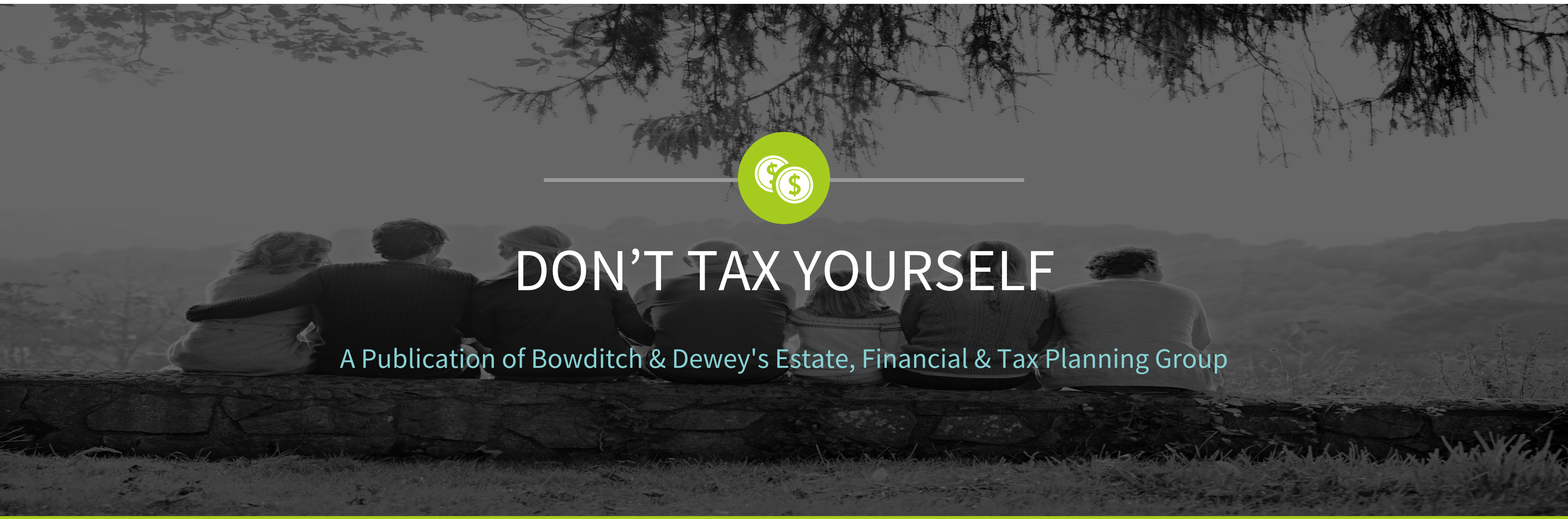

More Key Tax Provisions from the Consolidated Appropriations Act

BY BOWDITCH & DEWEY • JANUARY 25, 2021

On December 27, 2020, Congress passed the 5,593 page Consolidated Appropriations Act. The "Act" includes several provisions and extensions of previously expiring provisions relevant to individual taxpayers:

MEDICAL EXPENSE DEDUCTION FLOOR

The Act returns the medical expense deduction floor to 7.5% of adjusted gross income (AGI). The Affordable Care Act raised the threshold to 10% of AGI so that, for 2013 through 2017, individuals under age 65 could claim an itemized deduction for unreimbursed medical expenses only to the extent that those expenses exceeded 10% of AGI, while the threshold remained 7.5% of AGI for individuals age 65 and older. The threshold was scheduled to increase to and remain at 10% for all taxpayers, but Congress temporarily restored the 7.5% threshold for everyone first for 2017 and 2018, then for 2019 and 2020, before making the change permanent. The change applies to tax years beginning after December 31, 2020.

CHARITABLE CONTRIBUTION DEDUCTION

The Act extends through 2021 the $300 ($600 for joint return filers) above-the-line charitable contribution deduction for qualified contributions made by non-itemizers

It also extends the temporary charitable contribution limit provided in the CARES Act. The limitation for deductible cash contributions to a public charity is increased from 60% to 100% for 2020 and 2021.

TRANSITION FROM TUITION DEDUCTION TO INCREASED INCOME LIMIT ON LIFETIME LEARNING CREDIT

The Act repeals the deduction for qualified tuition and related expenses and increases the income limitations on the Lifetime Learning Credit. The phaseout of the Credit will begin at modified adjusted gross income of $80,000 ($160,000 for joint returns). These amounts will not be adjusted for inflation. This change applies to tax years beginning after December 31, 2020

EXCLUSION FROM GROSS INCOME OF QUALIFIED PRINCIPAL RESIDENCE INDEBTEDNESS

The Act extends the exclusion from gross income of qualified principal residence indebtedness discharged/ forgiven through December 31, 2025, previously set to expire December 31, 2020. It lowers the maximum amount of forgiven indebtedness excludible from income to $750,000 ($375,000 for a married person filing a separate return).

EXCLUSION FOR EMPLOYER PAYMENTS OF STUDENT LOANS

The Act extends the exclusion from income for certain employer payments of principal or interest on a qualified education loan to payments made before January 1, 2026 (i.e., a five-year extension).

MORTGAGE INSURANCE PREMIUMS

The Act extends for one additional year, through December 31, 2021, the treatment of mortgage insurance premiums as deductible qualified residence interest.

HEALTH COVERAGE TAX CREDIT

The Act provides an additional one-year extension for the health coverage tax credit (HCTC) through 2021. The refundable credit equals 72.5% of the premiums paid by certain individuals for coverage of the individual and qualifying family members under qualified health insurance and was previously set to expire December 31, 2020.

ENERGY CREDITS

The Act extends the following credits for one additional year, through December 31, 2021:

- The nonbusiness energy property credit.
- The two-wheeled plug-in electric vehicle credit.
- The energy-efficient homes credit.

The Act extends for two additional years, through December 31, 2023, the residential energy-efficient property credit. The Act adds qualified biomass fuel property expenditures to the types of expenditures that qualify for the credit, effective for qualified biomass fuel property expenditures paid or incurred after December 31, 2020.

For more information on the tax provisions of the Act, please contact Sandra O’Neill.