

News from the December 2020 Coronavirus Relief Bill

The President signed the Consolidated Appropriations Act 2021 into law Sunday, Dec. 27, 2020. Besides appropriations, this bill also contains COVID relief that builds on provisions in the earlier CARES Act. There are also tax extenders in this bill as well!

There is a separate update posted for businesses, but these items will interest individual taxpayers.

More Stimulus Payments – There will be a second round of Recovery Rebates going out. The amounts are (currently) \$600 per taxpayer, spouse, and dependent. The income limitations are the same as the first stimulus: \$75K for singles/head of household and \$150K for married filing joint. We expect that the disbursement procedures developed for the first round will be used for the second round, with information and income from your now-filed 2019 tax returns. The method of payment should also be the same (direct deposit or debit card). Although the IRS has said they will get the money out quickly, they have not provided details. One provision in the bill says that after Jan. 15, 2021, you must claim the credit on your 2020 tax return (using 2020 income) instead of receiving the advance rebate, so hopefully the IRS acts fast!

Charitable Deductions – The special, non-itemized, “above-the-line” \$300 deduction for 2020 will be extended to 2021 and increased to \$600 for married filing joint returns (but only for 2021; for 2020, it’s still a max of \$300 for joint filers and \$150 for married filing separate filers). Non-cash donations are not included nor donations to donor-advised funds. You must have receipt: the bill increased the penalty for overstating these deductions from 20% to 50%!

Unemployment Benefits – The federal unemployment (PAU) benefits are extended. The amount will be \$300/week and will be available through 3/14/2021. (Hopefully, though, your employer may want you back as there is a second round of the Paycheck Protection Program and an increased Employee Retention Credit available.)

Other items:

1. Educators can include PPE expenses in their \$250 special deduction.
2. Emergency Financial Aid grants to students will not be taxable and will not be considered for determining your education tax credits.
3. The medical deduction floor for itemizing medical expenses is permanently reduced to 7.5% of your adjusted gross income.
4. Increased Lifetime Learning Credit eligibility.
5. Extension of exclusion of income due to principal residence cancellation of debt.
6. Extension of deduction of mortgage insurance premiums.
7. Extension of some energy provisions: home energy efficient improvements and some vehicle credits.
8. Election to use 2019 income for purposes of determining child tax credit and earned income tax credit if 2019 income is higher.
9. Unused health and dependent care flexible spending (FSA) funds can rollover to 2021.