2021 Federal Tax Updates – COVID-19 Relief Programs, Current Proposals and More

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2021 Federal/State Tax Institute

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Agenda

- Employee Retention Credit
- American Rescue Plan Act
- Infrastructure Investment and Jobs Act
- Build Back Better Bill
- Consolidated Appropriations Act (Select Items) | Other Year End Planning

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Employee Retention Credit

ERC Claims Requested and Received

Type of Client	Claim Requested	Refund Received/status
Eye Doctor	$85,891	$85,891
Eye Doctor	$82,832	$82,832
Eye Doctor	$57,851	$57,851
Eye Doctor	$27,040	Pending
Men’s Clothing	$67,421	$24,043 & 2021 returns pending
Hair Cutting Franchise	$93,811	$93,811
Dentist	$29,999	$29,999
Med Spa	$72,698	$26,085 & 2021 returns pending
Energy Company	$327,302	Pending
Retail	$241,411	Pending
Total Claims	$1,086,256	Total Claims

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How Much is the Employee Retention Credit?

- Wages paid between March 12, 2020 – December 31, 2020
  - Refundable payroll credits for 50% of wages paid by eligible employers to certain employees
  - The maximum amount of qualified wages taken into account with respect to each employee for all calendar quarters is 10,000, so that the maximum credit for an eligible employer for qualified wages paid to any employee is $5,000
- Wages paid in Q1 – Q3 of 2021 (Pending bill to eliminate Q4)
  - Refundable payroll credits for 70% of wages paid by eligible employers to certain employees
  - The maximum amount of qualified wages taken into account with respect to each employee is $10,000 per quarter, so that the maximum credit for an eligible employer for qualified wages paid to any employee is $21,000

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Example for How to Calculate the Employee Retention Credit

Employee	2020 Eligible Wages	Eligible Credit
A	$8,000	$4,000
B	$10,000	$5,000
C	$12,000	$5,000

Employee	2021 Q1 Wages	2021 Q2 Wages	2021 Q3 Wages	Q1 Credit	Q2 Credit	Q3 Credit	Total Credit
A	$5,000	$5,000	$5,000	$3,500	$3,500	$3,500	$10,500
B	$10,000	$10,000	$10,000	$7,000	$7,000	$7,000	$21,000
C	$20,000	$20,000	$20,000	$7,000	$7,000	$7,000	$21,000

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Who is an Eligible Employer?

- Eligible employers for the purposes of the Employee Retention Credit are employers that carry on a trade or business, including tax-exempt organizations, that either:
  - Fully or partially suspend operation during any calendar quarter in 2020 or first three quarters of 2021 due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings (for commercial, social, religious, or other purposes) due to COVID-19; or
  - Experience a significant decline in gross receipts during any calendar quarter in 2020 or any of the first three quarters of 2021
- Self-employed individuals are not eligible for this credit for their own self-employment tax, though they may be able to claim the credit for wages paid to their employees

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What are Gross Receipts?

- Under the section 448(c) regulations, “gross receipts” means gross receipts of the taxable year and generally includes total sales (net of returns and allowances) and all amounts received for services
- Gross receipts include any income from investments and from incidental or outside sources
- Gross receipts include interest, dividends, rents, royalties, and annuities, regardless of whether such amounts are derived in the ordinary course of the taxpayer’s trade or business
- Gross receipts are generally not reduced by cost of goods sold but are generally reduced by the taxpayer’s adjusted basis in capital assets sold
- Does not include PPP loans

What is a “Significant Decline in Gross Receipts”?

- March 12, 2020 – December 31, 2020
  - Begins with the first calendar quarter in 2020 in which an employer’s gross receipts are less than **50 percent** of its gross receipts for the same calendar quarter in 2019
  - Ends with the first calendar quarter **that follows** the first calendar quarter in which the employer’s 2020 quarterly gross receipts are greater than 80 percent of its gross receipts for the same calendar quarter in 2019
- Q1, Q2, and Q3 of 2021
  - Begins with the first calendar quarter in 2021 in which an employer’s gross receipts are less than **80 percent** of its gross receipts for the same calendar quarter in 2019

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Does a Significant Decline in Gross Receipts have to be COVID-19 Related?

