



BTAX OnPoint

Top 10 Filing Issues for 2020

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About This Presentation

This OnPoint highlights the top 10 filing issues which include:

- **Economic Impact Payments and Recovery Rebate Credit 2020**
- **Home Office Deduction and Expenses**
- **COVID-related IRA Distributions**
- **Charitable Contributions**
- **Paying and Reporting for Household Daycare Workers**
- **Expanded Payment Options for Financially Distressed Taxpayers**
- **Paycheck Protection Program Loans**
- **COVID Sick Pay**
- **Tax Return Filing Season and IRS Services**
- **General Loan Relief and Discharge of Indebtedness**

Economic Impact Payments (EIPs) and Recovery Rebate Credit 2020

- EIPs, commonly referred to as "stimulus checks," are payments to eligible taxpayers to help alleviate financial strain on the U.S. economy in the wake of COVID-19. To date, there have been two payments issued:
 - First Payment: Eligible taxpayers that filed tax returns for either 2019 or 2018 automatically received a payment of up to \$1,200 for individuals or \$2,400 for married couples and up to \$500 for each qualifying child.
 - Second Payment: The IRS and the Treasury Department have started delivering a second round of EIPs to those taxpayers that are eligible for such payments. The second payment is \$600 (\$1,200 if married filing jointly for 2020) plus \$600 for each qualifying child of the taxpayer in 2020. (Consolidated Appropriations Act, 2021 (Pub. L. N. 116-260) Div. N. §272)
- Tax filers with adjusted gross income up to \$75,000 for individuals and up to \$150,000 for married couples filing joint returns will receive the full payment. For filers with income above those amounts, the payment amount is reduced by \$5 for each \$100 above the \$75,000/\$150,000 thresholds. Single filers with income exceeding \$99,000 and \$198,000 for joint filers with no children are not eligible.
- Taxpayers that received an EIP should keep Notice 1444, *Your Economic Impact Payment*, with their tax records. When the 2020 tax return is filed, taxpayers can refer to Notice 1444 and claim additional credits on their 2020 tax return if they are eligible. Taxpayers should receive Notice 1444-B for the second EIP.

Economic Impact Payments (EIPs) and Recovery Rebate Credit 2020

- The Recovery Rebate Credit was eligible to be paid in two rounds of advance payments during 2020 and early 2021. These advanced payments are referred to as the first and second EIPs.
- [IRC §6428](#) and [IRC §6428A](#) provides the rules for the initial and additional recovery rebate credit for individuals.
- Taxpayers that received the full amounts of both EIPs do not need to complete any information about the Recovery Rebate Credit on their 2020 tax returns. They already received the full amount of the Recovery Rebate Credit as Economic Impact Payments.
- IRS Notice CP21C were sent to taxpayers if the IRS was unable to process a 2019 tax return in time to issue an EIP. The notice advised taxpayers that the IRS was not able to issue an EIP before December 31, 2020, and, therefore, such taxpayers would need to file for a recovery rebate credit.
- Taxpayers may be able to claim the recovery rebate credit only if the economic impact payments are less than the credit. Complete the Recovery Rebate Credit Worksheet in the Instructions for Form 1040 and Form 1040-SR.
- The Recovery Rebate Credit amount will be phased out if the taxpayer's adjusted gross income for 2020 exceeds \$150,000 if married filing a joint return or filing as a qualifying widow or widower, \$112,500 if using the head of household filing status, or \$75,000 if using any other filing status.

Home Office Deduction and Expenses

- W-2 employees working from home as a result of COVID-19 or otherwise cannot claim a home office deduction nor deduct unreimbursed employee business expenses. However, self-employed individuals, sole proprietors, and single-member LLCs who own or rent and file Schedule C generally can claim the home office deduction if:
 - A part of the home is regularly used exclusively for conducting business, and
 - The home is used as the taxpayer's principal place of business. If the taxpayer conducts business at a location outside of their home, but also uses their home substantially and regularly to conduct business, they may qualify for the home office deduction.
- The taxpayer can deduct expenses for a separate free-standing structure, such as a studio, garage, or barn, if the taxpayer uses it exclusively and regularly for their business. The structure does not have to be the principal place of business of the taxpayer or the only place where they meet patients, clients, or customers.
- There are two options for figuring the home office deduction on Form 8829:
 - The regular method allocates actual expenses of operating the home between personal and business use based on square footage (e.g., rent, mortgage interest, insurance, utilities, internet, property taxes, condo fees) to determine the business usage percentage.
 - The simplified method uses a rate of \$5/per square foot for business using the home. The maximum deduction is \$1,500.

