PPC

Five-Minute Tax Briefing ®
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Highlights

Inflation-adjusted Health Savings Account (HSA) Figures for 2022: HSAs allow eligible individuals to make deductible contributions that can be withdrawn tax-free for reimbursement of eligible medical expenses. For 2022, the limitation on HSA deductions is $3,650 (up from $3,600 for 2021) for an individual with self-only coverage under a high deductible health plan (HDHP) or $7,300 (up from $7,200 for 2021) for family coverage. An HDHP is defined under IRC Sec. 223(c) as a health plan with an annual deductible not less than $1,400 (same as 2021) for self-only coverage or $2,800 (same as 2021) for family coverage, with annual out-of-pocket expenses (deductibles, copayments, and other amounts, but not premiums) not exceeding $7,050 (up from $7,000 for 2021) for self-only coverage or $14,100 (up from $14,000 for 2021) for family coverage. Rev. Proc. 2021-25 .

Taxation of Dependent Care Benefits: The IRS has released guidance addressing the taxation of dependent care benefits provided through a dependent care assistance program (DCAP) that are made available in tax years ending in 2021 and 2022 due to the application of either the carryover or the extension of a claims period made available under the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (TCDTRA). Notice 2021-26 clarifies that if these dependent care benefits would have been excluded from income if used during the tax year ending in 2020 (or 2021, if applicable), these benefits will remain excludible from gross income and are not wages of the taxpayer for the tax years ending in 2021 and 2022. Additionally, these amounts will not be taken into account for the application of the limits under IRC Sec. 129 to other dependent care benefits made available for the tax years ending in 2021 and 2022. Notice 2021-26 . See NTA-1147 for details.

Exclusion Rules for Married Filing Separate Taxpayers in Community Property States: The American Rescue Plan Act of 2021 (ARPA) excludes from 2020 income up to $10,200 of unemployment compensation paid by states and the federal government [as reported on Form 1099-G (Certain Government Payments)] if Modified Adjusted Gross Income (MAGI) is less than $150,000. Taxpayers living in a community property state, filing with a Married Filing Separate status, report half of their unemployment compensation and half of their spouse's unemployment compensation on their respective tax returns. Taxpayers should exclude up to $10,200 on their respective tax return if their MAGI is less than $150,000. Neither spouse should exclude more than the amount of unemployment compensation reported on Schedule 1, Line 7. For more information, see www.irs.gov/newsroom/2020-unemployment-compensation-exclusion-faqs-topic-a-eligibility .

Procedures for Nonfilers to Claim Certain Advance Payments: The IRS has provided two procedures for individuals not required to file 2020 federal income tax returns to file returns to receive the advance Child Tax Credit (CTC) payments, 2020 recovery rebate credit payments, additional 2020 recovery rebate credit payments, and third-round economic impact payments. The American Rescue Plan Act of 2021 (ARPA) requires the IRS to make periodic advance payments, equal to 50% of the IRS's estimate of the eligible taxpayer's 2021 CTCs, in July 2021 through December 2021. ARPA increased the CTC to $3,000 per child for 2021 ($3,600 for children under age six as of the close of the year), subject to an income-based phase-out, and made it fully refundable. The first procedure permits these individuals to file simplified returns. The second procedure enables these individuals to file complete returns electronically even if they have zero adjusted gross income. Rev. Proc. 2021-24 .

Other Current Releases

Income Tax—Applicable Federal Rates for June: The Section 7520 rate for June 2021 is 1.2%, while the Applicable Federal Rates (AFRs) are as follows (Rev. Rul. 2021-9):

	Annual	**Semiannual**	**Quarterly**	**Monthly**
Short-term (≤ 3 years)	0.13%	0.13%	0.13%	0.13%
Mid-term (> 3 years but ≤ 9 years)	1.02%	1.02%	1.02%	1.02%
Long-term (> 9 years)	2.08%	2.07%	2.06%	2.06%

IRS Practice—IRS to Terminate Inactive Enrolled Agents (EAs): The IRS Return Preparer Office has begun sending letters to EAs with Social Security numbers (SSNs) ending in 7, 8, 9, or no SSN, who did not renew during this year's renewal cycle. Those who did not renew during the 2018 and 2021 renewal cycles will be moved to terminated or inactive status. Anyone in inactive status can still submit a late renewal for approval with proof of continuing education. Anyone in terminated status must re-take the Special Enrollment Examination (SEE) to apply for re-enrollment. If an EA disagrees with the status reported in a letter and has a record of previously renewing their EA status, they should contact the Office of Enrollment at the number on the letter, which is (855) 472-5540. For more information, see www.irs.gov/tax-professionals/enrolled-agent-news .

Income Tax—Controlled Foreign Corporations (CFCs) Obtain Automatic Method Change for Depreciation: The IRS has issued Rev. Proc. 2021-26 providing guidance with respect to accounting method changes made on behalf of CFCs. The procedure accomplishes the following: (1) expands, for a limited period, the availability of automatic consent for CFCs to change their methods of accounting for depreciation to the alternative depreciation system (ADS) under IRC Sec. 168(g) in order to ease the burden on CFCs of conforming their income and earnings and profits computations with their qualified business asset investment computations; (2) prescribes terms and conditions for accounting method changes made on behalf of CFCs, to ensure that Section 481(a) adjustments resulting from CFCs' method changes are properly included in computations of tested income and tested loss; and (3) clarifies certain aspects of the 150 percent rule that limits audit protection for CFCs and 10/50 corporations. Rev. Proc. 2021-26

Procedure—IRS Releases 2021 Inflation Adjustments for Energy Production Credit: The IRS has published the inflation adjustment factors and reference prices for calendar-year 2021 that are used to determine the Section 45 energy production credit, which consists of the renewable electricity production credit, the refined coal production credit, and the Indian coal production credit. The inflation adjustment factor for calendar-year 2021 for qualified energy resources and refined coal is 1.6878. The inflation adjustment factor for calendar-year 2021 for Indian coal is 1.2998. The reference price for calendar-year 2021 for facilities producing electricity from wind is 3.59 cents per kilowatt hour. The reference prices for fuel used as feedstock within the meaning of IRC Sec. 45(c)(7)(A), relating to refined coal production, are $31.90 per ton for calendar-year 2002 (reference year) and $45.64 per ton for calendar-year 2021. Due to some 2021 references prices, certain phaseouts don't apply. *Federal Register*, Vol. 86, No. 79.

Procedure—Tax Relief for Storm and Tornado Victims in Tennessee: The IRS has provided tax relief for victims in Tennessee counties who were impacted by storms, tornadoes, and flooding that took place between 3/25/21 and 4/3/21. The relief postpones various tax filing and payment deadlines that occurred starting on 3/25/21. Affected individuals and businesses now have until 8/2/21 to file returns and pay any taxes that were originally due during the relief period. This includes (1) 2020 individual and business tax returns and related payments normally due on 4/15/21 (including 2020 IRA contributions); (2) tax-exempt organization returns due on 5/17/21; (3) quarterly estimated income tax payments due on 4/15/21 and 6/15/21; and (4) quarterly payroll and excise tax returns normally due on 4/30/21. In addition, penalties on payroll and excise tax deposits due on or after 3/25/21 and before 4/9/21 will be abated, as long as the deposits were made by 4/9/21. News Release IR 2021-112 .

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