- The CARES Act does not require that the significant decline in gross receipts be related to COVID-19
- However, employers should keep records for the relevant calendar quarters

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When is the Operation of a Trade or Business Partially Suspended for the Purposes of the Employee Retention Credit?

- The operation of a trade or business is partially suspended if an appropriate governmental authority imposes restrictions on the employer's operations by limiting commerce, travel, or group meetings (for commercial, social, religious, or other purposes) due to COVID-19 such that the employer can still continue some, but not all, of its typical operations

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Remaining Opened for Limited Operations

- Restaurant Example
  - Before COVID-19 – restaurant provides dine in and dine out
  - After COVID-19
    - Scenario one – Restricted to take out only
    - Scenario two – Restricted to take out and outdoor dining
    - Scenario three – Restricted to take out, outdoor dining, and limited indoor
- More than a nominal impact on business operations
- May have a different result if restaurant was a dine out only style before COVID-19 (Domino's Pizza)

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Employee Count (FTE based on 30 hr. Work Week)

- At the end of 2019

Average Monthly Employee Count	Providing Services?	Credit Available for those Employee's Wages?
< 100	Yes	Yes
< 100	No	Yes
> 100	Yes	No
> 100	No	Yes

- 500 employee test for 2021

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Related Party Payments Not Eligible for the Credit

- At least 50 percent in value of the outstanding stock of the corporation or percent of the capital and profits interests in a partnership;
- A child or a descendant of a child;
- A brother, sister, stepbrother, or stepsister;
- The father or mother, or an ancestor of either;
- A stepfather or stepmother;
- An aunt or uncle;
- A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law

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Claiming the Credit

- Claim on Form 941 payroll tax filings
- Claim against employer and employee withheld taxes
- It is taking the IRS six months to process these returns

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Employee Retention Credit (ERC) Coordination with the PPP Program

- Can now claim the employer retention credit and apply for a PPP loan
- Same wages cannot be used for both programs
- Wages are used up for ERC first unless taxpayer elects to count wages toward the PPP loan

Recovery Startup Business

- For wages paid after June 30, 2021 and before January 1, 2022, a "recovery startup business" is any employer that meets all of the following requirements:
  - (1) It began carrying on a trade or business after February 15, 2020
  - (2) It's average annual gross receipts for the three-tax-year period ending with the tax year that precedes the calendar quarter for which the ERTC is determined do not exceed $1,000,000, as determined under rules similar to the rules under Code Sec. 448(c)(3)
- Recovery Startup Businesses can claim the ERC for up to $50,000 total per quarter for the third and fourth quarters of 2021, without showing suspended operations or reduced revenue

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Taxability

- Do not include the credit in gross income for federal income tax purposes
- An employer’s aggregate wages are reduced by the amount of the credit

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American Rescue Plan

Extension of Limitation on Excess Losses of Noncorporate Taxpayers

- Extended from January 1, 2026 to January 1, 2027

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Suspension of Tax on Portion of Unemployment Compensation

- For 2020 taxpayers with adjusted gross income of less than $150,000 shall not include unemployment compensation received by the taxpayer up to $10,200
- $150,000 AGI limits applies to all filing statuses
- However, for joint taxpayers with AGI less than $150,000, the $10,200 exclusion applies separately to each spouse
- For taxpayers who filed and paid tax on unemployment before this Act, the IRS is currently identifying affected taxpayers who will either receive refunds or have the overpayment applied to taxes due or other debts
- To date the IRS has issued over 11.7 million refunds totaling $14.4 billion

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2021 Recovery Rebate to Individuals

- Provides for a 2021 tax credit in the amount of related stimulus payment paid in 2021 - $1,400 for single taxpayers and $2,800 for joint taxpayers
- Same phase outs apply as we have seen before for single taxpayers with AGI below $75,000 and $150,000 for joint taxpayers

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Child Tax Credit Improvements

- Credit amount has been increased from $2,000 to $3,600 for children under age 6 and $3,000 for other children under age 18
- Increased credit amounts are phased out at modified AGI of over $75,000 for singles, $112,500 for head-of-household and $150,000 for joint filers
- Remaining $2,000 credit amount subject to prior rules and phaseouts. (Two sets of phaseout rules are applicable.)
- Credits scope has been expanded – children 17 years old and younger are now covered as opposed to the prior law which included only up to 16 years old
- Credit amounts will be made through temporary advance payments during 2021 – from July 1 to December 31, 2021
- The credit is now fully refundable
- The credit is now extended to Puerto Rico and the US Territories

