Welcome to Thursday Tax Topics!

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Contact Information

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Today's Discussion

- Guidance on advance child tax credits
- Guidance on new COBRA rules
- Unemployment insurance payments
- Avoiding errors on the Form 941
- Restaurant Revitalization fund Almost broke
  - Deadline May 24
- Brief update on Biden tax plans
- Iowa Legislature passes SF 619 (lots of tax law changes)
  - Inheritance tax phase-out, COVID-19 grant exemption, fiscal year PPP fix, and more!

May 17 is Behind Us!

May 17 - Advance Child Tax Credit News

- Families of 88 percent of U.S. children will receive advance payments of child tax credit, **beginning <u>July 15</u>**.
  - The American Rescue Plan increased the *maximum* Child Tax Credit in 2021 to $3,600 for children under the age of 6 and to $3,000 per child for children between ages 6 and **17**.
  - **Eligible families will receive a payment of up to $300 per month for each child under age 6 and up to $250 per month for each child age 6 and above (~1/2 CTC).**
    - Payment will be made on the 15th of each month unless 15th falls on a weekend. (direct deposit, but some will receive paper check or card)
  - Payment will be based upon 2020 return, if available. If not, 2019 return.

May 17 - Advance Child Tax Credit News

- Increased amounts are reduced (phased out), for incomes over $150,000 for married taxpayers filing a joint return and qualifying widows or widowers, $112,500 for heads of household, and $75,000 for all other taxpayers.
  - The phase-out reduces the increase by $50 for each $1,000 by which the modified AGI exceeds the threshold amount.
    - The $2,000 portion of the credit continues to phase out using the thresholds of $400,000 for MFJ and $200,000 for other taxpayers.
    - https://www.irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021
- **NO OPT OUT INSTRUCTIONS YET**. Important because…

Remember: Child Tax Credit *Reconciliation*

- In January of 2022, IRS will provide taxpayers with a report of the advance payments they received.
- Taxpayers will then **reconcile** their **advance payments** with their **eligible credits** on their 2021 return.
  - The **credit** will be reduced, but not below zero, by the payments received throughout the year.
- If, however, the ***amount of advance payments exceeds the eligible credit***, taxpayers with income **above a certain income threshold must generally *repay the excess as a tax***.

Child Tax Credit *Reconciliation*

- This repayment requirement is **reduced or eliminated** entirely according to a complex "**safe harbor**" formula for taxpayers whose income **does not exceed 200 percent** of the following applicable income thresholds:
  - $60,000 for joint returns or surviving spouses
  - $50,000 for heads of household
  - $40,000 for single taxpayers

May 17 Guidance – Simplified Filing

- **Non-Filers Can File for Benefits**:
  - May 17 – Rev. Proc. 21-24
- Two procedures for individuals not otherwise required to file 2020 Federal income tax returns to file for **advance child tax credit payments** and stimulus payments.
  - The first procedure permits these individuals to file **simplified returns(?): read the guidance and you be the judge** ☺.
  - The second procedure enables these individuals to file complete returns electronically even **if they have zero adjusted gross income**.

If they filed a 2019 return or used the non-filer tool on the web to get stimulus payments, they will be in for ACTC as well.

COBRA Subsidy/Tax Credit

- **Guidance Issued May 18: https://www.irs.gov/pub/irs-drop/n-21-31.pdf**
  - **Notice 2021-31**
  - **Includes a helpful Q & A section.**
- **ARPA provided 100 percent premium assistance subsidy** for COBRA coverage from April 1 through September 30, 2021,
  - Excluded from gross income.
- To fund the coverage, the person to whom the continuation coverage premiums must usually be paid (employer, plan, or insurer) is allowed a **refundable payroll tax credit** to cover the cost of the premiums.

Unemployment Return Corrections

- IRS announced on May 14 that it had begun reviewing returns for corrections. https://www.irs.gov/newsroom/irs-begins-correcting-tax-returns-for-unemployment-compensation-income-exclusion-periodic-payments-to-be-made-may-through-summer
- Began issuing refunds last week (subject to offset rules). Will be made from May through the end of summer.
  - These corrections are being made automatically in a phased approach, *easing the burden on taxpayers*.
    - The first phase is underway and includes the simplest returns (*singles*). The next phase will include the more complex tax returns (*MFJ*) which the IRS anticipates will take through the end of summer to review and correct.
    - Also include APTC repayment.

Avoiding Common Errors on Form 941

- On May 10, IRS issued guidance on avoiding common errors on payroll tax returns (ERC, FFCRA).
  - https://www.irs.gov/newsroom/common-but-costly-errors-employers-should-avoid-when-filing-taxes-or-claiming-credits
- Ensure number of employee is accurate.
- **Report advanced credits *received*, not the requested payment of credits.**
  - If an employer hasn't received the advance payment of credit they requested, the employer should not report it on Form 941.

