

December 2021

Dear Valued Client:

We are pleased to provide you with this year-end letter outlining important guidelines for compliance with federal and state rules of taxation and reporting requirements. The letter contains useful information regarding some of the more significant changes to the tax code from legislation enacted in the last few years.

This letter also contains 2021 and 2022 payroll tax requirements, employee benefits reporting, informational return filing requirements, and other information for tax planning. Official federal and state forms, publications, and other information can be obtained from the specific agencies' websites.

Please note that this letter is designed to provide an overview of selected tax rules that we believe to be of interest to our clients. Tax rules are very complex and can be subject to interpretation. There are many special rules and exceptions that have not been addressed here. In addition, the contents of this letter are subject to change as new tax laws are passed.

On November 19, 2021, the House of Representatives passed the Build Back Better Act sending the bill to the Senate. The bill includes a multitude of tax provisions that may change before final passage. We will do our best to provide you with information on the ultimate contents of the bill if and when it gets signed into law. Please refer to our blog page at: www.tonneson.com/blogs

COVID-19 has changed the world and continues to present new challenges for everyone. We want to express our utmost appreciation and respect for all front-line workers, servicemen and servicewomen who continue to protect and serve our communities. We hope you and your families stay safe and healthy as we press on during this transformational time.

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I. Coronavirus Aid, Relief, and Economic Security (CARES) Act

The CARES Act passed in March 2020 and affected several tax provisions, some of which were temporary and some which apply to the 2021 tax year. Some of these provisions were modified in subsequent legislation including the Consolidated Appropriations Act and the American Rescue Plan Act. Please consult your tax advisor to discuss how these items might affect your tax situation.

The following are some highlights:

1. Early withdrawals up to \$100,000 from qualified retirement plans for coronavirus-related distributions were not subject to the 10% penalty in 2020. If the distributions were not fully included in 2020 income, then they must be included in income ratably over the three-year period from 2020 to 2022. Taxpayers with eligible retirement plans may also repay all or part of these distributions within three years after the date the distribution was received.
2. The SECURE Act of 2019 increased the age for required minimum distributions to 72 from 70½. However, during 2020 only, required minimum distributions were waived for all taxpayers. In 2021 and going forward, the age for these is back to 72.
3. In 2021, taxpayers who do not itemize can claim a deduction for charitable cash contributions up to \$300 (\$600 for a joint return). For taxpayers who itemize, the charitable cash contributions deduction is limited to 100% of adjusted gross income. This limit will revert to 60% in 2022.
4. The deduction for charitable cash contributions made by a corporation in 2021 is limited to 25% of taxable income. This limit is scheduled to revert to 10% in 2022.
5. Payments of up to \$5,250 per tax year made by an employer toward an employee's own education loans or educational assistance (tuition, fees, books) from March 27th, 2020 through the end of 2025 are excluded from the employee's income.
6. Employers can claim an Employee Retention Credit (ERC) against employment taxes paid on qualified wages. The ERC was enacted by the CARES Act in March 2020 and was later extended through June 30, 2021. The American Rescue Plan Act, passed in March 2021, extended the ERC again for qualified wages paid from July 1, 2021 through December 31, 2021, and it increased the percentage of qualified wages eligible for the credit in 2021. The Infrastructure Investments and Jobs Act, passed on November 15, 2021, terminated the ERC, thus wages paid after September 30, 2021 are no longer eligible for the credit. Please refer to the ERC section of this letter for more details.

7. The 6.2% OASID payroll tax incurred by employers, and 50% of the comparable payroll tax incurred by self-employed taxpayers, accumulated and due in 2020 can be deferred, with half of the payment due on December 31, 2021, and the other half due on December 21, 2022. This provision does not apply to any applicable payroll taxes incurred after December 31, 2020.
8. The disallowance of excess business losses for noncorporate taxpayers was waived for tax years 2018, 2019 and 2020. The disallowance is reinstated for tax year 2021. Noncorporate taxpayers must treat such losses as a net operating loss (NOL) and carry them forward to future tax years.
9. The CARES Act allowed NOLs generated in 2018, 2019 or 2020 to offset 100% of taxable income in 2020 or in prior years if they were carried back. However, any portion of these NOLs that was not deducted and was carried forward into 2021 can now only offset up to 80% of taxable income.

Please note, each state has the discretion to adopt all, some, or none of the tax provisions changed under federal law. The updates listed here are not comprehensive. Please consult your tax advisor to determine which changes may affect your situation.

II. Individuals

Federal Income Tax Brackets for Ordinary Income

Married Filing Jointly and Surviving Spouses:

Taxable Income	2021 Tax Rate
\$0 - \$19,900	10% of taxable income
\$19,901 - \$81,050	\$1,990 plus 12% of the amount over \$19,900
\$81,051 - \$172,750	\$9,328 plus 22% of the amount over \$81,050
\$172,751 - \$329,850	\$29,502 plus 24% of the amount over \$172,750
\$329,851 - \$418,850	\$67,206 plus 32% of the amount over \$329,850
\$418,851 - \$628,300	\$95,686 plus 35% of the amount over \$418,850
\$628,301 or more	\$168,993.50 plus 37% of the amount over \$628,300

Single:

Taxable Income	2021 Tax Rate
\$0 - \$9,950	10% of taxable income
\$9,951 - \$40,525	\$995 plus 12% of the amount over \$9,950
\$40,526 - \$86,375	\$4,664 plus 22% of the amount over \$40,525
\$86,376 - \$164,925	\$14,751 plus 24% of the amount over \$86,375
\$164,926 - \$209,425	\$33,603 plus 32% of the amount over \$164,925
\$209,426 - \$523,600	\$47,843 plus 35% of the amount over \$209,425
\$523,601 or more	\$157,804.25 plus 37% of the amount over \$523,600

Head of Household:

Taxable Income	2021 Tax Rate
\$0 - \$14,200	10% of taxable income
\$14,201 - \$54,200	\$1,420 plus 12% of the amount over \$14,200
\$54,201 - \$86,350	\$6,220 plus 22% of the amount over \$54,200
\$86,351 - \$164,900	\$13,293 plus 24% of the amount over \$86,350
\$164,901 - \$209,400	\$32,145 plus 32% of the amount over \$164,900
\$209,401 - \$523,600	\$46,385 plus 35% of the amount over \$209,400
\$523,601 or more	\$156,355 plus 37% of the amount over \$523,600

Married Filing Separately:

Taxable Income	2021 Tax Rate
\$0 - \$9,950	10% of taxable income
\$9,951 - \$40,525	\$995 plus 12% of the amount over \$9,950
\$40,526 - \$86,375	\$4,664 plus 22% of the amount over \$40,525
\$86,376 - \$164,925	\$14,751 plus 24% of the amount over \$86,375
\$164,926 - \$209,425	\$33,603 plus 32% of the amount over \$164,925
\$209,426 - \$314,150	\$47,843 plus 35% of the amount over \$209,425
\$314,151 or more	\$84,496.75 plus 37% of the amount over \$314,150

Long Term Capital Gains Tax Brackets

Long term capital gains are taxed at a rate determined by your taxable income (which includes the capital gain income itself) and filing status:

Tax rate	Married Filing Joint & Surviving Spouse	Single	Head of Household	Married Filing Separately
0%	\$0 – 80,800	\$0 - \$40,400	\$0 – 54,100	\$0 - \$40,400
15%	\$80,801 - \$501,600	\$40,401 - \$445,850	\$54,101 - \$473,750	\$40,401 - \$250,800
20%	\$501,601 and up	\$445,851 and up	\$473,751 and up	\$250,801 and up

Short term capital gains are taxed at the ordinary income tax rates.