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Earned Income Tax Credit (EITC) Improvements

- Expansion of the EITC for taxpayers with no qualifying children
- Increase in credit percentage and phaseout amounts
- EITC will be available even if identification requirements are not met
  - If an otherwise eligible individual has qualifying children, but cannot provide proper identification, then the individual will be eligible for the EITC for individuals that have no qualifying children
- EIC Rules, under which certain separated married people need not file jointly, are liberalized
  - A separated individual who meets the following requirements, can avoid the joint-filing requirement by either not living with the ex-spouse during the last six months of the year or by having a decree, instrument or agreement and not living with the ex-spouse by the end of the tax year
    - Is married
    - Does not file a joint return for the tax year
    - Lives with his/her qualifying child for more than half of the tax year
- Taxpayers may have up of $10,000 of “Disqualified” (Investment) income and still claim EIC
  - Prior to enactment 2021 inflation adjusted amount of “disqualified income” was $3,650, which now becomes $10,000 for 2021 and will be adjusted for inflation in future years
- Application of earned income tax credit in possessions of the US
- Individuals may base their 2021 EIC on 2019 earned income
- Effective Date – generally after December 31, 2020

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Dependent Care Assistance Improvements

- Refundability and enhancement of child and dependent care tax credit
  - Credit if refundable for taxpayers who have a principal place of abode in the US
  - The dollar limit on the amount is increased to $8,000 (from $3,000) if one qualifying individual or $16,000 (from $6,000) for two or more qualifying individuals
  - The applicable percentage is increased to 50%, reduced by 1% for each $2,000 by which the taxpayer’s AGI for the year exceeds $125,000
  - The applicable percentage, once reduced to 20% remains fixed at 20% until AGI reaches $400,000
  - For AGI above $400,000, the applicable percentage again decreases 1% for every $2,000 until completely phased out at $440,000
  - Effective for tax years beginning in 2021
- Increase in exclusion for employer-provided dependent care assistance
  - For 2021 only, the exclusion is increased from $5,000 to $10,500

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Premium Tax Credit

- New percentage tables will increase premium tax credit for 2021 and 2022
  - Under pre-act law a taxpayer might have to spend as much as 9.83% of household income on health insurance premiums, under the new tables that amount is capped at 8.5%
- Taxpayers with household income over 400% of the federal poverty line made eligible for the credit
- Taxpayers did not have to repay excess advance premium tax credit payment for 2020.
- Premium Tax Credit increased for taxpayers receiving unemployment compensation in 2021

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Modification of Treatment of Student Loans Forgiveness

- Special rule for certain discharges in 2021 through 2025 – will not be included in gross income
- Includes these types of loans:
  - Loans provided expressly for post-secondary educational expense if the loan was made, insured, or guaranteed by a federal, state or local governmental entity or an eligible educational institution
  - Private education loans
  - Certain loans made by educational institutions/organizations qualifying as a 50% charity
- Does not include loans discharged on account of services performed for either the organization or the private education lender
- The exclusion applies to a partial or full discharge

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Infrastructure Investment and Jobs Act

Information Reporting for Brokers and Digital Assets

- Requires brokers to report to the IRS the cost basis of digital assets transferred by their clients to nonbrokers
- "Digital Assets" – any digital representation of value which is recorded on a cryptocurrency secured distributed ledger or any similar technology
- Will include things like Bitcoin, Ethereum and also certain nonfungible tokens (NFT's)
- The term "broker" is also expanded to include those who operate trading platforms for digital assets such as cryptocurrency exchanges
- The act also modifies existing tax law to treat digital assets as cash
- As a result of this modification, individuals engaged in a trade or business must submit IRS Form 8300 – Report of Cash payments Over $10,000 Received in a Trade of Business, when they receive such amounts in one transaction or related transactions
- These provisions take effect for returns required to be filed and statements required to be furnished after December 31, 2023
- The IRS is expected to provide additional guidance on these provisions

