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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's 1040 Deskbook

33rd Edition (October 2020)

Highlights of this Edition

The following are some of the important new features of the 2020 Edition of *PPC's 1040 Deskbook*:

- **Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE ACT).** The SECURE Act made changes to retirement plans, such as increasing the age at which a taxpayer must begin receiving a required minimum distribution (RMD), limiting which beneficiaries are eligible for the stretch IRA, and removing the restriction on making traditional IRA contributions after attaining the age of 70½. It also reinstated taxing a child's income subject to kiddie tax at the parents' tax rate. The *Deskbook* has been updated to include these provisions.
- **Coronavirus Aid, Relief, and Economic Security Act (CARES Act).** The CARES Act provided relief provisions to individual taxpayers, including (not a comprehensive list) making the technical correction to the tax recovery period for qualified improvement property (QIP), favorable provisions on retirement plan distributions (including the suspension of the RMD for 2020), increased deductibility of charitable contributions, enhancements to deductible medical expenses [including enhancements to health savings accounts (HSAs)] and the recovery rebate credit. The *Deskbook* has been updated to include these provisions.
- **Taxpayer Certainty and Disaster Tax Relief Act of 2019 (2019 Disaster Act).** The 2019 Disaster Act included provisions extending several tax provisions and providing for a mandatory extension to the 60-day rollover period for retirement distributions received by an individual affected by a federally declared disaster. The *Deskbook* has been updated to include these provisions.
- **Families First Coronavirus Response Act (FFCRA).** The FFCRA authorized certain credits and deferrals for payroll taxes for self-employed individuals and household employers. The *Deskbook* has been updated to include these provisions.
- **New Regulations.** The IRS has issued new proposed and final regulations on a number of topics, including life expectancy tables, Achieving a Better Life Experience (ABLE) accounts, qualified business income (QBI) deduction, business interest limitations, tax accounting methods, deductible meals and entertainment expenses, bonus depreciation, like-kind exchanges, and the premium tax credit.

In addition to these featured items, your *Deskbook* includes the following update items detailed below.

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 1 Filing Status	1. Added a practice tip regarding signing a joint return following the death of one of the taxpayers.	1A
CHAPTER 2 Claiming Dependents	1. Added a caution regarding expiration dates and need for renewal of individual taxpayer identification numbers (ITINs).	2A
CHAPTER 3 Wages and Salaries	1. Added explanations for Form W-2 Box 12 Codes J, Y, and Z.	3A

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	2. Added a law change alert regarding student loan repayment as a qualified educational expense for Section 127 exclusion from income, as authorized by the CARES Act.	3A
	3. Added a paragraph regarding the reporting of COVID-19-related sick pay and family leave paid during 2020.	3A
CHAPTER 4 Interest and Dividend Income	1. Added a note regarding the treatment of qualified REIT dividends for the purposes of calculating the qualified business income (QBI) deduction under IRC Sec. 199A.	4A
CHAPTER 5 Pension and Retirement Income	1. Added law change alerts and updated text as required for changes included in the SECURE Act, including the increase in age for RMDs and the limitation on which beneficiaries may still qualify for the stretch IRA and who is subject to the new 10-year rule.	Throughout
	2. Noted that the RMD is suspended for 2020 due to the CARES Act.	Throughout
	3. Noted that Notice 2020-51 allowed any RMD received in 2020 prior to the CARES Act to have been rolled over by August 31, 2020, without impacting the one rollover per year rule.	5F
	4. Added a law change alert for the new mandatory 60-day extension to the rollover period for individuals affected by a federally declared disaster, as legislated by the 2019 Disaster Act.	5F
	5. Added a law change alert that Notice 2020-23 extended the rollover period for certain distributions.	5F
	6. Added a law change alert that traditional IRA contributions made after attaining age 70½ are no longer considered excess contributions provided they are no more than the annual allowable amount.	5G
	7. Revised the key issue for new rules for RMDs mandated by the SECURE Act and noted the general suspension of RMDs for 2020 legislated by the CARES Act.	5J
	8. Noted that the life expectancy tables have been revised for tax years beginning after December 31, 2020.	5J
	9. Updated the key issue for special rules for COVID-19 victims, including new examples and a new illustration for a 2020 coronavirus-related distribution.	5L and Illustration 5-1
CHAPTER 6 Other Items of Income	1. Added a law change alert on new qualified medical expenditures reimbursable through HSA distributions, as authorized by the CARES Act.	6E
	2. Updated the discussion for Rev. Rul. 2020-5, including a new example, on the treatment of gain or loss on certain viatical settlements.	6F
	3. Added an observation on reimbursements from colleges and universities in 2020.	6I
	4. Updated for new final regulations on ABLE accounts.	6J

