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2019 Annual Tax Compliance Kit addendum

Purpose of addendum: This addendum provides a brief summary of tax provisions contained in the Further Consolidated Appropriations Act, 2020, H.R. 1865, that was signed into law on Dec. 20, 2019. This resource serves as a supplement to engagement letters, organizers, checklists and practice guides contained in the AICPA Tax Section's 2019 Annual Tax Compliance Kit. Further research and analysis are recommended based on each client's facts and circumstances.

Extended tax provisions through Dec. 31, 2020
Sec. 108(a)(1)(E), which excludes from gross income the discharge of qualified principal residence indebtedness income (provision expired Dec. 31, 2017 and has been extended retroactively)
The Sec. 163(h)(3) treatment of mortgage insurance premiums as qualified residence interest, which permits a taxpayer whose income is below certain thresholds to deduct the cost of premiums on mortgage insurance purchased in connection with acquisition indebtedness on the taxpayer's principal residence (provision expired Dec. 31, 2017 and has been extended retroactively)
The 7.5% (instead of 10%) adjusted-gross-income (AGI) floor for medical expense deductions in Sec. 213(f) (10% of AGI limitation was set to apply for tax year 2019; however, the Act extended the 7.5% rate)
Sec. 222, which provides an above-the-line deduction for qualified tuition and related expenses (provision expired Dec. 31, 2017 and has been extended retroactively)
Various incentives for energy production and efficiency (provisions expired Dec. 31, 2017 and have been extended retroactively)
Various credits, including the Sec. 45D new markets tax credit, the Sec. 45S employer credit for paid family and medical leave, the Sec. 51 work opportunity credit and the Sec. 35 credit for health insurance costs of eligible individuals (provisions had been set to expire Dec. 31, 2019)

Repealed health care taxes
Sec. 4980I excise tax on certain high-cost employer health plans, popularly called the "Cadillac" tax
Sec. 4191 medical device excise tax (repealed for sales after Dec. 31, 2019)
Annual fee on health insurance providers contained in Section 9010 of the Patient Protection and Affordable Care Act, P.L. 111-148 (repealed for years beginning after Dec. 31, 2020)

Retirement plan changes (generally effective for tax years beginning after Dec. 31, 2019)
Increases the tax credit available to establish a retirement plan and adds a new credit for the adoption of auto-enrollment by a qualified small business
Increases the age after which required minimum distributions from certain retirement accounts must begin to 72 (from 70½). This provision is effective for distributions required to be made after Dec. 31, 2019 for plan participants and IRA owners who reach the age 70½ after Dec. 31, 2019.
Modifies requirements for multiple-employer plans to make it easier for small businesses to offer such plans to their employees by allowing otherwise completely unrelated employers to join in the same plan

Retirement plan changes *(cont.)*

Reduces Pension Benefit Guaranty Corporation premiums for certain multiple-employer defined benefit plans of cooperatives and charities
Allows up to $5,000 of penalty-free distributions from retirement plans and IRAs for qualified births and adoptions
Makes it easier for long-term, part-time employees to participate in an employer retirement plan
Allows consolidated filings of Forms 5500, *Annual Return/Report of Employee Benefit Plan*, for similar plans
Allows certain home health care workers to contribute to a defined contribution plan or IRA
Requires beneficiaries of certain inherited IRAs and qualified plans to withdraw all money from inherited accounts within 10 years (eliminating the provision that allowed non-spouse beneficiaries over their life expectancy)
Repeals the maximum age for IRA contributions (currently 70½)
Amends Sec. 408 to reduce the amount of deductible charitable IRA contributions allowed to taxpayers over 70½ by the aggregate IRA contribution deductions allowed to them after they turn 70½
Allows more retirement plans to be adopted by the due date (including extensions) of the employer's tax return

Disaster tax relief

Provides tax relief for victims of various disasters occurring in 2018, 2019 and up to 30 days after enactment of the bill. Eligible taxpayers can make tax-favored withdrawals of up to $100,000 from retirement plans.
Enacts an employee retention credit for eligible employers equal to 40% of qualified wages, which are wages paid to an employee during the time the employer's business is not operating due to a natural disaster (up to 150 days after the disaster)
Implements special rules for disaster-related personal casualty losses and for determining earned income for purposes of the Sec. 32 earned income tax credit
Introduces automatic 60-day filing extensions for certain taxpayers affected by federally-declared disasters

Other changes

Repeals Sec. 512(a)(7), which was enacted by the Tax Cuts and Jobs Act (TCJA) and which required tax-exempt employers that provide qualified transportation fringe benefits or parking to employees to pay unrelated business income tax on the amount by which a deduction is not allowable under Sec. 274
Increases certain types of penalties for noncompliance
Kiddie tax in Sec. 1(j)(4), which was introduced in the TCJA, P.L. 115-97, is repealed (children's income will be subject to the child's parents' marginal tax rate). The change in tax rates is applicable to tax years beginning after Dec. 31,2019. However, a taxpayer may elect for the change to apply to tax years beginning in 2018.
Allows certain expenses associated with registered apprenticeship programs and limited student loan repayments to count as qualified higher education expenses for purposes of Sec. 529 (provisions apply to distributions made after Dec. 31, 2018)