Miscellaneous Provisions

- Extends several excise taxes used to fund highway spending
- Extends and modifies certain Superfund excise taxes
- Allows private activity bonds for qualified broadband projects and carbon dioxide capture facilities
- Extends pension funding relief
- Expands certain IRS administrative relief for taxpayers affected by federally declared disasters and “significant fires”

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Build Back Better Bill
(As Proposed)

Paid Leave

- Provides 4 weeks of paid leave for all eligible full-time, part-time, self-employed and gig workers for any qualifying reason under the Family and Medical Leave Act
- The proposal provides that any amount that a taxpayer receives as part of the newly created comprehensive paid leave provided under the Social Security Act is not included in the taxpayer's gross income

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State and Local Income Tax Deduction

- The proposal increases the SALT deduction cap to $72,500 ($36,250 in the case of an estate, trust, or married individual filing a separate return) from $10,000 through 2031
- Effective for tax years beginning after December 31, 2020
- May need additional planning for potential estimated state tax payment before end of year

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Child Tax Credit Expanded Through the American Rescue Plan

- Credit is enhanced in 2021
- $3,600 for children ages 5 and under at the end of 2021; and
- $3,000 for children ages 6 through 17 at the end of 2021
- The Child Tax Credit begins to be reduced to $2,000 per child if your modified AGI in 2021 exceeds:
  - $150,000 if married and filing a joint return or if filing as a qualifying widow or widower;
  - $112,500 if filing as head of household; or
  - $75,000 if you are a single filer or are married and filing a separate return
- Completely phased out at $400,000 for joint and $200,000 for all other filing status

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Child Tax Credit

- For tax year 2022, the proposal extends many of the American Rescue Plan that otherwise expire after 2021 through tax year 2022
- These extensions include
  - (i) full refundability for taxpayers who have a principal place of abode in the U.S. for more than one half of the year or who are bona fide residents of Puerto Rico for the tax year,
  - (ii) the increase in the age limit of a qualifying child for purposes of the child tax credit to include children who have not attained age 18,
  - (iii) the increase in child tax credit amount to $3,000, and $3,600 for qualifying children who have not attained the age of 6,
  - (iv) the application of the initial phaseout to the increased child tax credit amount at the following applicable threshold amounts: $150,000 for taxpayers filing jointly, surviving spouses, $112,500 for head of household taxpayers, and $75,000 for all other taxpayers
- Made fully refundable for taxpayers who have a principal place of abode in the U.S. for more than one-half of the tax year or are a bona fide resident of Puerto Rico
- No provision for advance payments after 2022

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Earned Income Tax Credit

- Effective through 2022
- Reduction in minimum age to claim the childless EITC from 25 to 19 (Except for certain full-time students)
- Eliminated the upper age limit of 65 for the childless EITC
- Allows a taxpayer to use their prior year earned income for purposes of computing the EITC, if a taxpayer's earned income in the current tax year has fallen

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Education

- Federal Pell Grants usually are awarded only to undergraduate students who display exceptional financial need and have not earned a bachelor's, graduate, or professional degree
- Federal Pell grants that are used for expenses that are not qualified tuition and related expenses, such as room and board, are excluded from gross income
- In addition, under the proposal, the amount of expenses eligible for the American Opportunity Tax Credit or the Lifetime Learning Credit isn't reduced by any amount paid for the benefit of an individual as a Federal Pell grant
- Repeals the disallowance of the American Opportunity Tax Credit for qualified tuition and related expenses for a student's enrollment or attendance for any academic period because the student has been convicted of a Federal or State felony drug possession or distribution offense before the end of the tax year with or within which the academic period ends

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Net Investment Income Tax

- Expands the net investment income tax to cover net investment income derived in the ordinary course of a trade or business for taxpayers with greater than $400,000 in taxable income (single filer) or $500,000 (joint filer), as well as for trusts and estates
- Clarifies that this tax is not assessed on wages on which FICA is already imposed
- Clarifies that the tax is not assessed on self-employment income

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Excess Business Losses

- Makes permanent 461(l) which disallows excess business losses (i.e., net business deductions that exceed business income) for noncorporate taxpayers
- The provision allows taxpayers whose losses are disallowed to carry those losses forward to the next tax year

