairment-related work expenses (see *Disabled employee* on Page 9-1) are the only employees completing Form 2106.

Government fee basis officials (FBOs). Individuals who are employed by a state or local government and paid in whole or in part on a fee basis.

Qualified performing artists (QPAs):

1) Perform services as an employee in performing arts for at least two employers during the tax year and receive at least $200 from any two of the employers,
2) Incur performing arts-related business expenses of more than 10% of the gross income from performing arts and
3) Have AGI of $16,000 or less before deducting performing arts expenses. To qualify, married individuals must file a joint return unless they lived apart for all of the tax year.

Armed Forces reservists. National Guard members and Armed Forces reservists who must travel more than 100 miles away from home and stay overnight to fulfill their training and service commitments can claim an above-the-line deduction for the cost of transportation, meals (subject to the 50% disallowance rule) and lodging. The deductible amounts are limited to general federal government per diem amounts for the applicable locale.

Form 2106 is completed to report eligible expenses for FBOs, QPAs, reservists, and certain disabled employees. The expenses are then entered on Schedule 1, line 11 of Form 1040.

Educators. Grades K–12 teachers, instructors, counselors, principals, and aides can deduct up to $250 of unreimbursed expenses on Schedule 1, line 10 of Form 1040 (up to $500 if MFJ and both spouses are educators). Only expenses in excess of excludable U.S. bond interest, nontaxable qualified tuition plan distributions, and nontaxable Coverdell ESA distributions can be deducted. The taxpayer must spend at least 900 hours during a school year as an educator. Qualified expenses include amounts paid for books, supplies (other than nonathletic supplies for courses of instruction in health and PE), computer software and equipment, and other equipment and materials used in the classroom. Professional development expenses are also qualified expenses.

COVID-19 Tax Alert: The COVID-related Tax Relief Act of 2020 (COVIDTRA) treats personal protective equipment (PPE), disinfectant, and other supplies, purchased after March 12, 2020 for the prevention of the spread of COVID-19, as eligible educator expenses (Sec. 275 of COVIDTRA).

Per Diem Rates

Per Diem Substantiation Methods

The federal per diem rates, which are accepted by the IRS for meals, lodging, and other incidental expenses vary depending on the travel location. The per diem rates for travel are revised each year on October 1. For the last three months of the year, taxpayers use either the per diem rates effective October 1 of the preceding year or the revised rates effective October 1 of the current year. They must use either the current rates or the revised rates consistently for all travel during that period.

Meals and incidental expenses (M&IE) rate. Instead of deducting actual expenses incurred for M&IE while traveling for business, self-employed individuals may deduct the per diem amounts, if they document the time, place, and business purpose for the travel. Also, employees and self-employed individuals who are reimbursed for their meals and incidental expenses are treated as substantiating the amount of those expenses up to the IRS per diem rate (or actual reimbursement, if smaller) if they substantiate the time, place, and business purpose. If the reimbursement is made under an accountable plan, only amounts over the per diem rate are reported as taxable income on Form W-2.

See the table *Meals and Incidental Expenses Per Diem Rates* on Page 9-9.

Caution: Only 50% of the M&IE rate is deductible.

Incidental expenses. Employees and self-employed individuals who do not incur meal expenses while traveling can use the per diem allowance for incidental expenses (IE) only (for any location, $5 per day for 2020). Incidental expenses include only fees and tips given to porters, baggage carriers, hotel staff, and staff on ships (Rev. Proc. 2011-47). Incidental expenses do not include transportation to get meals, mailing costs for travel vouchers and credit card payments, laundry, lodging taxes, and telephone calls. These amounts may be separately deducted or reimbursed.

Lodging expense. A per diem allowance for lodging may only be used by employers for determining employee reimbursements and income exclusion (if paid under an accountable plan). Sole proprietors and employees may not use the per diem allowance to substantiate a lodging deduction; actual receipts are needed (*Bracey*, TC Memo 1998-254).

MACRS Depreciation Tables

3-Year MACRS

See *MACRS tables* on Page 10-2.

For property placed in service after 1986

200% Declining Balance

- *Regular tax depreciation for personal property with three-year recovery period [includes all racehorses (placed in service after 2008 and before 2022), racehorses over two years old (placed in service before 2009 and after 2021), other horses more than 12 years old, qualified rent-to-own property, tractors for over-the-road use, qualified Indian reservation property placed in service in 1994–2021 that would otherwise have a 5-year recovery period, and assets used in certain activities].*

Year	Half-Year Convention	Mid-Quarter Convention—Quarter in Which Acquired			
		1	2	3	4
1	33.33%	58.33%	41.67%	25.00%	8.33%
2	44.45	27.78	38.89	50.00	61.11
3	14.81	12.35	14.14	16.67	20.37
4	7.41	1.54	5.30	8.33	10.19

150% Declining Balance

- *Regular tax depreciation for three-year assets used in a farming business placed in service before 2018.*
- *AMT depreciation for property with three-year recovery period placed in service after 1998.*
- *Can be elected for regular tax.*

Year	Half-Year Convention	Mid-Quarter Convention—Quarter in Which Acquired			
		1	2	3	4
1	25.00%	43.75%	31.25%	18.75%	6.25%
2	37.50	28.13	34.38	40.63	46.88
3	25.00	25.00	25.00	25.00	25.00
4	12.50	3.12	9.37	15.62	21.87

These percentages incorporate the switch from declining-balance (DB) to straight-line (SL) method when SL yields a larger deduction.

Note: For early disposition, multiply the depreciation obtained from these tables by ½ if half-year convention applied. For a disposition of property under the mid-quarter convention, see *Mid-quarter convention disposal* on Page 10-9.

5-Year MACRS

See *MACRS tables* on Page 10-2.

For property placed in service after 1986

200% Declining Balance

- *Regular tax depreciation for (1) personal property with five-year recovery period (includes autos, computers, typewriters, copiers, and assets used in certain activities) and (2) farm equipment (other than grain bins, cotton ginning assets, fences, or other land improvements) if the equipment's original use began with the taxpayer for property placed in service after December 31, 2017.*

Year	Half-Year Convention	Mid-Quarter Convention—Quarter in Which Acquired			
		1	2	3	4
1	20.00%	35.00%	25.00%	15.00%	5.00%
2	32.00	26.00	30.00	34.00	38.00
3	19.20	15.60	18.00	20.40	22.80
4	11.52	11.01	11.37	12.24	13.68
5	11.52	11.01	11.37	11.30	10.94
6	5.76	1.38	4.26	7.06	9.58

150% Declining Balance

- *Regular tax depreciation for five-year assets used in a farming business placed in service before 2018.*
- *AMT depreciation for property with five-year recovery period placed in service after 1998.*
- *Can be elected for regular tax.*

Year	Half-Year Convention	Mid-Quarter Convention—Quarter in Which Acquired			
		1	2	3	4
1	15.00%	26.25%	18.75%	11.25%	3.75%
2	25.50	22.13	24.38	26.63	28.88
3	17.85	16.52	17.06	18.64	20.21
4	16.66	16.52	16.76	16.56	16.40
5	16.66	16.52	16.76	16.57	16.41
6	8.33	2.06	6.29	10.35	14.35

These percentages incorporate the switch from declining-balance (DB) to straight-line (SL) method when SL yields a larger deduction.

Note: For early disposition, multiply the depreciation obtained from these tables by ½ if half-year convention applied. For a disposition of property under the mid-quarter convention, see *Mid-quarter convention disposal* on Page 10-9.

7-Year MACRS

See *MACRS tables* on Page 10-2.

For property placed in service after 1986

200% Declining Balance

- *Regular tax depreciation for personal property with seven-year recovery period (includes office furniture and fixtures, horses not eligible for a three-year recovery period, farm equipment that does not qualify as five-year property, and assets used in certain activities).*

Year	Half-Year Convention	Mid-Quarter Convention—Quarter in Which Acquired			
		1	2	3	4
1	14.29%	25.00%	17.85%	10.71%	3.57%
2	24.49	21.43	23.47	25.51	27.55
3	17.49	15.31	16.76	18.22	19.68
4	12.49	10.93	11.97	13.02	14.06
5	8.93	8.75	8.87	9.30	10.04
6	8.92	8.74	8.87	8.85	8.73
7	8.93	8.75	8.87	8.86	8.73
8	4.46	1.09	3.34	5.53	7.64

150% Declining Balance

- *Regular tax depreciation for seven-year assets used in a farming business placed in service before 2018.*
- *AMT depreciation for property with seven-year recovery period placed in service after 1998.*
- *Can be elected for regular tax.*

Year	Half-Year Convention	Mid-Quarter Convention—Quarter in Which Acquired			
		1	2	3	4
1	10.71%	18.75%	13.39%	8.04%	2.68%
2	19.13	17.41	18.56	19.71	20.85
3	15.03	13.68	14.58	15.48	16.39
4	12.25	12.16	12.22	12.27	12.87
5	12.25	12.16	12.22	12.28	12.18
6	12.25	12.16	12.22	12.27	12.18
7	12.25	12.16	12.23	12.28	12.19
8	6.13	1.52	4.58	7.67	10.66

These percentages incorporate the switch from declining-balance (DB) to straight-line (SL) method when SL yields a larger deduction.

Note: For early disposition, multiply the depreciation obtained from these tables by ½ if half-year convention applied. For a disposition of property under the mid-quarter convention, see *Mid-quarter convention disposal* on Page 10-9.

