Edward Jones

> edwardjones.com/teamwork

# The Connection

February 2021 ▪ Volume 14 ▪ Number 3

## In this issue

1 Final regulations implement recent NOL changes

2 Updated life expectancy and distribution period tables for RMDs

3 New permissible reason for self-certification on rollovers

4 2021 inflation adjustments for tax tables and other tax provisions

4 Relief available for victims of recent natural disasters

5 2021 inflation adjustments for pension plans and retirement accounts

6 Social Security wage cap and benefits increase for 2021

6 Guidance for taxpayers applying bonus depreciation regulations

8 Edward Jones Online Access for tax documents

## Final regulations implement recent NOL changes

Final regulations implement recent statutory amendments to Code Sec. 172 relating to the absorption of consolidated net operating loss (CNOL) carryovers and carrybacks. They also update rules applying to consolidated groups that include both life insurance companies and other companies to reflect these statutory changes. The final regulations adopt, with certain changes, proposed regulations issued with NPRM REG-125716-18, July 8, 2020. (See T.D. 9927.)

### TCJA and CARES Act

The final regulations implement certain changes to Code Sec. 172 made by the Tax Cuts and Jobs Act (TCJA) (P.L. 115-97) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136). In particular, the TCJA and the CARES Act:

- Disallowed the carryback of NOLs generated in tax years beginning after 2020, except for farming losses and losses incurred by nonlife insurance companies
- Limited the NOL deduction in tax years beginning after 2020 for NOLs generated in 2018 or later to 80% of taxable income determined after the deduction for pre-2018 NOLs but before the deduction for post-2017 NOLs (does not apply to nonlife insurance companies)

Wolters Kluwer

### Final regulations

The final regulations implement the NOL changes in a consolidated group context. In particular, the final regulations address three issues not expressly addressed in the TCJA or the CARES Act:

- The final regulations describe how to determine the 80% limitation in case of a mixed group containing nonlife insurance companies and other members.
- The final regulations address the calculation and allocation of farming losses.
- The final regulations implement the 80% limitation into existing regulations to determine the CNOL deduction attributable to losses from a member arising during periods in which that member was not part of the group.

### Applying 80% limitation to mixed groups

The final regulations retain the proposed approach to computing a consolidated group's post-2017 CNOL deduction limit. For consolidated groups comprising both nonlife insurance companies and other members for a consolidated return year beginning after Dec. 31, 2020, the final regulations adopt the two-factor computation approach.

In general, under the two-factor approach, the post-2017 CNOL deduction limit for such a group equals the sum of two amounts. The first amount, which relates to the income of members that are not nonlife insurance companies (residual income pool), is subject to the 80% limitation. The second amount, which relates to the income of members that are nonlife insurance companies (nonlife income pool), is not subject to the 80% limitation.

Therefore, this approach divides a consolidated group's nonlife insurance companies and its other members into two separate pools to determine the amount of consolidated taxable income available to be offset by post-2017 CNOLs after applying the 80% limitation.

### Farming losses

The final regulations clarify that the maximum amount of farming loss is the CNOL of the group, rather than the NOL of the specific member generating the loss in farming activities. The regulations allocate the farming loss to each member of the group in proportion with their share of total losses, without regard to whether each member engaged in farming.

In addition, given the overlapping categories of NOLs eligible for carryback (farming losses and nonlife insurance companies), the final regulations provide rules allocating the farming loss to the various members to determine the total amount of CNOL that can be carried back.

### Separate return limitation year

The final regulations modify the separate return limitation year rules to account for the limitations on NOL deductions. Thus, any losses by members of the group that are absorbed by the group and subject to the 80% limitation cause a reduction to the cumulative register (the total amount of the members' income that is taken into account in the group's income) equal to the full amount of income needed to support the deduction. The final regulations clarify that this modification does not apply for the dual consolidated loss rules. ◆

---

## Updated life expectancy and distribution period tables for RMDs

The IRS has issued final regulations to update the life expectancy and distribution period tables under the required minimum distribution (RMD) rules. (See T.D. 9930 (Nov. 6, 2020).) The tables reflect the general increase in life expectancy. They would apply for distribution calendar years beginning on or after Jan. 1, 2022, with transition relief.