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Surcharge for High Income Individuals and Trusts

- Imposes a tax equal to the sum of 5% of a taxpayer's modified adjusted gross income that exceeds $10,000,000 ($5,000,000 for a married individual filing separately) plus 3% of the taxpayer's modified adjusted gross income that exceeds $25,000,000 ($72,500,000 for a married individual filing separately)

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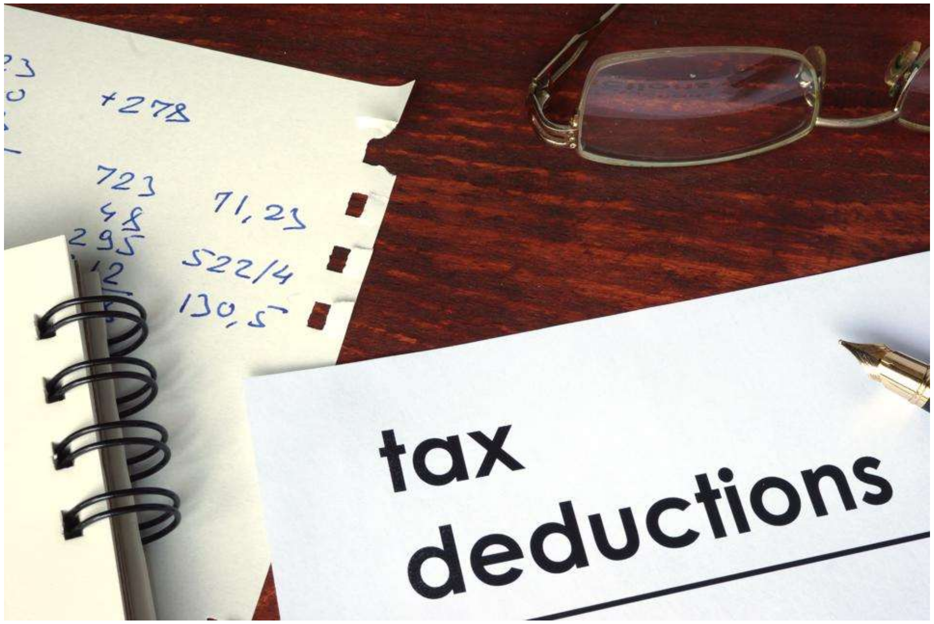
New Above-the-Line Deductions

- Allows for up to $250 in dues to a labor organization to be claimed as an above-the-line deduction
- Allows an above-the- line deduction, through 2024, of up to $250 for the cost of employee uniforms. An employee uniform is clothing that must be worn by a taxpayer when performing services as an employee that is not suitable for everyday wear



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Corporate Alternative Minimum Tax

- The corporate alternative minimum tax proposal imposes a 15% minimum tax on corporations with adjusted financial statement income in excess of $1 billion
- Effective for tax years beginning after December 31, 2022

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Recap on 1202 Stock

- Stock originally issued after August 10, 1993, by a C corporation with aggregate gross assets not exceeding $50 million at any time from August 10, 1993, to immediately after the issuance of the stock
- The taxpayer must have acquired the stock at its original issue, or in a tax-free transaction such as a gift, inheritance, or partnership distribution
- Corporation must meet an active business requirement whereby 80% or more of its assets are used in one or more businesses
- Ineligible businesses include certain personal service activities (health, law, engineering, accounting, etc.), banking and other financial services, farming, mineral extraction businesses, and hotels and restaurants

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Change to 1202 Exclusion Rates

- This provision amends Code Sec. 1202(a) so that the special 75% and 100% exclusion rates for gains realized from certain qualified small business stock will not apply to taxpayers with adjusted gross income equal or exceeding $400,000. The baseline 50% exclusion in Code Sec. 1202(a)(l) remains available for all taxpayers
- This section applies to sales and exchanges after September 23, 2021, subject to a binding contract exception

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Fees for Contingency Case

- This provision allows the deduction of costs paid or incurred by an attorney that are contingent on a recovery. The deduction amount is determined by disregarding the possibility that the cost will be repaid, and the income attributable to any related recovery is not reduced by such amount
- Applies to amounts paid, incurred, or received, in tax years beginning after the date of enactment