Avoiding Common Errors on Form 941

- Use Form 7200 to request the **advance payment of a credit** only, not for reporting the credit.
  - Employers use this form to request the advance payment of employer credit. It is not used to claim the credit. An employer must claim the credit on the applicable employment tax return, typically Form 941.
  - If an employer has received the advance payment requested, they must reconcile it on Form 941 by reporting the advance payments received and claiming the credits for which they're eligible.
  - If an employer receives an advance payment of a credit but doesn't claim a corresponding credit on their employment tax return, **they may receive a balance due notice**.
  - If an employer filed an employment tax return and did not report a credit they were otherwise entitled to, **they will need to file an amended return using Form 941-X** to claim those eligible credits.

Restaurant Revitalization Fund

- Money almost gone.
  - https://www.sba.gov/funding-programs/loans/covid-19-relief-options/restaurant-revitalization-fund
- Deadline for applications is **May 24 at 8 p.m. ET**.
  - Only those with < $50,000 in gross revenue.
- $28.6 billion in funds
  - Restaurants, food stands, food trucks, food carts, caterers, saloons, inns, taverns, bars, lounges
- Smallest restaurants have the best chance of getting funded if they apply by the deadline.

  1/3 of funds set-aside for these businesses.

  Gross receipts < $500,000, < $1,500,000

“Build Back Better”

1. On March 31, President Biden proposed the $2.4 trillion **American Jobs Plan** (infrastructure).
   - Made in America tax plan would pay for provisions with changes to corporate and international tax structure.
2. On April 28, President Biden unveiled the $1.8 trillion **American Families Plan**.
   - Although detail is restricted to a bulleted fact sheet, the Plan proposes to “grow the middle class, expand the benefits of economic growth to all Americans, and leave the United States more competitive.”
   - States that it will only increase tax on the “wealthiest” Americans.

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Reviewed in Detail Last Time. Resources Online

- The **American Families Plan** would completely overhaul current estate and business planning for agricultural producers and rural landowners.

https://www.calt.iastate.edu/blogpost/look-american-families-plan

What's Ahead?

- Congress is currently seeking to negotiate a deal on the American Jobs Plan (infrastructure).
- If that deal fails, majority will likely move forward with single legislative package (Jobs Plan and Families Plan), aiming for passage through budget reconciliation.
- Suggesting a July vote, but could be into September.

Effective date could be retroactive, but unlikely.

What’s the Likelihood of Passage?

- Lots of support, but also lots of resistance.
  - Ag lawmakers in Democratic caucus are concerned about protections for family farms.
    - What would exemption look like?
  - Another wing of party is very focused on tax at death.
  - This morning Bloomberg reports some are floating a carryover basis, instead of recognition at death proposal.
  - Keep watching.

Iowa Tax Law Update

SF 619

The Iowa Legislature send **SF 619** to the Governor on Tuesday night.

- https://www.calt.iastate.edu/blogpost/iowa-legislature-sends-significant-tax-bill-governor

- Lots of Tax Provisions in this bill.
  - Governor is supportive and expected to sign.

Sent to the Governor

1. Phase-out of Iowa inheritance tax
   - Reduce by 20 percent each year, beginning in 2021. Gone by 2025.
2. Exclusion from income for COVID-19 grants (livestock producer relief fund, etc.)
3. Couple with federal bonus depreciation
4. Lower tax rates in 2023 (high of 6.5 percent)
5. Enhance beginning farmer tax credit
   - Include buildings without land, multiple contracts, 15-year eligibility

Exclusion from Income for COVID-19 Grants

- Exempts from **Iowa** corporate and individual income tax liability the proceeds of COVID-19 grants received by taxpayers through COVID-19 assistance programs administered by the Economic Development Authority, the Iowa Finance Authority, and the Department of Agriculture and Land Stewardship.
  - Issued between March 17, 2020, through December 31, 2021, and applies to tax years through 2023.
- Applicable grants include, among many others, those made available through the **Iowa Livestock Producer Relief Fund** and the **Iowa Beginning Farmer Debt Relief Fund**.

Exclusion from Income for COVID-19 Grants

- Some have asked if amendments will be required.
  - Let's see what IDOR says.

Fix for Fiscal-Year PPP Recipients

- The bill allows those who received a PPP loan during a tax year beginning in 2019 to deduct expenses paid by forgiven proceeds in the same way as other taxpayers.