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 7 Adjustments to Income	1. Added a law change alert regarding above the line charitable deduction of up to \$300 for those who don't itemize in 2020, as provided for in the CARES Act.	Introduction
	2. Added a law change alert regarding elimination of the age restriction for traditional IRA contributions, as authorized by the SECURE Act.	7A
	3. Added a law change alert regarding long-term, part-time employees' ability to participate in qualified retirement plans if eligibility requirements are met, as legislated by the SECURE Act.	7C
	4. Added a law change alert regarding a change to the deadline for establishing a qualified retirement plan to the extended due date of the tax return, as authorized by the SECURE Act.	7C
	5. Added a law change alert regarding the temporary expansion of qualified higher education expense to include student loan repayments, as authorized by the CARES Act.	7H
	6. Added a law change alert regarding temporary safe harbor for the high deductible health plan's (HDHP) requirement to impose a deductible for COVID-19-related treatments, as authorized by the CARES Act.	7K
CHAPTER 8 Sole Proprietorships (Schedule C)	1. Noted that the Tax Court reserves right to revisit whether an activity is a hobby, as per the <i>WP Realty</i> case.	8A
	2. Discussed the <i>Welch</i> and <i>Den Besten</i> cases regarding aggregating potential hobby activities on a single Schedule C to minimize possible hobby loss exposure.	8A
	3. Added a caution that the QBI deduction will not be computed on a substitute for return (SFR).	8G
	4. Added cautions on monitoring loss carryforwards on tax software and treatment of business charitable contributions for purposes of the QBI deduction.	8G
	5. Updated for a new regulation discussing the treatment of QBI loss carryforwards of a specialized service trade or business (SSTB).	8G
	6. Updated for new final and proposed regulations for the Section 163(j) business interest limitation.	8H
	7. Noted the new proposed safe harbor for operating qualified residential living facilities under Notice 2020-59.	8H
CHAPTER 9 Farm Income and Expenses (Schedule F)	1. Updated the discussion for Rev. Proc. 2020-13 guidance on how to revoke an election under IRC Sec. 263A(d)(3) to utilize the small business exception to the UNICAP rules.	9F
	2. Noted that the kiddie tax rules have reverted to using the parents' tax rates.	9J

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 10 Rental Property (Schedule E)	1. Updated for Rev. Proc. 2019-38 on the safe harbor for being treated as a trade or business for the QBI deduction.	Introduction
	2. Added a practice tip on the consistent treatment of rental property as a trade or business.	Introduction
CHAPTER 11 Tax Accounting Methods	1. Expanded the discussion of constructive receipt.	11A
	2. Expanded the discussion of the special tax accounting rules for small businesses, including new provisions from recently issued proposed regulations concerning the definition of gross receipts for the special gross receipts test, and new provisions relating to the capitalization of costs for certain plants produced in a farming business.	11B
CHAPTER 12 Travel and Entertainment	1. Revised the discussion on deductible meals and entertainment for the new final regulations.	12A
CHAPTER 13 Net Operating Losses	1. Clarified the discussion of the percentage-of-taxable-income limitation for utilization of NOL carryforwards beginning in 2021.	13A
	2. Expanded the discussion of recomputations necessary in a carryback year.	13B
	3. Added a discussion of a possible amended return needed in the case of farming losses that were previously carried back two years and now must be carried back five years.	13B
CHAPTER 14 Depreciation	1. Updated the discussion for new final regulations on bonus depreciation.	14C
CHAPTER 15 Automobiles and Other Listed Property	1. Added a caution that the New Qualified Plug-in Electric Drive Motor Vehicle Credit expires at the end of 2020 and to monitor for possible extension of the credit.	15H
	2. Added a caution that the New Alternative Motor Vehicle Credit expires at the end of 2020 and to monitor for extensions.	15H
CHAPTER 16 Passive Activities	1. Added a note regarding the <i>Williams</i> case on factors the IRS and courts use to determine the grouping of activities.	16A
CHAPTER 17 Pass-through Entities	1. Added a discussion on IRS proposals for reporting a partner's capital account on Line L using the tax basis method.	17A
	2. Added a discussion of the new centralized partnership audit regime.	17D
CHAPTER 18 Securities Transactions	1. Added a discussion of the reporting requirements and holding period for disqualifying distributions when shares are inherited from a deceased employee.	18G
	2. Noted that qualified small business stock (QSBS) could include LLC membership units if the LLC made an election to be taxed as a C corporation.	18I