### Required minimum distributions

RMDs ensure favorable tax treatment for a retirement plan primarily for retirement income rather than increasing the participant's estate. RMDs apply to qualified plans, including 401(k) and profit-sharing plans. They also apply to IRAs (including SEP and SIMPLE IRAs), inherited Roth IRAs, tax-sheltered annuity plans and eligible deferred compensation plans.

In general, RMDs must begin for the year the individual reaches age 72. An RMD for a calendar year is determined by dividing the participant's account balance by the applicable distribution period. Distribution periods are based on life expectancies. They are found in one of three tables, depending on the circumstances.

### RMD tables for lifetimes and distribution periods

During the individual's lifetime (including year of death), the applicable distribution period is determined by the Uniform Lifetime Table. The figures in that table are the joint and last survivor life expectancy for the individual and a hypothetical beneficiary 10 years younger.

If an individual's sole beneficiary is a surviving spouse, and the spouse is more than 10 years younger than the individual, then the applicable distribution period is the joint and last survivor life expectancy of the individual and spouse under the Joint and Last Survivor Table.

After the individual's death, the distribution period is generally based on the designated beneficiary's age using the Single Life Expectancy Table.

### Effect of updated tables

Distribution periods under the new rules would generally increase between one and two years. For example, a 72-year-old IRA owner who applied the prior Uniform Lifetime Table to calculate required minimum distributions used a life expectancy of 25.6 years. Applying the new Uniform Lifetime Table, a 72-year-old IRA owner will now use a life expectancy of 27.4 years.

As another example, a 75-year-old surviving spouse who is the individual's sole beneficiary and applied the prior Single Life Table to compute required minimum distributions used a life expectancy of 13.4 years. Under these regulations, a 75-year-old surviving spouse will now use a life expectancy of 14.8 years.

### Applicability date

The life expectancy tables and Uniform Lifetime Table under these regulations apply for distribution calendar years beginning on or after Jan. 1, 2022. Thus, for an IRA owner who attained age 70½ in February 2020 (so the individual attains age 72 in August 2021 and the individual's required beginning date is April 1, 2022), these regulations do not apply to the RMD for the individual's 2021 distribution calendar year (which is due April 1, 2022) but will apply to the RMD for the individual's 2022 distribution calendar year (which is due Dec. 31, 2022).

These regulations include a transition rule that applies if an individual died before Jan. 1, 2022. Under the rules of Reg. §1.401(a)(9)-5, the distribution period that applies for calendar years following the calendar year of the individual's death is equal to a single life expectancy calculated as of the calendar year of the individual's death (or if applicable, the year after the individual's death), reduced by one for each subsequent year. ◆

---

## New permissible reason for self-certification on rollovers

In response to requests from stakeholders, the IRS has modified the list of permissible reasons for self-certification of eligibility for a waiver of the 60-day rollover requirement prescribed in Section 3.02(2) of Rev. Proc. 2016-47, I.R.B. 2016-37, 346. The IRS has added a new reason: a distribution to a state unclaimed property fund. This new revenue procedure modifies Rev. Proc. 2016-47 and is effective on Oct. 16, 2020.

A self-certification relates only to the reasons for missing the 60-day deadline, not to whether a distribution is otherwise eligible to be rolled over. A self-certification under this procedure applies only for a waiver of the 60-day requirement for a valid rollover, not for any other requirement for a valid rollover.

### 60-day rollover period

To qualify for rollover treatment, a distribution to an owner or participant from a qualified plan or an IRA must (among other things) be transferred to an eligible recipient not later than the 60th day following receipt of the distribution. For accepting and reporting a rollover contribution into a plan or IRA, a plan administrator or IRA trustee may rely on a taxpayer's self-certification in determining whether the taxpayer has satisfied the conditions for a waiver of the 60-day rollover requirement under Code Secs. 402(c)(3)(B) or 408(d)(3)(I). However, a plan administrator or an IRA trustee may not rely on the self-certification for other purposes, or if the plan administrator or IRA trustee has actual knowledge contrary to the self-certification.

