A RETURN TO CPA ROOTS

Q&A With New CalCPA President & CEO Denise Froemming
Tax Preparation

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CalCPA President & CEO Denise Froemming, CPA talks about her return to her CPA roots in this introductory Q&A. Read about her take on the profession, what her first 100 days in the top spot may look like and what the future holds for CalCPA members with her in charge.

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STUART R. JOSEPHS, CPA

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MATT BORASI

“Value means answering the most important question for the member: What’s in it for me?”
Following a nationwide search, Denise Froemming, CPA has stepped in as president and CEO of CalCPA and the CalCPA Education Foundation, replacing Interim CEO Rich Simitian, CPA. Froemming was most recently CEO and executive vice president of the Chicago-based Institute of Real Estate Management. There, she led a team of association professionals serving more than 20,000 individual IREM members and more than 550 member firms worldwide. California CPA interviewed Froemming to learn more about her and what members can expect as she leads the way into CalCPA’s future.

Q: How did you go from CPA to association management?
A: It was by chance and has turned out to be a wonderful and rewarding career. I never knew anything about association management—an awareness initiative the American Society of Association Executives is addressing. I always have been intrigued by the health care/medical practice delivery model; therefore, many years ago I answered an ad for a financial analyst position at the College of American Pathologists. After the first year, I was hooked; I love the interaction between the members, volunteer leaders and staff. It’s powerful to see what can be created when there’s a true partnership. Additionally, associations are well positioned to shape the future—to be the change they want to see.

Q: What does member value look like for you?
A: Value means answering the most important question for the member: What’s in it for me? That requires knowing what makes our members tick—what works, what doesn’t and what motivates our members to keep coming back. It’s understanding the trends that are the primary drivers of behavior and decisions in the marketplace and identifying the critical challenges on the horizon. I remember a few years ago when I was talking to the then-chair of the Institute of Real Estate Management Membership Committee, who said, “Price is never a concern when value is clear and compelling.” This could never be truer than today when capturing the attention of our members is challenging and keeping their attention is even more difficult.

Q: What will your first 100 days as CEO look like?
A: I know I stand on the shoulders of great leaders, as such I’m committed to being thoughtful and strategic in my overall planning and decision-making. To that end, during my first 30 days I will take time to listen and understand. Dedicated listening starts with being present and listening with a high quality of attention, while weaving in a degree of introspection. This due diligence phase gathers stakeholder input and gains further understanding of the voice of the member and voice of the profession.

The next phase entails understanding the situations, the difficulties we’re facing as an organization and profession, as well as the biggest opportunities.

Finally, I’ll be focusing on developing a point of view about the future, soliciting the views of stakeholders and identifying areas of potential innovation and growth while always keeping in mind CalCPA’s mission to increase the value and promote the integrity of the CPA profession, contribute to the success of our members and strengthen client, employer, public and government trust in CalCPA members advice, work products and opinions.

Q: What attracted you to CalCPA?
A: First and foremost, the opportunity to make a difference in my chosen profession as a CPA was very attractive. I’m extremely passionate about the accounting profession and proud of obtaining my CPA license. The CPA designation elevates you above other accounting professions and creates a springboard for more opportunities. I also

A RETURN TO ROOTS: THE NUMBERS ADDED UP FOR DENISE FROEMMING

Q&A with CalCPA’s President & CEO

Photography by Richard Morgenstein
was attracted to the fact that CalCPA is the largest statewide professional association for CPAs and partners with AICPA and other state societies to elevate, advocate and educate the profession and its members. The icing on the cake was that my son, who has a financial position in a large bank, lives in Santa Monica, so visits will be much easier and winter will be much warmer. I’m honored and thrilled to be here!

Q: What do you see as the most pressing issues for CPAs? For CalCPA?
A: Like many professions, one of the most pressing issues for CPAs is relevancy—continuing to elevate CPAs to be seen as strategic, trusted advisers addressing changing client priorities and business models. Connected with this is an increasing need for the profession to stay on top of a growing number of legislative and regulatory challenges that can have wide-ranging implications for clients, the public and the profession itself. It’s important we all remain vigilant and engaged to ensure that CPAs remain the trusted advisers, valued employees and preferred providers of financial and advisory services to consumers everywhere.

Another critical issue is managing the wave of technological disruption that continues to impact the work, planning and decisions of CPA leaders; thereby heightening the need for adaptation and embracing key technology advancements—making continuous upskilling crucial. The war for talent also affects CPAs. Finding skilled, capable and diverse professionals will set the stage for innovation, retooling and repositioning. In concert with the talent war are the needs to enhance work experience, increase employee fulfillment and demonstrate corporate social responsibility.

CalCPA also faces several pressing issues: digital innovation, future of work, competition for both our member’s attention and wallet share, remaining relevant, continuing to amplify our voice and having a seat at the table when legislative and regulatory issues are discussed. Many associations are facing these similar challenges; we need to be focused, aligned and adaptable.

Q: What do you see as the challenges for women in the CPA profession today?
A: Through the years, women have gained ground as CPAs and partners; however, the number of female partners remains within the low 20th percentile. COVID didn’t help women advance into the leadership ranks; in fact, the working conditions during the pandemic drained stamina and appetite for career advancement. Finding firms and roles that provide flexibility and support a holistic career path is a challenge; however, I’m optimistic we will see creative career models and paths. Tied into this is the lack of female role models, especially for women of color. Open and honest conversations surrounding future career paths help to recognize and promote high-potential talent.

Q: Where do diversity, equity and inclusion (DE&I) issues rank on your to-do list? How can we address DE&I concerns in terms of the profession and CalCPA?
A: Diversity, equity and inclusion matter to me because it’s at the heart of humanity—the human experience. We all need to be at the table to build a better world and a better tomorrow for our children. It’s all our responsibility; each of us is uniquely positioned to help build a more diverse and inclusive world.

The best way to address DE&I is to be curious, have uncomfortable conversations, remember it’s a journey not a destination and continue to move forward with measurable results. There will be bumps in the road and times we skin our knees, but we need to keep moving. Over the past few weeks I’ve had the privilege and honor to talk with CalCPA leaders, team members and the CalCPA Diversity, Equity and Inclusion Commission—passionate, resilient and committed to coming together and affecting change. I look forward to continuing to work with our leaders to help build a framework/blueprint that advances DE&I and is sustainable.

Q: What advice do you have for accounting students or those just starting their CPA journey?
A: It’s never too early to build your network and get to know a wide range of people: faculty, staff, students and other professionals you meet throughout your day-to-day activities. And ask for help when you need it. Most people are eager to help and unless you tell them what you need, they will never know. Getting involved with your local CalCPA chapter is another way to expand your network, develop your leadership skills and give back to the professional community.