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	3. Added a discussion on basis of virtual currency received as a gift.	18K
CHAPTER 19 Installment Sales, Like-kind Exchanges, and Conversions of Property	1. Added a discussion of the definition of real property for purposes of the like-kind exchange rules, pursuant to newly issued regulations.	19H
	2. Added a discussion of the safe harbor for deferred like-kind exchanges whereby the qualified intermediary receives some personal property in addition to real property, pursuant to newly issued proposed regulations.	19H
	3. Enhanced and expanded the discussion of qualified opportunity funds (QOFs), including several new examples and a new illustration for reporting the deferred gain.	19J and Illustration 19-5
CHAPTER 21 Bad Debt Losses, Debt Discharge Income, and Foreclosures	1. Added a discussion regarding the forgiveness of loans under the Paycheck Protection Program (PPP) provided for in the CARES Act.	21B
CHAPTER 24 Standard Deduction	1. Added a law change alert regarding the ability to deduct up to \$300 of charitable contributions in 2020 even if the standard deduction is claimed, as authorized by the CARES Act.	Introduction
CHAPTER 25 Medical Expenses	1. Added a note regarding certain changes to medical expenses legislated in the CARES Act.	Introduction
	2. Noted that Prop. Reg. 1.213-1 that allows payments for membership in a health care sharing ministry may be considered as payments for medical insurance.	25G
CHAPTER 26 Charitable Contributions	1. Added a discussion of the CARES Act provision allowing a deduction of up to \$300 of certain qualified charitable contributions in arriving at AGI if the taxpayer does not itemize deductions.	Introduction
	2. Added a discussion of the CARES Act provision that suspends the AGI percentage limitation for certain cash contributions made in 2020.	26A; 26B
	3. Mentioned the new IRS requirement to attach Form 8283 (Noncash Charitable Contributions) to a return that is claiming a deduction for noncash contributions that are being carried over from a previous year.	26A; 26B
	4. Revised the discussion of conservation easements for various court cases illustrating key provisions.	26D
	5. Revised the discussion of the effect on qualified charitable distributions (QCDs) for the SECURE Act provision raising the age for RMDs to 72, and the CARES Act provision waiving the RMD requirement for 2020, including adding a new example illustrating these concepts.	26I