Tax Credits Summary (2020) (Continued)								
Tax Credit	**IRC Sec.**	**For**	**Credit Amount**	**IRS Pub**	**Tax Form**	**Refundability, Carryover**	**Allowed Against AMT?**	**QF Page**
Minimum Tax	53	Credit allowed against regular tax for part of the AMT paid and attributable to deferral items.	AMT attributable to deferral items.	17	8801	Nonrefundable; fwd indefinitely	N/A	12-16
Mortgage Interest	25	Part of interest expense paid by homebuyers issued a government mortgage credit certificate.	Based on interest paid and credit rate under certificate.	530	8396	Nonrefundable; fwd 3 years	Yes	—
Other Dependents	24	Credit allowed for qualifying dependents other than qualifying children.	$500 per qualifying dependent.	972	1040	Nonrefundable	Yes	12-6
Personal (Nonbusiness) Energy Property	25C	Homeowners who install certain energy saving improvements such as insulation, doors, windows, heat pumps, etc.	10% or 100% of cost depending on type; $500 aggregate lifetime limit.	17	5695	Nonrefundable	Yes	12-13
Premium Assistance	36B	Certain taxpayers who enroll, or whose family member enrolls in a qualified health plan offered in the Marketplace (health insurance exchange).	Up to the amount of the enrollment premiums.	974	8962	Refundable	Yes	12-11
Recovery Rebate	6428	Taxpayers will reconcile their economic impact payments (EIPs) received due to the COVID-19 pandemic with their allowable recovery rebate credit on their 2020 income tax return.	Up to $2,400 MFJ or $1,200 all others, plus $500 for each qualifying child for EIP 1. Up to $1,200 MFJ or $600 all others, plus $600 for each qualifying child for EIP 2. Reduced (but not below zero) by 5% of AGI in excess of: • $150,000 MFJ, QW. • $112,500 HOH. • $75,000 all others. Further reduced (but not below zero) by amount of EIP received.	—	1040	Refundable	Yes	12-13
Residential Energy Efficient Property	25D	Property installed on taxpayer's residences: qualified solar electric property, qualified solar water heating property, qualified small wind energy property, qualified geothermal heat pump property, and qualified fuel cell property.	30% of cost.	17	5695	Nonrefundable; fwd indefinitely	Yes	12-13
Retirement Saver's	25B	For individuals who make retirement plan contributions. Credit in addition to tax deduction. AGI ≤ $65,000 MFJ; $48,750 HOH; $32,500 Single, MFS, QW.	10% to 50% of contributions. Maximum: $2,000 MFJ, $1,000 other.	590-A	8880	Nonrefundable	Yes	12-13

Preparer Due Diligence for Refundable Credits

Form 8867, IRS Pub. 4687

Tax preparers are subject to special due diligence requirements when claiming the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), Additional Child Tax Credit (ACTC), Credit for Other Dependents (ODC), or American Opportunity Tax Credit (AOTC) for a taxpayer. These requirements also apply in determining a taxpayer's eligibility to file as a head of household (HOH). These requirements focus on accurately determining the taxpayer's eligibility for and the amount of each credit, and/or HOH filing status. A $540 penalty (per failure) is imposed on any preparer who fails to meet due diligence requirements with respect to these credits [IRC Sec. 6695(g)].

To protect themselves from the penalty, preparers must (Reg. 1.6695-2):

1) Complete and attach Form 8867 (Paid Preparer's Due Diligence Checklist) (or similar form that provides the same information) to the taxpayer's return.
2) Complete the credit Worksheets in the Form 1040 instructions (or similar worksheet that provides the same information).
3) Keep a record of how, when, and from whom the information used to prepare the Form 8867 and worksheet was obtained.
4) Keep copies of any documents that the client provides (including social security cards and birth certificates) that are used to determine eligibility for or amount of the credit and/or HOH filing status.
5) Make reasonable inquiries if the information furnished to, or known by, the preparer appears to be incorrect, inconsistent or incomplete.
6) Retain the information obtained in items 1 through 5 for three years from the latest of:
   a) The due date of the tax return (not including extensions).
   b) The date the return was filed (if the preparer signed the return and filed it electronically).
   c) The date the return was presented to the taxpayer for signature (if the preparer signed the return and did not file it electronically).
   d) The date the preparer submitted the return to the preparer who signed the return (if preparer prepared the return but another preparer signed the return).

The IRS asserts that due diligence promotes accurate credit claims. If these rules are not followed, the IRS can assess accuracy or fraud penalties on the taxpayer. The IRS can also ban the taxpayer from claiming the credits for two or 10 years. A tax preparer and their firm could face suspension or expulsion from e-file participation. A tax preparer can be barred from preparing tax returns and can be subject to criminal prosecution.

Adoption Credit or Benefit Exclusion

Form 8839; See also IRC Secs. 23 and 137

Taxpayers adopting an eligible or special needs child may be able to take an adoption expense tax credit and/or exclude employer-provided adoption benefits from income. Both a credit and exclusion may be claimed for the same adoption; however, both cannot be claimed for the same expense. The credit is available to taxpayers whose filing status is single, HOH, qualifying widow(er), or MFJ.

Married couples must file a joint return to take the adoption credit or exclusion. An individual is not considered married if legally separated under a decree of divorce or separate maintenance.

Married and living apart. A married individual can take the credit or the exclusion on a separate return if the individual:

- Lives apart from his spouse for the last six months of the tax year,
- Provides the home that is the eligible child's home for more than half the year and
- Pays more than half the cost of keeping up that home for the year.

2) 15% of the taxpayer's earned income in excess of $2,500. **Note:** For taxpayers with three or more qualifying children, this amount is replaced by the following, if greater:

The sum of the following:

- Withheld social security, Medicare, and additional Medicare taxes (from Form W-2, boxes 4 and 6).
- Self-employment tax deduction (Form 1040, Schedule 1, line 14).
- Social security and Medicare tax on tip income not reported to employer (Form 1040, Schedule 2, line 5).
- Any uncollected social security and Medicare or tier 1 RRTA taxes included on Form 1040, Schedule 2, line 8 (code UT).

Less: the taxpayer's:

- Earned income credit (Form 1040, line 27) and
- Excess social security and tier 1 RRTA tax withheld (Form 1040, Schedule 3, line 10).

No credit or refund for an overpayment can be made before February 15 if the taxpayer claimed the Additional Child Tax Credit on his return.

Earned income. For the additional child tax credit, earned income is generally defined the same as for the EIC. See *Earned Income Defined* on Page 12-8. *Exception:* Nontaxable combat pay excluded from gross income is included in earned income for calculating the additional child tax credit [IRC Sec. 24(d)(1)].

Law Change Alert: The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTRA) allows the taxpayer to elect to use the prior year earned income in calculating the refundable additional child tax credit amount if the 2020 earned income amount is less than 2019 (Sec. 211 of the TCDTRA).

Disaster Relief Alert: For qualified disaster victims for the period January 1, 2018, through January 29, 2020, the 2019 Disaster Act provides a special rule for computing earned income for purposes of the EIC. If the earned income of the taxpayer for the year that includes the applicable disaster is less than the taxpayer's earned income for the preceding tax year, the taxpayer may choose to use the earned income of the preceding year. Similar rules apply for the additional child tax credit. If the election is made for one credit, it must be made for both. See *Look-Back Election for Earned Income and Refundable Child Credits* on Page 17-15 for qualification rules.

The credit is not refundable if the taxpayer claims the foreign earned income exclusion.

Example: A couple (MFJ) with two qualifying children has this 2020 income:

Wages/AGI	$ 33,800
Standard deduction	(24,800)
Taxable income	$ 9,000
Tax liability	900
Child tax credit (allowed)	(900)
Tax	$ 0

Child tax credit = $900. Computed as follows:

$ 4,000 = Maximum available child tax credit ($2,000 × 2).

$ 900 = Child tax credit (limited to regular tax liability plus AMT liability).

The couple qualifies for the additional child tax credit because they have not utilized the full child tax credit and have more than $2,500 of earned income. They complete Schedule 8812 to determine the allowable additional child tax credit.

Additional child tax credit = $2,800. The smaller of:

$ 2,800 = Remaining child tax credit ($4,000 – $900) (limited to $1,400 per child) or

$ 4,695 = 15% of earned income in excess of $2,500 [($33,800 – $2,500) × 15%].

The couple owes no 2020 federal income tax. They receive a refund equal to $2,800 of additional child credit, plus any income tax paid or withheld, plus any other refundable credits, such as the EIC and premium tax credit.

Earned Income Credit

Form 1040, Sch. EIC; See also IRC Sec. 32, IRS Pub. 596, and 2020 Earned Income Credit (EIC) Table on Page 1-14

IRS resources. The EITC Tax Preparer Toolkit at **http://eitc.irs.gov/tax-preparer-toolkit/welcome-to-the-tax-preparer-toolkit** provides tools, information, and guidance to help preparers determine whether their clients qualify for the earned income credit (EIC) and to practice due diligence. See *Preparer Due Diligence for Refundable Credits* on Page 12-2.

Law Change Alert: The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTRA) allows the taxpayer to elect to use the prior year earned income in calculating the earned income credit amount if the 2020 earned income amount is less than 2019 (Sec. 211 of the TCDTRA).

No credit or refund for an overpayment can be made before February 15 if the taxpayer claimed the EIC on his return.

2020 Earned Income Credit

# Qualifying Children	Earned Income/AGI Less Than:	Maximum Credit
0	$15,820 ($21,710 MFJ)	$ 538
1[1]	41,756 ($47,646 MFJ)	3,584
2[1]	47,440 ($53,330 MFJ)	5,920
3 or more[1]	50,954 ($56,844 MFJ)	6,660

[1] Must complete Schedule EIC.

Note: Investment income limit = $3,650.

Qualifying Taxpayer

In addition to having earned income and AGI below the amounts shown in the table *2020 Earned Income Credit* on Page 12-7, a taxpayer must meet the following requirements (see *Additional Rules* on Page 12-7):

1) The taxpayer must have earned income. See *Earned Income Defined* on Page 12-8.
2) The taxpayer's investment income cannot be more than $3,650 in 2020. See *Investment Income* on Page 12-8.
3) The taxpayer's filing status may not be MFS.

Court Case: The Tax Court held that a taxpayer, whose correct filing status was MFS, was entitled to the EIC because he had qualifying children (*Tsehay*, TC Memo 2016-200). In an Action on Decision, the IRS announced its nonacquiescence with this decision. The IRS explained that the Tax Court overlooked IRC Sec. 32(d), which disallows the EIC to married taxpayers filing separately. Accordingly, the IRS will not follow the Tax Court's opinion (AOD 2017-05).

