Key Tax Changes

- Deductibility of Expenses Related to Forgiven PPP Loans
- Employee Retention Tax Credit
- Medical and Sick Leave Credits
- $600 Recovery Rebate
- Energy Tax Incentives/Extenders

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Deduction of Ordinary Business Expenses

ISSUE

- In April, the IRS ruled that employers who received loans through the Paycheck Protection Program (PPP) could not deduct from federal taxes expenses funded by a forgiven PPP loan.
- The IRS determined that because the forgiven loan was tax-free money, employers could not deduct expenses that they did not actually pay for.

What's New?

- ➢ Congress overruled the IRS. This also applies to EIDL grants.

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Employee Retention Credits

Eligible employers are allowed a credit equal to 50% of qualified wages with respect to each employee, on a quarterly basis.

To be eligible, you must have:

1. The operation of the trade or business is fully or partially suspended due to orders from an appropriate governmental authority, or
2. The trade or business experiences a significant decline in gross receipts, with a 50% decline in gross receipts when compared to the same quarter in the prior year.

Maximum wages, including health insurance benefits, eligible for the credit for <u>all</u> calendar quarters is $10,000.

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Employee Retention Credits & PPP

Issue

- Taxpayers who received a PPP loan were ineligible for the ERTC

What's New?

- Congress has retroactively modified to the ERTC to allow PPP recipients to also claim the ERTC
- There are certain guardrails that exclude wages paid for with a PPP loan for the ERTC calculation. IRS will release additional guidance.

Employee Retention Credits & Gross Receipts Test

Issue

- Eligible trade or business must experience a decline in gross receipts of 50% when compared to the same quarter the prior year

What's New?

- ➢ Congress extended the ERTC into the first two quarters of 2021
- ➢ A key change reduces for 2021 (but not for 2020) the gross receipts threshold to a decline of 20% when compared to the same quarter in 2019.

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Employee Retention Credits & Eligible Wages/Credit Amount

<u>Issue</u>

- Maximum wages, including health insurance benefits, eligible for the credit for <u>all</u> calendar quarters is $10,000.
- Eligible employers are allowed a credit equal to 50% of qualified wages with respect to each employee, on a quarterly basis.

<u>What's New?</u>

- ➢ For 2021 only, maximum eligible wages is $10,000 for <u>any</u> calendar quarter.
- ➢ For 2021 only, the credit allowed increases to 70%.

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Employee Retention Credits & Employee Thresholds

Issue

- If the employer averaged 100 or fewer full-time employees in 2019, the credit is based on qualified wages paid to all employees, whether they worked or not.
- If the employer averaged more than 100 full-time employees in 2019, then the credit is allowed only for qualified wages paid to employees for time they're not providing services during the calendar quarter.

What's New?

- For 2021 only, the 100 employee threshold is increased to 500 employees.

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Medical & Sick Leave Credits

ISSUE

Congress adopted a new mandate on most employers requiring 10-days of paid sick leave for employees affected by COVID-19. In addition, employees may be eligible for 12-weeks of paid leave under the Family and Medical Leave Act if their son or daughter's school closes or they otherwise have child care issues due to COVID-19. These mandates take effect on April 1 and expired December 31.

To offset these costs, businesses can claim a tax credit to fully offset all wages, including employer-paid health insurance costs, paid out under this new mandate.

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Medical & Sick Leave Credits Extension

What's New?

- Congress did not extend the employer mandate past the end of 2020.
- To encourage employers to continue to offer COVID-related medical and sick leave, Congress extended the tax credits until March 31, 2021, as if the mandate were still in place.

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Recovery Rebates: Round 1

- In March, Congress approved a $1,200 one-time payment (plus $500 per child) — to every eligible taxpayer.

- Eligible recipients include taxpayers with adjusted gross income up to $75,000 (single)/$112,500 (head of household)/$150,000 (joint filers). The rebate was phased out for taxpayers with higher incomes

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Recovery Rebates: Round 2

- In December, Congress approved a $600, one-time payment (plus $600 per child) — to every eligible taxpayer.

- Eligible recipients include taxpayers with adjusted gross income up to $75,000 (single)/$112,500 (head of household)/$150,000 (joint filers). The rebate is phased out for taxpayers with higher incomes.

- In most cases, if you were eligible for round 1 you qualified for round 2.

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Extension of Expiring Tax Provisions

In another victory for NAHB and the housing community, Congress extended—and in one instance made permanent—a number of key temporary tax provisions known as "tax extenders" that were set to expire on December 31.

- **Deduction for Mortgage Insurance.** Allows taxpayers, subject to an income cap beginning at $100,000, to deduct premiums paid for private mortgage insurance and FHA/RHA/VA insurance premiums. This provision received a 1-year extension through December 31, 2021.
- **Mortgage Forgiveness Tax Relief**. Eliminates any taxes home owners might face because of renegotiating the terms of a home loan, which result in forgiving or canceling a portion of the outstanding loan balance, particularly in connection with short sales. It applies only to principal residences and a maximum mortgage amount of $750,000. This provision received a 5-year extension through December 31, 2025.

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Energy Tax Incentives

Section 45L Tax Credit for Energy-Efficient New Homes. Provides builders a $2,000 tax credit for the construction of homes exceeding heating and cooling energy standards by 50%. The base energy code is the 2006 International Energy Conservation Code plus supplements. Builders must have tax basis in the home to claim the credit (i.e., they must own and then sell/lease the residence). This provision received a one-year extension until December 31, 2021.

Section 25C Tax Credit for Qualified Energy-Efficiency Improvements. Offers a credit worth up to $500 (subject to a $500 lifetime cap), with lower caps for certain products, such as windows, for consumers to install qualified energy-efficient upgrades. This provision received a one-year extension until December 31, 2021.

Energy Tax Incentives

Section 179D Energy-Efficient Commercial Buildings Deduction. Makes permanent a deduction for commercial and multifamily buildings that exceed specific energy-efficiency requirements. The energy efficiency targets are updated and the deduction rate is indexed to inflation.

Section 25D Tax Credit for Power Production Property: Allows a tax credit for the installation of qualifying alternative energy equipment, which includes solar, geothermal heat pumps, small wind turbines, and fuel cell property. This credit is being phased-out, but Congress is extending the phase-out until December 31, 2023. Under this longer phase-out, the credit rate will be 26% until January 1, 2023, when the credit rate falls to 22% for the final year. Biomass fuel property is also added as an eligible expenditure.

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Questions/More Resources

IRS.GOV/Coronavirus

J.P. Delmore
jdelmore@nahb.org
(202) 266-8412

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