A dozen tax tips for the 2021 filing season

By Roger Russell in Accounting Today
February 1, 2021 9:00 AM

With the convergence of multiple layers of tax legislation and IRS guidance since 2017, this year's filing season has the potential to confuse tax preparers as well as the clients they serve. Even for those who follow legislation day in and day out, things can get complicated.

For example, the Paycheck Protection Program was initially introduced in April, then changed in June and again in December. "It's one program but it's been changed twice," observed Roger Harris, president of Padgett Business Services. "If you haven't kept up, you can be two bills behind."

With that in mind, a panel of tax experts convened by *Accounting Today* believes the following areas warrant special attention during tax preparation. Many may require the amending of prior-year returns to take advantage of a particular tax break.

(Our panel includes Annie Schwab, tax services manager for Padgett Business Services; Mark Luscombe, principal federal tax analyst at Wolters Kluwer Tax & Accounting; Barbara Weltman, author of "J.K. Lasser's Small business Taxes 2021;" and Roger Harris, president of Padgett Business Services.)

Employee Retention Credit

Sophia Germer/Bloomberg

Originally, the CARES Act added this refundable payroll tax credit equal to 50 percent of qualified wages at $10,000 per year per employee paid by eligible employers from March 13, 2020, to Dec. 31, 2020 — but if the taxpayer had a PPP loan, they could not take advantage of the ERC.

The Consolidated Appropriations Act of 2021 extended and expanded the availability of the credit. Now, a company that receives a PPP loan can claim the ERC, with this caveat: A credit may not be claimed for wages paid with the proceeds of a PPP loan that has been forgiven. It may be necessary to file amended payroll tax returns to claim the credit.

Second draw PPP loans

Dongyu Xu/Tada Images - stock.adobe.com

The PPP now allows certain eligible borrowers that previously received a program loan to apply for a second draw PPP loan with the same general loan terms as their first draw loans.

Unemployment benefits taxability

Dorling Kindersley/Getty Images/Dorling Kindersley

Federal unemployment benefits are taxable, while economic stimulus payments are not. States vary on the taxability of unemployment benefits. An enhanced unemployment benefit at the federal level ($600 in federal pandemic unemployment) was added to every weekly unemployment benefit. Together, these are expected to cause confusion for many taxpayers, particularly those who did not request withholding.

Recovery Rebate Credit

Individuals who were eligible for an Economic Impact Payment but did not receive one, or were eligible for a larger payment than they received, will be able to claim a Recovery Rebate Credit when they file their 2020 Form 1040 or 1040-SR. Their EIP will need to be reconciled with any rebate credit amount for which they are eligible on the recovery rebate worksheet on their 2020 Form 1040 or 1040-SR.

NOL 5-year carryback

Net operating losses that arise in 2020 have a five-year carryback, but the carryback can be waived. With potentially higher tax rates ahead, it may be more valuable to carry a loss forward, depending on the individual taxpayer's situation.

Discharge of indebtedness on principal residence

Karen Roach/Karen Roach - Fotolia

The exclusion from income for discharge of indebtedness on a principal residence has been extended through 2025. Caution: Watch for phaseouts based on adjusted gross income.

RMDs

designer491 - Fotolia

The required minimum distribution requirement for all retirement plans has been waived for 2020.

Money taken from retirement account

If a taxpayer pulled money out of their retirement account for coronavirus-related issues and does not intend to repay it within three years, one-third of the tax should be paid with their 2020 return.

EITC and CTC

Alena Stalmashonak - Fotolia

People who qualify for the Earned Income Tax Credit or the Child Tax Credit can use either 2019 or 2020 income, whichever is most beneficial to the taxpayer.

Mortgage insurance premiums

Nigel Carse

The treatment of qualified mortgage interest premiums as qualified residence interest has been extended through 2021.

Charitable deduction for non-itemizers

/Glenda Powers - stock.adobe.com

Taxpayers who don't itemize can still take an above-the-line deduction for charitable contributions up to $300.

Meal expenses

Richard Thomas

While not reflected on 2020 returns, some taxpayers will be happy that the three-martini lunch is back. A 100 percent business deduction (rather than the current 50 percent) is allowed for business meals as long as the expense is for food or beverages provided by a restaurant. This is effective for expenses incurred after Dec. 31, 2020, and expires at the end of 2022.