4) The taxpayer (and spouse, if married) and the qualifying child must have valid social security numbers. **Note:** Other identifying numbers such as individual taxpayer identification numbers (ITINs) or adoption taxpayer identification numbers (ATINs) do not qualify.
5) The taxpayer (or spouse, if married) cannot be the qualifying child of another person.
6) The taxpayer may not file Form 2555 (Foreign Earned Income).
7) A taxpayer who is a nonresident alien for any part of the year generally may not claim the credit. See IRS Pub. 596 for exceptions.

Note: Special rules apply for military personnel stationed outside the U.S. See IRS Pub. 596 for information.

Additional Rules

Taxpayers without qualifying child(ren):

- The taxpayer must be at least 25 years old but less than 65 years old at the end of the tax year. If married, either spouse can meet age requirement.
- The taxpayer (and spouse, if married) cannot qualify as a dependent of another taxpayer, whether or not claimed as a dependent on that taxpayer's return.

Continued on the next page

Shared Policies

See Form 8962 instructions for allocation rules when:

- An individual or someone in his tax family was enrolled in a qualified health plan by someone outside his tax family.
- The individual or someone in his tax family enrolled someone outside the tax family in a qualified health plan.
- An individual marries or divorces during the year.

Recovery Rebate Credit

IRC Sec. 6428, CARES Act, and COVIDTRA

COVID-19 Tax Alert: The Coronavirus Aid, Relief, and Economic Security (CARES) Act added recovery rebates for eligible individuals for 2020 (IRC Sec. 6428). In addition, the COVID-related Tax Relief Act of 2020 (COVIDTRA) added additional economic impact payments (EIPs) for eligible individuals for 2020 (Sec. 272 of COVIDTRA).

Background. The recovery rebate is allowed in the form of a refundable credit on the eligible individual's tax return for the 2020 tax year. However, this credit is issued as an advanced refund (known as an *economic impact payment*) to eligible individuals.

Note: Taxpayers should have received a Notice 1444 (Your Economic Impact Payment) showing the amount of economic stimulus payment received. Taxpayers can also obtain their payment amounts at **www.irs.gov**.

Taxpayers will reconcile their economic impact payments received with their allowable recovery rebate credit on their 2020 return. The amount of the allowable credit will be reduced (but not below zero) by the economic impact payment received [IRC Sec. 6428(e)(1)]. See *Recovery Rebate Credit Worksheet* on Page 3-12.

Eligibility. U.S. citizens and U.S. resident aliens will receive the EIP 1 and EIP 2, in total, of $1,800 ($3,600 if they filed married filing jointly) and $1,100 for each qualifying child, if they are not a dependent of another taxpayer and have a work eligible social security number (SSN) with adjusted gross income up to:

- $150,000 for married couples filing joint returns (including surviving spouses),
- $112,500 for head of household filers, and
- $75,000 for all other eligible individuals.

Taxpayers will receive a 5% reduction in their payment for the amount their AGI is above these amounts.

The IRS has stated that, in general, eligible individuals must have a SSN that is valid for employment and was issued by the Social Security Administration before the due date (including extensions) of the 2019 (or 2018, if taxpayer has not filed a 2019 tax return) tax return. If "Not Valid for Employment" is printed on the individual's social security card, he will be ineligible to receive the economic impact payment. If the individual's immigration status has changed so that he is now a U.S. citizen or permanent resident, he should ask the SSA for a new social security card. However, if "Valid for Work Only With DHS Authorization" is printed on the individual's social security card, the individual has the required SSN only as long as the Department of Homeland Security authorization is valid.

For joint returns, both spouses must have valid SSNs to receive the economic impact payment. However, there is one exception. If either spouse is a member of the U.S. Armed Forces at any time during the tax year, only one spouse needs to have a valid SSN. If spouses file separately, the spouse who has an SSN may qualify for an economic impact payment; the other spouse without a valid SSN will not qualify.

Residential Energy Tax Credits

Form 5695; See also IRC Secs. 25C and 25D and IRS Pub. 17

Personal (Nonbusiness) Energy Property

Allowable credit:

- The credit is equal to 10% of the cost of qualified energy-efficient improvements plus 100% of the cost of residential energy property expenditures.
- The credit is limited to (1) $50 for each advanced main air circulating fan; (2) $150 for each natural gas, propane, or oil furnace or hot water boiler; and (3) $300 for each item of: (a) electric heat pump water heaters; (b) electric heat pumps; (c) biomass fuel stoves; (d) high-efficiency central air conditioners; or (e) natural gas, propane, or oil water heaters.
- The credit is subject to a $500 ($200 for exterior windows and skylights) lifetime limit.

Note: This credit had expired at the end of 2017. The credit is available retroactively for 2018 and 2019. Taxpayers may file amended returns to claim this credit for those years, as applicable. Items must be placed in service before December 31, 2021 to be eligible for this credit.

Qualifying property. The property must be installed on or in the taxpayer's principal residence that is located in the U.S. (new construction doesn't qualify). The improvement must be new (not used) property.

Qualifying property must meet technical requirements related to energy savings. Taxpayers can rely on a manufacturer's certification statement (that the property meets the technical requirements) to claim the credit (Notice 2009-53).

Property used partly for business. If the home is used partly for business (for example, a home office), any qualified expenditure must be allocated between nonbusiness and business use if the improvement is used more than 20% for business. If allocation is required, only the portion of the expenditure allocated to nonbusiness use qualifies for the credit.

Residential Energy Efficient Property Credit

Individuals can claim a tax credit for residential energy efficient property (IRC Sec. 25D). The credit is available for the types of property shown in the following table.

Residential Energy Efficient Property Credit

Property Type	Credit Amount (% of Cost)			
	2019	2020	2021–2022	2023
Solar Water Heating	30%	26%	26%	22%
Solar Electric	30	26	26	22
Fuel Cells[1]	30	26	26	22
Small Wind Energy	30	26	26	22
Geothermal Heat Pump	30	26	26	22

[1] Maximum credit = $500 per 0.5 kW of capacity

Other rules:

- The credit (other than for fuel cells) is available for equipment for the taxpayer's personal residence, which must be in the U.S. The credit for fuel cell property is only available for a *principal* residence.
- No credit is allowed for equipment used to heat swimming pools or hot tubs.
- The cost includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property, and for piping or wiring to interconnect such property to the home.
- The taxpayer's basis in the credit property is reduced by the amount of the credit.
- The credit can offset both regular tax and AMT. Any unused credit can be carried forward to the next year and added to the credit allowed for that year [IRC Sec. 25D(c)].
- Taxpayers can rely on manufacturer's statement that property qualifies for the credit (Notice 2009-41).
- Credit is available for new construction as well as improvements to existing homes (Notice 2013-70).

Retirement Saver's Credit

Form 8880; See also IRC Sec. 25B and IRS Pub. 590-A

Qualified individuals are allowed a nonrefundable credit of up to $1,000 ($2,000 MFJ) for eligible contributions to an IRA, an ABLE account (by the designated beneficiary), or an employer-sponsored retirement plan. The credit can offset both regular tax and AMT.

The amount of the credit is the eligible contribution multiplied by the credit rate, based on filing status and AGI.

2) The taxpayer maintains a household that is the foster child's principal residence for more than half the year, and
3) The taxpayer satisfies other HOH filing requirements. (See *Head of Household* on Page 4-8.)

Claiming an exemption. An exemption may be claimed for a foster child only if the foster child is a qualifying child or a qualifying relative, and the *Basic Tests* on Page 4-10 are met.

Note: When computing support that a foster parent provides to a foster child, payments received from a qualified agency count toward the child's total support but do not count as support provided by the foster parent. Similarly, unreimbursed expenses the foster parent deducts as a charitable contribution (see *Charitable donations* on Page 13-3) count as part of the foster child's total support but not as support provided by the foster parent (CCA 199919034).

Practice Tip: For 2018–2025, the TCJA eliminated the exemption deduction for dependents (IRC Sec. 152). Nevertheless, determining the eligibility to claim the child as a dependent (qualifying child) is significant for various other tax matters.

Income, Deductions, and Credits

Foster care payments. Payments received for providing foster care in a taxpayer's home generally are not included in a taxpayer's income (IRC Sec. 131). Payments excluded from income include amounts received from a state or local government or from a qualified foster care placement agency. Qualified agencies include both for-profit and tax-exempt agencies that are licensed or certified by a state or local government or any organization designated by a state or local government to make foster care payments.

Note: Foster care payments received for qualified individuals who are over age 18 are excludable from the foster parent's taxable income only to the extent of five such individuals.

Difficulty-of-care payments. Difficulty-of-care payments that foster parents receive for caring for physically, mentally, or emotionally handicapped foster individuals are excluded from income, but the exclusion is limited to payments for the care of 10 qualified foster individuals who are under 19 years of age and five who are over 18 years old [IRC Sec. 131(c)].

Law Change Alert: For IRA contributions made after December 20, 2019, difficulty of care payments received by a foster parent that were excluded from income under IRC Sec. 131 may be used to increase the nondeductible limit by the lesser of the excluded income or the amount the normal deductible amount exceeds the foster parent's compensation [IRC Sec. 408(o)(5), as amended by the SECURE Act]. See Tab 14 for more information.

Medicaid waiver payments. These payments qualify as difficulty-of-care payments excludable under IRC Sec. 131, whether or not the care provider is related to the individual receiving care. Qualified Medicaid waiver payments are payments made by a state, political subdivision or a certified Medicaid provider under a Medicaid waiver program to an individual care provider for nonmedical support services provided to an eligible individual living in the care provider's home (Notice 2014-7, PLR 201623003).

Taxable payments. A taxpayer who receives foster care payments that don't qualify for the exclusion must include the payments in income, and the taxpayer is treated as being in the business of providing foster care (IRS Pub. 17). The taxable foster care payments must be reported on Schedule C and are treated as self-employment income.