Standard Deduction & Personal Exemptions

In 2021, taxpayers cannot claim a personal exemption. The standard deduction has been increased to the following amounts:

Filing Status	Standard Deduction
Married Filing Joint & Surviving Spouses	\$25,100
Single	\$12,550
Head of Household	\$18,800
Married Filing Separately	\$12,550

Alternative Minimum Tax (AMT)

AMT is a supplemental income tax imposed on high income earners to prevent them from significantly reducing or eliminating their tax liabilities with available deductions and certain tax preferences.

An individual calculates their taxable income under the regular income tax rules, then calculates their alternative minimum taxable income (AMTI) under the AMT rules, and pays the higher of the regular tax or the AMT. AMT is calculated on the amount that AMTI exceeds an exemption amount. The AMT exemption has been increased to the following amounts:

Filing Status	AMT Exemption
Married Filing Joint & Surviving Spouses	\$114,600
Single & Head of Household	\$73,600
Married Filing Separately	\$57,300

Phase out: The AMT exemption is reduced if AMTI exceeds \$1,047,200 for married taxpayers filing jointly and surviving spouses, or if it exceeds \$523,600 for married filing separately or single taxpayers.

Qualified Business Income (QBI) Deduction

QBI Defined:

QBI is the net amount of a business's qualified income, gain, deduction, and loss to the extent they are effectively connected with the conduct of a trade or business within the United States. QBI does not include capital gains or losses, certain dividends, and interest.

Overview:

- Individual taxpayers can receive QBI from their S-corporations, partnerships, sole proprietorships, trusts, and estates.
- Income earned through services performed for a C-Corporation does not qualify for the deduction.
- QBI must be calculated for each qualified trade or business. Each calculated QBI is then allocated to the business owners based on ownership.
- A taxpayer can receive QBI from multiple qualified businesses and if certain conditions are met, aggregate the total into an amount called combined QBI.
- Up to 20% of an individual's combined QBI can be used to reduce taxable income.
- An individual's QBI deduction may be limited if their taxable income falls within a certain range:

Tax years beginning in 2021:

	Single + Head of Household	Married Filing Joint	Married Filing Separately	Limitation
Below	\$164,900	\$329,800	\$164,925	None
Between	\$164,901 - \$214,900	\$329,801 - \$429,800	\$164,926 - \$214,925	Partial
Over	\$214,900	\$429,800	\$214,925	Limits apply

Tax years beginning in 2022:

	Single + Head of Household	Married Filing Joint	Married Filing Separately	Limitation
Below	\$170,050	\$340,100	\$170,050	None
Between	\$170,051 - \$220,050	\$340,101 - \$440,100	\$170,051 - \$220,050	Partial
Over	\$220,050	\$440,100	\$214,926	Limits apply

For taxpayers with taxable income between the lower and upper thresholds, the wage and capital limitation is phased in. For taxpayers with taxable income below the lower threshold, the wage and capital limitation does not apply.

Itemized Deductions

Medical and Dental Expenses

Medical expenses over 7.5% of adjusted gross income (AGI) are deductible.

Example: Your 2021 AGI is \$100,000. Your medical expenses are \$11,000. 7.5% of your AGI is \$7,500. The medical expenses over \$7,500 are deductible. Your deduction is \$3,500.

State and Local Taxes Paid (includes real estate taxes)

The maximum allowable deduction for 2021 remains \$10,000. The \$10,000 can be made up of state and local property taxes paid and state and local income taxes paid, or sales taxes paid in lieu of income taxes paid. For married taxpayers filing separately, the deduction is split with \$5,000 allocated to each spouse's tax return. Please note: as of the publishing of this letter, the Build Back Better Act currently working its way through Congress raises the cap on this deduction to \$80,000. This is subject to change and may not go into effect until 2022. Please refer to our blog page for updates as more information becomes available: www.tonneson.com/blogs

Home Mortgage Interest Paid

Interest paid on up to \$750,000 of principal is deductible for any mortgages acquired after December 15, 2017. For mortgages acquired on or before December 15, 2017, the old rule still applies: the interest paid on up to \$1,000,000 of principal is deductible. The deduction is allowed for mortgage interest paid on primary and secondary residences. The deduction for interest paid on home equity loans has been suspended through 2025. In 2026, the principal limitation will revert back to \$1,000,000 regardless of when the mortgage debt was incurred, and interest paid on home equity loans will become deductible again.

Note: If you obtained a mortgage before December 15, 2017 and refinanced after December 15, 2017, the interest paid on the refinanced mortgage would remain deductible up to the old \$1,000,000 limit.

Charitable Contributions

For taxpayers who itemize deductions, 100% of cash contributions to qualifying charities in 2021 may be deducted. Limitations still apply for donations of non-cash items or for donations made to certain foundations.

Taxpayers who take the standard deduction may deduct up to \$300 (\$600 if married filing jointly) for cash contributions made to qualifying charities in 2021. Qualifying charities include churches, nonprofit educational and medical institutions, and public charities. Supporting organizations and donor advised funds do not qualify.

Personal Casualty Losses

A deduction can only be taken for personal property losses incurred as a result of federally declared disasters. All other casualty loss deductions have been suspended until 2026.

Miscellaneous Itemized Deductions Subject to the 2% AGI Limitation

These deductions remain suspended, meaning they cannot be deducted again until the 2026 tax year or until Congress legislates otherwise. Some of the more common miscellaneous deductions that are no longer deductible are unreimbursed employee expenses, tax preparation fees, and investment fees.

Child Tax Credit

For tax years before and after 2021:

The credit is \$2,000 per child that is under age 17 at the end of the year. The credit begins to phase out at \$400,000 of income for married joint filers and \$200,000 for all other taxpayers. Although the tax credit is \$2,000, the maximum amount refundable may not exceed \$1,400 per qualifying child; this means if a taxpayer has no tax liability to offset, then the most that can be refunded for the child tax credit is \$1,400 per qualifying child. In addition, a \$500 nonrefundable credit is available for each qualifying dependent that is not a qualifying child.