I will share author Wilfred Peterson’s quote that I frequently mention to my son: “Walk with the dreamers, the believers, the courageous, the cheerful, the planners, the doers, the successful people with their heads in the clouds and their feet on the ground. Let their spirit ignite a fire within you to leave this world better than when you found it.”

Q: What has been your biggest learning experience?
A: Perseverance and the ability to be flexible to change with varying situations.

Q: What one word describes you best?
A: The word that describes me best is “optimistic”—the glass is neither half full or half empty, it can always be refilled.

Q: How would you describe your leadership style?
A: I embrace Simon Sinek’s viewpoint: “A leader’s responsibility is to see those around them rise and be successful, taking care of those you oversee.” My approach is one of inspiration, flexibility and transparency. Leadership at its core is to serve and encourage the people you lead by teaching, coaching and mentoring with the supreme goal of growing more leaders.

Q: Most recently read book? Binged-watched show on Netflix?
A: I recently read the book “A Most Beautiful Thing” by Arshay Cooper, which was thought provoking and hopeful. I would suggest it as a must on your reading list. I just binged-watched “The Maid” on Netflix—beautiful and gritty.

Q: What would you find doing in your free time?
A: I would be spending time with family or friends hiking, walking on the beach, traveling and enjoying a wonderful dinner together.

Q: Favorite app and why?
A: Pocket is one of my favorite apps. It allows me to save my favorite articles in one place, tag portions based on pertinent categories, select favorites and then highlight to quickly access. Check it out!

Q: If we looked at your texts, what emoji would we see the most?
A: The smiley face and clapping hands; there’s so much to celebrate and be grateful for.

Q: Cubs or White Sox?
A: Tough question. I’m a fan of great entertainment, which given the ebbs and flows of sports allows for choosing what to watch and whom to cheer for on any given day. When it comes to baseball, I’m originally from the Milwaukee area and tended then to root for the Brewers (and football for the Packers). Neither are really possible nor even welcomed in Chicago where I have favored the Cubs, although the White Sox have a hip appeal and are interesting to watch.

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—CPA.com President & CEO Erik Asgeirsson

$910B
The expected amount spent in online holiday shopping this year.
—Adobe Analytics

43%
The number of Americans that are more afraid of credit card debt than COVID-19.
—WalletHub

39
The number of states that can't afford to pay their bills.
—TIA

56%
The number of workers who say low salaries have a significant impact on their stress levels.
—American Psychological Association

62
The average age at which people expect to retire, down from 63 as of last year.
—Northwestern Mutual

770
The number of new laws signed by California Gov. Gavin Newsom during the most recent legislative session.
—CalMatters

makeover
While Social Security is a popular program, many Americans support changes to it—including some that would fundamentally alter the entitlement program.
A survey found Americans supported the following reforms:
- Ensuring cost-of-living-adjustments (COLAs) keep pace with true inflation
- Taxing higher earners more to support Social Security
- Providing a Social Security credit to unpaid caregivers
- Providing COLAs only to middle- or low-income households
- Eliminating the cap on payroll taxes
- Privatizing part of Social Security benefits
- Means-testing benefits

Source: Nationwide

Corrections to Fast Tax Facts
The following correction apply to the November issue's Fast Tax Fact feature (Page 9):
- The "Rate" under "California SDI" (Page 10, Column 1, second line from the bottom) should be 1.2 percent.
- There's a transposition error on the state tax rate schedule for "Married Filing Jointly" (Page 11, Column 2, Line 3): the highlighted number should be $69,784.
- The "Married Filing Jointly" and "All Others" numbers under "Lifetime Learning Credit" (Page 15, Column 1, lines 11 and 12) should be updated to $160,000-180,000 and $80,000-90,000, respectively.
Legal Ruling 2021-01: Unity of Apportioning Pass-through Entities

The ruling examines whether, in a series of differing situations, pass-through entity holding companies are unitary with other pass-through entities.

Read more at ftb.ca.gov/tax-pros/law/legal-rulings/2021-01.pdf.

FTB/CalSavers Notices Coming January 2022

The FTB partnered with the CalSavers Retirement Savings Board as mandated by AB 102 (2020) to issue penalty imposition notices beginning in January 2022 to eligible employers deemed by the CalSavers Retirement Savings Board to be noncompliant with the CalSavers Retirement Savings Program.

State law established CalSavers to give workers a way to save for their future and requires eligible employers that do not offer an employer sponsored retirement plan and have at least five employees to register for CalSavers and make the program available to their employees.

Eligible employers that fail to comply will become noncompliant and subject to a financial penalty. CalSavers may refer penalties of noncompliant eligible employers to the FTB for collection.

Learn more at ftb.ca.gov/about-ftb/newsroom/tax-news/november-2021/calsavers.html.

STAND OUT & LEAD:
STATE COMMITTEE APPLICATION PERIOD OPEN

Whatever your interests and expertise, we have a matching state committee—and the application period to serve in 2022-23 is open through Jan. 28.

Visit calcpa.org/sc-app to log into your CalCPA account and complete your application. Committee appointments will be finalized in March/April and the committee term is May 1–April 30, 2023.

Please note: At-large state committee membership carries a one-year term, so re-application is necessary for existing state committee members if you’d like to be considered for reappointment. Also, if you will be a chapter committee chair in 2022-23, then you have an automatic seat on that corresponding state committee and do not need to apply for that committee. If you would like to continue or apply to other state committees, however, please follow the steps of the application.

If you have any questions, feel free to contact calcpa@calcpa.org.
ACCOMPLISHMENTS

Congratulations to Morey Greenstein, founding partner of Fremont-based Greenstein, Rogoff, Olsen & Co., LLP, for being a CalCPA member for 65 years … Accounting Today named LevitZacks the Best Accounting Firm to Work For (small firm category) in the United States … CPA Practice Advisor named Matt Martin and Cherie Williams among its 40 Under 40 Professionals, and named Blake Oliver among its 20 Under 40 Influencers … The Argonaut named David R. Stern of as best accountant in the area … BPM LLP has been named one of the Best CPA Firms for Women in the 2021 Accounting MOVE Project.

MEMBERS IN THE NEWS

An Oct. 13 Yahoo Finance article on IRS letters asking for the return of stimulus money quoted Dan Herron … The Tax Adviser quoted Mary Kay Foss in a Nov. 4 article on donor-advised funds and she was quoted by Financial Advisor Nov. 9 on timing charitable contributions.

TRIBUTE FOR OUTSTANDING SERVICE

CalCPA's Monica Thompson Memorial Benevolent Fund was created to honor and remember the 21 years of outstanding service and contributions to CalCPA and the profession for which Monica Thompson (1964-2021) dedicated her career. The fund is intended to provide members, staff and friends of CalCPA financial assistance through temporary periods of crisis or hardship. The fund provides short-term assistance for daily living or office expenses that become difficult to meet due to natural disaster or health/medical reasons.

For details on the assistance the fund will provide, eligibility requirements, the application process and how to donate, visit calcpa.org/benevolent-fund.