Charitable donations. Foster parents can deduct as a charitable contribution some of the costs of being a foster parent if they have no profit motive in providing the foster care and are not, in fact, making a profit and a qualified organization designates the foster children they take into their home (Rev. Rul. 77-280). Expenses that meet both of the following requirements are deductible:

1) Unreimbursed out-of-pocket expenses to feed, clothe, and care for the foster child.
2) Expenses that mainly benefit the qualified organization.

Earned income credit. A foster child must live with the taxpayer in the U.S. for more than six months (and meet other EIC requirements) to be a qualifying child for the EIC [IRC Sec. 32(c)(3)]. See *Earned Income Credit* on Page 12-7.

Qualified ABLE Programs

States are allowed to establish tax-exempt "Achieving a Better Life Experience" (ABLE) accounts to assist persons with disabilities. These accounts can be established to pay qualified disability expenses. A qualified ABLE account is generally exempt from income tax, but is subject to the unrelated business income tax of tax-exempt organizations [IRC Sec. 529A(a)].

Beneficiaries

The designated beneficiary of an ABLE account is an eligible individual who established the account and is its owner. The program must limit a designated beneficiary to one ABLE account. An individual is eligible to establish an account if, during the tax year: (1) the individual is entitled to benefits based on blindness or disability under the social security disability insurance program or the Supplemental Security Income (SSI) program, and that blindness or disability occurred before the date on which the individual reached age 26, or (2) a disability certification for the individual has been filed with IRS for the tax year [IRC Sec. 529A(e)(1)].

Contributions

Any person may make contributions to an ABLE account. Contributions to an ABLE account aren't deductible for income tax purposes. Noncash contributions are not allowed.

Annual contributions from all contributors to a designated beneficiary's ABLE account are limited to that year's annual gift tax exclusion amount ($15,000 for 2020) [IRC Sec. 529A(b)(2)]. A 6% excise tax is imposed on excess contributions [IRC Sec. 4973(a)(6)].

Additional contributions by beneficiary. Beginning in 2018, after the overall limitation on contributions is reached (that is, the annual gift tax exclusion amount), an ABLE account's designated beneficiary can contribute an additional amount, up to the lesser of (1) the federal poverty line for a one-person household for the preceding calendar year (thus, $12,760 applies for 2020) or (2) the individual's compensation (including net earnings from self-employment) for the tax year [IRC Sec. 529A(b)].

Note: Excess contributions (including attributable net income) must be returned to avoid the 6% penalty. Proposed regulations (REG-128246-18) issued in October 2019 clarify the contribution limits for ABLE accounts. The proposed regulations confirm that the employed designated beneficiary, or a person acting on his behalf, is solely responsible for ensuring that the requirements in IRC Sec. 529A(b)(2)(B)(ii) are met and for maintaining adequate records for that purpose. Any excess contributions of the designated beneficiary's compensation must be returned. The proposed regulations may be relied upon until published as final (Prop. Reg. 1.529A-8). Final regulations (TD 9923) were released effective November 19, 2020.

Rollovers. For distributions after December 22, 2017 and before January 1, 2026, amounts from qualified tuition programs (QTPs) can be rolled over tax-free to an ABLE account, provided that the rollover is made within 60 days of the distribution and the ABLE account is owned by the designated beneficiary of the QTP account, or a member of such designated beneficiary's family [IRC Sec. 529(c)(3)(C)]. Such rollovers are counted towards the overall limitation on amounts that can be contributed to an ABLE account within a tax year, and any amount rolled over in excess of this limit is includible in the gross income of the distributee [IRC Sec. 529(c)(6)].

Saver's credit. For 2018–2026, the designated beneficiary of an ABLE account can claim the saver's credit under IRC Sec. 25B for contributions he makes to his ABLE account [IRC Sec. 25B(d)(1)]. See *Retirement Saver's Credit* on Page 12-13.

- Qualified expenses do not include those paid with tax-free scholarships, tax-free withdrawals from ESAs and QTPs, nontaxable veterans' educational assistance benefits, tax-free employer-provided educational assistance, or any expenses used in computing education credits.
- Exclusion not available to married taxpayers filing separately.
- Exclusion phases out for 2020 when modified AGI is between $82,350–$97,350 ($123,550–$153,550 MFJ or QW). Modified AGI is AGI (before the savings bond interest exclusion) increased by: (1) foreign earned income and housing exclusion, (2) foreign housing deduction, (3) exclusion for income from certain U.S. possessions and Puerto Rico, (4) exclusion for employer adoption benefits, (5) student loan interest deduction, and (6) tuition and fees deduction.

The AGI phase-out applies to the year the bonds are redeemed and interest is excluded from income.

Student Loan Interest Deduction

See also IRC Sec. 221 and IRS Pub. 970

Taxpayers can deduct up to $2,500 of interest paid on qualified education loans for college or vocational school expenses as an adjustment to income (above-the-line) (IRC Sec. 221). The deduction is available for interest on qualifying loans for the benefit of the taxpayer or the taxpayer's spouse or dependent at the time that the debt was incurred.

Law Change Alert: The SECURE Act provides that interest paid with qualified funds received from a QTP is not deductible. In addition, the CARES Act amends the definition of *educational assistance* under IRC Sec. 127 to include repayment of a qualified education loan incurred by the employee for the employee's own education, provided the employer's payment is made after March 27, 2020 and before January 1, 2021 (extended to before January 1, 2026 by the Taxpayer Certainty and Disaster Tax Relief Act of 2020). The interest portion of student loan payments made by the student's employer may not be deducted under IRC Sec. 221.

For 2020, the deduction is phased out when modified AGI is between $70,000 and $85,000 ($140,000 and $170,000 MFJ). Modified AGI is AGI (before the student loan interest deduction) increased by: (1) foreign earned income or housing exclusion, (2) foreign housing deduction, (3) exclusion for income from certain U.S. possessions or Puerto Rico, and (4) tuition and fees deduction.

Qualified Education Loans

Qualified education loans are loans taken out solely to pay qualified education expenses, including tuition, fees, room and board, books, equipment, and transportation for an eligible student to attend an eligible educational institution.

Coordination with other education benefits. Qualified education expenses must be reduced by amounts paid with nontaxable education benefits received, such as employer-provided educational assistance, nontaxable distributions from an ESA or QTP, savings bond interest education exclusion, or veterans' educational benefits.

Eligible educational institutions include colleges, vocational schools, and other post-secondary institutions that are eligible to participate in Department of Education student aid programs.

Eligible student. Students must take at least one half the normal full-time load in a degree, certificate, or other qualified program at an eligible institution.

Restrictions

1) Not available to taxpayers who are claimed as dependents on another taxpayer's return.
2) Not available to married taxpayers filing separately.
3) The taxpayer must be legally obligated to repay the loan and actually pay the interest during the tax year to deduct the interest.
4) Interest on a loan from a related person does not qualify. Related persons include: siblings, spouses, ancestors (parents, grandparents, etc.) and lineal descendants, as well as certain corporations, partnerships, trusts, and exempt organizations.
5) Loans from a qualified employer plan [for example, 401(k) plan] do not qualify.

Observation: Because of restrictions 1 and 3, a student loan interest deduction often will not be allowed when the student takes out the loan and his parents claim a dependency exemption for the student/child. *Reason:* If the parents are not legally obligated to repay, they cannot deduct any interest they pay. Alternatively, if the student pays interest on the loan, he cannot deduct the interest if his parents claim a dependency exemption for him. But, even if the student/child would qualify as the parent's dependent, it may make sense for the student/child to take out the loan when payments will not be due until after graduation, at which point the child will likely no longer qualify as a dependent and can, therefore, deduct the interest on his return. If parents make payments on the student/child's loan as a gift after the child graduates, the child is eligible to deduct the interest on his tax return.

Tuition and Fees Deduction

Form 8917; See also IRC Sec. 222 and IRS Pub. 970

For 2020, taxpayers are allowed to claim an above-the-line tuition and fees deduction for qualified higher education expenses paid. The deduction is limited based on the taxpayer's modified AGI.

The deduction is not allowed for MFS filers or for any taxpayer who qualifies as a dependent (whether or not claimed) on another taxpayer's return.

Tuition and Fees Deduction Limit

Deduction Limit[1]	*If Modified AGI is:* Single, HOH, QW	MFJ
$ 4,000	$ 0 – $ 65,000	$ 0 – $130,000
2,000	65,001 – 80,000	130,001 – 160,000
0	Over $ 80,000	Over $160,000

[1] Deduction equals qualified higher education expenses, if less.
Note: There is no AGI phase-out range. Thus married taxpayers with $4,000 of qualifying educational expenses and modified AGI of $130,000 or less would be entitled to deduct the full $4,000.

Modified AGI is AGI before the tuition and fees deduction, increased by: (1) foreign earned income and housing exclusion, (2) foreign housing deduction, and (3) exclusion for income from certain U.S. possessions and Puerto Rico.

Law Change Alert: This deduction was retroactively reinstated by the Taxpayer Certainty and Disaster Tax Relief Act of 2019. The IRS has recently updated Form 8917 (Tuition and Fees Deduction), which should be used to claim qualified tuition and fees paid in 2018, 2019, or 2020. A separate Form 8917 is required to be filed for each year.

Qualified Higher Education Expenses

- Tuition and fees required for the enrollment or attendance at an eligible educational institution for the taxpayer, spouse or a dependent. Charges and fees associated with books, supplies, and equipment are qualified expenses if the amount must be paid to the eligible educational institution as a condition of the enrollment or attendance of the student [Reg. 1.25A-2(d)(2)].
- Expenses qualify in the tax year paid. Payment must be for education that begins either in the same tax year or in the first three months of the following tax year.
- An eligible institution is any accredited college, university, vocational school or other accredited post-secondary education institution.