Home Office Deduction and Expenses

- If the taxpayer works from home but may not be eligible for the home office deduction, they still must abide by rules respecting their business expenses:
- For example:
 - Employees who spend money on equipment and supplies to work from home and who are reimbursed by their employer generally can exclude such reimbursement from income (e.g., an accountable expense reimbursement plan). Unreimbursed expenses are not deductible. ([IRC §62](#))
 - One-time payments or a monthly allowance from the employer for which substantiation is not required generally must be included in the employee's W-2 wages (e.g., a nonaccountable plan) and cannot be deducted by the employee. ([IRC §62](#))

COVID-Related IRA Distributions

- Coronavirus-related distributions from eligible retirement plans are not subject to the 10% excise tax on early distributions.
- Distributions must be made on or after January 1, 2020 and before December 31, 2020 to an individual who is diagnosed with SARS-CoV-2 or Covid-19, whose spouse or dependent is so diagnosed, or who experiences financial hardship because of quarantine or other factors.
- Coronavirus-related distributions may not exceed \$100,000 in the aggregate for any tax year. Taxpayers may elect to ratably spread the income over a 3-year period beginning with tax year 2020.
- Taxpayers may also avoid income recognition by repaying the distribution to the retirement plan within three years of receipt (and amending the affected year(s) return).
- In [Notice 2020-50](#), the IRS expanded the categories of individuals eligible for coronavirus-related distributions and loans (referred to as “qualified individuals”) by taking into account additional factors such as reductions in pay, rescissions of job offers and delayed start dates with respect to an individual, as well as adverse financial consequences to an individual arising from the impact of the Covid-19 coronavirus on the individual’s spouse or household member.

Charitable Contributions

- The Consolidated Appropriations Act, 2021, (Pub. L. No. 116-260) supplements the CARES Act (Pub. L. No. 116-136) to extend the charitable giving benefits and temporary tax relief for one year.
- The above-the-line deduction made available to individual taxpayers that do not itemize allowing for a charitable deduction for cash contributions to qualifying public charities of up to \$300 per individual (\$600 for married couples filing jointly) was extended to the 2021 tax returns (§170(p), Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, Div. EE, §212).
- Where the CARES Act temporarily increased the available deductions on qualified charitable contributions for both individuals and corporations, the Consolidated Appropriations Act, 2021 extended the increased limits through 2021, so that:
 - Corporations can deduct up to 25% of their taxable income (increased from the 10% limitation), and
 - Individual taxpayers that itemize their deductions can deduct contributions of up to 100% of their adjusted gross income (increased from the 60% limitation).

Charitable Contributions

- A qualified charitable contribution is a charitable contribution that is:
 - made in cash
 - allowable under IRC §170
 - made to an organization described in IRC §170(b)(1)(A) (i.e., § 501(c)(3) and certain other charitable organizations), and not a supporting organization described in IRC §509(a)(3)
 - is not for the establishment of a new, or maintenance of an existing, donor advised fund
 - does not include any amount which is carried over from a prior tax year.
- The 25% limitation on deductions for donations of food inventory is extended through 2021.
- Corporations may deduct up to 100% of their taxable income for making certain “qualified disaster relief contributions” before February 25, 2021 (Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, Div. EE, §304).

