Surviving What’s New ... and Thriving Too!

26th Annual Tax Practitioner and IRS Fall Seminar

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1. Identify due diligence considerations of COVID-19 tax legislative changes
2. Explain the policy considerations of these legislative changes for lessons learned and the relevance to future tax reform activity
3. Understand how changes in how we live and do business affect tax practice and tax systems

Due Diligence Considerations of COVID-19 Tax Changes
The Changes – Lots of Them!

- Federally-declared disaster March 13, 2020
  - [URL](https://www.fema.gov/news-release/20200726/covid-19-emergency-declaration)
  - IRC §7508A triggered
  - IRS series of extensions culminating in Notice 2020-23
  - Families First Coronavirus Response Act (FFCRA) (P.L. 116-127 [H.R. 6201, 3/18/20])
  - New refundable paid leave payroll and self-employment tax credits tied to labor law changes for required sick and family leave for employers with under 500 employees
  - Generally effective 4/1/20.

- Coronavirus Aid, Relief and Economic Security (CARES) Act (P.L. 116-136 [HR 748, 3/27/20])
  - Many tax changes including 2020 Recovery Credit for individuals, changes to Tax Cuts & Jobs Act resulting in amended returns and new calculations and planning + payroll tax credits and deferral provisions
  - Various Administrative Branch provisions for donating leave, leave banks and employee payroll tax deferral
  - And waiting for more legislation and more IRS and Dept. of Labor and SBA guidance.

FFCRA Paid Leave and Credits

- Employers, including household employers:
  - Eligible employer? Generally < 500 employees
  - Employee eligible for up to 2 weeks sick leave?
    - Met one of six reasons?
  - Employee eligible for up to 10 weeks family leave?
    - Worked for employer for at least 30 days
    - Caring for a son or daughter because their school or place of care of the child is closed, or their childcare provider is unavailable, due to COVID–19 precautions?
    - “Certain health plan expenses” also count towards credit.
  - Properly computed and claimed?
  - Self-employed also eligible based on 2020 earnings
    - No double benefit if also claimed as employee.

New W-2 Reporting Requirement for 2020

- Issued per:
  - FFCRA Secs. 7002(g) and 7004(e) – IRS shall prescribe guidance as necessary to carry out purposes of secs. 3002 and 7004 of FFCRA on the sick and family leave for self-employed individuals.
  - FFCRA provisions that self-employed are limited to $2,000 (or up to $5,110 sick leave credit for reasons 1, 2, or 3) or $10,000 for family leave so must reduce any paid leave from an employer to be sure don’t exceed the maximums available to an employee.
- IRS solution:
  1. Employers must separately state total amount of qualified sick leave wages paid for reasons (1), (2), or (3) of Sec. 5102(a) of FFCRA, qualified sick leave wages paid pursuant to reasons (4), (5), and (6) of Sec. 5102(a), and qualified family leave wages paid per Sec. 3102(b) of FFCRA. Employers must separately state each of these amounts on Form W-2, Box 14 or on a separate statement.
  2. Self-employed claiming FFCRA credits against SE tax must attach new Form 7202, Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals, and reduce (but not below zero) any qualified sick leave or qualified family leave equivalent credits by amount of these qualified leave wages.
Documentation Required Per IRS FAQs

- FAQ 4 – Employer must retain records and documentation supporting each employee’s leave to support the credit claim + must retain Forms 941 and 7200 and any other filings requesting the credit.
- FAQs 44 – 46 – How employer substantiates it is eligible for tax credits for qualified leave wages
  - Lots of details required in writing and documentation!
  - See next slides – lots needed!

* FAQ 4
• Employer must retain records and documentation supporting each employee’s leave to support the credit claim + must retain Forms 941 and 7200 and any other filings requesting the credit.

FAQs 44 – 46 – How employer substantiates it is eligible for tax credits for qualified leave wages

Lots of details required in writing and documentation!

See next slides – lots needed!