Continued on Page 13-7

2020 Employer and Self-Employed Retirement Plan Chart

Defined-Benefit	Defined-Contribution (Profit-Sharing)	401(k)	403(b)
Any employer.			Tax-exempt religious, charitable or educational organizations.
Employees at least age 21 with one year of service (1,000 hours).[9]			Employees[10] who work 20 or more hours per week, do not participate in another 401(k), 457 or 403(b) plan and will contribute more than $200 per year.
Actuarially determined contribution. Maximum benefit payout limited to 100% of average compensation for the three consecutive years of highest compensation (limited to $285,000), but not to exceed $230,000.[11]	Contributions per participant up to lesser of 100% of compensation or $57,000. Employer deduction limited to 25% of aggregate compensation (limited to $285,000 per employee) for all participants (20% of net SE income after SE tax deduction for self-employed).[11]	Employee elective deferrals limited to $19,500 (additional $6,500 if age 50 or older at end of the year). Employer deduction limited to 25% of combined wages of all employees (elective deferrals do not reduce wages for the 25% limit). Combined employer contributions and employee elective deferrals per employee limited to lesser of 100% of wages or $57,000 (additional $6,500 for employees age 50 or older by year-end).[11]	Employee elective deferrals limited to $19,500 (additional $6,500 if age 50 or older at end of the year). Special formula applies to additional employer contributions based on years of service. Combined employer contributions and employee elective deferrals per employee limited to lesser of 100% of wages or $57,000 (additional $6,500 for employees age 50 or older by year-end).[11]
10% of distribution. (See *Exceptions to 10% Withdrawal Penalty Before Age 59½* on Page 14-4.)			
For self-employed and >5% owners, by April 1 of the year following the year the account owner turns age 72 (or 70½ if turned 70½ before January 1, 2020). For all other employees, April 1 of the year following the year the account owner turns age 72 or retires, whichever is later.			
Law Change Alert: The SECURE Act provides that qualified retirement plans adopted after the close of a tax year but before the due date (including extensions) of the tax return may be electively treated as having been adopted on the last day of the tax year. Return due date, including extensions for profit-sharing plan contributions. 8½ months after year-end for defined benefit plan contributions.		**Law Change Alert:** The SECURE Act provides that qualified retirement plans adopted after the close of a tax year but before the due date (including extensions) of the tax return may be electively treated as having been adopted on the last day of the tax year. For employer contributions, return due date including extensions.[12]	
Yes	No	Generally no.	
Yes, if plan permits. Must pay back in five years (unless used to buy a principal residence). Qualified plans are prohibited from making plan loans through credit cards or similar arrangements.			
Yes	Yes	Yes	Yes
Employers are subject to a 10% excise tax on nondeductible (excess) contributions, unless an exception applies.		*Employee's elective deferral:* No penalty or tax if 2020 excess is withdrawn by April 15, 2021 (but allocable earnings are taxable in year withdrawn). If not withdrawn by April 15, 2021, excess is taxed twice—once in the year of excess contribution and again when distributed because no cost basis is allowed for excess contribution. *Employer's contribution:* 10% penalty on excess contributions (resulting from plan failing average deferral percentage test) unless distributed (with earnings) to highly compensated employee(s) within 2½ months after the close of the plan year (taxable to employee in year of deferral). Failure to distribute excess within 12 months after close of plan year results in plan failing to qualify for that plan year and all subsequent plan years for which the excess contributions remain uncorrected.	

[9] **Law Change Alert:** The SECURE Act provides that for plan years beginning after December 31, 2020, long-term part-time employees (those with at least 500 hours of service in three consecutive 12-month periods, and who are at least age 21 by the end of the last period) must be allowed to participate and make elective deferrals in a 401(k) plan. This provision will first be impactful in 2024 after there have been 3 consecutive 12-month periods.

[10] Includes self-employed ministers.

[11] Nondiscrimination rules may affect contributions/deferrals for certain employees. The SECURE Act provides that for plan years beginning after 2019, the maximum default rate for automatic safe harbor enrollment is increased from 10% to 15%. However, the rate remains at 10% for the initial year that the deemed election applies to a participant.

[12] The Tax Code does not specify when the employer is required to deposit employee elective deferrals into the employee's account. However, under ERISA regulations, employee elective deferrals must be contributed to the employee's 401(k) plan account as soon as reasonably can be segregated from the employer's general assets, but not later than the 15th business day of the month immediately after the month in which the contributions either were withheld or received by the employer.
Disaster Relief Alert: Special rules apply for distributions and loans to victims of qualified disasters. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019 (Disaster Act)* on Page 17-1 and *December 2020 Legislation* on Page 17-1.

Contribution Limits for the Self-Employed

To calculate a self-employed individual's deductible contribution to a SEP or defined-contribution qualified plan [for example, profit-sharing or 401(k) plan] the 25% deduction limit is applied to self-employment (SE) earnings less the individual's plan contribution and deduction for SE tax paid. Because SE earnings are reduced by the plan contribution, the maximum contribution rate for a self-employed person's plan contribution (applied to SE earnings before the contribution deduction) is 20% (0.25 ÷ 1.25).

Sample Calculation: $50,000 of SE income (after deduction for SE tax) × 20% = $10,000

Proof: ($50,000 – $10,000) × 25% = $10,000

Caution: Like any other plan participant, the 2020 contribution to a self-employed person's account cannot exceed $57,000.

Exception: For a 401(k) plan, the 2020 maximum addition for a participant age 50 or older at year-end is $63,500 taking into account the $6,500 catch-up elective deferral allowed.

If the plan calls for contributions equal to a percentage of compensation less than the 25% maximum, use the table *Contribution Rates for Self-Employed Persons* on Page 14-20 to determine the contribution percentage for self-employed individuals.

Contribution Rates for Self-Employed Persons

Plan Rate	SE Person's Rate	Plan Rate	SE Person's Rate
1%	0.9901%	14%	12.2807%
2	1.9608	15	13.0435
3	2.9126	16	13.7931
4	3.8462	17	14.5299
5	4.7619	18	15.2542
6	5.6604	19	15.9664
7	6.5421	20	16.6667
8	7.4074	21	17.3554
9	8.2569	22	18.0328
10	9.0909	23	18.6992
11	9.9099	24	19.3548
12	10.7143	25	20.0000
13	11.5044		

SIMPLE IRA Plans

IRC Sec. 408(p)

Disaster Relief Alert: Special rules apply for distributions to victims of qualified disasters. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019 (Disaster Act)* on Page 17-1 and *December 2020 Legislation* on Page 17-1.

COVID-19 Tax Alert: Coronavirus-related distributions can be made from SIMPLE IRAs. See *Coronavirus-Related Distributions* on Page 14-14.

Qualified employers (including self-employed individuals) may establish savings incentive match plans for employees (SIMPLE) retirement plans. A SIMPLE plan allows eligible employees to defer taxable compensation and employers to make either matching contributions for employees who elect to participate, or nonelective contributions for all eligible employees (including those who do not so elect).

SIMPLE plans do not fall under the complicated 401(k)-type rules that require a certain level of employee participation. An employer can establish a SIMPLE plan even if some employees choose not to participate.

Contributions to a SIMPLE IRA plan are made to special IRA accounts for each employee. A SIMPLE IRA plan normally does not file an annual Form 5500.

See *2020 Employer and Self-Employed Retirement Plan Chart* on Page 14-2 for more on the rules that apply to SIMPLE IRA plans.

Distributions

Taxed like IRAs (except the 10% early withdrawal penalty is increased to 25% for distributions within the first two years of participation).

Disaster Relief Alert: Generally, Section 72(t) early withdrawal penalties will not apply to qualified distributions from qualified plans to victims of qualified disasters. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019 (Disaster Act)* on Page 17-1 and *December 2020 Legislation* on Page 17-1.

COVID-19 Tax Alert: Coronavirus-related distributions will not be subject to the 25% early distribution penalty on IRAs. See *Coronavirus-Related Distributions* on Page 14-14.

Other Requirements

1) The employer and employee contributions must be 100% vested at all times.
2) The employer must deposit employee elective deferrals within 30 days after the end of the month during which the deferrals were withheld from wages.
3) The employer must make its required contribution by the due date of its tax return, including extensions.

Self-Employed Individuals

A self-employed individual's compensation for purposes of elective deferrals and employer contributions is the amount entered on line 6 of Schedule SE (Form 1040), before subtracting any contributions made to a SIMPLE IRA on behalf of the self-employed individual (IRS Pub. 560).

Example: In 2020, Toby's income from his sole proprietorship (line 31 of Schedule C) is $15,000. He establishes a SIMPLE IRA plan with a 3% employer matching contribution. His compensation for purposes of his allowable elective deferral and the employer matching contribution is $13,853 ($15,000 × .9235, which is the amount from Schedule SE, line 6).

He elects to defer $13,000 of his compensation. The employer matching contribution is $416 ($13,853 × 3%). Toby deducts $13,416 ($13,000 + $416) on line 15 of Form 1040, Schedule 1.

A self-employed person's income is deemed earned as of the last day of the year [Reg. 1.401(k)-1(a)(4)(iii) and (6)(ii)(B)]. Thus, his elective deferral amount does not have to be deposited until January 30 of the following year.

Qualified Retirement Plans

Disaster Relief Alert: Special rules apply for distributions and loans to victims of qualified disasters. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019 (Disaster Act)* on Page 17-1 and *December 2020 Legislation* on Page 17-1.

COVID-19 Tax Alert: Special rules apply for distributions and loans related to the coronavirus pandemic. See *Coronavirus-Related Distributions* on Page 14-14.

A qualified retirement plan is a plan that complies with specific requirements imposed by the Employee Retirement Income Security Act of 1974 (ERISA), Internal Revenue Code, and IRS Regulations. Section 401(k) and profit-sharing plans are examples.

Characteristics of a qualified plan include:

- It cannot discriminate between certain employees.
- It must be for the exclusive benefit of employees or beneficiaries.
- It must be permanent, not temporary.
- It must satisfy the minimum vesting standards.