For 2021 only:

The credit is increased to \$3,000 per child that is under age 18 at the end of the year, and \$3,600 per child that is under age 6. The credit is fully refundable. The first \$2,000 of the credit begins to phase out at \$400,000 of income for married joint filers and \$200,000 for all other taxpayers. Separate phaseout rules apply to the additional portion of the credit (\$1,000 or \$1,600 depending on age), but the credit cannot be reduced below \$2,000. The \$500 nonrefundable credit is still available for each qualifying dependent that is not a qualifying child.

Kiddie Tax

The purpose of the kiddie tax is to prevent parents in higher tax brackets from shifting income (generally investment income) to children who are usually in lower tax brackets.

For 2021, a child's earned income (i.e. W-2 wages, business income, tips) is taxed at the rates for single individuals. A child's net unearned income (i.e. interest, dividends, capital gains, rents, royalties) over a threshold amount of \$2,200 is added to the parent's taxable income and is taxed at the parent's marginal tax rate.

Education Credits

American Opportunity Tax Credit (AOTC)

A credit of up to \$2,500 per eligible student is available for qualified education expenses paid (i.e. tuition, fees, books, supplies, equipment, and other expenses required for enrollment or attendance). For 2021, the credit is reduced for married taxpayers filing jointly with income over \$160,000 and over \$80,000 for all other taxpayers. The credit is disallowed if income is over \$180,000 for joint filers and over \$90,000 for all others. Students should receive a Form 1098-T tuition statement which will help figure the credit.

Eligible students must:

- Be pursuing a degree or other recognized education credential
- Be enrolled as at least a half time student
- Not have finished the first four years of higher education at beginning of tax year
- Not have claimed the AOTC for more than four tax years
- Not have a felony drug conviction at the end of the tax year

Lifetime Learning Credit (LLC)

This credit is for 20% of the first \$10,000 in qualified tuition expenses paid by the taxpayer, effectively capping the credit at \$2,000 per taxpayer (not per student). Unlike the AOTC, there is no limit on the number of years the LLC can be claimed, and it can be used for graduate degrees and courses taken to acquire or improve job skills. The student must be enrolled in one or more courses at an eligible educational institution, and must be the taxpayer, a spouse, or a dependent listed on the taxpayer's return. For 2021, the credit is reduced for married taxpayers filing jointly with income over \$160,000 and over \$80,000 for all other taxpayers. The credit is disallowed if income is over \$180,000 for joint filers and over \$90,000 for all others.

Student Loan Interest Deduction

Taxpayers can deduct up to \$2,500 for interest paid on qualified education loans. The deduction is phased out when modified adjusted gross income exceeds \$70,000 and disallowed over \$85,000 (\$140,000 and \$170,000 if married filing jointly). Taxpayers claimed as dependents, or if married filing separately, cannot take the deduction.

Please note, interest is not deductible on student loan payments made using 529 plan disbursements or made through an employer's student loan repayment benefit plan.

Health Insurance Mandate

The Affordable Care Act had mandated that all individuals obtain health insurance or pay a penalty tax. But this mandate and penalty were repealed for years beginning in 2019 and remains repealed in 2021.

Alimony

For divorce or separation agreements executed or modified after December 31, 2018, alimony paid is not deductible by the payor, and alimony received is not includable as income by the payee.

Moving Expenses

The deduction for moving expenses remains suspended until 2026. However, the deduction is generally still available for active duty members of the U.S. Armed Forces.

Limitation on Losses from a Trade or Business

An excess business loss is the excess of a noncorporate taxpayer's aggregate deductions from all trades or businesses over the sum of the aggregate gross income or gain from all trades or businesses, plus \$262,000 (\$524,000 if filing a joint return). Any excess business loss is disallowed and carried forward as a net operating loss (NOL) to the next tax year.

The CARES Act in 2020 temporarily waived the disallowance of excess business losses for tax years 2018, 2019 and 2020. For 2021, the original disallowance has been reinstated.

529 Plans and ABLE Accounts

529 plans are tax-advantaged investment accounts that allow parents to save money for their children's tuition at elementary or secondary public, private, or religious schools, and college. Annual contribution limits vary by state. Income earned by the account is tax-free upon distribution if the distributions are used to pay qualified education expenses. Up to \$10,000 of cash distributions per year are also allowed for elementary and secondary school expenses. An additional tax-free distribution up to \$10,000 is allowed for student loan payments for the designated beneficiary or a sibling of the beneficiary. Qualified education expenses also include certain expenses of apprenticeship programs that are registered and certified with the U.S. Secretary of Labor. Any distributions not used for qualified expenses are includible in gross income and subject to an additional 10% penalty.

Achieving a Better Life Experience (ABLE) accounts are tax-advantaged investment accounts that allow families of disabled young people to set aside money for their care. Income earned by the account is tax free upon distribution if the distributions are used to pay qualified disability expenses. The annual contribution limit remains \$15,000.

Taxpayers can roll over amounts from 529 plans into ABLE accounts without penalty if the ABLE account is owned by the designated beneficiary of the 529 plan or a member of the beneficiary's family.

Net Investment Income Tax (NIIT)

Individuals who have modified adjusted gross income over a certain threshold must pay a 3.8% tax on either their net investment income or the amount of total income over the threshold, whichever is lower. The threshold amounts are:

Filing Status	Income Threshold
Married Filing Jointly & Surviving Spouses	\$250,000
Single & Head of Household	\$200,000
Married Filing Separately	\$125,000

Investment income includes, but is not limited to interest, dividends, capital gains, rental income, royalty income, annuity income, other passive activity income, and certain dispositions of property.

For trusts and estates, the amount subject to this tax is either the undistributed net investment income or the amount of total income over \$13,050, whichever is lower.

It should be noted that when the NIIT is added to the top income tax brackets, the individual's tax rate could be as high as 40.8% (37% + 3.8%) for ordinary income and short-term capital gains, and 23.8% (20% + 3.8%) for long-term capital gains.

Please note: as of the publishing of this letter, the Build Back Better Act currently working its way through Congress expands the scope of taxpayers who would be subject to the NIIT. In the current version of the bill, pass-through income received by taxpayers who materially participate in the trade or business would no longer be exempt from the NIIT. This change would only apply to taxpayers with income in excess of \$500,000 for joint filers, \$400,000 for single filers and heads of households, and \$250,000 if married and filing separate returns. This is subject to change and may not go into effect until 2022. Please refer to our blog page for updates as more information becomes available: www.tonneson.com/blogs

Additional Medicare Tax

Individuals with income from wages, self-employment, active trade or business income, and other compensation over a certain threshold are subject to a 0.9% additional Medicare tax on the amount of income over the threshold. The threshold amounts are:

Filing Status	Income Threshold
Married Filing Jointly	\$250,000
All other individuals	\$200,000
Married Filing Separately	\$125,000

This tax does not apply to net investment income. However, taxpayers can be subject to both the additional Medicare tax and the net investment income tax if their income types and amounts meet the criteria.

