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PPC's Five-Minute Tax Briefing

2021

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Highlights

2021 Draft Forms Issued for Pass-through Entities with Foreign Activities:The IRS has released updated 2021 draft Form K-2 and Form K-3 for domestic pass-through entities (Form 1065, Form 1120-S , and Form 8865 that have items of international relevance that are reported to partners and/or shareholders. The schedules are designed to provide greater clarity for partners and shareholders on how to compute their U.S. income tax liability with respect to items of international tax relevance, including deductions and credits. The redesigned forms and instructions also will give useful guidance to partnerships, S corporations, and U.S. persons who are required to file Form 8865 with respect to controlled foreign partnerships on how to provide international tax information. The updated forms will apply to any person required to file a Form 1065 , Form 1120-S, or Form 8865 with items of international tax relevance. See www.irs.gov/newsroom/draft-schedules-k-2-and-k-3-released-to-enhance-reporting-of-international-tax-matters-by-pass-through-entities . News Release IR 2021-98 .

Expanded List of Forms Temporarily Allowing Electronic Signatures:The IRS has taken steps to protect taxpayers and their representatives by minimizing the need for in-person contact. Taxpayer representatives have expressed concerns with securing handwritten signatures for forms that are required to be filed or maintained on paper. To alleviate the concerns with securing handwritten signatures during these times, the IRS has implemented a deviation allowing taxpayers and representatives to use electronic or digital signatures when signing certain forms

that currently require a handwritten signature. The IRS has recently expanded the list of forms for which electronic signatures are temporarily allowed. The list of these additional forms can be found at www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue#digitalsignature . The forms with digital signatures must be signed and postmarked from 8/28/20 through 12/31/21. More information can be found at www.irs.gov/newsroom/irs-approves-temporary-use-of-e-signatures-for-certain-forms .

Updated Inflation Adjusted Amounts for 2021: Rev. Proc. 2021-23 modifies and supersedes some of the 2021 inflation adjusted amounts found in Rev. Proc. 2020-45 to reflect statutory amendments made by the American Rescue Plan Act of 2021 (ARPA). Specifically, it changes inflation adjusted amounts for the Child Tax Credit (CTC), the Earned Income Credit (EIC), and the Applicable Percentage Table used to calculate a taxpayer's Section 36B Premium Tax Credit (PTC) and the required contribution percentage used to determine whether an individual is eligible for employer-sponsored minimum essential coverage for calendar-year 2021. ARPA increases the refundable portion of the CTC to \$3,000 for qualifying children who are between six and 17 years old by the end of the 2021 taxable year, and \$3,600 for qualifying children under age six. Rev. Proc. 2021-23.

Other Current Releases

Employment Tax—New Draft Form 7200: The IRS has posted on its website a new draft version of Form 7200 (Advance Payment of Employer Credits Due to COVID-19) that reflects the American Rescue Plan Act (ARPA) changes to certain COVID-19 tax credits. The new draft version reflects the changes made by ARPA to the paid sick and family leave credits and the Employee Retention Credit (ERC). The new draft Form 7200 also includes a line item for an eligible employer to claim advance payment of the COBRA premium assistance tax credit. Additionally, the new draft version of Form 7200 adds a line item for a recovery startup business to claim an advance payment of the ERC. See www.irs.gov/pub/irs-dft/f7200--dft.pdf for more information.

IRS Closing Some Payment P.O. Boxes on 12/31/21: The IRS has announced that on 12/31/21, it is closing several individual payment Bank of America Lockbox sites. This affects P.O. box addresses in San Francisco, CA and Hartford, CT. Payments made to these addresses are currently being forwarded to Louisville, KY and Cincinnati, OH and could result in delays. Also, payments mailed to these closed payment locations after 1/1/22 will be returned to sender. The IRS encourages taxpayers to use IRS Direct Pay to pay a tax bill or estimated tax payment directly from a checking or savings account. Users receive instant confirmation that their payment has been made. Current P.O. Box addresses can be found on the IRS website and in Publication 3891 . See www.irs.gov/filing/closing-of-po-box-addresses-could-affect-your-clients and e-News for Tax Professionals 2021-13 for more information.