Social Security

Tab 14 Social Security Topics

Social Security and Medicare Highlights

	2021	2020	2019
Cost-of-living (COLA) adjustment	1.30%	1.60%	2.80%
Maximum earnings and still receive full social security benefits:			
Under full retirement age (FRA) at year-end	$ 18,960	$ 18,240	$ 17,640
Year FRA reached[1]	50,520	48,600	46,920
Month FRA reached and later	No Limit	No Limit	No Limit
Maximum earnings subject to:			
Social security tax	$ 142,800	$ 137,700	$ 132,900
Medicare tax	No Limit	No Limit	No Limit
Tax Rates			
Employee:			
Social security	6.20%	6.20%	6.20%
Medicare	1.45[2]	1.45[2]	1.45[2]
Employer:			
Social security	6.20%	6.20%	6.20%
Medicare	1.45	1.45	1.45
Self-Employed:			
Social security	12.40%	12.40%	12.40%
Medicare	2.90[2]	2.90[2]	2.90[2]
Earnings needed to earn one quarter of social security coverage	$ 1,470	$ 1,410	$ 1,360
Medicare:			
Part A monthly premium[3]	$ 471.00	$ 458.00	$ 437.00
Part B monthly premium[4]	148.50	144.60	135.50
Hospital deductible	1,484.00	1,408.00	1,364.00
Medical deductible	203.00	198.00	185.00

[1] Limit applies only to months before attaining FRA. See *Earnings May Reduce Benefits* on Page 14-27.
[2] Plus 0.9% additional Medicare tax on earned income exceeding $200,000 ($250,000 combined earned income if MFJ; $125,000 if MFS).
[3] Applies if less than 40 quarters of covered employment. Lower premium if 30–39 quarters of covered employment. See *Medicare Part A Premiums (2021)* on Page 14-29.
[4] Beneficiaries with higher incomes pay a higher premium. See *Medicare Part B Premiums (2021)* on Page 14-30.
~~[5] Amount not available at time of publication.~~

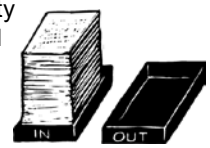
Social Security Benefits

1) *Retirement.* Monthly benefits paid to retired workers as early as age 62.
2) *Family.* Monthly benefits paid to spouse, children (including dependent adults who have been disabled since childhood), and some ex-spouses of retired and disabled workers.

3) *Survivor.* Monthly benefits paid to the widow(er), children (including dependent adults who have been disabled since childhood), some ex-spouses, and dependent parents of a deceased worker.
4) *Disability.* Monthly benefits paid to workers under age 65 with a qualifying disability.
5) *Supplemental Security Income (SSI).* Monthly benefits to disabled adults and children who have limited income and resources and to people age 65 and older without disabilities who meet the financial limits. See *Supplemental Security Income* on Page 14-32.

Social Security Statement

An individual's social security statement is available at **www.ssa.gov/myaccount**. To access the statement, individuals must create a *my Social Security* account. The statement includes estimates of the individual's retirement and disability benefits, lifetime earnings according to social security's records, and the estimated social security and Medicare taxes the individual has paid.



Estimating Social Security Benefits

An estimate of social security benefits can be found on the social security statement or online at **www.ssa.gov/benefits/retirement/estimator.html**. There are calculators that estimate potential benefit amounts using assumptions about retirement dates and different levels of future earnings. The calculators show retirement benefits as well as disability and survivor benefit amounts.

Tax on Social Security Benefits

A portion of social security benefits is taxed if income above a "base amount" (based on filing status) is received in addition to social security benefits (IRC Sec. 86). Form SSA-1099 is received each January showing the amount of benefits received in the previous year. See the *Social Security Benefits Worksheet (2020)* on Page 3-14.

Single and HOH returns. If combined income is over $25,000 (base amount) and under $34,001, up to 50% of benefits are taxable. If combined income is above $34,000, up to 85% of benefits are taxable.

Joint returns. If combined income is over $32,000 (base amount) and under $44,001, up to 50% of benefits are taxable. If combined income is above $44,000, up to 85% of benefits are taxable.

Married filing separate returns. If the taxpayer lived apart from his spouse all year, benefits are taxed the same as for a single person. If the taxpayer lived with his spouse at any time during the year, the base amount is $0 and the taxpayer will generally pay tax on up to 85% of benefits regardless of income.

Continued on Page 14-27

Social Security Quick Chart—Retirement Benefits (2021)

	Early Retirement (Permanently Reduced Benefits)	Full Retirement (Full Benefits)	Delayed Retirement (Permanently Increased Benefits)
Eligibility for Benefits	Workers are eligible for early retirement benefits at age 62. **Note:** If retirement is disability-related, apply for disability benefits, which generally equal full retirement benefits.	Full retirement age (FRA) (see below) is when a worker can retire and collect full retirement benefits.	Delayed retirement is available for a worker over the FRA. At age 70, workers automatically receive benefits.
Age and Benefit Payments	Receiving benefits before FRA permanently reduces monthly benefits based on number of months benefits received before FRA. Spousal benefits based on the worker's coverage are also reduced.	FRA depends on the year the worker was born.	Delaying benefits past FRA increases benefits as follows:

Worker Born	*% of Full Benefits if Worker Receives Benefits at Age 62* — Worker	Spouse
1943–1954	75.00%	70.00%
1955	74.17	69.17
1956	73.33	68.33
1957	72.50	67.50
1958	71.67	66.67
1959	70.83	65.83
After 1959	70.00	65.00

Worker Born	*Full Retirement Age*
1943–1954	66 yrs, 0 months
1955	66 yrs, 2 months
1956	66 yrs, 4 months
1957	66 yrs, 6 months
1958	66 yrs, 8 months
1959	66 yrs,10 months
After 1959	67 yrs, 0 months

Worker Born	*Increase in Benefits Each Year After FRA*
1931–1932	5.0%
1933–1934	5.5
1935–1936	6.0
1937–1938	6.5
1939–1940	7.0
1941–1942	7.5
After 1942	8.0

Earnings Limit/Benefits Reduction	Years before individual reaches full retirement age, benefits are reduced by $1 for each $2 earned over $18,960.	• In year FRA is reached (months up to FRA only) benefits are reduced by $1 for each $3 earned above $50,520. • Month FRA reached and later, there is no limit on earnings.

Social Security Credits Needed for Coverage

Note: The same number of credits is required regardless of retirement date.

Workers can earn up to four credits per year. For 2020, a credit is earned for each $1,470 of earnings. So, workers earning at least $5,880 in 2020 earn four credits.

General Rule

Worker Born	*Credits Needed*
1929 or later	40
1928	39
1927	38
1925	37
1926	36
1924	35

Special-Rule—Certain Nonprofit Employees

Age on 1/1/84	*Credits Needed*
60 or over	6
59	8
58	12
57	16
55 or 56	20

Medicare Quick Chart (2021)

Part	Description	Premiums	Deductible/Coinsurance
A	*Hospital Insurance.* Covers inpatient hospital care, care in a skilled nursing facility following a hospital stay, hospice and home health care and blood.	• None if 40 or more quarters of Medicare coverage. • $259/mo if 30–39 quarters of Medicare coverage. • $471/mo for other eligible individuals.	*Hospital stay:* • $1,484 for days 1–60. • $371/day for days 61–90. • $742/day for days 91–150. • All costs beyond 150 days. *Skilled nursing facility:* $185.50/day for days 21–100.
B	Medical Insurance. Covers doctors' services and other medical services and supplies.	$148.50–504.90/mo., depending on income.	• Deductible: $203 • Coinsurance: 20% of Medicare-approved amount.
Eligibility	Workers are not eligible for Medicare until they are age 65, are disabled or have permanent kidney failure. Receiving social security benefits before FRA has no impact.		

[1] ~~Amount not available at time of publication.~~

in which the disabled individual's earnings are over $940. The trial work period continues until the individual has worked nine months within a 60-month period.

Extended eligibility period. For at least 36 months after a successful trial work period, if a person is still disabled, he will be eligible to receive a monthly benefit without a new application for any month his earnings drop below $1,310 ($2,190 if blind) (for 2021).

Expedited reinstatement. If benefits stop due to substantial earnings, a person who is unable to continue working due to his disability has five years to request that his benefits resume without reapplying or waiting for a review of the medical condition.

Deductions for impairment-related expenses. Work expenses related to the disability may be deducted from earnings in determining whether they constitute substantial work.

Medicare continuation. If an individual has premium-free Medicare hospital insurance and starts working, he may have at least 8½ years of extended coverage (including the nine-month trial work period if he is still disabled). After that, the individual may purchase Medicare Part A coverage by paying a monthly premium.

Other Payments—Impact on Disability Benefits

Workers' compensation or certain other government disability benefits may reduce social security disability benefits, or social security disability benefits may reduce other disability payments. The sum of all social security disability benefits paid to the worker and to his family cannot exceed 80% of the worker's earnings averaged over a period of time shortly before the disability.

Disabled After Age 62

If a worker becomes disabled after age 62 and has received a reduced retirement benefit before becoming entitled to disability payments, the disability benefit will be reduced for the number of months he received the early retirement benefit.

MEDICARE

www.medicare.gov

Medicare is a national health insurance program for:

- Persons age 65 and older.
- Certain disabled persons.
- Person of any age with permanent kidney failure or Lou Gehrig's disease.

Medicare is *four* programs:

- *Part A: Hospital insurance.* For most Medicare beneficiaries, there is no premium for Medicare Part A. Individuals who are ineligible for free Part A can still enroll, but must pay a premium. See the table *Medicare Part A Premiums (2021)* on Page 14-29.
- *Part B: Medical insurance.* See the table *Medicare Part B Premiums (2021)* on Page 14-30.
- *Part C: Combined Part A and Part B.* Private insurance companies approved by Medicare provide this combined coverage through Medicare Advantage Plans like HMOs and PPOs.
- *Part D: Prescription drug coverage.* Optional coverage—see *Medicare Drug Plans (Part D)* on Page 14-30.