Self-certification is not a waiver by the IRS of the 60-day rollover requirement. However, a taxpayer may report the contribution as a valid rollover unless later informed otherwise by the IRS. The IRS, during an examination, may consider whether a taxpayer's contribution meets the requirements for a waiver. ◆

## 2021 inflation adjustments for tax tables and other tax provisions

The IRS has released the 2021 cost-of-living adjustments (COLAs) for the income tax rate tables and more than 50 other tax provisions (Rev. Proc. 2020-45, IR-2020-245).

### 2021 income tax brackets

For 2021, the highest income tax bracket of 37% applies when taxable income reaches $628,300 for married filing jointly and surviving spouses, $523,600 for single and head of households, $314,150 for married filing separately and $13,050 for estates and trusts.

### 2021 standard deduction

The standard deduction for 2021 is $25,100 for married filing jointly and surviving spouses, $18,800 for head of household and $12,550 for single and married filing separately.

> "The standard deduction for a dependent is limited to the greater of $1,100 or the sum of $350 plus the dependent's earned income."

The standard deduction for a dependent is limited to the greater of $1,100 or the sum of $350 plus the dependent's earned income.

Individuals who are blind or at least 65 years old get an additional standard deduction of $1,350 for married taxpayers and surviving spouses, or $1,700 for other taxpayers.

### AMT exemption for 2021

The alternative minimum tax (AMT) exemption for 2021 is $114,600 for married filing jointly and surviving spouses, $73,600 for single and head of households, $57,300 for married filing separately and $25,700 for estates and trusts.

The exemption amounts begin to phase out when alternative minimum taxable income exceeds $1,047,200 for married filing jointly and surviving spouses, $523,600 for single, head of household and married filing separately, and $85,650 for estates and trusts.

### Expensing Section 179 property in 2021

For tax years beginning in 2021, taxpayers can expense up to $1,050,000 in Code Sec. 179 property. However, this dollar limit is reduced when the Section 179 property placed in service during the year exceeds $2,620,000.

### Estate and gift tax adjustments for 2021

Various inflation adjustments apply to federal estate and gift taxes in 2021. The gift tax exclusion is $15,000 per donee, or $159,000 for gifts to spouses who are not U.S. citizens. The federal estate tax exclusion is $11,700,000. The maximum reduction for real property under the special valuation method is $1,190,000. ◆

## Relief available for victims of recent natural disasters

The Financial Crimes Enforcement Network (FinCEN) is providing filing relief to taxpayers who have been adversely affected by the California wildfires, the Iowa derecho, Hurricane Laura, the Oregon wildfires or Hurricane Sally. Victims in affected areas have until Dec. 31, 2020 to file their Reports of Foreign Bank and Financial Account (FBAR) forms for the 2019 calendar year. The FBAR for 2019 would otherwise be due Oct. 15, 2020.

FinCEN is offering this expanded relief to any area designated by the Federal Emergency Management Agency (FEMA) as qualifying for individual assistance due to these natural disasters. If FEMA designates FBAR filers in other localities affected by the California wildfires, the Iowa derecho, Hurricane Laura, the Oregon wildfires or Hurricane Sally as eligible for individual assistance at a later date, they will automatically receive the same filing relief.

### Taxpayers outside disaster area

FinCEN will work with any FBAR filer who lives outside the disaster area and whose records required to meet the deadline are in the affected area, regardless of where the filer resides.

FBAR filers who live outside the disaster area seeking assistance in meeting their filing obligations (including workers affiliated with a recognized government or philanthropic organization and assisting the relief activities) should contact the FinCEN Regulatory Support Section at 800-767-2825 or electronically at frc@fincen.gov. ◆

---

## 2021 inflation adjustments for pension plans and retirement accounts

The IRS has released the 2021 cost-of-living adjustments (COLAs) for pension plan dollar limitations and other retirement-related provisions (Notice 2020-79; IR-2020-244).