Also see DOL FAQs 15 & 16 + DOL Final Rule Sec. 826.100

Also see DOL FAQs 15 & 16: https://www.dol.gov/agencies/whd/pandemic/ffcra-questions#15
Reminders for FFCRA credits …

- While the question of whether an employee is entitled to paid leave under FFCRA (or other laws) is a labor law determination/issue, the FFCRA leave ties closely to tax credits claimed.
- Be sure client has reviewed the rules to know they are properly paying sick or family leave per FFCRA reasons to get the tax credits. If paying for some other reason, FFCRA paid leave credits not available.
- Documentation very important – see IRS and DOL rules.
- Note: Reasons for family leave may have changed for employee when child’s school closed for summer break. Be sure documentation covers any new reason once school is closed for break.

CARES Act Due Diligence Considerations

- Paycheck Protection Program loans
  - Client needs to get documentation and forms to request forgiveness.
  - Sec. 1106 of CARES Act – forgiven loan not included in gross income
  - Per IRC §1402, also excluded from SE tax.
  - California AB 1577 (Chapter 39 (9/9/20)
    - PPP loan forgiveness is not treated as taxable, effective immediately
    - Notice 2020‐32 – no deduction allowed for amount paid with forgiven loan proceeds per IRC §280(a)(1) and §1.265-1

- 2020 Recovery Rebates (Economic Impact Payments)
  - Did client receive proper amount?
  - Ask clients now for Notice 1444 they rec’d about their EIP.
  - Line 30 on 2020 Form 1040 – wait for instructions.
  - If rec’d too much, no requirement to pay back.
  - Not taxable for federal or CA purposes (really like a tax credit).
    - Open issue: Receipt be deceased individual; see FAQs and future guidance.
  - Unemployment Compensation
    - Taxable federal; not taxable in California.
    - Receipt by self-employed individuals
      - IRC: Per Rev Rul 91-19, IRS likely to find subject to SE tax. Watch for guidance.
CARES Act Due Diligence Considerations

- **Special Rules for Use of Retirement Plans**
  - Tax-favored withdrawals from retirement plans
    - Under FERPA (Treasury Dept. Notice 2020-50)
    - [Note the “s” for plural]
    - Early withdrawal 10% penalty (Section 72(t)) waived for “any coronavirus-related distributions.”
    - Not to exceed $100,000 in aggregate.
    - Made on or after 1/1/20 and before 12/31/20.
    - These distributions may be repaid during the 3-year period beginning on the day after the distribution was received.
    - Guidance on terminology, reporting and treatment of recontributions – Notice 2020-50 (19 single-spaced pages!)
    - Plan must report the COVID distribution on Form 1099-R even if a re-contribution is made in the same year.
    - Individual reports re-contribution on Form 8915-E.
    - Numerous rules and examples.
    - [Link](https://www.irs.gov/pub/irs-drop/n-20-50.pdf)

- **Loans from Qualified Plans**
  - Increases allowable loan amounts that will not be treated as distributions made in 180-day period starting 3/27/20 (enactment date; 9/22/20).
  - §72(p)(2)(A) – substitute $100,000 for $50,000.
  - Possible 1-year delay of repayment.

- **Temporary Waiver of Required Minimum Distribution Rules for Certain Retirement Plans and Accounts for 2020**
  - Notice 2020-51 (6/23/20) – Had until 8/31/20 to return RMD if desired.

CARES Act Due Diligence Considerations

- **Allowance of Partial above the Line Deduction for Charitable Contributions**
  - Adds §62(a)(22) – “CHARITABLE CONTRIBUTIONS. In the case of taxable years beginning in 2020, the amount (not to exceed $300) of qualified charitable contributions made by an eligible individual during the taxable year.”
  - So, just applicable for $300 for 2020.
  - For non-itemizer.
  - Cash only.
  - Not to a donor-advised fund or §509(a)(3) org.