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WHAT YOU NEED TO BUILD A SUCCESSFUL TAX SEASON
CALIFORNIA DEVELOPMENTS & OPPORTUNITIES
BY RYAN GALINAITIS, CMI; NICK WEST, JD; & THOMAS OTT, CPA, MST

Between the COVID-19 pandemic, numerous natural disasters and a frameshift in work environments, 2021 continues to present significant challenges to Californians’ ability to work and thrive—as well as dramatically increasing workloads for tax professionals.

The insight below presents a summary of relevant updates and changes impacting tax professionals for the 2021 tax season.

Following, you’ll find more details on income tax perspectives, income tax credits, disaster loss deductions and sales tax.

Income Tax Perspective
State & Local Tax Deduction Workaround:
Elective Pass-Through Entity Tax

California enacted Assembly Bill (AB) 150 on July 16, 2021, joining numerous other states in enacting laws to allow individual owners of pass-through entities (PTEs) to shift the state tax burden of PTE income from individuals to the entities’ level.

Other states have similar laws in place since 2018. The PTE elective tax opportunity is in response to the IRS-issued Notice 2020-75 in November 2020, signaling that the agency would allow an entity-level deduction for PTEs paying state tax on behalf of their individual owners’ behalf in this manner.

AB 150 added Sec. 17052.10 to the California Revenue and Taxation Code (CRTC) with the following specific provisions and limitations:

• The election is made at the entity level and available for tax years beginning Jan. 1, 2021, through Jan. 1, 2026.
• The tax is paid at 9.3 percent of the collective pro rata shares of owners’ income subject to California tax.

The following types of PTEs aren’t eligible for this provision:
• Disregarded entities
• PTEs with owners that are partnerships
• PTEs that are part of a combined reporting group for corporation tax purposes
• PTEs that are publicly traded companies

From a California perspective, the general benefit of this provision can be calculated as seen in Figure 1.

Keep an eye on ftb.ca.gov/file/business/credits/pass-through-entity-elective-tax/index.html for more information and updates.

Main Street Small Business Tax Credit II
AB 150 also contained provisions authorizing a second, revised version of 2020’s Main Street Small Business Tax Credit.

This credit provides $1,000 for each net increase in qualified employees and may be used to offset either sales and use taxes or income taxes.

Applications for tentative credit amounts may be made to the California Department of Tax and Fee Administration (CDTFA) Nov. 1, 2021, through Nov. 30, 2021.

Credits are allocated on a first-come, first-serve basis, with a total of $116 million allocated by the state for the credit. No employer may receive an allocation of more than $150,000, and allocations are reduced by any 2020 credit received under the first version of this credit.

To qualify for the credit, a business must:
• Have experienced a 20 percent reduction in gross receipts as compared to prior period data—the period of comparison varies for calendar year filers, fiscal year filers, and new businesses opened during 2019
• Have had 500 or fewer employees whose wages are subject to California withholding as of Dec. 31, 2020
• Not be required or authorized to be included in a combined report

FTB will again use Form 3866 for claiming the credit against income tax liability.

The Franchise Tax Board (FTB) has indicated it will create and release the following forms by the release dates shown in Figure 2.

Figure 1

|^ Income subject to California tax |
| Marginal federal tax rate |
| 9.3% |
| Real Benefit Realized |

Figure 2

| Available November 1, 2021 | Pass-Through Entity Elective Tax Payment Voucher (FTB 3860) |
| Available January 2022 | Pass-Through Entity Elective Tax Calculation (FTB 3804) |
| Pass-Through Entity Elective Tax Credit (FTB 3804-CR) |

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Tax Treatment of PPP Loans

On Sept. 9, 2020, California enacted AB 1577 (CARES Act Conformity) to allow the exclusion of forgiven Payment Protection Plan (PPP) loans from income for tax years beginning on or after Jan. 1, 2020. On April 29, 2021, the state then enacted AB 80, which expanded the income exclusion to include second draw PPP loans as well as Economic Injury Disaster Loan (EIDL) grants.

To qualify under AB 80 for expense deductions, adjustments in basis, and corresponding lack of reducing tax attributes, California required that the taxpayer not be publicly traded and had to meet a 25 percent gross receipts reduction test.

Taxpayers that qualified under AB 80 were eligible to report the changes on either an amended return or an original return that had yet to be filed. Additionally, even if a taxpayer didn’t qualify under AB 80, they may still qualify to deduct some expenses related to the second PPP draw in accordance with IRS Revenue Ruling 2020-27.

Qualifying taxpayers are eligible at the California level for income exclusions and deductions analogous to the federal provisions found in the Coronavirus Aid, Relief and Economic Security Act (CARES) Act.

Due to California’s late conformity to certain CARES Act provisions, it may be appropriate to consider amending returns for eligible years to report additional deductions, basis adjustments and restore tax attributes.

Net Operating Loss Suspension

AB 85 is another impactful bill from 2020 as it suspends the utilization of NOLs—for both corporate and individual taxpayers with taxable income of more than $1 million—for tax years beginning Jan. 1, 2020, and ending on or before Dec. 31, 2022. AB 85 took immediate effect once signed into law on June 29, 2020.

The state’s general 20-year NOL carryforward may be extended under existing law, California removed the ability to carry losses generated beginning with the 2019 tax year back to the prior two years, which was otherwise permitted for losses generated in tax years 2013 through 2018.

Business Tax Credit Limitation

In addition to the NOL suspension provisions, AB 85 also placed a limit on the use of business tax credits for tax years 2020 through 2022. Specifically, the use of business tax credits will be subject to a $5 million annual limitation for those years.

The limitation applies on a combined group basis; this means a reporting group is collectively subject to the limitation rather than each of its members.

Income Tax Credit

In 2018, the California Earned Income Tax Credit extended to help low-income taxpayers. In 2019, AB 91 raised the maximum eligible amount of earned income to $30,000. The bill also added a refundable young child tax credit of up to $1,000 per qualified taxpayer, per taxable year.

The FTB’s web page (ftb.ca.gov/file/personal/credits/california-earned-income-tax-credit.html) details credit amounts, income limits, qualifications and additional information.

Disaster Loss Deductions

California taxpayers may deduct losses in any presidential- or governor-declared disaster area.

In this regard, the state generally follows federal law regarding the treatment of losses incurred as a result of a casualty or disaster though relevant nonconforming provisions still apply. Find additional information at ftb.ca.gov/file/business/deductions/disaster-loss.html.

Extended Deadlines

The FTB automatically follows the IRS extended deadlines to file or pay taxes until the date indicated for the specific disaster.

Taxpayers should write the disaster name in dark ink at the top of their tax return to alert the FTB of the disaster to which the return is related.