### Key unchanged amounts

The 2021 contribution limit remains unchanged at $19,500 for employees who take part in:

- 401(k) plans
- 403(b) plans
- Most 457 plans
- The federal government's Thrift Savings Plan

The catch-up contribution limit for employees 50 and over who participate in these plans also remains unchanged at $6,500.

The limitation for SIMPLE retirement accounts is unchanged at $13,500.

For IRAs, the limit on annual contributions remains unchanged at $6,000. The additional catch-up contribution limit for individuals 50 and over is not subject to an annual cost-of-living adjustment, and so remains $1,000.

### Traditional and Roth IRAs

The income ranges for eligibility to make deductible contributions to traditional IRAs and contribute to Roth IRAs have increased for 2021.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. The deduction phases out if the taxpayer or their spouse takes part in a retirement plan at work. The 2021 deduction phase-out range depends on the taxpayer's filing status and income.

- Single taxpayers covered by a workplace retirement plan: $66,000 to $76,000, up from $65,000 to $75,000 for 2020
- Married couples filing jointly, when the spouse making the contribution takes part in a workplace retirement plan: $105,000 to $125,000, up from $104,000 to $124,000 for 2020
- IRA contributors who are not covered by a workplace retirement plan but are married to someone covered: $198,000 to $208,000, up from $196,000 to $206,000 for 2020
- Married individuals who are covered by a workplace plan and filing a separate return: Not subject to an annual COLA and remains $0 to $10,000

The 2021 income phase-out ranges for Roth IRA contributions are:

- $125,000 to $140,000 for single and head of household (up from $124,000 to $139,000 in 2020)
- $198,000 to $208,000 for married filing jointly (up from $196,000 to $206,000 in 2020)
- $0 to $10,000 for married filing separately

> "The income ranges for eligibility to make deductible contributions to traditional IRAs and contribute to Roth IRAs have increased for 2021."

### Saver's Credit

The income limit for low-income and moderate-income workers to claim the saver's credit under Code Sec. 25B has also increased for 2021:

- $66,000 for married filing jointly (up from $65,000 in 2020)
- $49,500 for head of household (up from $48,750 in 2020)
- $33,000 for single and married filing separately (up from $32,500 in 2020) ◆

## Social Security wage cap and benefits increase for 2021

For 2021, the Social Security tax wage cap will be $142,800, and Social Security and Supplemental Security Income (SSI) benefits will increase by 1.3%. These changes reflect cost-of-living adjustments (COLAs) to account for inflation.

### 2021 wage cap

The Federal Insurance Contributions Act (FICA) tax on wages is 7.65% each for the employee and the employer. FICA tax has two components:

- A 6.2% Social Security tax, also known as Old Age, Survivors, and Disability Insurance (OASDI)
- A 1.45% Medicare tax, also known as hospital insurance (HI)

For self-employed workers, the self-employment tax is 15.3%, consisting of a 12.4% OASDI tax and a 2.9% HI tax.

OASDI tax applies only up to a wage base, which includes most wages and self-employment income up to the annual wage cap.

> "These changes reflect cost-of-living adjustments (COLAs) to account for inflation."

For 2021, the wage base is $142,800. Thus, OASDI tax applies only to the taxpayer's first $142,800 in wages or net earnings from self-employment. Taxpayers do not pay any OASDI tax on earnings that exceed $142,800.

There is no wage cap for HI tax.

### Maximum Social Security tax for 2021

For workers who earn $142,800 or more in 2021:

- An employee will pay a total of $8,853.60 in Social Security tax ($142,800 x 6.2%).
- The employer will pay the same amount.
- A self-employed worker will pay a total of $17,707.20 in Social Security tax ($142,800 x 12.4%).

### Additional Medicare tax

Higher-income workers may have to pay an additional Medicare tax of 0.9%. This tax applies to wages and self-employment income that exceed $250,000 for married taxpayers who file a joint return, $125,000 for married taxpayers who file separate returns and $200,000 for other taxpayers. The annual wage cap does not affect the additional Medicare tax.

