NJWT 2022
Hot Topics: Part II

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Overview of Topics

<u>Individuals</u>

- No Interest deduction on paused student loans
- Extended due dates for declared disaster areas
- Special provisions for charitable donations
- Year 2 of CARES Act IRA distributions payback

<u>Entity reporting</u>

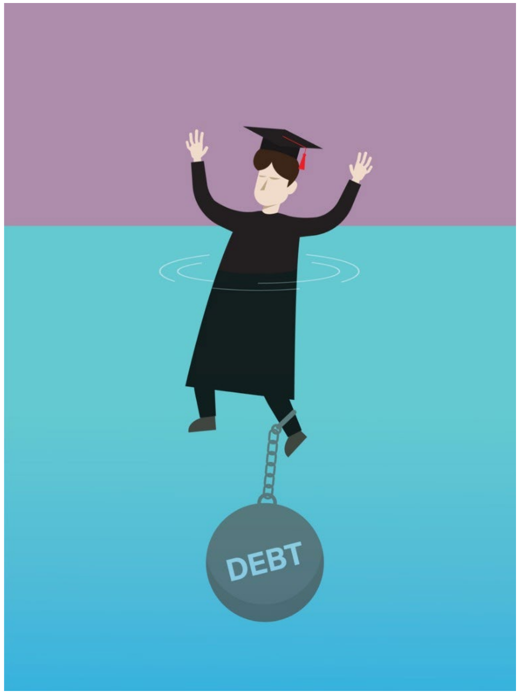
- IR 2021-215: Guidance for Partnership Interests held in connection with the performance of services
- 1099-K reporting from Third Party Settlement Organizations
- IR 2021-225 100% Meals and beverage reporting on entity tax returns

<u>Miscellaneous</u>

- RP 2022-8: New electronic submission of Form 1024
- IR 2021-250: IRS Change in updating the 990 Search Tool
- IR 2021-226: TDS can provide 30 transcripts per client

No Interest Deduction for Paused Student Loans

- Around 12M taxpayers take advantage of the student loan interest deduction.
- It is an "above-the-line" deduction that can be as much as $2,500 a year with income phase-outs.
- Since March 2020, the government has allowed a "pause" on the payment of student loans without accruing interest.



No Interest Deduction for Paused Student Loans

How the student loan relief extension came to be …	
2020	● **July 30:** President Trump said during his press briefing: “We also suspended student loan payments for six months, and we’re looking to do that additionally and for additional periods of time.” ● **Aug. 8:** Trump formally directed the Education Department to carry out an extension through Dec. 31, 2020 via executive order. ● **Dec. 4:** After hinting at the possibility before the November election, Trump directed DeVos to prolong the interest freeze through Jan. 31, 2021.
2021	● **Jan. 20:** Biden formally extended the freeze via one of a dozen-plus executive orders on day one of his presidency. ● **Aug. 6:** The Department of Education announces another extension until Jan. 31, 2022. ● **Dec. 22:** The most recent extension keeps the relief measures in place through **May 1, 2022.**

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No Interest Deduction for Paused Student Loans

- RESULT: No loan payments = no interest deduction

- Since loan payments have been paused, interest payments have been paused, even if payments were made during the COVID pandemic, all payments are likely to have been applied to principal.

- NOTE: The payment pause and interest waiver for most federal student loan borrowers didn't begin until March 13, 2020. That means the taxpayer may have made payments of loan interest for two or three months at the beginning of 2020 that can still deducted from gross income.

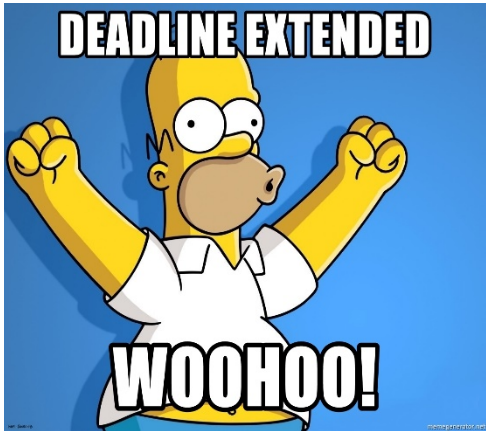
Extended Due dates for declared disaster areas

<u>Hurricane Ida</u>

- Extended tax relief until February 15, 2022 to file various individual and business tax returns and make tax payments.

- Entire States that qualify for relief: LA, MISS
- Parts of States that qualify for relief: NJ, NY, PA, CT

- In NJ, the following counties qualify for relief: Bergen, Gloucester, Hunterdon, Middlesex, Passaic, Somerset, Essex, Hudson, Mercer, Warren and Union.



