



Tax



Relief



Taxpayers

# Additional COVID-19 relief deductions for individuals

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A year into the Covid-19 pandemic, tax rules continue to adapt to embrace the new reality that the pandemic has brought to taxpayers.

In the early months of 2020, the COVID-19 pandemic triggered unforeseen effects in the lifestyle and pocket of the average taxpayer. The enactment of The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, was Congress' first major relief bill to provide taxpayers financial assistance to alleviate the grueling economic consequences of the pandemic. As the pandemic continues its course, additional measures have been implemented to lessen the tax bill of individual taxpayers for 2020.

## Recent United States federal tax relief measures

### Expenses for Medical Care

Recently, the United States Internal Revenue Service (“IRS”) released IRS Announcement 2021-7 (hereinafter “Announcement”). In the Announcement, the IRS establishes that individual taxpayers can include **unreimbursed** amounts paid for personal protective equipment (“PPE”) to prevent the spread of Covid-19 as medical expenses. The IRS includes masks, hand sanitizers and sanitizing wipes used for the primary purpose of preventing the spread of the COVID-19 as COVID-19 PPE. The Announcement also clarifies that these amounts are also eligible to be paid or reimbursed under health FSAs, HRAs or HSAs.

In general terms, Section 213 of the United States Internal Revenue Code (hereinafter “IRC”) allows individual taxpayers to deduct in their personal income tax return as an itemized deduction medical expenses paid for themselves, their spouse or a dependent in excess of 7.5% of their Adjusted Gross Income (hereinafter “AGI”). Deductible medical expenses cannot be reimbursed or compensated for by insurance. Pursuant to US Regulation 1.213-1(a)(1) medical expenses can be deducted in the year they are paid.

The medical expense deduction is not available to nonresident alien's individual that files a Nonresident US tax return.

**Example:** Marry Ellen files her income tax return as an individual taxpayer in 2020. Her sole source of income are wages of \$80,000 as reported on her 2020 W-2. Marry Ellen has a daughter that qualifies, and she claims as a dependent. Mary Ellen paid \$2,000 in Covid-19 PPE for her and her daughter; and \$7,000 in deductible medical expenses.

Marry Ellen can claim medical expenses over \$6,000, which represent 7.5% of her AGI of \$80,000. In 2020, she had medical expenses of \$9,000. She can include \$3,000 as medical expenses, if Marry Ellen elects to itemize her deductions.

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Let us assume the same fact of circumstances, except that Marry Ellen's received a reimbursement of \$1,500 for the COVID-19 PPE. In this case, Mary Ellen can only include \$1,500 as medical expenses, if she elects to itemize her deductions.

As an additional note, the Announcement also establishes that group health plans, including FSAs and HRAs may be amended to provide for COVID-19 PPE reimbursements incurred for any period beginning on or after January 1, 2020. Certain deadlines apply.

### Charitable Contributions

Last year, the CARES Act amended Section 62(a) of United States Internal Revenue Code ("IRC") to allow an individual taxpayer that does not elect to itemize deductions to deduct up to \$300 in cash charitable contributions. The contributions must be religious, charitable, educational, educational, scientific, or literary in purpose as contemplated in Section 170(b)(1) of the IRC.

Also, Section 2205 of the CARES Act suspends the limitations to charitable contributions made by individuals. Cash contributions by individuals to public and private operating charities were limited to 60% of the taxpayer's AGI. For 2020, a taxpayer may choose to claim cash charitable contributions up to 100%.

### Puerto Rico

In Puerto Rico, an individual taxpayer can claim as a deduction medical expenses in excess of 6% of its AGI. Charitable contributions paid to charities qualified by the Puerto Rico Treasury Department are limited to 50% of the AGI of the individual. To this date, the Puerto Rico Treasury Department has not made any expressions on the inclusion of COVID-19 PPE as part of the medical expense deduction for individuals. There are no proposed bills on this issue in the Legislative Assembly to include COVID-19 PPE as a deductible medical expense or to suspend the limitations on deductible charitable contributions.

We will monitor any developments in connection with these tax relief measures and will keep you updated on this matter. Please contact our Tax Department should additional information be required regarding this or any other tax issue. We will be glad to assist you.



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