Bonus Depreciation

- The bill couples Iowa tax law with **federal bonus depreciation** for qualified equipment and other capital assets purchased **on or after January 1, 2021**. Current federal law provides for a phase-out of bonus depreciation over the next five years. Iowa law, which currently disallows bonus depreciation, will now align with the federal provisions:
  - Through 2022 100 percent
  - 2023 80 percent
  - 2024 60 percent
  - 2025 40 percent
  - 2026 20 percent
  - 2027 None

Business Interest Deduction

- The bill would also allow taxpayers to remain not subject to the federal business interest deduction limitation for state purposes, *even if they take bonus depreciation*.

Beginning Farmer Tax Credit Enhancement

- Still 5 percent credit for cash rent lease and 15 percent credit for share lease.
  - Great opportunity for those renting to a **beginning farmer**.

- Allows rental of buildings (without land) to count for the credit.
- Increases eligibility for participation from 10 to 15 years.
- Allows landlords to enter contracts with multiple beginning farmers
  - $50,000 per year, per contract, not per taxpayer.

Remove Contingencies for Lower Tax Rates

- Iowa's 2018 tax reform legislation, SF 2417, provided that in 2023, if two revenue contingencies were met, Iowa's individual income tax rates would be significantly restructured and lowered.

Table 2 – Contingent Income Tax Rates

Taxed Income Brackets		Contingent
Lower Limit	Upper Limit	Rates TY 2023
$ 0	$ 6,000	4.40%
$ 6,001	$ 30,000	4.82%
$ 30,001	$ 75,000	5.70%
$ 75,001	And Over	6.50%

Remove Contingencies for Lower Tax Rates

- Seeing that revenue targets would not be met, bill would remove them. New rates, lowered from a top rate of 8.43 percent to 6.5 percent, will be enacted in 2023.
- But also, other provisions will automatically kick in:
  - Loss of federal deductibility for individuals
    - **Iowans will not be allowed to deduct from Iowa income federal income tax payments made after 2022.**
    - Iowa law already provides that corporations will not be allowed to deduct federal tax payments made in 2021 or later.
    - Limitation of capital gain deduction to sale of real property in a "farming business" sold to a "relative."

Inheritance Tax Phase-Out

- Under current law, no inheritance tax is due on shares passing to spouses or lineal ascendants and descendants. An inheritance tax ranging from 5 – 15 percent, however, is imposed upon property passing to non-exempt beneficiaries.

Current Law

TAX RATE B

Brother, sister (including half-brother, half-sister), son-in-law, and daughter-in-law.

Over	But Not Over	Tax is	Of Excess Over
$0	$12,500	5%	$0
12,500	25,000	$625 + 6%	12,500
25,000	75,000	1,375 + 7%	25,000
75,000	100,000	4,875 + 8%	75,000
100,000	150,000	6,875 + 9%	100,000
150,000	and up	11,375 + 10%	150,000

TAX RATE C

Uncle, aunt, niece, nephew, foster child, cousin, brother-in-law, sister-in-law, and all other individual persons.

Over	But Not Over	Tax is	Of Excess Over
$0	$50,000	10%	$0
50,000	100,000	$5,000 + 12%	50,000
100,000	and up	11,000 + 15%	100,000

Inheritance Tax Phase-Out

- Beginning with those dying on or after January 1, 2021, the bill phases out the effective inheritance tax rate by **20 percent each year over the course of four years**, eliminating the tax completely for deaths occurring **on or after January 1, 2025**.

Early Childhood Development Credit / Child Dependent Care Credit

- Beginning January 1, 2021, the bill increases the maximum net income amount used in determining eligibility for Iowa's Early Childhood Development Credit (ECDC) and Child and Dependent Care Credit (CDCC) from $45,000 to $90,000.
  - ECDC is 25 percent of the first $1,000 in early childhood development expenses the taxpayer pays for dependents, ages three through five.
  - CDCC, which is a refundable credit, will range from 75 percent of the federal credit for taxpayers with net income of less than $10,000, to 30 percent of the federal credit for taxpayers with net income of $40,000 to $89,999.

Mental Health Funding

- The bill also makes significant changes to the property tax law, in part by shifting the source of funding for mental health services from county property taxes to a state fund.
- The county's mental health levies would be phased out over a two-year period.

Eliminating the Backfill

- The bill would also end the "backfill" payments implemented as part of Iowa's 2013 property tax reform law.
  - This provision reduced commercial property taxes, but promised funds to local governments to help make up the difference.
- The bill would phase out these "replacement tax" payments over a period of four or seven years, beginning in 2023.
  - The length of the phase-out would be based upon the pace of the growth of the tax base.
  - School district tax replacement payments would be eliminated beginning in 2023.

Discussion

Next Sessions

- Jun 10, 2021 (**This session only: 2:00 pm**)
  Thursday Tax Topics

- Jun 24, 2021 (12:00 pm)
  Thursday Tax Topics

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