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Extended Due dates for declared disaster areas

Hurricane Ida

- The updated relief postpones various tax filing and payment deadlines that occurred starting on the following dates:
  - August 26, 2021 for Louisiana,
  - August 28, 2021 for Mississippi,
  - August 31, 2021 for Pennsylvania and
  - September 1, 2021 for New York, New Jersey and Connecticut.

- Since tax payments related to these 2020 returns were due on May 17, 2021, those payments are not eligible for relief.

- Relief does apply to 2021 estimate payments due 9/15/21 and 1/18/22 which means taxpayers can skip paying those estimates and pay with 2021 return.

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Extended Due dates for declared disaster areas

<u>Hurricane Ida</u>

- New deadline of 2/15/22 also applies to:
  - Quarterly payroll and excise tax returns normally due on 11/1/21 & 1/31/22
  - Business with an original or extended due date, including calendar-year partnerships, and S corporations whose extensions ran out on 9/15/21, calendar-year corporations whose 2020 extensions ran out on 10/15/21 and calendar-year tax-exempt organizations whose 2020 extensions ran out on 11/15/21

- Taxpayers do not need to contact the IRS to get this relief. The IRS will work with taxpayers who live outside the disaster area but whose records are located in an affected area.

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Extended Due dates for declared disaster areas

Illinois and Tennessee tornados

- Victims of the December 2021 tornadoes in parts of Illinois and Tennessee will have until May 16, 2022, to file various individual and business tax returns and make tax payments.

- The tax relief postpones various tax filing and payment deadlines that occurred starting on December 10. Affected individuals and businesses will have until May 16 to file returns and pay any taxes that were originally due during this period. This includes 2021 individual income tax returns due on April 18, and various 2021 business returns normally due on March 15 and April 18. Additionally, affected taxpayers will have until May 16 to make 2021 IRA contributions.

- The May 16 deadline also applies to quarterly estimated income tax payments due on January 18 and April 18.

Extended Due dates for declared disaster areas

Colorado wildfires

- Victims of the December 2021 wildfires in parts of Colorado will have until May 16, 2022, to file various individual and business tax returns and make tax payments.

- The tax relief postpones various tax filing and payment deadlines that occurred starting on December 30. Affected individuals and businesses will have until May 16 to file returns and pay any taxes that were originally due during this period. This includes 2021 individual income tax returns due on April 18, and various 2021 business returns normally due on March 15 and April 18. Additionally, affected taxpayers will have until May 16 to make 2021 IRA contributions.

- The May 16 deadline also applies to quarterly estimated income tax payments due on January 18 and April 18.

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Special provisions for charitable donations

- IR-2021-217 provides a pandemic-related provision where married couples filing jointly can deduct up to $600 in cash donations and individual taxpayers can deduct up to $300 in donations.

- Under the temporary law, taxpayers don't need to itemize deductions on their tax returns to take advantage of this provision, which creates tax-favorable donation options not normally available to about 90 percent of tax filers.

- This special provision permits them to claim a limited deduction on their 2021 federal income tax returns for cash contributions made to qualifying charitable organizations by year's end, December 31, 2021.

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Year 2 of CARES Act IRA Distributions payback

- A provision of The Coronavirus Aid, Relief, and Economic Security Act allowed workers of any age to withdraw up to $100,000 penalty-free from their company-sponsored 401(k) plan or individual retirement account in 2020.

- CARES Act retirement withdrawal rules:
  - Penalties are waived, but not the taxes.
  - You can spread the tax bill over three years.
  - Take advantage of the three-year repayment window.
  - If you pay the taxes and then return the money to your account later, you can file an amended tax return.
  - If you suffered a reduction or loss in income in 2020, it might be best to pay the taxes now.

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Guidance for Partnership Interests held in connection with the performance of services

- IR-2021-215 and a webpage answering FAQs provide guidance on filing and reporting by passthrough entities and holders of applicable partnership interests (APIs) held in connection with performance of services under Sec. 1061, known as carried interests.

- Carried interests are ownership interests in a partnership that share in the partnership's net profits.

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Guidance for Partnership Interests held in connection with the performance of services

- Before enactment of Sec. 1061 by the law known as the Tax Cuts and Jobs Act (TCJA), P.L. 115-97, gains from carried interests generally were treated as long-term capital gains if held for at least one year. For tax years beginning after Dec. 31, 2017, Sec. 1061 generally requires a three-year holding period for gain allocated to an API to be eligible for long-term capital gain treatment.

- The FAQs provide two sample worksheets and instructions for applicable passthrough entities and taxpayers to use with returns filed after Dec. 31, 2021, in calculating and reporting the amount of certain net long-term capital gains of API holders that must be recharacterized as short-term capital gains.