III. Estates and Trusts

Federal Income Tax Brackets

Taxable Income	2021 Tax Rate
\$0 - \$2,650	10% of taxable income
\$2,651 - \$9,550	\$265 plus 24% of the amount over \$2,650
\$9,551 - \$13,050	\$1,921 plus 35% of the amount over \$9,550
\$13,051 and up	\$3,146 plus 37% of the amount over \$13,050

Lifetime Exemption and Annual Exclusion

The lifetime gifting exemption is \$11.7 million per individual through the end of 2021. Therefore, a married couple can shield \$23.4 million from the estate and gift tax. In addition, donors may be entitled to the annual exclusion, the medical or education expense exclusion, the charitable deduction, and the marital deduction.

The annual gift tax exclusion for 2021 is \$15,000. This means that an individual can give a tax-free gift to any number of other individuals up to \$15,000 each, and a married couple can gift up to \$30,000.

IV. Businesses

Federal Tax Rate Remains 21%

The 21% flat tax rate applies to all C-corporations for the 2021 tax year. The corporate-level alternative minimum tax (AMT) was repealed by the Tax Cuts and Jobs Act in 2017.

The income from S-corporations, partnerships, and sole proprietorships flows through to the individual owners and is taxed at the owners' individual rates.

Depreciation

Section 179 provides a first-year expense deduction for certain qualifying property placed in service during the tax year at an annual limit of \$1,050,000. This expense is reduced dollar for dollar by the amount that the total cost of qualifying property placed in service exceeds \$2,620,000. In addition, bonus depreciation can be taken after the Section 179 spending cap is reached.

Bonus depreciation remains at 100% for new, used, and qualified improvement property acquired and placed in service during the tax year. The 100% bonus provision currently extends until January 1, 2023, after which the provision is phased down 20% each year.

Massachusetts currently conforms to the Federal Section 179 rules. However, Massachusetts does not conform to the Federal bonus depreciation rules, which can result in differing Federal and Massachusetts depreciation deductions. Other states have varying conformity rules regarding Federal Section 179 and bonus depreciation. Please consult your tax advisor to determine the proper depreciation treatment as it applies to the states in which you are required to file.

Cash Method of Accounting

In general, the cash method cannot be used by C corporations, partnerships that have one or more C corporation partners, and tax shelters. However, the cash method can be used for certain farming and timber businesses, qualified personal service corporations and any corporation or partnership with average annual gross receipts of \$26 million or less for the prior three tax years. Businesses with inventories generally cannot use the cash method unless they too have average annual gross receipts of \$26 million or less for the prior three tax years.

Net Operating Losses (NOL)

The CARES Act allowed NOLs generated in 2018, 2019 or 2020 to offset 100% of taxable income in 2020 or in prior years if the NOLs were carried back. However, any portion of these NOLs that was not deducted and was carried forward into 2021 can now only offset up to 80% of taxable income.

NOLs generated in tax years beginning in 2021 cannot be carried back; they are carried forward indefinitely and, under current law, can offset up to 80% of taxable income in a given future year.

NOLs that arose before 2018, and that are still being carried forward, remain subject to a 20-year carryforward period. These NOLs are subject to the 80% taxable income limitation if deducted in 2021 or future years.

Uniform Capitalization (UNICAP) Rules Exemption

Taxpayers with average annual gross receipts of \$25 million or less for the prior three tax years are exempt from the UNICAP rules, regardless of entity structure or industry.

Business Interest Deduction

A taxpayer's deduction of business interest expense is limited to the sum of business interest income, 30% of adjusted taxable income, and the taxpayer's floor financing interest for the tax year. Any business interest in excess of this limitation is carried forward indefinitely to succeeding tax years.

Adjusted taxable income excludes the following:

- Any item of income, gain, deduction, or loss that is not properly allocable to a trade or business
- Any business interest income or business interest expense
- The amount of any net operating loss deduction
- Any deduction under Section 199A with respect to qualified business income of a pass-through entity
- Depreciation, amortization, and depletion
- Capital loss carryback or carryover deductions

Taxpayers with average annual gross receipts of \$26 million or less for the prior three tax years are exempt from the limitation.

Meals and Entertainment

No deduction is allowed for entertainment, amusement, or recreation. No deduction is allowed for membership dues for a club organized for business, pleasure, recreation, or other social purposes, or for a facility used for any of these activities.

A deduction is allowed for 50% of food and beverage expenses directly associated with operating a trade or business. Through 2025, this deduction includes employer expenses associated with providing food and beverages to employees through an eating facility that meets the de minimis fringe requirements.

For 2021 and 2022, business may deduct the full cost of food and beverages provided to them by a restaurant. For the purposes of this deduction, a restaurant does not include any grocery store or liquor store.

Travel Expenses

No deduction is allowed for expenses associated with providing transportation fringe benefits to employees, or reimbursements for transportation costs related to employees' commute between their residences and place of employment. However, a deduction is allowed for transportation expenses incurred by an employer to ensure employee safety. Any payments for transportation may be excluded from employee wages as fringe benefits.

Employer Tax Credits for Sick and Family Leave

The Families First Coronavirus Response Act, passed on March 18, 2020, requires employers with fewer than 500 employees to provide paid sick and family leave to employees who were required to stay home due to COVID-19 quarantine orders or for the care of a family member due to school closures or illness caused by COVID-19. In addition, employer payroll tax credits were introduced to provide relief to eligible businesses and tax-exempt organizations that paid wages for this sick and family leave. The American Rescue Plan Act, passed on March 11, 2021, extended and modified these credits making them available for wages paid for leave from April 1, 2021 through September 30, 2021.

Qualified Sick Leave Credit

This is a refundable credit against an employer's portion of Medicare tax. The credit is equal to 100% of sick leave wages paid, limited to either \$200 or \$511 per day (depending on the nature of the sick leave) per employee for up to ten days. Employers are allowed a credit for a maximum of ten days of paid sick leave per employee during the period April 1, 2021 through September 30, 2021. For any employees that received sick leave pay prior to April 1, 2021, the ten day limit is reset beginning on April 1, 2021.

Qualified Family Leave Credit

This is a refundable credit against an employer's portion of Medicare tax, equal to 100% of family leave wages paid, limited to \$200 per day per employee, up to an aggregate of \$12,000 for the period April 1, 2021 through September 30, 2021.

Employee Retention Credit (ERC)

The ERC is a refundable credit designed to encourage businesses to keep workers on their payroll and support small businesses and nonprofits during the COVID-19 emergency. The ERC was enacted by the CARES Act in March 2020 and was later extended through June 30, 2021. The American Rescue Plan Act, passed in March 2021, extended the ERC again for qualified wages paid from July 1, 2021 through December 31, 2021, and it increased the percentage of qualified wages eligible for the credit in 2021. The Infrastructure Investments and Jobs Act, passed on November 15, 2021, terminated the ERC, thus wages paid after September 30, 2021 are no longer eligible for the credit.