Additional Designated Areas

The IRS disaster relief web page (irs.gov/newsroom/tax-relief-in-disaster-situations) lists additional designated areas eligible for a postponement period. If a taxpayer qualifies for the postponement period, any interest, late-filing or late-payment penalties that would otherwise apply will be cancelled. The FTB also will follow these stipulations.

Other 2020 & 2021 Disasters

Taxpayers may deduct a disaster loss for any loss sustained in a California city or county where the governor declares a state of emergency.

The list of California Qualified Disasters can be seen in Figure 3 (next page) and is published at ftb.ca.gov/file/business/deductions/disaster-codes.html.

For more information regarding California disaster losses, see Publication 1034, Disaster Loss How to Claim a State Deduction (ftb.ca.gov/forms/misc/1034.pdf).

Interest Rates

Effective Jan. 1, 2021, the FTB pays 0 percent interest on corporate overpayments. This rate is effective through Dec. 31, 2021.

The interest rate for personal income tax underpayments and overpayments, corporation underpayments, and estimate penalties are shown in Figure 4 and listed at ftb.ca.gov/pay/penalties-and-interest/interest-and-estimate-penalty-rates.html.

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
<th>INTEREST RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1, 2021</td>
<td>December 31, 2021</td>
<td>3%</td>
</tr>
</tbody>
</table>

For interest rates after Dec. 31, 2021, the FTB will provide more information at ftb.ca.gov/pay/penalties-and-interest/interest-and-estimate-penalty-rates.html as it becomes available.
Doing Business & Economic-nexus Thresholds

For California income tax purposes, “doing business” is defined as, “actively engaging in any transaction for the purpose of financial or pecuniary gain or profit.”

For the taxable year beginning on or after Jan. 1, 2020, a taxpayer is seen as doing business in California for a taxable year if any of the following conditions are satisfied:

- The taxpayer is organized or commercially domiciled in California.
- The taxpayer’s California sales exceed the lesser of $610,395 or 25 percent of total sales.
- The taxpayer’s real property and tangible personal property in California exceed the lesser of $61,040 or 25 percent of total real property and tangible personal property.
- The taxpayer’s compensation amount paid in California exceeds the lesser of $61,040 or 25 percent of total compensation paid.

The doing-business thresholds for taxpayers are indexed for inflation and revised annually.

Sales Tax

Main Street Small Business Hiring Credit

Businesses that apply and are approved for the Small Business Hiring Tax Credit can make an irrevocable election to apply the credit amount to offset California sales and use tax amounts.

If making the sales and use tax offset election, the credit must be claimed on returns filed with the CDTFA.

The first return on which the credit can be claimed will depend on your California sales and use tax filing frequency, outlined below:

- **Monthly filers** — the credit applies to amounts due and payable on returns commencing March 1, 2022.
- **Quarterly filers** — the credit applies to amounts due and payable on returns commencing Jan. 1, 2022.
- **Annual and fiscal year filers** — the first return on which the credit may be applied are returns due on or before April 30, 2022.

If the credit amount isn’t used on the first return, it will roll forward and can be applied to future returns. The approved credit amount must be used on returns filed on or before April 30, 2027.

Any unapplied credit amounts are considered forfeited and aren’t refundable.

Next Steps

Federal tax changes and related conformity requirements will continue to impact California taxpayers in addition to the changing landscape of business and everyday life.

As the state continues to expand, evolve, and response to these challenges, please contact your business adviser with any questions.

Ryan Galinaitis and Nick West are senior managers and Thomas Ott is a manager at Moss Adams. Galinaitis can be reached at (408) 558-3289 or ryan.galinaitis@mossadams.com. West can be reached at (408) 558-3265 or nick.west@mossadams.com. Ott can be reached at (916) 616-5751 or thomas.ott@mossadams.com.

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2021 Consolidated Appropriations Act


Business Meals Deduction

Existing IRC Sec. 274(n)(1) generally limits the deduction for business-related food or beverages expenses to 50 percent of the amount otherwise deductible.

For only 2021 and 2022, the CAA allows a 100 percent deduction for business-related meals and beverages provided at a restaurant. This 100 percent deduction is allowed pursuant to Sec. 274(n)(2)(D), which was added to the IRC by Sec. 210(a) of the 2020 Taxpayer Certainty and Disaster Tax Relief Act (Act), enacted as Division EE of the CAA.

Restaurants Defined & Exclusions

IRS Notice 2021-25 (IRB 2021-17, April 26, 2021) states that, for purposes of Sec. 274(n)(2)(D), the term “restaurant” means a business that prepares and sells food or beverages to retail customers for immediate consumption—regardless of whether the food or beverages are consumed on the business’ premises.

A restaurant does not include a business that primarily sells pre-packaged food or beverages not for immediate consumption, such as a grocery store; specialty food store; beer, wine or liquor store; drug store; convenience store; newsstand; or vending machine or kiosk.

In addition, an employer may not treat as a restaurant for Sec. 274(n)(2)(D) purposes:

1. Any eating facility on the employer’s business premises and used in furnishing meals excluded from an employee’s gross income under Sec. 119; or
2. Any employer-operated eating facility treated as a de minimis fringe under Sec. 132(e)(2), even if this facility is operated by a third party under contract with the employer as described in Regs. Sec. 1.132-7(a)(3).

Other Requirements

Sec. 274(k)(1) generally disallows deductions for food or beverages expenses unless:

1. The expenses are not lavish or extravagant under the circumstances; and
2. The taxpayer, or an employee of the taxpayer, is present at the furnishing of such food or beverages.

Sec. 274(a)(1) generally disallows deductions for entertainment, amusement or recreation. However, Regs. Sec. 1.274-11(b)(1)(ii) states that this disallowance does not apply to food or beverages provided at an entertainment activity if:

• The food or beverages are purchases separately from the entertainment; or
• The food or beverages cost is separately stated from the entertainment cost on one or more invoices, bills or receipts. The amount charged for food or beverages on an invoice, bill or receipt must reflect the venue’s usual selling cost for those items if they were purchased separately from the entertainment or must approximate the reasonable value of those items.
If the food or beverages are not purchased separately from the entertainment, or the food or beverages cost is not stated separately from the entertainment cost on one or more invoices, bills or receipts, no allocation between entertainment and food or beverages may be made and, generally, the entire amount is a nondeductible entertainment expense.

Charitable Contributions
As discussed in the August 2020 California CPA, Page 19, the CARES Act (enacted March 27, 2020) permitted an individual for 2020, who does not elect to itemize deductions to claim a deduction up to $300, for a tax filing unit, toward adjusted gross income (AGI) for qualified charitable contributions. A qualified contribution is a cash payment to a charitable organization described in Sec. 170(b)(1)(A), except:

- A supporting organization described in Sec. 509(a)(3); and
- For establishing a new, or maintaining an existing, donor-advised fund.

Contributions of noncash property, such as securities, are not qualified contributions.