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Guidance for Partnership Interests held in connection with the performance of services

- A passthrough entity that applies the final regulations for returns filed after Dec. 31, 2021, **must attach** Worksheet A to an API holder's Schedule K-1, *Partner's Share of Income, Deductions, Credits, etc.*, reporting the passthrough entity's API one-year distributive share amount and API three-year distributive share amount.

- An API owner taxpayer calculates the amount that is treated as short-term gain and applies the final regulations using Worksheet B to determine the owner taxpayer's recharacterization amount and attaches it to the owner taxpayer's return. The FAQs also describe how the owner taxpayer reports these amounts on Schedule D, *Capital Gains and Losses*.

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1099-K Reporting from Third Party Settlement Organizations

- The American Rescue Plan Act of 2021 recently modified IRC Section 6050W by lowering the threshold for Form 1099-K reporting on third-party network transactions. This change will substantially increase the number of Forms 1099-K required to be filed with the IRS and furnished to recipients by third-party settlement organizations (TPSOs) and their electronic payment facilitators (EPFs).

- TPSOs are generally marketplaces that connect buyers and sellers of goods or services. Transactions settled by TPSOs are third-party network transactions. Many Web 2.0 ecommerce websites and gig-economy services are TPSOs for Form 1099-K reporting purposes.

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1099-K Reporting from Third Party Settlement Organizations

- A third-party payment network is any agreement or arrangement that:
  - Provides standards and mechanisms for settling such transactions
  - Guarantees payment to the providers of goods and services in settlement of transactions with the purchasers
  - Involves the establishment of accounts with a central organization by a substantial number of providers of goods or services (generally considered to be more than 50) that are unrelated to the central organization and have agreed to settle transactions for the provision of goods and services with purchasers according to an agreement or arrangement

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1099-K Reporting from Third Party Settlement Organizations

- Currently, a TPSO is not required to report third-party network transactions for a participating payee unless the amount to be reported exceeds $20,000 and the aggregate number of transactions with that participating payee exceeds 200. Under Section 9674(a) of the American Rescue Plan Act of 2021, however, <u>the $20,000/200 transaction threshold will decrease to $600 (for any number of transactions) effective for 2022 Forms 1099-K (due to be filed in 2023).</u>

- In addition to the reduced threshold for Form 1099-K reporting, the updated guidance makes it clear that third-party network transactions only include transactions for goods and services. <u>Transactions for personal gifts, charitable contributions and reimbursements are specifically **excluded** from Form 1099-K reporting.</u>

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IR 2021-225 100% meals and beverage reporting on entity tax returns

- Code § 274(n) generally limits otherwise allowable deductions for food or beverage expenses to 50% of the expenses. The disaster tax relief provisions of the Consolidated Appropriations Act, 2021 amended the Code to add a temporary exception that waives the 50% limit (thus allowing a 100% deduction) for “food or beverages provided by a restaurant,” so long as the expense is paid or incurred in 2021 or 2022

- The new guidance adds a special rule that allows employers to treat the <u>entire meal portion of a per diem paid or incurred in 2021 or 2022</u> as being attributable to “food or beverages provided by a restaurant.” (The guidance also applies to self-employed individuals and the limited group of employees that may take an above-the-line deduction for business travel expenses.)

RP 2022-8: New electronic submission of Form 1024

- The IRS has revised Form 1024, Application for Recognition of Exemption Under Section 501(a) or Section 521 of the Internal Revenue Code, to allow electronic filing.

- Beginning January 3, 2022, applications for recognition of exemption on Form 1024 must be submitted electronically online at Pay.gov. The IRS will provide a 90-day grace period during which it will continue to accept paper versions of Form 1024 (Rev. 01-2018) and letter applications.

- The required user fee for Form 1024 will remain $600 for 2022. Applicants must pay the fee through Pay.gov when submitting the form. Payment can be made directly from a bank account or by credit or debit card.

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IR 2021-250: IRS Change in updating the 990 Search Tool

- Publicly available data the IRS provides on electronically filed Forms 990 in a machine-readable format is now **solely available** on the Tax Exempt Organization Search webpage.

- Beginning December 31, 2021, the IRS will no longer update the Form 990 Series data on Amazon Web Services. This change is to provide access to public data for organizations with tax-exempt status in one location on IRS.gov on the [Charities and Nonprofits] webpage.

"It looks intimidating, but just look at the red flagged items."

IR 2021-226: TDS can provide 30 transcripts per client

- Effective Nov. 15, 2021, tax professionals are able to order up to 30 Transcript Delivery System (TDS) transcripts per client through the Practitioner Priority Service® line.

- Through PPS, tax professionals can order a variety of transcripts. Practitioners can receive transcripts for up to five clients per call. There's no change to the number of clients.

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