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Extension, Increase, and Modifications of Nonbusiness Energy Property Credit

- Extends the Code Sec. 25C credit for nonbusiness energy property for ten years, through December 31, 2031
- The proposal also increases from 10% to 30% the credit rate for qualified energy efficient improvements
- The proposal replaces the lifetime credit limitation with an annual limitation of $1,200 (previous limit $500)
- The limit for windows is changed to a maximum of $600 per tax year. (previous limit of $200 lifetime)
- The limit for an exterior door is changed to $250 for any tax year, $500 with respect to all exterior doors

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Residential Energy Efficient Property

- Qualified solar electric property, qualified solar water heating property, qualified fuel cell property, qualified small wind energy property, qualified geothermal heat pump property, and qualified biomass fuel property
- The proposal extends the Code Sec. 25D residential energy efficient property credit for ten years, through December 31, 2033

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New Qualified Plug-In Electric Drive Motor Vehicle Credit

- The proposal creates a new Code Sec. 36C credit that effectively extends and modifies the Code Sec. 30D credit for new qualified plug-in electric drive motor vehicles (the "EV credit")
- Eliminates the limitation on the number of credit eligible EVs each manufacturer can sell
- Beginning January 1, 2022, the proposal makes the EV credit a refundable personal income tax credit for vehicles acquired on or after that date
- Current law allows $7,500. Proposal is $12,500
- The proposal creates a new credit for each previously owned qualified plug-in electric drive motor vehicle placed in service by a qualified buyer. The base amount of the credit is $2,000
- Income limitations will apply

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Foreign Tax Credit

- The provision limits the carryforward of excess foreign tax credit limitation to five succeeding tax years (compared with 10 years under current law).
- The carryback of such foreign tax credit limitation is repealed
- Effective after December 31, 2022

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Premium Tax Credit

- The proposal, among other things, extends through 2025 the expansion in ARPA of eligibility for the premium assistance credit to individuals and families with household incomes above 400% of Federal Poverty Level (FPL) for a family of the size involved provided the other eligibility criteria are met
- Excludes from the definition of modified AGI any portion of a lump-sum payment of Social Security benefits received during the tax year that is attributable to months ending before the beginning of the tax year
- Temporarily expands eligibility for the premium assistance credit to individuals and families with household incomes below 100% of FPL for a family of the size involved
- Temporarily expands eligibility for the premium assistance credit to certain low-income employees who are offered an affordable employer-sponsored health plan
- Excludes certain dependent income from the calculation of household income for purposes of determining Code Sec. 36B premium tax credit amounts

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Consolidated Appropriations Act & Other Year End Planning

Medical Expenses

- For tax years beginning after December 31,201 and ending before January 1, 2019, the floor on medical expense deductions was 7.5% of AGI
- Before December 20, 2019, the floor for deductible medical expenses was scheduled to increase from 7.5% to 10% for tax years beginning after December 31, 2018. But application of the 7.5% floor was retroactively extended to apply to tax years ending after December 31, 2018, and beginning before January 1, 2021
- Before December 27, 2020, the 7.5%-of-AGI floor was scheduled to increase to 10% of AGI for tax years beginning after December 31, 2020, but the 7.5%-of-AGI floor was made permanent by the 2020 Taxpayer Certainty and Disaster Tax Relief Act, effective for tax years beginning after December 31, 2020

Charitable Contributions

- For tax years beginning in 2021 only, an individual who doesn't itemize deductions for the tax year is entitled to a charitable deduction, not in excess of $300 (not in excess of $600 for a joint return)
- To qualify for this non-itemizers' charitable deduction, contributions must be in cash, and be made to a public charity, and not be made to a Code Sec. 509(a)(3) supporting organization, or to establish or maintain a donor advised fund
- Unlike the non-itemizers' charitable deduction that applied for 2020 tax years, which was an above-the-line deduction, the Code Sec. 170(p) deduction (above) is deducted from adjusted gross income in arriving at taxable income
- The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) temporarily suspends the charitable contribution deduction AGI percentage limitations for certain qualified contributions made in 2020 (Sec. 2205 of the CARES Act).
- This provision was extended to 2021 by the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTRA), a part of the Consolidated Appropriations Act, 2021 (CAA, 2021). See “Temporary Suspension of AGI Limitations” later in this key issue for further details