### Benefits increase for 2021

Finally, a COLA will increase Social Security and SSI benefits by 1.3%. The COLA is intended to ensure inflation does not erode the purchasing power of these benefits. ◆

## Guidance for taxpayers applying bonus depreciation regulations

The IRS has provided guidance to taxpayers applying either Reg. §1.168(k)-2 and §1.1502-68 or proposed regulations under NPRM REG-106808-19 to the following:

- Certain depreciable property acquired and placed in service after Sept. 27, 2017
- Certain plants planted or grafted, as applicable, after Sept. 27, 2017
- Components acquired or self-constructed after Sept. 27, 2017, of certain larger self-constructed property, and placed in service by the taxpayer during its taxable years ending on or after Sept. 28, 2017

(See Rev. Proc. 2020-50.)

### Change in accounting method

The guidance applies to taxpayers who are changing their accounting method for depreciable property that includes:

- Components described in Reg. §§1.168(k)-2(c) or NPRM REG-106808-19 where the component election has already been made
- Specified plants for which the Code Sec. 168(k)(5) election has been made and which are planted, or grafted to a plant that was previously planted, after Sept. 27, 2017, during the taxpayer's 2017, 2018, 2019 or 2020 tax year

However, this guidance does not apply to property or a plant under these conditions:

- It is impacted by a late election, or withdrawn election under Code Sec. 163(j)(7) after Nov. 16, 2020, pursuant to Rev. Proc. 2020-22.
- The taxpayer is changing from deducting the cost or other basis of such property as an expense to capitalizing and depreciating the cost or other basis, or vice versa.
- The taxpayer does not own it at the beginning of the year of change, with some exceptions.

In addition, this guidance cannot be used to make a late election, or revoke an election, under Code Sec. 168, Code Sec. 179 or Reg. §1.1502-68.

Taxpayers can choose to apply the 2020 final regulations under T.D. 9916, the previous final regulations under T.D. 9874, or both the final regulations under NPRM REG-106808-19. However, once a taxpayer applies Reg. §1.168(k)-2 and §1.1502-68, the taxpayer must apply Reg. §1.168(k)-2 and §1.1502-68 to all subsequent tax years.

### Automatic extensions

Applicable taxpayers may make a late Code Sec. 168(k)(5) election, a late Code Sec. 168(k)(7) election, a late Code Sec. 168(k)(10) election, a late component election, a late designated transaction election or a late proposed component election by filing either of the following:

- An amended Form 1065 for the placed-in-service year of the property or the planting year of the specified plant, as applicable, on or before Dec. 31, 2021
- A Form 3115 with the taxpayer's timely filed original federal income tax return or Form 1065 for the taxpayer's first or second tax year succeeding the tax year in which the taxpayer placed in service the property or the planting year of the specified plant, or the taxpayer's timely filed original federal income tax return or Form 1065 that is filed on or after Nov. 6, 2020, and on or before Dec. 31, 2021 ◆

## Building a team of professionals to help provide solutions for our clients

At Edward Jones, we believe that when it comes to financial matters, the value of professional advice cannot be overestimated. In fact, in most situations we recommend that clients assemble a team of professionals to provide guidance regarding their financial affairs: an attorney, a tax professional and a financial advisor.

We want to work together as a team and offer value for your practice and clients. Using complementary skills and philosophies, we can help save time, money and resources while assisting mutual clients in planning for today's financial and tax challenges.

# The Connection

## Edward Jones Online Access for tax documents

Clients can conveniently and securely share their Edward Jones tax forms with their tax professionals in a few easy steps. This service is provided at no cost to you or your mutual clients.

1. Provide clients your email address.
2. Clients can send their Edward Jones tax forms to you in Online Access or ask their financial advisors to give you access.
3. You will receive a link to securely view and download the tax forms.

Registration is simple, and you only need one account for documents from all your clients. All forms are encrypted and available for a limited time, and Social Security numbers are hidden.

**Encourage** your clients to share their tax forms with you electronically!



CPA-12497-A EXP 31 AUG 2021