Note: See the table *2021 Medicare Benefits* on Page 14-31 for a listing of covered services.

Medicare premium assistance. If a Medicare recipient has limited income and assets, programs are available to help pay medical costs. State rules vary. Contact the applicable state medical assistance (Medicaid) office. Contact information for each state is available at **www.medicare.gov**. Choose "What Medicare Covers," use "Find someone to talk to" and select your state.

1) *Qualified Medicare Beneficiary (QMB).* Pays Medicare premiums, deductibles, coinsurance, and copayments for certain elderly and disabled persons entitled to Medicare Part A.
2) *Specified Low-Income Medicare Beneficiary (SLMB).* Pays the medical insurance (Part B) premium for persons with incomes up to 20% over the national poverty level.
3) *Qualifying Individual (QI).* Pays the Part B premiums only.
4) *Qualified Disabled & Working Individuals (QDWI).* Pays Part A premiums only.

Eligibility for Hospital Insurance (Part A)

Age 65 and older. A person is eligible for Medicare Part A if he:

1) Is receiving social security or railroad retirement benefits,
2) Is not receiving social security or railroad retirement benefits, but has worked long enough to be eligible for them,
3) Is entitled to social security benefits based on his spouse's (or divorced spouse's) work record, and that spouse is at least age 65 (the spouse does not have to apply for benefits in order for the person to be eligible based on the spouse's work) or
4) Has worked long enough in federal, state or local government to be insured for Medicare.

Under age 65. A person is eligible for Medicare Part A if he:

- Has been entitled to social security disability benefits for at least 24 months,
- Has received a disability pension from the railroad retirement board and meets certain conditions, or
- Has Lou Gehrig's disease or end-stage renal disease.

Family members:

1) Under certain conditions, a spouse, divorced spouse, widow(er), and dependent parent may be eligible for hospital insurance at age 65.
2) Disabled widow(er) under age 65, disabled divorced widow(er) under age 65, and disabled children may be eligible, usually after a 24-month qualifying period.

Permanent kidney failure. People with end-stage renal disease are eligible for Medicare Part A at any age if they receive maintenance dialysis or a kidney transplant and:

- Are insured or are getting monthly benefits under social security or the railroad retirement system or
- Have worked long enough in government for Medicare insurance.

Notes:

- A spouse or child with this condition may be eligible for coverage based on another's work record.
- There may be a three-month waiting period after dialysis treatments begin for coverage to commence.

Medicare Part A Premiums (2021)[1]

Quarters of Covered Employment	Monthly Premium
30–39	$259
Less than 30	$471

[1] Applies only if ineligible for premium-free Part A. Part A is generally free when individual (or spouse) has at least 40 quarters of coverage.

[2] ~~Amount not available at time of publication.~~

Eligibility for Medical Insurance (Part B)

1) A person age 65 or older, or a person entitled to Part A hospital insurance benefits, can enroll in Part B plan by paying a monthly premium. No social security or government work quarters of coverage are needed.
2) Aliens age 65 or older not eligible for hospital insurance must be lawfully admitted permanent residents and live in the United States for five years before they can enroll in Medicare Part B.

Higher Part B premiums for higher income individuals. Certain Medicare Part B enrollees pay a higher Part B premium based on their income.

Medicare Part B Premiums (2021)			
Annual Income[1]			Monthly Premium
Single, HOH, QW	MFJ	MFS	
≤ $88,000	≤ $176,000	≤ $88,000	$ 148.50
$88,001–111,000	$176,001–222,000	N/A	207.90
$111,001–138,000	$222,001–276,000	N/A	297.00
$138,001–165,000	$276,001–330,000	N/A	386.10
$165,001–499,999	$330,001–749,999	$88,001–411,999	475.20
$500,000 or more	$750,000 or more	$412,000 or more	504.90

[1] 2019 AGI plus tax-exempt interest and exclusions for U.S. savings bond interest and foreign earned income and housing.
[2] ~~Amount not available at time of publication.~~

There is also a Part B deductible each year before Medicare starts to pay its share.

Note: The *Medicare Access and CHIP Reauthorization Act* (MACRA) increases the amount that Medicare beneficiaries will pay for Medicare Part B premiums based on modified adjusted gross income (MAGI) levels for years beginning in 2018. The income threshold levels were frozen through 2019 and indexed for inflation beginning in 2020.

Medicare Options

Most Medicare beneficiaries can choose to receive all Medicare benefits either through the original fee-for-service program (Parts A and B) or through a variety of managed care and other programs under Medicare Advantage (Part C).

1) *Fee-for-service (Parts A & B).* Medicare pays a set percentage of hospital, doctor and other health care expenses, and the beneficiary is responsible for certain deductibles and coinsurance payments. Beneficiaries choose Medicare-approved licensed physicians, hospitals, health care providers, or facilities.

Note: A Medigap policy can supplement fee-for-service coverage.

2) *Medicare Advantage Plans (Part C).* Medicare Advantage Plans are private medical plans approved by Medicare designed to provide coverage offered by Original Medicare (Parts A and B) but may include additional services. There are different types of Medicare Advantage Plans including: health maintenance organizations (HMOs), preferred provider organizations (PPOs) private fee-for-service plans (PFFSs), medical savings account (MSAs), special needs plans (SNPs), and HMO point-of-service (HMOPOSs). Generally, services must be obtained from the provider's network unless for an emergency inside/outside the service area. The organization receives a monthly payment from Medicare and the beneficiary must be enrolled in and pay the monthly premium for Medicare Part B. A monthly premium and a co-payment each time a service is used is typically charged. In addition, some benefits beyond Medicare may be provided, including preventative care, prescription drugs, dental care, hearing aids, and eyeglasses.

Note: A Medigap policy is usually not needed with an advantage plan.

Medicare Drug Plans (Part D)

Everyone with Medicare can join a Medicare prescription drug plan (Part D) in their area. Individuals may sign up when they first become eligible for Medicare (three months before the month they turn age 65 until three months after the month they turn age 65). Individuals who receive Medicare due to a disability can join from three months before to three months after their 25th month of cash disability payments.

Individuals can also join, switch or drop Medicare Part D coverage during the open enrollment period, which runs from October 15–December 7. The change will take effect the following January 1. But, individuals who don't sign up when first eligible may pay a penalty (premiums increase by 1% for every month enrollment is delayed).

Caution: If an individual who is enrolled in a Medicare Advantage Plan that includes prescription drug coverage joins a Medicare prescription drug (Part D) plan, he will be disenrolled from his Medicare Advantage Plan and returned to Original Medicare.

Medicare Drug Coverage Cost Components	
The actual dollar amounts vary depending on the plan chosen and the drugs purchased.	
Component	Additional Cost
Monthly Premium	Paid in addition to Part B premium
Yearly Deductible	Amount paid before the plan pays
Copayments	Individual per-prescription share of cost
Source: www.medicare.gov	

Income-related premium adjustment. An individual's monthly Medicare Part D premium is increased when his annual income reaches a certain level. This applies to Part D coverage he gets from a Medicare prescription drug plan, a Medicare Advantage Plan with prescription drug coverage (like an HMO or PPO), or a Medicare cost plan that includes Medicare prescription drug coverage.

Medicare Part D Premium Adjustment (2021)			
Annual Income[1]			Premium Adjustment[2]
Single, HOH, QW	MFJ	MFS	
≤ $88,000	≤ $176,000	≤ $88,000	$ 0.00
$88,001–111,000	$176,001–222,000	N/A	12.30
$111,001–138,000	$222,001–276,000	N/A	31.80
$138,001–165,000	$276,001–330,000	N/A	51.20
$165,001–499,999	$330,001–749,999	$88,001–411,999	70.70
$500,000 or more	$750,000 or more	$412,000 or more	77.10

[1] 2019 AGI plus tax-exempt interest and exclusions for U.S. savings bond interest and foreign earned income and housing.
[2] This amount is paid in addition to the plan's premium.
[3] ~~Amount not available at time of publication.~~

Individuals will be notified by social security if they have to pay the additional Part D premium.

The MACRA increases the amount that Medicare beneficiaries will pay for Medicare Part D premiums based on MAGI levels for years beginning in 2018. The income threshold levels were frozen through 2019 and indexed for inflation beginning in 2020.

Coverage gap. Most Medicare drug plans have a coverage gap (also called the *donut hole*). This is a temporary limit on what the drug plan will pay for drugs. Not everyone will enter the coverage gap, which begins after the individual and the drug plan have spent a certain amount for covered drugs. It ends when the individual has spent a certain amount, including his annual deductible, coinsurance, copayments, and payments while in the coverage gap.

Extra Help. Individuals who meet certain income and resource limits may qualify for Extra Help from Medicare to pay the costs of Medicare prescription drug coverage. Individuals automatically qualify if they have Medicare and meet any of these conditions:

- Have full Medicaid coverage.
- Get help from their state Medicaid program paying their Part B premiums (in a Medicare savings program).
- Get Supplemental Security Income (SSI) benefits.

In 2021, an individual who reaches the coverage gap (and doesn't qualify for *Extra Help* paying for drug plan costs) gets the following:

- A 75% discount on covered brand-name drugs.
- A 75% discount for generic drugs.

