Troutt Beeman & Co., P.C.

CPAs & BUSINESS ADVISORS

2020 YEAR-END TAX PLANNING CHECKLIST FOR SMALL BUSINESS

As business advisors we always recommend getting in the habit of year-end strategic planning. This can help lower your tax liability and help lay the groundwork to save on future taxes. Tax planning in 2020 will certainly look different than in past years thanks to the Coronavirus pandemic and its effect on small business. Thankfully, the government passed new legislation through the CARES Act to provide relief for those struggling with cash flow. Some provisions in the CARES Act reversed or temporarily suspended the new tax laws from The Tax Cuts and Jobs Act but most will expire on December 31, 2020, although it is looking very likely a new bill will be passed in to law soon that will expand some of these provisions. Additionally, the recent election will likely impact tax laws in 2021 and beyond, so it is important to take advantage of the tax breaks and provisions while you can in 2020.

While one size definitely does not fit all, this handy check-list can help you get started on the right foot. There is still time to claim these credits for 2020. Be sure to talk to you tax professional for more details on each of these provisions.

CONSIDER THESE CARES ACT BENEFITS BEFORE THEY EXPIRE

Charitable deductions: Under the CARES Act, the taxable income limit on 2020 charitable gifts of cash rises to 25%. The CARES Act also increases the limitation on deductions for 2020 contributions of food inventory from 15% to 25%.

Employee Retention Credit for Employers: Business can claim a refundable payroll tax credit for 50% of qualified wages paid from March 13, 2020 if that business had operations fully or partially suspended do to a COVID-19 shutdown order OR gross receipts declined by more than 50% when compared to the same quarter the previous year. The credit is capped at 50% of the first $10,000 of compensation paid to each employee. The credit also cannot be claimed if the business received a PPP loan.

Tax Credits for Paid Sick and/or Family Leave: The Families First Coronavirus Response Act (FFCRA or Act) requires certain employers to provide employees with paid sick leave or expanded family and medical leave for specified reasons related to COVID-19. As part of this Act, employers can receive fully refundable tax credits for paid sick leave due to isolation or quarantine at the employee's full rate or pay up to $511 per day *OR* leave or paid family leave up to 2/3 the employee's rate of pay for individuals who are required to care for a child due to a school or place of care closure. In both cases, the employee must be unable to work (in person or virtually) during the leave. The credits are applicable for payroll periods through March 31, 2021.

Employer Payroll Tax Deferral: Not to be confused with President Trump's payroll tax deferral, this provision allows Employers and self-employed individuals to defer payment of the employer's share (6.2%) of the Social Security payroll tax, but the deferred amount must be repaid in equal installments by December 31, 2021, and December 31, 2022.

While this provides a great liquidity benefit, this may or may not be worth it as it could affect 2020 taxes. Businesses generally cannot deduct their share of payroll taxes until they actually make the payments. It may be more beneficial to pay payroll taxes in 2020. For example, you could increase the amount of net operating losses (NOLs) carried back to higher tax-rate years (see below).

Net Operating Loss (NOL) carrybacks: The CARES Act also allows business to use current losses against past income for immediate refunds. Net Operating Losses (NOLs) arising in 2018, 2019, or 2020 can be carried back five years to claim refunds in previous tax years. This provides the opportunity to accelerate deductions into a loss year to benefit from the rate arbitrage and receive a larger refund.

Accelerated AMT refunds: The CARES Act accelerated the timeline (originally allowed for tax years 2018, 2019, 2020, and 2021)for companies to claim any remaining unused alternative minimum tax credit (AMT) by allowing them to filing a tentative refund claim (Form 1139) for 2018 or 2019. However, this filing must be done by December 31, 2020.

Retroactive refund for bonus depreciation: Thanks to the CARES Act, "qualified improvement property" is now eligible for bonus depreciation, meaning the cost of most improvements made to the interior of commercial buildings are 100% deductible the year improvements were made.

Quick disaster loss refunds: a business could claim a COVID-19 related disaster loss occurring in 2020 on a 2019 amended return for a quicker refund. The provision may potentially affect losses arising in a variety of circumstances, including the loss of inventory or supplies or the closure of offices, stores or plants. To qualify, the loss must actually be attributable to or caused by COVID-19 and satisfy several other requirements.

Taking advantage of this strategy may or may not make sense for every business. We recommend talking to your tax professional to decide what the best strategy to take here is.

PPP Loan Expenses are not tax deductible: As of this writing, business related expenses paid with PPP funds are not tax deductible. This could change in 2021 if a new relief bill passes into law. It is still a good idea to file for forgiveness while putting 2020 entity returns on extension.

WE ARE HERE TO HELP!

We understand how hard 2020 has been on small businesses. The uncertainty of the pandemic and an election year is at unprecedented levels and we have yet to know how 2021 will impact us. In the meantime, we are here to help you navigate it all and help plan for the future. Our highly qualified staff are committed to helping you through it all successfully.