Household Daycare

- For those who have hired a nanny, babysitter or other in-home caregiver due to remote work and/or disruptions to schooling, etc., there are several rules to be aware of:
 - Amounts paid to nannies, babysitters and others during 2020 who qualify as household employees generally are treated as W-2 wages and subject to federal, state, and local income, employment, and unemployment taxes.
 - If cash wages of \$2,200 or more were paid to any one employee in 2020, a W-2 must be provided to the household employee and Form W-2 and Form W-3 must be filed with the Social Security Administration as well as the state tax authority.
 - Social Security (OASDI) and Medicare (HI) taxes must be paid by the employer and employee.
 - Federal unemployment tax (FUTA) must be paid by the employer if total cash wages of \$1,000 or more in any calendar quarter of 2019 or 2020 were paid to household employee(s).
- Schedule H (Form 1040):
 - Report wages and employer/employee shares of Social Security (OASDI) and Medicare (HI) taxes as well as calculate federal unemployment tax (FUTA).
 - Total Schedule H taxes are paid as part of the regular tax liability when filing Form 1040.
 - Schedule H taxes may trigger a failure to pay estimated tax penalty; consider making estimated payments or increasing withholding if employment is to continue in 2021.

Expanded Payment Options

As a result of the Coronavirus, the IRS has provided additional relief to make it easier for taxpayers struggling with tax debts ([IR-2020-248](#)). For example:

- *Extension of Time to Pay* – Taxpayers who qualify for a short-term extension of time to pay now have up to 180 days (and possibly longer if out of the country). Contact the IRS or file Form 1127, *Application for Extension of Time for Payment of Tax Due to Undue Hardship*.
- *Offers in Compromise (OIC)* – The IRS is offering flexibility for some taxpayers who are temporarily unable to meet the terms of an accepted OIC.
- *Installment Agreements* -
 - The IRS will automatically add new balances to existing agreements for individual and out of business taxpayers rather than defaulting the agreement.
 - Certain qualified taxpayers who owe less than \$250,000 may set up an installment agreement without providing a financial statement or substantiation if the monthly payment proposal is sufficient.
 - Some taxpayers that owe only for 2019 and who owe less than \$250,000 may qualify to set up an installment agreement without a Notice of Federal Tax Lien being filed by the IRS.
 - Qualified taxpayers with existing Direct Debit Installment Agreements may be able to use the IRS's Online Payment Agreement system to propose lower monthly payment amounts and change payment due dates.

Paycheck Protection Program Loans

- The CARES Act established the Paycheck Protection Program (PPP), which allows employers to acquire a loan to cover payroll costs and certain nonpayroll costs to help their businesses endure reduced economic activity resulting from Covid-19. The Paycheck Protection Program Flexibility Act modified aspects of how the program works. (CARES Act (Pub. L. No. 116-136, Div. A, Title I, §1102))
- The Consolidated Appropriations Act, 2021 established an ability for some employers that already acquired a PPP loan to acquire a second PPP loan; eliminated a provision which prevented employers that acquired a PPP loan from also using the employee retention credit; and made other changes to the PPP for 2021. (Consolidated Appropriations Act, 2021, (Pub. L. No. 116-260, Div. N, §301)).
- A borrower can apply for forgiveness once all loan proceeds for which the borrower is requesting forgiveness have been used. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred, and borrowers will begin making loan payments to their PPP lender. Forgiven loan amounts generally are not included in gross income. (Consolidated Appropriations Act, (Pub. L. No. 116-260) Div. N, §276)
- IRS allows deductions for payments of eligible expenses when such payments would result (or be expected to result) in the forgiveness of a loan (covered loan) under the PPP. (Rev. Rul. 2021-2))

Paycheck Protection Program Loans

First Draw PPP Loans made to eligible borrowers qualify for full loan forgiveness if during the 8- to 24-week covered period following loan disbursement:

- Employee and compensation levels are maintained;
- The loan proceeds are spent on payroll costs and other eligible expenses; and
- At least 60% of the proceeds are spent on payroll costs.

Second Draw PPP Loans made to eligible borrowers qualify for full loan forgiveness if during the 8- to 24-week covered period following loan disbursement:

- Employee and compensation levels are maintained in the same manner as required for the First Draw PPP Loan;
- The loan proceeds are spent on payroll costs and other eligible expenses; and
- At least 60% of the proceeds are spent on payroll costs.