- **Modification of Limitations on Charitable Contributions During 2020**
  - Amendments to §170 for 2020 to remove AGI limits for charitable contributions.
  - Taxpayer must elect this application.
  - N/A for donations to §509(a)(3) organization or new or existing donor-advised fund.
  - Election applies at partner or shareholder level (not by partnership or S corp).
  - Corporations – limit changed to 25% of taxable income rather than 10%.
  - Modify limit on contribution of food inventory for 2020 from 15% limit to 25% limit.

CARES Act Due Diligence Considerations

- **Delay of Payment of Employer Payroll Taxes**
  - Only employer 6.2% OASDI, not Medicare tax.
  - Defer deposit with 50% due 12/31/21 and 50% due 12/31/22.
  - Planning if employer has NOL for 2020, might not want to defer in order to maximize NOL for 5-year carryback.
  - Self-Employed – can defer the 6.2% OASDI portion of SE tax.
  - New Part III on 2020 From 1040 Schedule SE.
  - Observation: Draft forms at 8/10/20 (w/o instructions) seem to indicate that even if self-employed person defers half of the 6.2% tax, still get deduction for full 6.2% of SE tax.

Section 164(f) DEDUCTION FOR ONE‐HALF OF SELF‐EMPLOYMENT TAXES

(1) In the case of an individual, in addition to the taxes described in subsection (a), there shall be allowed as a deduction for the taxable year an amount equal to one-half of the taxes imposed on such individual by section 1401 (other than the taxes imposed by subsection (a)), and on the individual by section 1401 (other than the taxes imposed by subsection (a)), and on the individual by section 1401(b)), for such taxable year.
CARES Act Due Diligence Considerations

- Modifications for Net Operating Losses
  - 80% limit on use of NOL won’t apply until tyba 12/31/20
  - 2018, 2019 and 2020: 5 year carryback allowed
  - Caution: Consider all changes including receipt of amended K-1 if have 2018 or 2019 NOL.
  - Planning: maximizing 2020 NOL?

- Modification of Limitation on Losses for Taxpayers Other Than Corporations (§461(l))
  - Delay TCJA effective date until tyba 12/31/20!
  - Technical corrections made. See track changes of §461(l) after CARES Act

- TCJA Technical Corrections for Qualified Improvement Property
  - 15-year life effective as if in TCJA
    - Now eligible for bonus depreciation
    - Also has different ADS life
    - Rev. Proc. 2020-25 – how to address this change
    - §168(e)(6) [adds “made by the taxpayer”]
      * “any improvement made by the taxpayer to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date such building was first placed in service.”
      * So can’t be used property.
      - Excludes improvements for:
        - Enlarging a building
        - Any elevator or escalator
        - Internal structural framework of a building.
    - Adds at §168(g)(3)(B) that class life is 20 years.

Deferral of Employee OASDI – 8/8/20 Presidential Memo and Notice 2020-65

- Cautions for employers who are doing this:
  - Employer is ultimately liable.
  - Do employees understand they will pay the deferral in January through April 2021?
  - What is employer plan if employee leaves before May 2021?
  - If unable to cover via final paycheck, employer payment of employee tax is income. Will need to gross up to cover payroll taxes on that.
Reminders on Ways Employer Can Help Employees

- Disaster relief payments under IRC §119 (because of March 13 Presidential declaration of disaster)
  - There are no regs. But see:
  - Possible items that may fall under this income exclusion rule: Technology for home use (work or family needs), resources for school-age children of employees (tech and software for learning), household supplies to help with the pandemic and shelter-in-place orders.
  - But NOT wages.
- California conforms; but subject to UI, ETT and SDI – https://www.edd.ca.gov/pdf_pub_ctr/de231sed.pdf
- CARES Act modification to §127(c)(1) exclusion for educational assistance programs
  - 2020 – can be used to pay employees student loan principal and interest (up to $5,250); effective for payments after 3/27/20
  - Must have §127 plan
- Employer leave-based donation program for COVID-19 relief
- Leave Sharing Plans