Percentage Limitations
For individuals, the deduction for qualified contributions for 2020 was allowed up to the amount by which the taxpayer’s contributions base (AGI without any NOL carryback) exceeds the deduction for other charitable contributions.

For corporations, the deduction for qualified contributions was allowed up to 25 percent of its taxable income for 2020.

For charitable contributions of food inventory qualifying for the enhanced deduction under Sec. 170(c)(3), the deduction was allowed up to 25 percent of taxable income for 2020.

The CAA extends these provisions to 2021.

Under Act Sec. 212(a), CAA Division EE, the following modifications to the $300 deduction are made for 2021:
1. This deduction is increased to $600 for married couples filing joint returns [Sec. 170(p)].
2. Instead of being deductible toward AGI, this deduction is now allowable from AGI to arrive at taxable income [Sec. 63(b)(4)].
3. If this deduction is overstated, the Sec. 6662 accuracy-related penalty is increased from 20 percent to 50 percent [Sec. 6662(b)], added to the IRC by Act Sec. 212(b)(2), (CAA Division EE).

Forgotten PPP Loans and Business Expenses
The amount of a Paycheck Protection Program (PPP) loan that is subsequently forgiven is excluded from income, even though a forgiven loan generally produces taxable debt cancellation income.

The IRS previously determined in Notice 2020-32 that any business expenses paid with a forgiven PPP loan were not deductible because the IRC and relevant regulations prohibit deducting business expenses allocable to tax-exempt income.

However, the CAA expressly provides that the intent of the original PPP legislation was that these expenses are deductible.

Rev. Rul. 2021-2, effective for tax years ending after Mar. 27, 2020, reverses the position taken in Notice 2020-32 and conforms to the CAA.

Disaster Tax Relief
The CAA provides tax relief for federally declared disaster areas, including:
- Forgiveness of early-withdrawal penalties under Sec. 72(t) for qualified disaster distributions;
- The recomputation of amounts withdrawn for home purchases;
- An increase in the amount of loans from qualified plans;
- An employer retention credit for employers in affected areas; and
- Special casualty loss rules for affected individuals.

This is similar to disaster tax relief historically provided for major disasters, such as wildfires and hurricanes.

However, unlike the previous disaster-by-disaster approach, this new relief generally applies to all declared disasters beginning Jan. 1, 2020, and ending Feb. 25, 2021.

Deferred Payroll Taxes
Pursuant to an Aug. 8, 2020, memo issued by former President Trump, employers were allowed to defray their employee’s share of payroll taxes from Sept. 1 through Dec. 31, 2020, with ratably repayments from Jan. 1 through Apr. 30, 2021.

The CAA extends the payback period to Dec. 31, 2021. Penalties, additions to tax and interest will start to accrue on these deferred taxes on Jan. 1, 2022, instead of May 1, 2021.

Payments made by Jan. 3, 2022, will be considered timely because Dec. 31, 2021, is a legal holiday.

Also see IRS Notice 2021-11.

Educator Expenses
The CAA requires the Treasury Department to issue regulations providing that personal protective equipment and other supplies used to prevent the spread of COVID-19 qualify for the educator expense deduction towards AGI under Sec. 62(a)(2)(D).

Also see Rev. Proc. 2021-15.

Tax Credits
The employer credit for paid sick and family leave, originally part of the Families First Coronavirus Response Act, was due to expire on Dec. 31, 2020. The CAA extends this credit to March 31, 2021. See Form 7202.

The CAA and subsequent legislation also generally extends the employee retention credit to apply to compensation paid to a covered employee through Sept. 30, 2021. This credit was due to expire for compensation paid after Dec. 31, 2020.

Extenders
The CAA and subsequent legislation generally extends 34 taxpayer-favorable IRC provisions for individuals and businesses. These provisions, commonly called “extenders,” generally are extended every year or two years for one or two years; most were due to expire at the end of 2020.

However, unlike previous years, these new extensions are not uniform; some are extended only to 2021, others to 2025, and some are made permanent.

2021 American Rescue Plan Act
The 2021 American Rescue Plan Act (ARPA) was enacted into law...
on March 11, 2021, as P.L. 117-2. The ARPA contains tax relief for individuals and employers. Highlights of selected provisions for individuals follow.

**Child Tax Credit**
Under the old law, this credit was $2,000 per qualifying child, but only $1,400 of that credit was refundable.

*For 2021 only*, the ARPA increases this credit to $3,000 per qualifying child or to $3,600 for a qualifying child under 6 years old. This new law also makes the child tax credit completely refundable.

Under the old law, a qualifying child generally was the taxpayer’s qualifying child [defined in Sec. 152(c)] who had not attained age 17 [Sec. 24(c)]. The ARPA increases the maximum age of qualifying children to age 17 for 2021.

**Phaseout of Credit**
The excess of the new credit over the old law’s $2,000 credit is phased out by $50 for each $1,000 (or fraction thereof) of modified adjusted gross income (MAGI) exceeding these thresholds:
- $150,000 for joint returns
- $112,500 for head of household returns
- $75,000 for single returns

When this excess credit is eliminated, the credit remains at $2,000 until the following existing law’s thresholds under [Sec. 24(b)(3)] are reached:
- $400,000 for joint returns
- $200,000 for other returns

**Advance Payments**
The Treasury Department and the IRS will disburse monthly advance payments for 50 percent of this credit, beginning July 1 through Dec. 31, 2021. The remaining unpaid 50 percent will be received when 2021 returns are filed as the full amount of this credit is claimed on those returns but after reduction for amounts received in advance.

If a taxpayer received erroneous payments (for example, a 2019 or 2020 return indicated a dependent child who is not a dependent in 2021), the ARPA contains a safe harbor, protecting taxpayers from repaying overpayments of up to $2,000 per child.

This safe harbor is available for:
- Joint return filers with MAGI of $120,000 or less.
- Head of household filers with MAGI of $100,000 or less.
- Single taxpayers with MAGI of $80,000 or less.

The Treasury Department and the IRS are directed to create...
a website for taxpayers to opt out of receiving advance payments or to provide information on status changes that would affect the amount of the credit.

For additional information, see Rev. Proc. 2021-23 and irs.gov/childtaxcredit2021.

Earned Income Tax Credit
For 2021 only, the ARPA makes these changes for taxpayers without children:
• The credit increases to $1,502 from $534 (per the 2020 Form 1040 Instructions, Page 50);
• Increases the income at which this credit is maximized to $9,820 from $7,100;
• Increases the phaseout threshold for non-joint filers to $11,610 from $8,880; and
• Reduces the minimum age for claimants to 19 from 25 (except for full-time students).
The ARPA also permits taxpayers to substitute 2019 earned income for 2021 earned income in claiming this credit on 2021 returns if 2021 earned income is less than 2019 earned income.