2021 Medicare Benefits (Not All-Inclusive)			
Hospital Insurance (Medicare Part A)—2021 Benefits per Benefit Period			
Service	***Benefit***	***Medicare Pays***	***Recipient Pays***[1]
Hospitalization. Semi-private room and board, drugs as part of inpatient treatment, general nursing and other hospital services and supplies (includes mental health care).	First 60 days	All but $1,484	$1,484
	61st–90th day	All but $371 per day	$371 per day
	91st–150th day[2]	All but $742 per day	$742 per day
	Beyond 150 days	Nothing	All costs
Skilled nursing facility care (following a hospital stay). Semi-private room and board, skilled nursing and rehabilitative services, and other services and supplies.[3]	First 20 days	100% of approved amount	Nothing
	21st–100th day	All but $185.50 per day	Up to $185.50 per day
	Beyond 100 days	Nothing	All costs
Home health services. Medically-necessary part-time or intermittent skilled nursing care and/or physical therapy, speech-language pathology services, and/or services for people with a continuing need for occupational therapy. The patient must be homebound.	As long as medically necessary.	100% of approved amount; 80% of approved amount for durable medical equipment.	Nothing for services; 20% of approved amount for durable medical equipment.
Hospice care. Pain relief, symptom management, and support services for the terminally ill. Inpatient respite care (up to five days per stay) so usual caregiver can rest.	For as long as doctor certifies need.	Amounts over $5 for outpatient drugs; 95% of Medicare-approved amount for inpatient respite care.	Up to $5 for outpatient drugs and 5% of approved amount for inpatient respite care.
Medical Insurance (Medicare Part B)—2021 Benefits per Calendar Year			
Service	***Benefit***	***Medicare Pays***[4]	***Recipient Pays***[1, 4]
Medical expenses. Doctors' services, inpatient and outpatient medical and surgical services and supplies, physical and speech therapy, durable medical equipment, and other services.	Unlimited if medically necessary.	80% of approved amount.	20% of approved amount and limited charges above approved amount.
Laboratory services. Blood tests, urinalysis, diagnostic x-ray tests, some screening tests and more.	Unlimited if medically necessary.	Generally, 100% of approved amount.	Nothing for services.
Home health services. Medically-necessary part-time or intermittent skilled nursing care and/or physical therapy, speech-language pathology services, and/or services for people with a continuing need for occupational therapy. The patient must be homebound.	Unlimited if medically necessary.	100% of approved amount; 80% of approved amount for durable medical equipment.	Nothing for services; 20% of approved amount for durable medical equipment.
Outpatient hospital services. Services for the diagnosis or treatment of illness or injury.	Unlimited if medically necessary.	80% of approved amount.	20% of approved amount, plus co-pay for other than doctor's services.
Mental health care (outpatient). Counseling, psychotherapy.	Unlimited if medically necessary.	80% of approved amount.	20% of approved amount.
Ambulatory surgical services	Unlimited if medically necessary.	Generally, 80% of approved amount.	20% of approved amount.
Preventative services. Certain services, including flu and pneumonia vaccines, mammograms, pap smears, and pelvic exams.	Unlimited if medically necessary.	Generally, 100% of approved amount.	Nothing. May have to pay 20% of the charge for a doctor's visit.

[1] Either the recipient or the recipient's insurance company is responsible for paying the amounts listed in the "Recipient Pays" column.
[2] Sixty reserve days may be used only once in a lifetime.
[3] Must be after a three-day minimum medically-necessary inpatient hospital stay.
[4] Must meet the Part B deductible before Medicare pays. For 2021, the Part B deductible is $203.
~~[5] Amount not available at time of publication.~~

Medigap Insurance

Medicare supplemental insurance policies (Medigap) are private insurance policies designed to cover all or part of the deductible and coinsurance amounts not covered by the original fee-for-service Medicare plan. Medigap policies may also cover certain things that Medicare doesn't cover.

Enrollment. After the effective date of Medicare Part B, there is a six-month open enrollment period for Medigap policies. During this period, a person age 65 or older cannot be denied or charged a higher premium due to poor health.

Pre-existing conditions. Policies may exclude coverage for pre-existing conditions during the first six months the policy is in effect. Pre-existing conditions are conditions diagnosed or treated during the six-month period before the effective date of the Medigap policy.

Standard Medigap Policies

Insurance companies can only sell standardized Medigap policies. Each standardized policy must have specific benefits. There are 14 different standardized Medigap policies (Medigap Plans A through N). Each plan has a different combination of basic and extra benefits. *Exception:* In Massachusetts, Minnesota, and Wisconsin, Medigap policies are standardized in a different way. See "Supplements and Other Insurance" at **www.medicare.gov** for details on all the standardized plans.

Note: Starting June 1, 2010, plans E, H, I, and J are no longer available to buy. But, individuals who already have those plans (or who bought them before June 1, 2010) can keep them.

Starting January 1, 2020, plans C and F will not be available for individuals that turn 65 on or after this date. But, individuals who already have those plans (enrolled before January 1, 2020) can keep them.

Every Medigap policy must follow federal and state laws and must be clearly identified as *Medicare Supplement Insurance*. Insurance companies can sell only standardized Medigap policies. All plans offer the same basic benefits but some offer additional benefits. Insurance companies decide which Medigap policies they want to offer. Although the plans are standardized, insurance companies can charge different premiums for them.

Practice Tip: Married individuals must each buy their own Medigap policy. A Medigap policy won't cover any health care costs for the insured's spouse.

What's New

Tab 17 Topics

Inflation-Adjusted Amounts

For a complete summary of the inflation-adjusted amounts for 2020 (plus 2021 and 2019 and prior years), see the *Quick Facts Data Sheet* on Page 3-1.

Tax Legislation~~—December 2019~~

December 2020 Legislation

Consolidated Appropriations Act (CAA), 2021. The CAA, 2021, which includes new relief payments to individuals, another round of Paycheck Protection Program (PPP) funding, changes to the deductibility of expenses for PPP recipients, and numerous tax extenders, was signed into law on December 27, 2020. Tax and economic relief provisions are included in some of the acts that make up the CAA, 2021—COVID-related Tax Relief Act of 2020 (COVIDTRA); Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act); Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTRA); and Continued Assistance for Unemployed Workers Act of 2020.

Quickfinder tax act summaries. See the *Handbook Updates* section of the Quickfinder website (**tax.thomsonreuters.com/quickfinder**) for tables summarizing key provisions of the December 2020 legislation.

Setting Every Community Up for Retirement Enhancement (SECURE) Act

The Further Consolidated Appropriations Act, 2020 (Public Law 116-94, enacted on December 20, 2019) includes the SECURE Act. The SECURE Act expands opportunities for individuals to increase their retirement savings, increases small business access to retirement plans, and makes administrative simplifications to the retirement system. The SECURE Act is widely considered the most significant retirement legislation since the Pension Protection Act of 2006.

See the table *Setting Every Community Up for Retirement Enhancement (SECURE) Act Summary of Major Provisions* on Page 17-6 for a summary of the SECURE Act provisions.

Taxpayer Certainty and Disaster Tax Relief Act of 2019 (Disaster Act)

The Further Consolidated Appropriations Act, 2020 (Public Law 116-94, enacted on December 20, 2019) includes the Disaster Act. The Disaster Act retroactively extends certain expired provisions, generally through 2020. This means that taxpayers can apply many of these provisions to 2019 and later and already-filed 2018 tax returns. The Disaster Act also provides relief for taxpayers affected by qualified disasters occurring from January 1, 2018 through January 19, 2020. In addition, the Disaster Act includes other provisions not related to expired provisions or disasters.

See the table *Taxpayer Certainty and Disaster Tax Relief Act of 2019 Retroactive Extension of Provisions That Had Expired* on Page 17-10 for a summary of the extended provisions.

See the table *Taxpayer Certainty and Disaster Tax Relief Act of 2019 Disaster Tax Relief and Other Provisions* on Page 17-13 for a summary of disaster relief and other provisions.

Tax Legislation—COVID-19 Relief

To help taxpayers deal with the impact of the coronavirus pandemic, and to stimulate the U.S. economy, the federal government has provided a host of tax and employee benefit relief provisions. Some are by way of legislation, while others are administrative.

COVID-19 Tax Alert: The IRS has created a "Coronavirus Tax Relief" website. According to the agency, the site focuses on steps to help taxpayers, businesses, and others affected by the virus. The IRS will update its Coronavirus Tax Relief website as new information is available and it can be accessed at **www.irs.gov/coronavirus**.

In addition to the COVID-19 legislation addressed in this section and in the impacted topics throughout this *Handbook*, the IRS has issued and will continue to issue guidance to clarify and implement provisions related to this federally declared disaster. Due to the time sensitivity of that guidance, it will not be focused on in this *Handbook*. Tax professionals can refer to **www.irs.gov/newsroom** for current releases.

Families First Coronavirus Response Act (FFCRA)—Selected Provisions

On March 18, 2020, President Trump signed into law the FFCRA (Public Law 116-127), which is intended to ease the economic consequences stemming from the coronavirus pandemic by providing, among other things, (1) family and medical leave, and sick leave, to employees and (2) tax credits to employers that pay for the leave. The FFCRA also affects employer-sponsored health plans.

Family leave for employees. The FFCRA includes the Emergency Family and Medical Leave Expansion Act (EFMLEA) (Division C of the FFCRA), which requires employers with fewer than 500 employees to provide both paid and unpaid public health emergency leave to certain employees from April 1, 2020 through December 31, 2020. The emergency leave generally is available when an employee who has been employed for at least 30 calendar days (an *eligible employee*) is unable to work or telework due to a need for leave to care for a son or daughter under age 18. The need for leave must arise because an elementary or secondary school or place of care has been closed, or the son's or daughter's regularly compensated childcare provider is unavailable, due to an emergency with respect to the coronavirus that is declared by a federal, state, or local authority.

The first 10 days of leave may be unpaid, but an employee may elect to substitute vacation, personal, medical, or sick leave for the unpaid leave. After the first 10 days, the employer must provide up to an additional 10 weeks of paid expanded family and medical leave. The required paid leave is calculated based on an amount not less than two-thirds of an employee's regular rate of pay and the number of hours the employee would otherwise be normally scheduled to work, but not in excess of $200 per day and $10,000 in the aggregate. Certain special rules apply, such as when calculating required paid leave for an employee whose schedule varies from week to week. Also, if the leave is foreseeable, an employee must provide the employer with notice of leave as is practicable.

The Secretary of Labor is authorized to issue regulations that—

- Exclude certain health care providers and emergency responders from the definition of *eligible employee*, and
- Exempt small businesses with fewer than 50 employees from the leave provision mandate if it would jeopardize the viability of the business as a going concern.