FAQ Reminders

- Lots of FAQs but they are not binding on IRS or taxpayers:
  - IRS statement usually at start of an FAQ page:
    - This FAQ is not included in the Internal Revenue Bulletin, and therefore may not be relied upon as legal authority. This means that the information cannot be used to support a legal argument in a court case.
  - May 6 Tax Analysts webinar, Taxing Issues | STIMULUS MEASURES TO DATE: What’s Working, What’s Not, and What’s Needed
    - IRS Chief Counsel Michael Desmond stated it is unlikely that all FAQs would be turned into binding guidance.
  - SBA FAQs on PPP statement:
    - 1 This document does not carry the force and effect of law independent of the statute and regulations on which it is based.

Identify Cautions to Exercise

- Many of the changes are non-tax provisions.
  - Avoid unauthorized position of law with clients, such as determining if employer must pay sick or family leave to an employee.
  - For your own firm application, consult attorney and remember that just like the tax law, most laws have special rules and planning considerations.
- New recordkeeping and documentation requirements and tracking of actions and dates.
  - Example: If self-employed deferring 6.2% OASDI, keep records of how much deferred and when due.
  - Engagement letter: Possible reminder to track on own?
- Cash flow and management changes due to COVID-19 changes from Congress, IRS and states.
  - Likely need a new due date calendar and reminder systems.
  - Lots of detailed and often complex rules.
  - FAQs continue to change and are not binding
    - Copy any you use.
    - And others – keep a list.
- Remind clients to be extra careful to avoid increased number of scams such as on Economic Impact Payments, fake charities to help COVID-19 victims, and others.
Sheltering In Place and Nexus for Workers and Employers

- Example: Employee usually works in employer's office in Michigan and lives in Ohio. Is able to work remotely during pandemic. Does employer now have nexus in Ohio?
- Examples: Worker must shelter in place in a state where they don't normally work, or medical professional working in a different state. Do they now owe taxes there?
- Answer: It depends. Check pre-pandemic rules and see if state has provided any relief, and if yes, for how long.
  - AICPA State Tax Chart Resource (lots of info):
  - https://www.wsj.com/articles/remote-working-from-a-different-state-beware-of-a-tax-surprise-11590744601
  - AICPA Recommendations for Administrative, Filing and Payment Relief for State and Local Taxes during the Coronavirus Pandemic, 4/20/20
    - 11 recommendations for states
      - https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/coronavirus-aicpa-list-of-recommendations-for-states-societies.pdf

COVID-19 Tax Change Resources

- Coronavirus Tax Relief and Economic Impact Payments

- AICPA State Tax Chart Resource (lots of info):
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  - https://www.wsj.com/articles/remote-working-from-a-different-state-beware-of-a-tax-surprise-11590744601
Coronavirus and Economic Impact Payments: Resources and Guidance


More Resources

- Gov’t agency websites
- Professional organizations you and clients belong to
- Companies and non-profits offering assistance
- Others