Qualified wages for the ERC generally depend on:

- the average number of full-time employees that the employer had in 2019,
- if the business had to suspend operations for a period of time due to COVID-19, and
- whether gross receipts in a given calendar quarter in 2020 or 2021 declined more than 20% compared to the same calendar quarter in 2019.

For qualified wages paid through December 31, 2020, the ERC is a credit against the employer's portion of Social Security tax in an amount equal to 50% of qualified wages up to \$10,000 per employee for all calendar quarters, for a maximum ERC of \$5,000 per employee for the calendar year.

For qualified wages paid from January 1, 2021 through June 30, 2021, the ERC is a credit against the employer's portion of Social Security tax in an amount equal to 70% of qualified wages up to \$10,000 per employee for any calendar quarter, for a maximum ERC of \$7,000 per employee per quarter.

For qualified wages paid from July 1, 2021 through September 30, 2021, the ERC is a credit against the employer's portion of Medicare tax in an amount equal to 70% of qualified wages up to \$10,000 per employee, for a maximum ERC of \$7,000 per employee for the quarter.

Charitable Contributions Limitation

The deduction for charitable cash contributions made by a corporation in 2021 is limited to 25% of taxable income. This limit is scheduled to revert to 10% in 2022.

V. Payroll Taxes and Withholding

Social Security and Self-Employment Taxes

Description	2021	2022
Social Security:		
Maximum Earnings	\$142,800	\$147,000
OASDI Tax Rate	6.2%	6.2%
Self-employment Tax Rate	12.4%	12.4%
Medicare:		
Maximum Earnings	Unlimited	Unlimited
Medicare Tax Rate	1.45%	1.45%
Self-employment Tax Rate		
Tier one: on the first \$200,000 (single) and \$250,000 (married) of SE income	2.9%	2.9%
Tier two: on SE income over \$200,000 (single) and \$250,000 (married)	2.9% + 0.9%	2.9% + 0.9%
Earnings Ceiling for Social Security:		
Under full retirement age	\$18,960/yr. (\$1,580/mo.)	\$19,560/yr. (\$1,630/mo.)
The months preceding retirement age in the year an individual reaches full retirement age	\$50,520/yr. (\$4,210/mo.)	\$51,960/yr. (\$4,330/mo.)
Beginning the month an individual attains full retirement age	None	None

Payroll Withholding Requirements

Employers should report personal use of a company vehicle as fringe benefit income on a regular pay period using a reasonable basis so long as it is at least annually. Employers need not use the same period or method for all employees and may change their reporting period at any time. The Internal Revenue Service does not require a formal election.

Reasonable estimates should be used for the valuation of fringe benefits for withholding and deposits; however, the actual value must be determined by January 31, 2022 for all 2021 fringe benefits.

Federal withholding on the value of the fringe benefit may be computed either with the regular wages for the elected pay period or, if treated as supplemental wages, withheld at a flat rate of 22% (37% if supplemental payments exceed \$1,000,000). An employer can elect not to withhold income taxes on the value of employees' personal use of company vehicles provided it tells its employees, in writing, by January 31st of the year for which it elects not to withhold. Either way, the FICA, OASDI, and Medicare taxes associated with the value must be withheld and matched by the employer.

In addition to withholding Medicare tax at 1.45%, you must withhold a 0.9% additional Medicare tax from wages you pay to an employee that are above \$200,000 in a calendar year. You are required to begin withholding additional Medicare tax in the pay period in which you pay an employee wages of more than \$200,000 and continue to withhold it each pay period, until the end of the calendar year. Additional Medicare tax is only imposed on the employee; there is no employer share.

The actual value of the fringe benefits must be determined in time to include the amount in the Form 941, *Employer's Quarterly Federal Tax Return* filed for the fourth quarter of the year. To help make a timely determination, an employer can elect to treat personal employee use of a company car during November and December as incurred in the following calendar year. With an employee's consent, you may be eligible to provide copies of their Form W-2 to them electronically, however, the option of paper W-2's must still be provided and certain special disclosures need to be made.

W-2 Reporting of Benefits for S-corporation Shareholders

There are special rules for certain fringe benefits received by S corporation shareholders who own more than 2% of the outstanding stock. Amounts paid by the corporation for certain benefits, such as health, disability and accident insurance, all group term life insurance (including the first \$50,000 of coverage) and reimbursed medical expenses must be treated as compensation to the shareholder and be reported on Form W-2. A more than 2% shareholder may be able to deduct 100% of the amount paid for medical insurance for themselves, their spouse, and dependents on their individual tax return. Please note that health insurance is not subject to Social Security and Medicare taxes.

Group Term Life Insurance

The cost of group term life insurance in excess of \$50,000 of coverage provided to an employee is included as compensation and is subject to FICA and Medicare taxes. Exhibit E can be used to gather the information needed for the calculation. The cost is based on the employee's age as of December 31st, and is determined by the following table:

Cost per \$1,000 of Protection for One Month	
Age	Cost
Under 25	\$0.05
25 through 29	\$0.06
30 through 34	\$0.08
35 through 39	\$0.09
40 through 44	\$0.10
45 through 49	\$0.15
50 through 54	\$0.23
55 through 59	\$0.43
60 through 64	\$0.66
65 through 69	\$1.27
70 and older	\$2.06

Example: Tom's employer provides him with group-term life insurance coverage of \$200,000. Tom is 45 years old, is not a key employee, and pays \$100 per year toward the cost of the insurance. Tom's employer must include \$170 in his wages. \$200,000 of insurance coverage is reduced by \$50,000. The yearly cost of \$150,000 of coverage is \$270 ($\$0.15 \times 150 \times 12$) and is reduced by the \$100 Tom pays for the insurance. The employer includes \$170 in boxes 1, 3, and 5 of Tom's Form W-2. The employer also enters \$170 in box 12 with code "C."

VI. Other Items

Tax Return Filing Deadlines

Partnerships and S-corporations	The 15 th day of the third month following the close of the tax year.
C-corporations, Individuals, Trusts, and Estates	The 15 th day of the fourth month following the close of the tax year.
Tax-Exempt Organizations	The 15 th day of the fifth month following the close of the tax year.
FinCEN Report 114 (FBAR)	April 15 th with a six-month extension period ending October 15 th .