There are other changes to the earned income credit, which are permanent, including the following:
• Eliminating the prohibition against taxpayers claiming the childless credit solely because they cannot claim the earned income credit for taxpayers with children due to the lack of identification requirements;
• A married, but separated, individual can claim the earned income credit as an unmarried individual if certain requirements, pertaining to children, are satisfied; and
• The amount of disqualifying investment income, for purposes of the earned income credit, is increased to $10,000—adjusted for inflation after 2021. The disqualifying investment income was $3,650 for 2021.

Child and Dependent Care Assistance Credit
Under the old law, this credit was equal to 35 percent of qualified

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expenses for care of a qualifying individual—up to $3,000 for one qualifying individual or $6,000 for two or more qualifying individuals. These amounts are reduced by the total amount excludable from gross income under Sec. 129 dealing with exclusions from gross income for dependent care assistance programs described in Sec. 129(d). [See Sec. 21(c).]

However, this 35 percent was reduced by one percentage point for each $2,000 (or fraction thereof) of AGI exceeding $15,000—but not below 20 percent.

For 2021 only, the ARPA makes the following changes:
• This credit is based on 50 percent of qualified expenses, instead of 35 percent;
• The 50 percent is reduced by one percentage point for each $2,000 (or fraction thereof) of AGI exceeding $125,000. This credit percentage is then not further reduced below 20 percent until AGI reaches $400,000, when the reduction of the credit percentage continues until it is zero;
• The amount of eligible expenses qualifying for this credit are increased to $8,000 for one qualifying individual and $16,000 for two or more qualifying individuals; and
• This credit is fully refundable.

In addition, the maximum exclusion under Sec. 129(a)(2)(A) for employer-provided dependent care could not exceed $5,000 ($2,500 for married filing separately).

For 2021, the ARPA increases these limitations to $10,500 (or $5,250 for a married individual filing a separate return). For further information, see irs.gov/newsroom/child-and-dependent-care-credit-faqs.

Forgiven Student Loans Exclusion
Under the old law, forgiven student loans were excluded from gross income only under certain conditions—such as the borrower’s death or disability.

However, for loans discharged after 2020 and before 2026, the ARPA provides that this exclusion applies to any discharge of student loans for any reason during this period.

The exclusion also will apply to private student loans, if there is no required provision of services to the discharging lender.

Recovery Rebates
The Coronavirus Aid, Relief and Economic Security (CARES) Act; P.L.116-136, enacted March 27, 2020, provided the first round of

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these rebates—with $1,200 for individuals and $500 for qualifying children (see the June, August, October and December 2020 issues of California CPA, at Pages 12, 19, 24 and 28, respectively).

The 2021 CAA provided an additional $600 stimulus payment—for individuals and children (see the March/April and June 2021 California CPA, at Pages 23 and 21 respectively).

The ARPA contains a third round of direct stimulus payments for taxpayers in the amount of a $1,400 payment. These payments are credits against 2021 income taxes but are fully refundable and payable in advance (similar to the previous payments).

But, like the prior payments, this third round is subject to income limitations. The payment is phased out ratably if AGI exceeds the following amounts:

- $150,000—For joint return filers
- $112,500—For head of household return filers
- $ 75,000—For single return filers

This stimulus payment phases down to zero if AGI reaches the following levels:

- $160,000—For joint return filers
- $120,000—For head of household return filers
- $ 80,000—For single return filers

2020 AGI is used to compute the phaseout, but 2019 AGI is substituted if 2020 returns have not been filed.

Comparable to the last two stimulus payments, amounts to which taxpayers would be entitled, but did not receive, will be creditable on 2021 income tax returns filed in 2022. Also, payments received that were based on 2019 or 2020 returns, but would be lower based on 2021 returns, do not have to be repaid.

This $1,400 stimulus payment is for all individuals who have a Social Security number and applies to taxpayers, their children and non-child dependents.

The Treasury Department and the IRS are granted authority to make stimulus payments to non-filers based on available information.

**Guidance for FAQs**

IRS News Release (IR 2021-202, Oct.15, 2021) announced that the IRS is updating its process for certain FAQs on newly enacted tax legislation. This process is being updated to address concerns regarding transparency and the potential impact on taxpayers when these FAQs are updated or revised.

At the same time, the IRS also is addressing concerns regarding the potential application of penalties for taxpayers who rely on
FAQs by providing clarity to taxpayers on their ability to rely on FAQs for penalty protection.

Significant FAQs on newly enacted tax legislation, as well as any later updates or revisions to these FAQs, will now be announced in a News Release and posted on IRS.gov in a separate Fact Sheet. These Fact Sheet FAQs will be dated to enable taxpayers to confirm the date on which any changes to the FAQs were made.

Additionally, prior versions of Fact Sheet FAQs will be maintained on IRS.gov to ensure that, if a Fact Sheet FAQ is later changed, taxpayers can locate the version they relied on if they later need to do so.

In addition to significant FAQs on new legislation, the IRS may apply this updated process in other contexts, such as when FAQs address emerging issues.

To address concerns about the potential application of penalties for taxpayers relying on a FAQ, the IRS released a statement Oct. 15 clarifying that if a taxpayer relies on any FAQ, including FAQs released before Oct. 15, in good faith and that reliance is reasonable, the taxpayer will have a reasonable cause defense against any negligence or other accuracy-related penalty if it turns out that the FAQ is not a correct statement of the law as applied to the taxpayer’s particular facts. For more information, see this month’s Fed Tax Column, Page 22.

**New Reporting Rules for Partnerships & S Corps**

IRS Notice 2021-39 (IRB 2021-27, July 6, 2021) announced transition relief for tax years beginning in 2021 regarding new Schedules K-2 and K-3 required for the following returns:

- Form 1065, U.S. Return of Partnership Income;
- Form 1120-S, U.S. Income Tax Return for S corps; and
- Form 8865, Return of U.S. Persons with Respect to Certain Foreign Partnerships.

**Background**

Sec. 6031 generally requires a partnership to:

- File an annual return reporting its gross income and allowable deductions, plus any other information prescribed by forms and instructions to carry out IRC provisions; and
- Furnish to its partners statements containing each partner’s share of the partnership’s items of income, gain, loss, deductions or credits, plus any additional information required

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to apply particular IRC provisions to the partner concerning partnership items as prescribed by forms or accompanying instructions.

Sec. 6037 provides similar requirements for an S corp.

Sec. 6038 generally requires a U.S. person controlling a foreign partnership or holding at least a 10-percent interest in a foreign partnership controlled by U.S. persons holding at least 10 percent interests (a U.S. partner) to furnish information relating to the controlled foreign partnership (CFP), including information relating to the U.S. partner’s ownership interests in the partnership and allocation of partnership items to the partner.

A U.S. partner controlling a CFP also may need to provide information relating to another U.S. partner’s ownership interest in the partnership and allocation of “partnership items” to that partner.

Pursuant to secs. 6031, 6037 and 6038, the IRS has required, in forms and instructions, that partnerships, S corps, or U.S. partners in CFPs report information of international tax relevance.