Payroll Tax Provision Comparisons

<table>
<thead>
<tr>
<th>Provision</th>
<th>Source</th>
<th>Section(s)</th>
<th>Description</th>
<th>How to Claim</th>
<th>Effective Dates</th>
<th>Interaction with Other Rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid leave credits for employers with ≤ 500 employees and for self-employed</td>
<td>CARES (P.L. 116-127, 3/18/20), Sections 7001-7005</td>
<td>Items paid after 3/18/20 and before 1/1/21</td>
<td>Fully refundable.</td>
<td>For required paid leave taken starting 4/1/20 and ending 12/31/20.</td>
<td>Not available if receive PPP loan.</td>
<td>Employer increases gross income by amount of credit. Wage for credit can't be used for §45S credit.</td>
</tr>
<tr>
<td>Employer retention credit for employers of any size, not for self-employed</td>
<td>CARES (P.L. 116-136, 3/27/20), Section 2301</td>
<td>Wage paid after 3/12/20 and before 1/1/21</td>
<td>Not available if receive PPP loan.</td>
<td>For wages paid after 3/12/20.</td>
<td>Not available if receive PPP loan.</td>
<td>Employer increases gross income by amount of credit. Wage for credit can't be used for §45S credit.</td>
</tr>
<tr>
<td>Wage的一部分的雇主和雇员(OA26-62) to no-employee-size limit</td>
<td>CARES (P.L. 116-136, 3/27/20), Section 2301</td>
<td>Wage paid after 3/12/20 and before 1/1/21</td>
<td>Not available if receive PPP loan.</td>
<td>For wages paid after 3/12/20.</td>
<td>Not available if receive PPP loan.</td>
<td>Employer increases gross income by amount of credit. Wage for credit can't be used for §45S credit.</td>
</tr>
</tbody>
</table>

*These provisions are in the Public Law, so changes made to the Internal Revenue Code. Documentation needed for each provision; see IRS guidance including FAQs and Form instructions.
<table>
<thead>
<tr>
<th>Provision</th>
<th>Does Payroll Rule Apply to Household Employees?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid leave credits for employers with &lt; 500 employees and for self-employed</td>
<td>Applies to employer considered employer under Fair Labor Standards Act (FLSA). Example: full-time nanny working in your home as they are economically dependent on employer. Also may apply to employer who files Schedule H (1040) for the worker. Not required is worker is self-employed or working for an agency/employer.</td>
</tr>
<tr>
<td>Employee retention credit for employers of any size; not for self-employed</td>
<td>Applies to employer in a trade or business or non-profit entity. Determining whether a person is an “employee” for purposes of determining eligibility for an employee retention credit depends on whether the person meets the “qualified wages” requirement for the employer.</td>
</tr>
<tr>
<td>Delay payment of employer and self-employed OASDI 6.2 tax</td>
<td>Appears to apply to an employer in a trade or business. Watch for clarification from IRS.</td>
</tr>
</tbody>
</table>

See changes (new lines) on various parts of 2020 Form 1040 and schedules.
How to get info and rebates to:
- Non-filers?
- Children of non-filers on SS and SSI?
- The unbanked?
- What about to the deceased?

How to get signatures and forms filed when IRS is shut down?

How to help firms most in need get PPP? What if no banking relationship?

How to avoid those not in need from claiming limited funds?

IRS guidance included numerous notices and over 500 non-binding FAQs. How will this affect future audits when the FAQs might no longer be posted or could have been modified?

Most new provisions are complex – terminology, limitations, who is eligible, difficult compliance tasks, etc.

How to encourage use of all new rules even if they are complex, such as paid leave credits and ERC? Legislative intent not always clear with disagreements between Congress and IRS/Treasury (how to count full-time employees for Employee Retention Credit, are expenses paid with forgiven PPP loan deductible?, when is health insurance part of ERC, and more)?

When, if ever, should use of benefits come with "strings attached" requiring beneficiary to do something to help, as well as clawbacks for misuse of funds?

How much to spend? How to use existing tax benefits (such as NOLs and credit carryovers)? How to collect delayed payments if firms go out of business?