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Educator Expense Deduction

- Old rules - Qualified expenses are amounts paid or incurred for participation in professional development courses, books, supplies, computer equipment (including related software and services), other equipment, and supplementary materials that you use in the classroom
- The Act provides that eligible educators (i.e., kindergarten-through-grade-12 teachers, instructors, etc.) can claim the existing $250 above-the-line educator expense deduction for personal protective equipment (PPE), disinfectant, and other supplies used for the prevention of the spread of COVID-19 that were bought after March 12, 2020

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Tuition and Fees Deduction

- Secs. 104(b) and 104(c) of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, a part of the Consolidated Appropriations Act, 2021 has repealed IRC Sec. 222 for tax years beginning after December 31, 2020

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American Opportunity Credit and Lifetime Learning Credit

- Lifetime learning credit limits were increased to match the American Opportunity Credit
- The AOTC or the LLC that may otherwise be claimed is phased out ratably for taxpayers with modified AGI between $80,000 and $90,000 ($160,000 and $180,000 for joint filers).
- A taxpayer whose modified AGI is greater than $90,000 ($180,000 for joint filers) can't claim either credit

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Mortgage Insurance Premium

- The deduction for qualified mortgage insurance premiums has been extended through December 31, 2021 [IRC Sec. 163(h)(3), as amended by the Taxpayer Certainty and Disaster Tax Relief of 2019 (2019 Disaster Act) and the Taxpayer Certainty and Disaster Tax Relief Act of 2020, a part of the Consolidated Appropriations Act, 2021]
- If effect, these amounts paid for *qualified mortgage insurance premiums* are treated as a separate category of qualified residence interest

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163(j) Interest Limitation

- The 2020 CARES Act, has amended the Code to provide that, for tax years beginning in 2019 and 2020, the 30% adjusted taxable income limitation for the deduction of business interest is increased to 50%
- Limitation reverts back to 30% in 2021

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Opportunity Zones Final Year for 10% Break

- Gross income for the tax year does *not* include so much of the gain as does not exceed the aggregate amount invested by the taxpayer in a Qualified Opportunity Fund (i.e., an investment vehicle that invests in Qualified Opportunity Zone property) during the 180-day period beginning on the date of the sale or exchange
- Gain excluded under the temporary deferral election for amounts invested in Qualified Opportunity Fund, is included in income in the tax year which includes the *earlier* of:
  - (a) the date on which the investment is sold or exchanged,(the date of an inclusion event under regs, or
  - (b) December 31, 2026. For amount of deferred gain recognized on Dec. 31, 2026
- In the case of any investment held for at least *five* years, the basis of the investment is increased by an amount equal to 10% of the amount of gain temporarily deferred under Code Sec. 1400Z-2(a)(1)(A)
- In the case of any investment held by the taxpayer for at least *seven* years, in addition to any basis adjustment made under Code Sec. 1400Z-2(b)(2)(B)(iii) for an investment held more than five years, the basis of the property is increased by an amount equal to 5% of the amount of gain deferred by reason of Code Sec. 1400Z-2(a)(1)
- No time left for the 7-year deferral

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Annual Gift Exclusion & Lifetime Exemption

- The annual exclusion for gifts increases to $16,000 for calendar year 2022, up from $15,000 for calendar year 2021
- Estates of decedents who die during 2022 have a basic exclusion amount of $12,060,000, up from a total of $11,700,000 for estates of decedents who died in 2021.

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The Changing State Tax Landscape

- Does the employer's state still want withholdings even if the employee works from home in another state
  - Convenience of Employer or Employee
- Is the employer doing business in the state where the employees works from home resulting in a requirement to withhold?
- The Wayfair Decision and the continuing impact on income and sales tax

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Inflation Adjustments for 2022

- See Revenue Procedure 2021-45 for inflation adjusted numbers
  - Standard Deduction
  - Personal Exemption
  - Marginal Tax Rates
  - AMT Exemption
  - And others…

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Delaware Relief Grants

- Reminder: Due date of 12.31.2021 to submit documentation to Delaware
- Need 2019 and 2020 tax returns that show drop in revenue
- Need receipt/invoice or other documentation for each dollar spent

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Thank You!

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