New Schedules K-2 and K-3
For tax years beginning in 2021, the following Form 1065 schedules are new:

• K-2: Partners’ Distributive Share Items—International; and
• K-3: Partner’s Share of Income, Deductions, Credits, etc.—International.

These schedules replace, supplement and clarify the reporting of certain amounts previously reported on the following Form 1065 schedules:

• K: Partners’ Distributive Share Items, Line 16, Foreign Transactions and Line 20e, Other Items and Amounts; and
• K-1, Part III: Partner’s Share of Current Year Income, Deductions, Credits, and Other Items, Line 16, Foreign Transactions and Line 20, Other Information.

Also, for tax years beginning in 2021, similar Schedules K-2 and K-3 also are required for Forms 1120-S and 8865.

Penalties
Partnerships
Sec. 6698 imposes a partnership penalty for failure to show information required under Sec. 6031, including Schedules K-1, K-2 and K-3, absent reasonable cause.

S Corps
Sec. 6699 imposes a corporate penalty for failing to show information required under Sec. 6037, including Schedules K-1, K-2 and K-3, absent reasonable cause.

Information Returns
Sec. 6721 imposes a penalty for failing to include all required information or including incorrect information. When the Sec. 6011 regulations require a partnership return to be filed electronically, each schedule required to be included with that return for each partner (i.e., Schedules K-1 and K-3) is treated as a separate information return subject to this penalty [Sec. 6724(c)]. Failing to electronically file correct Schedules K-1 or K-3, when required, generally subjects a partner to this penalty.

Payee Statements
Sec. 6722 imposes a partnership or S corp penalty for failing to include all required information on payee statements, including Schedules K-1 and K-3, or including incorrect information.

Penalty Relief
Sec. 6724 waives secs. 6721 and 6722 penalties for failures due to reasonable cause and not willful neglect. Under Regs. Sec. 301.6724-1, a penalty is waived for reasonable cause only if the filer establishes either:

• Significant mitigating factors; or
• The failure arose from events beyond the filer’s control.

In addition, the filer must establish that the filer acted responsibly before and after the failure.

Sec. 6038 Information
Sec. 6038 generally imposes penalties on U.S. partners for failing to furnish information required by Sec. 6038, including Form 8865 and each Schedule K-1, K-2 and K-3—absent reasonable cause.

Transition Relief
Relief may be available for tax years beginning in 2021, for Schedules K-2 and K-3 to Forms 1065, 1120-S and 8865. During this transition period, partnerships, S corps and U.S. partners required to file Forms 1065, 1120-S or 8865, respectively, (Schedules K-2/K-3 filers) will not be subject to the penalties described above for any incorrect or incomplete Schedule K-2 and K-3 reporting if the filer establishes to the IRS Commissioner’s satisfaction that it made a good faith effort to comply with the Schedules K-2 and the Schedule K-3 filing requirements, and the Schedule K-3 furnishing requirements, in accordance with criteria in Notice 2021-39, Sec. 3.

New Address
Use the following address for filing 2021 paper Form 1040, Individual Income Tax Return:

Department of the Treasury
Internal Revenue Service
Ogden, UT 84201-0002

Form 8971, Information Regarding Beneficiaries Acquiring Property from a Decedent, should be filed with the IRS Service Center (Campus) in Kentucky instead of the IRS Service Center in Ohio.

Preparer Tax Identification Numbers
The IRS has announced that it is now PTIN renewal season for 2022 and that there is a $35.95 non-refundable renewal fee for 2022 PTINs. 2021 PTINs expire Dec. 31.

Social Security Tax
The maximum amount of earnings subject to the Social Security tax will increase from $142,800 for 2021 to $147,000 for 2022. Stuart R. Josephs, CPA has a San Diego-based Tax Assistance Practice. Josephs, immediate past chair of the Federal Subcommittee of CalCPAs Committee on Taxation, can be reached at (619) 469-6999 or stuartjosephs@yahoo.com.
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New Guidance
IRS Updates Process for FAQs on New Legislation & Reliance Concerns

This issue’s “Tax Season Toolkit,” Page 13, discusses the new IRS FAQ guidance. Additional information follows.

General Overview
Guidance Published in the Internal Revenue Bulletin
The Internal Revenue Bulletin (IRB) is the authoritative instrument of the Internal Revenue Commissioner to announce official IRS rulings and procedures and for publishing Treasury decisions, executive orders, tax conventions, legislation, court decisions and other general interest items.

It is the IRS' policy to publish in the IRB all substantive rulings necessary to promote uniform application of the tax laws, including all rulings that supersede, revoke, modify or amend any rulings previously published in the IRB. All published rulings apply retroactively unless otherwise indicated.

Procedures relating solely to internal management matters are not published. However, statements of internal practices and procedures affecting taxpayers' rights and duties are published.

Revenue rulings represent the IRS' conclusions on application of the law to pivotal facts stated in a revenue ruling. In those based on positions taken in rulings to taxpayers or in technical advice to IRS field offices, identifying details and confidential information are deleted to prevent unwarranted privacy invasions and to comply with statutory requirements.

Rulings and procedures reported in the IRB do not have the force and effect of regulations, but may be precedents. Unpublished rulings will not be precedents for IRS personnel in resolving other cases.

In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings and procedures must be considered. IRS personal and others are cautioned against reaching the same conclusions in other cases—unless the facts and circumstances are substantially the same.

FAQs
FAQs are a valuable alternative to guidance published in the IRB because they allow the IRS to quickly communicate information to the public on topics of frequent inquiry and general applicability. FAQs typically respond to general inquiries rather than applying the law to taxpayer-specific facts and may not reflect various special rules or exceptions that could apply in any particular case.

FAQs not published in the IRB will not be precedents for IRS personnel in disposing of cases. Similarly, if an FAQ turns out to be an inaccurate statement of the law as applied to a particular taxpayer's case, the law will control the taxpayer's tax liability. Nonetheless, a taxpayer who reasonably and in good faith relies on these FAQs will not be subject to a penalty that provides a reasonable cause standard for relief, including a negligence penalty or other accuracy-related penalty, to the extent that reliance results in an underpayment of tax.

Notwithstanding the non-precedential nature of the FAQs, a taxpayer's reasonable reliance on an FAQ, even one subsequently updated or modified, is relevant and will be considered in determining whether certain penalties apply.

Taxpayers who show they relied in good faith on an FAQ and that their reliance was reasonably based on all the facts and circumstances will have a valid reasonable cause defense. They will not be subject to a negligence or other accuracy-related penalty to the extent that reliance results in a tax underpayment [Regs Sec. 1.6662-4(b)].

In addition, FAQs published in a Fact Sheet linked to an IRS news release are considered authority for the exception to accuracy-related penalties that applies when there is a substantial authority for treating an item on a return [Regs. Sec. 1.6662-4(d)].