<table>
<thead>
<tr>
<th>Provision</th>
<th>FY2020 cost</th>
<th>2020-30 cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020 Recovery rebate</td>
<td>208,309</td>
<td>202,374</td>
</tr>
<tr>
<td>Retirement match</td>
<td>164</td>
<td>2,560</td>
</tr>
<tr>
<td>RMD freeze for 2020</td>
<td>-35,620</td>
<td>4,138</td>
</tr>
<tr>
<td>§1036 Charitable for AGI</td>
<td>310</td>
<td>1,093</td>
</tr>
<tr>
<td>Increase charitable irs</td>
<td>-1,093</td>
<td>-1,093</td>
</tr>
<tr>
<td>§127 student loan debt</td>
<td>-155</td>
<td>-140</td>
</tr>
<tr>
<td>Employer retention credit</td>
<td>-9,379</td>
<td>-44,975</td>
</tr>
<tr>
<td>WHT defense</td>
<td>-102,972</td>
<td>-34,154</td>
</tr>
<tr>
<td>MLR change</td>
<td>-82,065</td>
<td>-65,065</td>
</tr>
<tr>
<td>Corporate income limitation</td>
<td>-2,103</td>
<td>-2,103</td>
</tr>
<tr>
<td>§4911A modifications and delay</td>
<td>-86,019</td>
<td>-113,029</td>
</tr>
<tr>
<td>§4980A modifications</td>
<td>-1,270</td>
<td>-23,280</td>
</tr>
<tr>
<td>SEP technical correction</td>
<td>-109</td>
<td>-280</td>
</tr>
<tr>
<td>Federal tax change hardship</td>
<td>Not included in JCT report</td>
<td></td>
</tr>
</tbody>
</table>

CARES Act
P.L. 116-136 (3/27/20)

JCX-118-20 (4/23/20) $000,000

Purple = Changes to TCJA

https://www.cbo.gov/publication/56403
Illustration that employee safety net benefits can also be provided to self-employed (unemployment comp, leave credits).

Highlights need to identify an efficient technique to get payments to millions of individuals and businesses.

Highlights need for plain English drafting of laws and any guidance.

Highlights need for efficient ways to get information to people and businesses both online and otherwise for those without access to internet.

More returns and other documents can be signed and submitted electronically (outside of gov't, this has been reality for 20+ years)!

There are ways to provide funds without creating new tax breaks (such as deferral of 6.2% OASDI, accelerating MTC refund to corporations). Query: What more could have been done?

Suggestions for today's and future emergencies / disasters:
- Extended due dates should add caveat that if can pay on time, do so.
- Find ways for cash and property rich taxpayers to easily help others, including the gov't.
- Law changes – make them as simple and clear as possible. Use checklists and simple forms for compliance.
- Find ways to free up funds already in the tax system such as credit carryovers.
- Avoid distribution of funds to those not in need or who misuse them (use clawbacks for example).
- Be creative in providing relief including gov't's acquisition of property not needed by businesses (use to pay taxes?).
- Provide penalty relief as mistakes are inevitable. Gov't should be transparent on costs, budget deficits, and needs.
- Use of 21st century technology by gov't agencies is crucial.
- Disasters highlight inequities – start work now to address them.
- Engage in identifying and actualizing lessons learned from tough times so we can be better prepared for future disasters. Gov't needs effective systems to help predict and plan for the future.

Looking Ahead for Tax Systems Reforms
- Significant growth in national debt.
  - Committee for a Responsible Federal Budget
    - “Debt will exceed the size of the economy this year” 4/13/20
    - Budget deficits over $1 trillion in 2020 and $1.1 trillion in 2021
    - Estimate that debt will grow to 173% of GDP by 2025.
    - WSJ, “U.S. Debt Is Set to Exceed Size of the Economy for the First Time Since World War II” 6/13/20
    - After recovery ... likely to see tax increases.
    - Relevant to TCJA cuts expiring after 2025
    - Relevant to tax plans of those running for office in November 2020 election
    - A new perspective on tax and spending including infrastructure spending plans.

Queries: How will these problems be addressed?
How will opportunities be pursued?
How we learned any lessons for future emergencies / disasters?
How do & how should changes in how we live and do business affect tax practice and tax systems?

Lessons for Tax Practice

• What lessons have we learned from pandemic tax practice?
• Where to help clients make better use of technology?
• How do we plan for post-pandemic practice?
• What will continue to change?
• How do we stay current and relevant?

