CHANGES TO TAX FILING

On December 27, 2020, an additional COVID-19 Emergency Relief Package was signed into law. This package included several tax related provisions:

- **Extension and Expansion of the Employee Retention Tax Credit (ERTC):** The bill importantly extends and expands the refundable Employee Retention Tax Credit (ERTC), which was established in the CARES Act. The extension of this tax credit, through July 1, 2021, will help keep additional U.S. workers on payroll and more small businesses and nonprofits across the country afloat. Specifically, this legislation, among other changes:
  - Increases the credit rate, from 50% to 70%;
  - Raises the limit on per-employee creditable wages from $10,000 for the year, to $10,000 for each quarter;
  - Expands eligibility for the credit by reducing the required year-over-year decline in gross receipts from 50% to 20%; and
  - Modifies the threshold for treatment as a 'large employer' by increasing the 100-employee delineation for determining the relevant qualified wage base to employers with 500 or fewer employees.

- **Special "lookback" for EITC and CTC:** The bill includes a special temporary rule allowing lower-income individuals to use their earned income from tax year 2019 to determine the Earned Income Tax Credit and the refundable portion of the Child Tax Credit (i.e., the Additional Child Tax Credit) in the 2020 tax year. This will help workers who experienced lower wages this year, due to the pandemic, to get a larger refund that is consistent with their earnings from prior filing seasons.

- **Clarification of Tax Treatment of Paycheck Protection Program Loans**: The bill specifies that forgiven Paycheck Protection Program (PPP) loans will not be included in taxable income. It also clarifies that deductions are allowed for expenses paid with proceeds of a forgiven PPP loan, effective as of the date of enactment of the CARES Act and applicable to subsequent PPP loans. This same tax treatment also applies to EIDL grants and certain loans and loan repayment assistance.

- **Extension of Paid Leave Credits**: The bill extends the refundable payroll tax credits for paid sick and family leave that were established in the Families First Coronavirus Response Act, through March 31, 2021. The bill also allows selfemployed individuals to use their average daily self-employment income from 2019, rather than 2020, for purposes of computing these credits.

- **Extension of Charitable Giving Incentives**: The bill includes a one-year extension of the $300 above-the-line-deduction, which was established in the CARES Act and set to expire the end of this year. It also increases the amount for 2021 that married couples filing jointly can deduct for charitable contributions, from $300 to $600. This will continue to incentivize individuals who do not itemize to support charitable organizations during this crisis. Additionally, the bill extends through the end of 2021 the increased limits on deductible charitable contributions for companies and taxpayers who itemize.

- **Relief for Individuals with Flexible Spending Arrangements (FSAs):** The legislation provides relief for individuals with health and dependent care FSAs, ensuring U.S. workers and families do not unfairly lose out on these employer-sponsored benefits at the end of the year, through no fault of their own. Specifically, it allows individuals to carryover any unused health and dependent care FSA benefits from 2020 into the 2021 plan year, along with other FSA plan flexibilities.