2021 Tax Return Filing Deadlines

For calendar year tax returns reporting 2021 information, the following are the actual due dates based on the 2022 calendar:

Tax Return Type	Initial Due Date	Extended Due Date
Partnerships and S-corporations	March 15, 2022	September 15, 2022
C-corporations, Individuals, and FinCEN Report 114	April 15, 2022	October 17, 2022
Trusts and Estates	April 15, 2022	September 30, 2022
Tax-Exempt Organizations	May 16, 2022	November 15, 2022

Penalties

There are significant penalties for failure to properly report, file, and pay all types of business and employment taxes. Some of the more common federal tax penalties:

Failure to file return – fraud	15% of unpaid tax per month, maximum 75%
Failure to file return – reasonable cause	5% of unpaid tax per month, maximum 25%
Failure to pay tax	0.5% per month, maximum 25%
Substantial understatement of tax	20% of the underpayment
Failure to make timely deposits	From 2% to 15% of the unpaid deposit, depending on the length of time elapsed
FinCEN Report 114 (FBAR)	Up to \$10,000 per violation, waived if there is reasonable cause
FinCEN Report 114 (FBAR) – willful failure to report	\$100,000 or 50% of the foreign account balance, whichever is greater

Retirement Plan and IRA Limits

Description	Plan Type	2021	2022
Max contribution	401(k), 403(b), most 457 plans	\$19,500	\$20,500
Catch-up contribution for ages 50 or older	401(k), 403(b), most 457 plans	\$6,500	\$6,500
Max contribution	IRA and Roth IRA	\$6,000	\$6,000
Catch-up contribution for ages 50 or older	IRA and Roth IRA	\$1,000	\$1,000
IRA deduction phase-out range for single taxpayers covered by workplace retirement plan	IRA	\$66,000- \$76,000	\$68,000- \$78,000
IRA deduction phase-out range for joint filers where the spouse making the IRA contribution is covered by workplace retirement plan	IRA	\$105,000- \$125,000	\$109,000- \$129,000
IRA deduction phase-out range for a contributor not covered by workplace retirement plan and is married to spouse who is covered	IRA	\$198,000- \$208,000	\$204,000- \$214,000
IRA deduction phase-out range for a married individual filing a separate return and is covered by workplace retirement plan	IRA	\$0 - \$10,000	\$0 - \$10,000
Income phase-out range for eligibility to make Roth IRA contributions (you cannot contribute to a Roth if your income is too high)	Roth IRA – single and head of household	\$125,000- 140,000	\$129,000- 144,000
Income phase-out range for eligibility to make Roth IRA contributions (you cannot contribute to a Roth if your income is too high)	Roth IRA – married filing jointly	\$198,000- 208,000	\$204,000- 214,000
Income phase-out range for eligibility to make Roth IRA contributions (you cannot contribute to a Roth if your income is too high)	Roth IRA – married filing separately	\$0 - \$10,000	\$0 - \$10,000
Max benefit for defined benefit plan	415(b)(1)(A)	\$230,000	\$245,000
Max contribution for defined contribution plan	415(c)(1)(A)	\$58,000	\$61,000
Limitation on exclusion for elective deferrals	402(g)(1)	\$19,500	\$20,500
Compensation limit	401(a)(17)	\$290,000	\$305,000
Grandfather rule for certain government plans	401(a)(17)	\$430,000	\$450,000
Minimum compensation for SEPs	408(k)(2)(C)	\$650	\$650
Compensation limit for SEPs	408(k)(3)(C)	\$290,000	\$305,000
SIMPLE plan deferral limit	408(p)(2)(E)	\$13,500	\$14,000
Highly compensated employee limit	414(q)(1)(B)	\$130,000	\$135,000
Elective deferral catch-up contributions to an applicable employer plan for age 50 or older	414(v)(2)(B)(i)	\$6,500	\$6,500
Catch-up contributions for age 50 or older for SIMPLE plans	414(v)(2)(B)(ii)	\$3,000	\$3,000

Automobile Limitations

Description	2021
Automobile Standard Mileage Allowances	
Business	56¢
Charity	14¢
Medical/Moving	16¢
Depreciation limits for passenger autos acquired after September 27, 2017, placed in service during calendar year, bonus claimed	
1 st tax year	\$18,200
2 nd tax year	\$16,400
3 rd tax year	\$9,800
Each succeeding tax year	\$5,860
Depreciation limits for passenger autos acquired and placed in service during calendar year, bonus not claimed	
1 st tax year	\$10,200
2 nd tax year	\$16,400
3 rd tax year	\$9,800
Each succeeding tax year	\$5,860

At the time of publication of this letter, the IRS has not yet released the standard mileage rates or automobile depreciation limits for 2022. The IRS usually releases the standard mileage rates in mid-December for the following year and releases the automobile depreciation limits in mid-May. These updates will be available on the IRS website, [irs.gov](https://www.irs.gov).

Automobile Limitations (continued)

The luxury car limits are based on 100% business use. If business use is less than 100%, the limits must be reduced to reflect the actual business use percentage. The term "luxury" is not defined in the Internal Revenue Code, and there is no rule expressed in terms of "luxury." Thus, the depreciation limits listed in the table above apply to all business autos, with the following exceptions:

Vehicles with gross vehicle weight ratings (GVWRs) of more than 6,000 pounds do not constitute a passenger vehicle for purposes of being limited to the luxury automobile depreciation limits. We advise you to examine the manufacturer's sticker or the sticker on the inside of the driver's side car door for the vehicle's exact GVWR. The maximum allowed Section 179 deduction on these vehicles for tax years beginning in 2021 is \$26,200; this amount will be adjusted for inflation each year. Amounts in excess of the limit can be depreciated over five years starting with the year the asset was placed in service.

Trucks and vans, which are not qualified for personal use, are not subject to annual depreciation limits. "Not qualified" for personal use means the vehicle is designed in such a way that it is not likely to be used for more than a de minimis amount for personal purposes.

Personal Use of Company Owned/Leased Vehicles

Whether your company supplies business automobiles to employees as a personal benefit or as necessary tools to complete their work, an employee's personal use of the vehicle must generally be treated as a non-cash, taxable fringe benefit that is also subject to social security taxes.

There are four valuation methods for valuing the personal usage of a company car:

1. The general fair market value method, which is based on what a person would pay locally to buy or lease a comparable vehicle for the same period that the employee has use of the car;
2. The lease value method, which assigns an IRS-determined annual lease value to the automobile depending on its value when first provided for the employee's personal use;
3. The cents-per-mile method, which values each personal-use mile at the standard business mileage rate designated by the IRS; or
4. The \$1.50 per one-way commute method.

The first two methods can be used for any automobile and employee. The cents-per-mile method and the \$1.50 commute method are only available if certain conditions are met, outlined in further detail in Exhibit D.

An employer using the lease value method at the beginning of 2020 was allowed to switch to the cents-per-mile method beginning on March 13, 2020. For 2021, these employers may continue to use the cents-per-mile method or may go back to the lease value method. In either case, the valuation method used for 2021 must continue to be used for all subsequent years.

Which of the four methods will result in the lowest personal use valuation, and the lowest tax bill for employees, will depend on factors such as the value of the automobile, annual number of personal miles, and the ratio of personal miles to total miles.

For your convenience we have included worksheets in Exhibits A, B, C and D to assist you in calculating personal use amounts. Additionally, we can help you navigate these rules to determine which method would most benefit your company.