Looking Forward to Needed Tax System Reforms

A. Full recognition of 21st century global, digital economy
B. Administrative reforms
  • Reduce identity theft
  • Modernize compliance systems – more focus on tech and not paper
  • IRS funding for improved audit rate and modern tech
C. Recognition of technology in tax compliance
  • Compliance system still rooted in paper
  • Not if it is rooted in digital and compliance
  • Return-free system?
  • Called for in Treasury’s 1984 report
  • GAO report Alternative Filing Systems (10/99)
  • Many countries have govt or employer prepare return
  • Camp 2020 § 4100 would have prohibited it
  • “Not sue, use non-filer tech姑姑 interference”
Still Needed ...

D. Clarification of worker classification system
   - Revenue Act of 1978, Section 530 – Congress to study; added temp rules
   - Today – Issue persistant
   • Taxation of contractors used by today’s service providers (i.e., contracts and contractors) with long life experiences

E. Tax rules appropriate for growing gig economy
   • Gig broadly defined includes desire and ease of monetizing one’s assets and time/labor.
   - House Rpt 115‐792, Committee on Appropriations (6/28/18)
   • Gig E – concern that growing gig economy will result in underpayment of SE tax; thinks IRS needs better strategy to address this.
   • 1099‐K reporting (or new type of form) has too high of a filing threshold
   - California FTB estimate 70% gig workers received no information reporting form
   - Ways to simplify reporting?
   - Ways to help provide benefits?

F. Tax rules that are simpler and reflect today’s economy
   - Example of suggestions to modernize and simplify for small businesses:
   - https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/20190320‐tec‐small‐business‐modernization.pdf

G. Lack of retirement savings for many individuals
   - About 35% don’t participate in a plan: https://www.stlouisfed.org/publications/regional‐economist/first‐quarter‐2018/many‐americans‐still‐lack‐retirement‐savings

H. Efforts to reduce the almost $400 billion annual tax gap.
I. Budget issues
   - Address growing levels of mandatory spending (including interest on the growing debt).
   - Fix Social Security and Medicare funding issues.
   - Fix gasoline excise tax systems to address underfunded Highway Trust Fund
   - Pre‐TCJA House task force and a vehicle miles traveled system would take 10 years to implement. When will we start?
   - Funds needed to fix and improve infrastructure

J. Broader review of tax base for lower rates or to retain lower individual rates + review of appropriate rates for payroll taxes, regular income and capital gains rates. Also to evaluate equity, neutrality and economic growth and efficiency
   - Review list of over 100 tax expenditures [partial list on next slide]
   - Review effective federal tax rates for income quintiles with further breakdown of top 5%, 1% and .01%
Still Needed ...

K. Regular review of tax system in light of trends in how we live and conduct business and what other countries are doing

Possible tax changes responding to trends
Changes in technology, ways of living and doing business can affect tax bases.

<table>
<thead>
<tr>
<th>Tax</th>
<th>Trend warranting response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progressivity of rates and tax preference items</td>
<td>Increasing income and wealth gaps; tax rule aid in widening.</td>
</tr>
<tr>
<td>Increasing concerns about climate change</td>
<td>Many existing tax rules may help contribute to this. Tax changes may be needed to address externalities of climate change. GPOC report on effects to financial system: Managing Climate Risk in the U.S. Financial System, 9/9/20 (196 pages).</td>
</tr>
<tr>
<td>Gas tax based on cents per gallon</td>
<td>More fuel-efficient cars including those that don’t use gasoline. Federal rate of 18.4 cents/gallon unchanged since 1993.</td>
</tr>
<tr>
<td>Age exemptions</td>
<td>Not all seniors need an age-based tax break today.</td>
</tr>
<tr>
<td>Cigarette taxes</td>
<td>Emergence and growth of vapor / e-cigarette products.</td>
</tr>
<tr>
<td>Sales tax on tangible personal property</td>
<td>Digitization – iTunes, e-books, streaming movies, software downloads.</td>
</tr>
<tr>
<td></td>
<td>Increasing consumption of personal services and untaxed items (see prior slide)</td>
</tr>
</tbody>
</table>