Procedure—An Offer in Compromise (OIC) May Help Taxpayers Settle Their Tax Bill: An OIC is an agreement between a taxpayer and the IRS that settles a tax debt for less than the full

amount owed. An OIC is an option when a taxpayer cannot pay his or her full tax liability. It also is an option when paying the entire bill would cause the taxpayer a financial hardship. When reviewing applications, the IRS considers the taxpayer's unique set of facts and any special circumstances affecting the taxpayer's ability to pay, as well as the taxpayer's income, expenses, and asset equity. The recently updated OIC booklet covers everything a taxpayer needs to know about submitting an OIC, including (1) who is eligible to submit an offer, (2) how much it costs to apply, and (3) how the application process works. The booklet can be found at www.irs.gov/pub/irs-pdf/f656b.pdf . In addition, an OIC Pre-Qualifier tool is available at https://irs.treasury.gov/oic_pre_qualifier/ . Tax Tip 2021-60.

Procedure—Partners Are Entitled to Receive Partnership Administrative File Records: IRC Sec. 6103 establishes the disclosure rules for federal tax returns and return information. Individuals described in IRC Sec. 6103(e) have access to the appropriate return, subject to the limitations in IRC Sec. 6103(e)(10) for partnership, S corporation, estate, or trust returns. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) created the Tax Matters Partner (TMP), who is the primary contact during a TEFRA examination. The Bipartisan Budget Act of 2015 (BBA), generally effective after 12/31/17, requires a partnership to designate a partnership representative, unless the partnership has elected out of the centralized partnership audit regime. Under interim guidance, IRC Sec. 6103(e)(10) extends to a request made for a partnership return and does not extend to a request for access to IRS administrative file records pertaining to a TEFRA or BBA partnership made by any partner or partnership representative. Any TEFRA or BBA partner or partnership representative is entitled to request and receive administrative file records containing partnership returns and return information. See www.irs.gov/pub/foia/ig/spder/pgld-11-0221-0001.pdf for more information.

Procedure—Tax Relief for Storm Victims in Kentucky and Alabama: The IRS has provided tax relief for victims in Kentucky counties who were impacted by severe storms, flooding, landslides, and mudslides that began 2/27/21. Various federal tax filing and payment deadlines that occurred starting on 2/27/21 and before 6/30/21 are postponed until 6/30/21. The 6/30/21 deadline also applies to quarterly estimated tax payments, quarterly payroll and excise tax returns, and returns of tax-exempt organizations. Kentucky victims have until 6/30/21 to make 2020 IRA contributions. In addition, the IRS has provided tax relief for victims of Alabama severe storms, flooding, landslides, and mudslides that began 3/25/21. Various federal tax filing and payment deadlines for Alabama victims that occurred starting on 3/25/21 and before 8/2/21 are postponed until 8/2/21. The 8/2/21 deadline also applies to quarterly estimated tax payments, quarterly payroll and excise tax returns, and returns of tax-exempt organizations. Alabama victims have until 8/2/21 to make 2020 IRA contributions. News Releases KY 2021-01 and AL 2021-01.

Taxpayer Advocate Service's Ability to Help with Delayed Refunds Is Limited: The Taxpayer Advocate Service (TAS) has stated that it is aware that taxpayers are experiencing more refund delays this year than usual. Typically, the IRS processes electronic returns and pays refunds within 21 days of receipt. However, the high volume of 2020 tax returns being filed daily, backlog of

unprocessed 2019 paper tax returns, IRS resource issues, and technology problems are causing delays. Once a return is processed by the IRS and loaded onto the agency's systems, TAS may be able to assist with delayed refunds if taxpayers meet case acceptance criteria. TAS has a case criteria tool that can be used to determine if TAS may be able to offer assistance. The tool can be found at www.taxpayeradvocate.irs.gov/can-tas-help-me-with-my-tax-issue/.

TIGTA—Oversight of the IRS's Response to the American Rescue Plan Act of 2021:

The Treasury Inspector General for Tax Administration (TIGTA) issued a report on the IRS's response to the American Rescue Plan Act of 2021 (ARPA). The report noted that an ARPA provision addresses TIGTA's recommendation to help improve tax compliance in the gig economy, virtual currency exchange markets, and other emerging economies by addressing the disparity of information reporting between third-party settlement organizations and other types of businesses. TIGTA's oversight of ARPA will focus on the IRS's continuing response to COVID-19, specifically the implementation of ARPA's significant tax-related provisions. TIGTA has planned audits for the remainder of FY 2021 focusing on various provisions of ARPA. TIGTA's Office of Audit will help ensure that only eligible individuals and businesses receive COVID-19 relief and that the IRS quickly identifies control weaknesses to prevent federal funds from being wasted. See www.treasury.gov/tigta/docs/TIGTAOversightPlanARPA2021.pdf for more information.

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