Year End Reporting to the IRS

Employees vs. Independent Contractors

The tax form employers use to report compensation paid depends on whether the payee is an employee or an independent contractor. The determination of status rests on the degree of control the party paying the compensation has over the person performing the work. Generally, you have the right to control or direct only the result of the work done by an independent contractor, and not the means and method of accomplishing the result. In certain circumstances you can ask the IRS on Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding* to rule whether a worker is an independent contractor or an employee. Erroneously classifying an employee as an independent contractor can cause the employer, or the employer's representative, to be liable for the employee's payroll taxes and subject the employer to significant penalties and interest.

1099-MISC Reporting

Certain payments made in the course of a trade or business operating for profit, are required to be reported on a Form 1099-MISC, Miscellaneous Income. A business paying at least \$10 in royalties or at least \$600 during the calendar year towards rents, prizes and awards, medical and health care payments, gross proceeds to an attorney, as well as several other items, will be required to file a Form 1099-MISC. Most reportable items remain the same with the exception of nonemployee compensation, which is now reportable on Form 1099-NEC, Nonemployee Compensation. Form 1099-MISC must be furnished to recipients by January 31, 2022 and filed with the IRS by February 28, 2022 if you file on paper, or by March 31, 2022 if you file electronically.

1099-NEC Reporting

Form 1099-NEC was introduced to relieve the submission burden on taxpayers and reduce uncertainty around the different filing due dates that were formerly required by Form 1099-MISC, based on the inclusion of nonemployee compensation. Nonemployee compensation for services is now reported on Form 1099-NEC if the following conditions are met:

- The business made payments during the year of at least \$600 to the payee;
- Payment was made to someone who is not an employee of the business;
- Payment was made for services rendered in the course of the business; and
- Payment was made to an individual, partnership, or estate.

Cash payments of at least \$600 for fish paid to an individual engaged in the trade or business of catching fish, or in payments for attorneys' fees, would also be reported on Form 1099-NEC. Form 1099-NEC must be furnished to recipients and filed with the IRS by January 31, 2022.

Per Diem Travel Expenses

Companies can deduct the amount of ordinary and necessary business expenses incurred by employees while traveling away from home. Necessary business expenses include lodging, transportation, meals, and other incidental expenses. The employer has two options of reporting these expenses. The first option, an accountable plan, requires the employee to provide an expense report with receipts for expenses she incurred while traveling. These reimbursements are not includable in adjusted gross income.

The second option of reporting these expenses is under a non-accountable plan. The amount of money the employee received for travel expenses would be added to his or her compensation and subject to payroll taxes. Please note, while once deductible by the employee, for tax years 2018 through 2025, the itemized deduction for unreimbursed employee expenses is disallowed.

Employers can also provide the same per diem rates to their employees that apply to federal government employees. The expenses deemed substantiated are the lesser of the per diem allowance the business pays or the amount computed at the federal per diem rate for the locality of travel. The federal per diem rate tables can be found here: www.gsa.gov/perdiem.

Reporting Foreign Financial Accounts – FinCEN Form 114 (FBAR)

United States persons, who have a financial interest in, or signature authority over, foreign financial accounts, with an aggregate value that exceeds \$10,000 at any point during the year, must report each account on FinCEN Form 114, *Report of Foreign Bank and Financial Accounts (FBAR)*. Reporting is required whether or not the account generates income. A financial account includes, but is not limited to, a security, brokerage, savings, demand, checking, deposit, time deposit, or other account maintained with a financial institution.

If a United States person owns over 50% of a business based outside of the United States, and the business has a bank account, then the person will need to report the bank account on an FBAR because the person is deemed to have a financial interest in the account as a 50% owner of the business.

The form must be filed electronically and filed separately from the federal tax return. It is due by April 15, 2022 for the 2021 calendar year. The due date is automatically extended by an additional six months to October 17, 2022 if not filed by April 15, 2022. Failure to file by October 17, 2022, may result in civil or criminal penalties.

VII. Massachusetts Highlights

Paid Family and Medical Leave (PFML)

In 2018, Massachusetts signed the PFML Act into law. It was established to ensure eligible employees are entitled to paid time off, up to between 12 and 26 weeks (given certain circumstances), for a maximum weekly benefit of up to \$850, to care for their own serious health condition or that of a family member (including bonding time after birth, adoption and foster placement). In 2022, the maximum weekly benefit will increase to \$1,084.31.

Employers with over 25 employees in Massachusetts must tax or contribute 0.75% of payroll to the PFML program. Employers can deduct from employee wages up to 40% of the medical contribution and up to 100% of the family leave contribution.

Employer returns and remittance of PFML tax or contributions to the state are due on the last day of the month, after the end of the previous calendar quarter: April 30th, July 31st, October 31st, and January 31st.

For more detailed information, please visit the mass.gov website which has organized all the necessary information about the law here:
<https://www.mass.gov/info-details/paid-family-and-medical-leave-pfml-benefits-guide>

Renters and Homeowners Circuit Breaker Credit

A Massachusetts resident taxpayer age 65 or older who owns or rents her principal place of residence may qualify for this credit. For tax year 2021, the taxpayer's total income cannot exceed \$62,000 for single filers, \$78,000 for a head-of-household, and \$93,000 for married couples filing jointly. For tax year 2021, the assessed valuation (before residential exemptions but after abatements) of the taxpayer's principal residence may not exceed \$884,000. For tax year 2021, the maximum credit amount for both renters and homeowners is \$1,170. Married taxpayers filing separately are not eligible for this credit.

Section 529 Tax Deduction

From January 1, 2017 through the 2021 tax year, Massachusetts residents are allowed up to a \$1,000 deduction for contributions to state authorized Section 529 education plans (up to \$2,000 for married taxpayers filing jointly).

Massachusetts Online

The Massachusetts Corporate Division allows you to perform many different tasks through the ease of the Internet. MassTaxConnect is used to organize many types of business entities online, as well as pay your taxes. We recommend that all businesses file their annual reports online. To do so, please visit <https://mtc.dor.state.ma.us/mtc/>.

To Our Valued Clients
December 2021
Page 35

In this letter, we have discussed information that may be applicable to the preparation and submission of your 2021 informational returns and to the computation of taxable employee benefits. We have also highlighted some important planning considerations as we move into the 2021 filing season. We will continue to monitor current changes that may affect our clients' filing responsibilities.

Please do not hesitate to contact us if you have any questions regarding this information or if we can be of additional service.