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 28 Other Itemized Deductions	1. Updated and revised the discussion of disaster relief provisions.	28A
	2. Added a discussion of attorney fees related to whistleblower awards.	28G
	3. Added a practice tip on repayment of unemployment compensation.	28G
CHAPTER 29 Interest Expense	1. Noted that the deduction for mortgage insurance premium is currently set to expire after 2020.	29D
CHAPTER 30 Self-employment (SE) Tax	1. Added an observation regarding CCA 202009024 and its guidance on partners subject to basis or at-risk limitations.	30A
	2. Mentioned IRS unofficial guidance on using Rev. Rul. 80-110 to offset a minister's unreimbursed employee expenses.	30C
	3. Added a new Key Issue on the deferral of payment of self-employment tax under the CARES Act, including an example and an illustration.	30G
CHAPTER 32 Kiddie Tax	1. Updated to reflect the SECURE Act provision that subjects a child's income subject to the kiddie tax to being taxed at the parents' tax rate.	Throughout
	2. Added an Illustration with completed Form 8615.	32B
CHAPTER 33 Tax on Lump-sum Distributions	1. Added a law change alert regarding SECURE, Disaster, and CARES Acts.	Introduction
	2. Added a law change alert regarding SECURE Act changing the age for RMDs from 70½ to 72.	33A
CHAPTER 34 Excise and Other Taxes	1. Added a note regarding the extension of the deadline to make corrective actions for certain members of the U.S. Armed Forces or individuals in federally declared disaster areas.	34A
	2. Added a practice tip regarding the retroactive nature of the 2019 Disaster Act and the possibility to amend returns for taxpayers who received distributions.	34A
	3. Added a law change alert regarding the ability to take up to \$100,000 of distributions for COVID-19-affected taxpayers without being subject to the 10% early withdrawal penalty.	34B
	4. Added a law change alert regarding the suspension of the RMD for 2020 as a result of the CARES Act.	34D
	5. Added a law change alert regarding changes to NOLs as a result of the CARES Act.	34E
CHAPTER 35 Personal Credits	1. Added a law change alert for discussion of the exemption from the early withdrawal penalty for qualified retirement plan distributions related to covered expenses for the birth or adoption of a child.	35B
	2. Expanded the discussion of the premium tax credit (PTC) to include how excepted benefit health reimbursement arrangements (EBHRAs) affect the PTC, and the effect of new proposed regulations covering the reduction of the personal exemption to zero and its resulting effect on the PTC.	35H

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	3. Added coverage of the <i>Blas</i> case providing that taxpayers must repay excess advance premium tax credits even though they never received any correspondence from the Marketplace regarding their insurance coverage and the existence of advance premium credits.	35H
CHAPTER 36 Business Credits	4. Added a new key issue on the recovery rebate credit. 1. Updated the discussion for changes to the retirement plan adoption credit under IRC Sec. 45E for changes included in the SECURE Act.	35I 36A
CHAPTER 37 Foreign Tax Credits	2. Discussed the enhanced family and medical leave credit to payroll taxes included in the FFCRA. 1. Noted relief provisions for expatriates whose assignments were cut short due to COVID-19.	36A 37C
CHAPTER 38 Tax Payments	1. Added an observation regarding reporting FIT withholding, estimated payments, and prior year overpayment applied to Form 1040. 2. Added a note regarding extension of 2020 first and second quarter estimated tax payment deadline to July 15, 2020. 3. Added a practice tip regarding the five-day processing time for new EFTPS enrollment.	Introduction 38A 38D
CHAPTER 39 Filing Returns	1. Added a note that the PTIN user fee has been reinstated, in accordance with newly issued regulations. 2. Added a practice tip that taxpayers can now submit a Form 1040-X electronically. 3. Expanded the discussion of alternative methods of obtaining an extension to file.	Introduction and 39I 39B 39F
Quick Reference Tables	1. Expanded the comparison of U.S. bond types. 2. Added a table detailing how NOL carryovers are utilized depending on when generated. 3. Updated the credit table to include enhanced family and medical leave credit allowed to self-employed individuals and household employers, as authorized by the FFCRA. 4. Updated the credit table to reflect how the employee retention credit included in the 2019 Disaster Act will affect the 2020 return.	T807 T814 T1112 T1113
Auto Tables	1. Discussed the special transition rule for 2018 and 2019 for adopting the vehicle cents-per-mile method in valuing the personal use of employer-provided vehicles.	A107
Worksheets	1. Revised the worksheet for charitable contribution carryovers for the CARES Act provision suspending the AGI limitations for certain qualified cash contributions made in 2020. 2. Added an NOL carryover tracking schedule. 3. Added a worksheet to compute the recovery rebate credit.	W308 W326 W406

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Other Practice Aids	1. Added a flowchart to help determine if amended returns should be filed for 2018 or 2019 to make an election to tax at parents' tax rate, rather than estate and trust tax rate.	O602
Roadmap	1. Updated to account for all the new legislation listed above.	RM