Legend to be Added to Fact Sheet FAQs
As part of this revision of the FAQ process, the following legend will be added to Fact Sheet FAQs: “These FAQs are being issued to provide general information to taxpayers and tax professionals as expeditiously as possible. Accordingly, these FAQs may not address any particular taxpayer's specific facts and circumstances and may be updated or modified upon further review. Because these FAQs have not been published in the Internal Revenue Bulletin, they will not be relied on or used by the IRS to resolve a case. Similarly, if an FAQ turns out to be an inaccurate statement of the law applied to a particular taxpayer's case, the law will control the taxpayer's tax liability. Nonetheless, a taxpayer who reasonably and in good faith relies on these FAQs will not be subject to a penalty that provides a reasonable cause standard for relief, including a negligence penalty or other accuracy-related penalty, to the extent that reliance results in an underpayment of tax. Any later updates or modifications to these FAQs will be dated to enable taxpayers to confirm the date on which any changes to the FAQs were made. Additionally, prior versions of these FAQs will be maintained on IRS.gov to ensure that taxpayers, who may have relied on a prior version, can locate that version if they later need to do so.”

Stuart R. Josephs, CPA
has a San Diego-based Tax Assistance Practice that specializes in assisting practitioners in resolving their clients’ tax questions and problems. Josephs, immediate past chair of the Federal Subcommittee of CalCPA’s Committee on Taxation, can be reached at (619) 469-6999 or stuartjosephs@yahoo.com.
Looking Ahead
Preparation for the Policy Discussions of 2022

In preparation for the new year, CalCPA’s government relations team looks to forecast the public policy landscape for the year ahead and anticipate challenges and opportunities that could materialize. While there are many elements to consider, and the winds of politics and policy priorities can shift quickly, some factors will shape the policy discussions in 2022.

New Year, New Legislature
As a gubernatorial election year, many legislators will have a cautious eye on the campaign trail while conducting their business in Sacramento. The governorship, every Assembly district and the even-numbered Senate districts are up for election in 2022.

Legislators, especially those in swing seats, will be closely watched as they make their votes. However, most political insiders are not projecting significant changes in the Legislature’s composition, but tight races can shape the policy priorities legislators engage or avoid.

One of the significant factors that will affect the profile of the state Legislature following next year’s election is redistricting. Using data from the 2020 U.S. Census, the once-a-decade process of redrawing the political boundaries for elective offices is done so that the districts correctly reflect the state’s population.

Authorized under the VotersFIRST Act, the California Citizens Redistricting Commission is a non-partisan and independent group responsible for drawing the boundaries of California’s Congressional, State Senate, State Assembly and Board of Equalization districts. The outcome of these district maps could force incumbent legislators, many of the same political party, to run against each other in 2022. This scenario would happen when legislators who live in one district are put into a neighboring district based on the new boundary.

While it’s too early to speculate what the new district maps will look like, it’s safe to assume there will be some significant adjustments to the district boundaries once the final maps are released in early 2022.

Legislative Outlook
Each legislative year brings with it its own unique set of issues. However, since the next legislative year will be the final year of the two-year session—and an election year—we expect some issues from 2021 to resurface in 2022.

This could include proposals to address unresolved issues like homelessness, affordable housing, increased government oversight, employer vaccine and testing requirements and climate change. New legislation could address occupational licensure, new state revenue streams, expanded health care coverage and continued funding for wildfire reduction efforts.

Additionally, the governor will release his budget proposal in January, which will outline his legislative priorities for the new year, influencing the Assembly and Senate legislative agendas.

The legislative agenda also is influenced by policies enacted on the federal level. Recently, President Biden signed an infrastructure bill and is negotiating the framework for a comprehensive spending package. Both pieces of legislation include items that can directly impact California’s tax and business structures.

If passed, there could be a need to develop and pass state legislation that conforms the current state tax framework to new federal tax policies. CalCPA is working closely with the AICPA to ensure that any items of this nature are identified.

Strong Partnerships
As members of the CPA profession know well, policy development is only half the battle; the other half is how it’s implemented. Fortunately, CalCPA members are directly involved in both of those processes.

In October, the CalCPA Committee on Taxation (COT) hosted its annual liaison meeting with the Franchise Tax Board (FTB). During this year’s meeting, members of the FTB were available to answer questions that were submitted to them earlier by the members of the COT. Topics covered in this year’s meeting included updates from the FTB’s legal, legislative and filing divisions; interactions between the FTB Counsel and Office of Tax Appeals; and the impacts of COVID on various FTB departments.

Specific topics covered in the question-and-answer session included the FTB’s guidance regarding the new pass-through entity (PTE) tax credit, updates of tax forms, the issuance of late-payment penalty notices, issues with MyFTB and expedited communication between the FTB and practitioners. A more detailed summary of this meeting will be provided in a future issue.

Californians, and more specifically this profession, have gone through the gauntlet of these past couple of years. However, the determination of our members and their continued commitment to advocacy has only strengthened our relationships within the Legislature and increased the profession’s voice during these unprecedented times. Thank you for your steadfast support.

Matt Borasi is CalCPA’s senior manager of government relations. You can reach him at matt.borasi@calcpa.org.
CalCPA offers live and virtual courses, discussions, networking sessions and more, all around the state. Take advantage of events in your own chapter or consider attending an event in a neighboring chapter. Where will you be seen?

SF International Tax: Recent Developments in Fighting Failure to File Offshore Penalties

The IRS has been aggressively penalizing taxpayers for failing to file foreign ownership or gift information returns. The penalties for failing to file these information returns can be significant and are often disproportional to the offense. Take a close look at what constitutes reasonable cause for the purpose of these penalties, recent developments including the impact of Kelly v Commissioner, and how to effectively navigate the procedural barriers to obtain penalty relief for clients.

calcpa.org/SFIntTax

Channel Counties Chapter
CHC Holiday Trolley of Lights Tour

Join us for our annual Holiday Trolley of Lights tour. We have a private trolley reserved just for our CalCPA members and guests. Your registration also includes 1 raffle ticket, beverages, snacks, and a special gift! Register before this event sells out.

calcpa.org/CHCHolidayTour

Keep checking calcpa.org/chapterevents for all of our chapter events.
We’re committed to help you reach new heights.

Stay on top of evolving rules and regulations with timely newsletters and updates. Etch out new connections within our growing network of local professionals. Elevate your knowledge and skills with carefully curated education. And help facilitate peak outcomes for the profession by engaging in CalCPA advocacy efforts.

Come, carve out a prosperous career with CalCPA on your side.

Half Dome is the most iconic attraction in all of Yosemite Valley. The trail to Half Dome from Yosemite Valley is an extremely strenuous hike covering over 17 miles. Hikers gain 4,800 feet of elevation along the trail, before reaching the cables on Half Dome's steep granite domes.

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