Very truly yours,

Tonneson & Company

EXHIBIT A

2021 Annual Lease Value Table

<i>Automobile fair market value</i>	<i>Annual Lease Value</i>
\$ 0 to 999	\$ 600
1,000 to 1,999	850
2,000 to 2,999	1,100
3,000 to 3,999	1,350
4,000 to 4,999	1,600
5,000 to 5,999	1,850
6,000 to 6,999	2,100
7,000 to 7,999	2,350
8,000 to 8,999	2,600
9,000 to 9,999	2,850
10,000 to 10,999	3,100
11,000 to 11,999	3,350
12,000 to 12,999	3,600
13,000 to 13,999	3,850
14,000 to 14,999	4,100
15,000 to 15,999	4,350
16,000 to 16,999	4,600
17,000 to 17,999	4,850
18,000 to 18,999	5,100
19,000 to 19,999	5,350
20,000 to 20,999	5,600
21,000 to 21,999	5,850
22,000 to 22,999	6,100
23,000 to 23,999	6,350
24,000 to 24,999	6,600
25,000 to 25,999	6,850
26,000 to 27,999	7,250
28,000 to 29,999	7,750
30,000 to 31,999	8,250
32,000 to 33,999	8,750
34,000 to 35,999	9,250
36,000 to 37,999	9,750
38,000 to 39,999	10,250
40,000 to 41,999	10,750
42,000 to 43,999	11,250
44,000 to 45,999	11,750
46,000 to 47,999	12,250
48,000 to 49,999	12,750
50,000 to 51,999	13,250
52,000 to 53,999	13,750
54,000 to 55,999	14,250
56,000 to 57,999	14,750
58,000 to 59,999	15,250

For vehicles with a fair market value over \$59,999, the annual lease value is equal to:
(0.25 x the fair market value of the vehicle) + \$500.

EXHIBIT B

2021 AUTOMOBILE USAGE REPORT

To be completed by All Employees using Company Owned or Leased Vehicle(s)

Employee Name _____

The personal use of company owned or leased vehicles is a taxable fringe benefit. The amount of the benefit must be computed each year in accordance with Internal Revenue Service Regulations. The value of the fringe benefit will be included as additional compensation on your 2021 Form W-2, *Wage and Tax Statement*.

To assist in complying with this law, the following information for 2021 usage must be documented. Your response should be returned as soon as possible.

1. The number of business miles driven (your business miles do not include commuting to and from work). _____
2. The number of commuting miles driven. _____
3. The number of personal (other than commuting) miles driven _____
4. The total number of personal miles (sum of lines 2 and 3). _____
5. The total number of miles you drove the company car during the year (sum of lines 1 and 4). _____
6. Did you have a second personally owned vehicle available for personal use?
Yes ___ No ___
7. Did you maintain written records to document your business and personal use?
Yes ___ No ___
8. Do you wish to have federal and state income taxes withheld from your pay based on the taxable fringe benefit amount? Yes ___ No ___

(Signature)

(Date)

FOR COMPANY USE ONLY

Period Car Used by Employee during Year from: _____ To: _____

Type of Vehicle (Year/Make/Model) _____

Date Vehicle Purchased by the Company _____

Original Cost: _____

Gasoline Paid by Employer: Yes ___ No ___

EXHIBIT C

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE
FOR CALENDAR YEAR 2021

Employee: _____

Description of Vehicle: _____

Date Vehicle First Made Available to Any Employee: _____

Date Vehicle First Made Available to This Employee: _____

Select One Method (Note Limitations on Methods II and III)

Usage Period: (Check One) 11/1/20 To 10/31/21 _____ Or Calendar 2021 _____

METHOD I – Annual Lease Value Method (For Autos Available 30 Days or More)

Step

- | | | |
|---|---|-------------------------|
| 1 | Fair market value of vehicle (predetermined at the beginning of the first year and every 4th year thereafter) | \$ _____ |
| 2 | Annual lease value, per attached chart | \$ _____ |
| 3 | Enter number of days during the year that the vehicle was available | x _____
(See Note 1) |
| 4 | Divide step 3 by number of days in tax year (365). Place result in the space provided. | _____ |
| 5 | Prorated annual lease value (multiply Step 2 by Step 4) | _____ |
| 6 | Personal use % (personal/total miles, per statement from employee Exhibit B, divide line 4 by line 5) | x _____% |
| 7 | Personal annual lease value (Step 5 x Step 6) | \$ _____ |
| 8 | If fuel is provided by employer:
multiply personal miles by 5.5 cents (See Note 2) | _____ |
| | Personal use taxable income (Step 7 + Step 8) | \$ _____ |

EXHIBIT C (continued)

AUTOMOBILE LEASE FOOTNOTES

- (1) For automobiles available less than 30 days, please multiply the number of days the vehicle is available by 4, and place that result in the space provided.
- or-
- For automobiles available 30 days or more, enter the days available in the space provided.

Please note that if by treating all periods as 30 days or more results in a lower valuation, then an election can be made to do so for **ALL** periods.

- (2) If fuel is provided "in kind," the fair market value may be determined based on all facts and circumstances or, alternatively, 5.5 cents per mile, if vehicle usage is within the U.S., Canada, and Mexico. Generally, where fuel is purchased and charged to the employer, the actual cost or reimbursement should be used. If employers with a fleet of 20 or more vehicles reimburse or allow employees to charge fuel costs, the fleet-average cents per mile may be used. If the fleet employer determines that both the actual cost and fleet average methods are unreasonable administrative burdens, the 5.5 cents per mile may be used.

EXHIBIT D

**WORKSHEET TO CALCULATE INCOME
FROM PERSONAL USE OF COMPANY VEHICLE**

EMPLOYER'S WORKSHEET TO CALCULATE EMPLOYEE'S TAXABLE
INCOME RESULTING FROM EMPLOYER-PROVIDED VEHICLE FOR
CALENDAR YEAR 2021

METHOD II – CENTS-PER-MILE VALUATION METHOD

Generally, in order to qualify to use the cents-per-mile method, the vehicle must: (1) be expected to be used primarily by employees, regularly in the employer's business throughout the calendar year, (2) be driven at least 10,000 miles per year, and (3) have a maximum fair market value of \$51,100. Once this method is adopted for a vehicle, it must be continued until the vehicle no longer qualifies.

Enter personal miles _____ x \$0.56 for period 1/1/21 through 12/31/21 = \$ _____

Deduct:

If fuel is NOT provided by the employer, enter personal miles _____ x \$0.055 = (_____)

Personal use taxable income \$ _____

METHOD III – COMMUTING VALUATION METHOD

This method may only be used for vehicles owned or leased by the company, used in the company's business, and covered by a written policy that allows commuting but no other personal use. If more than one employee commutes in the vehicle, the value calculated below applies to each employee. DO NOT USE this method if the employee is a 1% or more owner, an officer or board member with compensation equaling or exceeding \$115,000 for 2021, an individual with compensation equaling or exceeding \$235,000 for 2021 or is a director.

Number of commuting round trips made _____

Value per round trip x _____ \$3.00

Personal use taxable income \$ _____

EXHIBIT E

GROUP TERM LIFE INSURANCE

(To be Completed by Employers)

Please complete the following for all employees with Group Term Life Insurance coverage over \$50,000.

Employee Name			
Insurance Company			
Policy Number			
Amount of Coverage			
Policy Beneficiary			
Policy Premium			
Period Covered			
Employee's Age			

Completed By: _____

Name and Title

Date