COVID Sick Pay

- A payroll tax credit is available to employers with fewer than 500 employees that are required to pay 80 hours of emergency paid sick leave and/or 10 weeks of expanded FMLA leave for COVID-related absences from work for certain time periods. While the requirement to pay such leave expired on December 31, 2020, the credit for making such payments has been extended to March 31, 2021 (Consolidated Appropriations Act, b 2021 (Pub. L. No. 116-260), Div. N, §286, amending Pub. L. 116-127, §7001-7004).
- However, if an employee exhausted this leave in 2020, there is no additional leave available for 2021 that is eligible for the credit, even if the employer voluntarily chooses to provide the leave. Thus, in essence, the credit is available to cover employees who did not use the full two weeks of leave by December 31, 2020.
- In addition, self-employed individuals using this credit can base the credit amount on prior-year net earnings from self-employment rather than the current year.

Tax Return Filing Season and IRS Services

- **Filing Season Begins Later than Usual**

- The filing season begins February 12, 2021. Returns begin being accepted and IRS starts processing.
- April 15, 2021 is the deadline for filing 2020 tax returns.
- October 15, 2021 is the deadline to file for taxpayers requesting an extension on their 2020 tax returns

- **Many IRS Services Are Delayed or Access is Restricted**

- Safety precautions and other complications resulting from the COVID-19 pandemic have caused delays in the following:
 - Live telephone support
 - Processing tax returns filed on paper
 - Mailing notices and bills
 - Answering correspondence received from taxpayers
 - Reviewing tax returns, even for returns filed electronically
 - Release of liens due to COVID hardship
 - Mailing of Form SSA-1099 or Form SSA-1042S (taxpayers should refer to Social Security Administration website if they have not received these forms to file their return)

Tax Return Filing Season and IRS Filing Services

- Processing of checks received
- Processing requests for paper tax forms
- In-Person Access to some IRS Services is restricted, such as:
 - Taxpayer Advocate Service (TAS) offices are closed. TAS assistance is available by telephone only at 877-777-4778.
 - Taxpayer Assistance Centers (TACs) are open for limited in-person assistance by appointment only for:
 - Authentication of taxpayer identity
 - Validation of taxpayer documents to file a return or apply for an Individual Taxpayer Identification Number (ITIN)
 - Authentication for e-Services registration purposes for tax professionals
 - Obtaining Sailing Clearance for foreign travel (for resident and non-resident aliens leaving the U.S.)
 - Assistance with an Economic Impact Payment
 - Making a cash payment

General Loan Relief

- Gross income does not include forgiveness of certain loans, emergency Economic Injury Disaster Loan (EIDL) grants, Targeted EIDL advances, Grants for Shuttered Venue Operators, and certain loan repayment assistance. (Consolidated Appropriations Act, 2021 (Pub. L. No. 116-260), Div. N, §278).
- Deductions are allowed for otherwise deductible expenses paid with the amounts so excluded from income, and tax basis and other attributes will not be reduced as a result of those amounts being excluded from income.
- Taxpayers who receive discharge of indebtedness income as a result of selling their principal residence may exclude such discharged debt on their 2020 return. (IRC §108)
- Taxpayers who were insolvent during 2020 and who are discharged from a loan generally can exclude the forgiven loan amount from gross income on their 2020 return. (IRC §108)

Additional Issues

- It is important to review new laws that impact the 2020 tax returns, including legislation, Notices, Revenue Procedures, as well as new and updated Forms, Publications and related Instructions to ensure the return is accurate and fully incorporates the most up-to-date rules.
- In addition to the Top 10 Filing Issues highlighted in this OnPoint, there are still other issues that taxpayers and practitioners may want to become familiar with, and can do so by obtaining more detail on these requirements with the Bloomberg Tax & Accounting Roadmaps:
 - [Coronavirus Roadmap](#)
 - [Taxpayer Certainty and Disaster Tax Relief Act Roadmap](#)



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