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GYF VIRTUAL CPE DAY 2020

Presented by:

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GYF Tax Services Group

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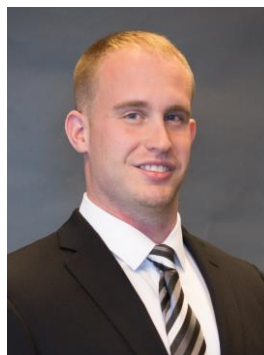
Federal & State Tax Update



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INTRODUCTION

Topics to Be Covered

- Tax Law – What Can We Expect for the Remainder of 2020 then 2021?
- The CARES Act
 - Paycheck Protection Program
 - Business Tax Changes
 - Individual Tax Changes
 - Other Changes
- Year-end Tax Planning Considerations

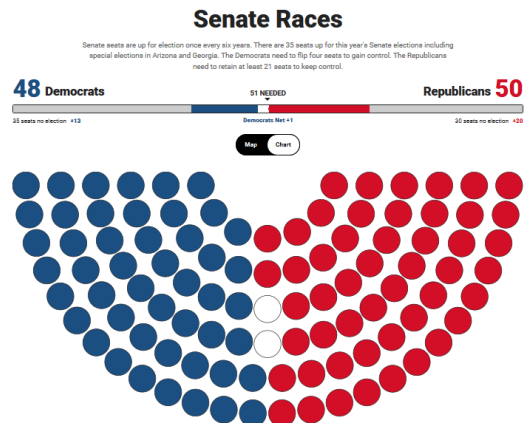


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TAX LAW EXPECTATIONS

Post-election Tax-related Concerns

- 2020 – no significant changes expected
- 2021 – ?





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TAX LAW EXPECTATIONS

What Can We Expect in 2021?

- Control of Senate comes down to results of election in Georgia
 - *Georgia requires candidates to receive >50% of votes*
 - *Failure to receive majority of votes sends race into a run-off election (January 5, 2021)*
- Republicans are one seat away from maintaining control
- Representation is tied if Democrats win the last two seats, but the Vice President holds tie-breaking vote



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TAX LAW EXPECTATIONS

What Can We Expect in 2021?

- What happens if **Republicans** win one seat in Georgia?



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TAX LAW EXPECTATIONS

What Can We Expect in 2021?

- What happens if **Democrats** win two seats in Georgia? (Biden plan)
 - *President-elect Biden and his plan:*
 - Raise taxes on individuals with income above \$400,000, including raising individual income taxes and capital gain tax
 - Call to limit the value of itemized deductions to 28% for households with income exceeding \$400,000
 - Temporarily increase the generosity of the Child Tax Credit and Dependent Credit



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TAX LAW EXPECTATIONS

What Can We Expect in 2021?

- What happens if **Democrats** win two seats in Georgia? (Biden plan)
 - *President-elect Biden and his plan:*
 - Repeal TCJA components for high-income filers
 - Impose 12.4% Social Security payroll tax for wages above \$400,000
 - Corporate income tax rate increase from 21% to 28%
 - Plan would decrease federal estate exclusion to \$3.5 million, gift tax exclusion to \$1 million, and increase the rate on taxable transfers to 45%



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TAX LAW EXPECTATIONS

How Do You Plan When the Senate Control Is Still Up in the Air?

- We know that income tax rates are not going down any time soon
 - *Should income be accelerated to 2020?*
 - *Should deductions be deferred to 2021?*
 - *Should capital gains be accelerated to 2020 instead of 2021?*
 - *Should corporate income be accelerated to 2020?*



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TAX LAW EXPECTATIONS

What About Estate Planning Under the Biden Administration?

- The current exemption amount is \$11.5M (per person)
- The proposed exemption amount is \$3.5M (per person)
- This change would produce a significant change for joint estates with a value over \$7M (\$16M of exemption is disappearing)



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THE CARES ACT – BUSINESS-RELATED CHANGES

Federal & State Tax Update



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CARES ACT – SUMMARY

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

- Passed by the 116th Congress and signed into law by President Trump on March 27, 2020, in response to the economic fallout of the COVID-19 pandemic
- Provided an over-\$2 trillion economic relief package for fast and direct economic assistance for American workers, families, and small businesses



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CARES ACT – BUSINESS-RELATED CHANGES

Paycheck Protection Program (PPP) Loans & Potential Tax Concerns

- Indirect taxability of the PPP loan proceeds
 - *What tax year is it taxable?*
 - *Future guidance is expected*
- Should you be concerned if your loan was greater than \$2M?
- PPP loans need to be considered if there is an ownership change



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CARES ACT – BUSINESS-RELATED CHANGES

Employee Retention Credit

- Not allowed if employer received PPP Loan
- Refundable tax credit for wages paid 3/12/20 – 1/1/2021
- Max credit = \$5,000/employee
- No employee limit (compared to PPP employee limit of 500)
- Better off getting PPP loan for ≈\$20K/employee



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CARES ACT – BUSINESS-RELATED CHANGES

Economic Injury Disaster Loan (EIDL) Program

- Comparison to PPP (advantageous if used as purely a loan: 30-yr vs. 2-yr term)
- \$10,000 advance does not need to be repaid (not allowed with PPP loan forgiveness)
- Usage limitation – generally limited to payroll, health benefits, health insurance premiums, other operating costs, etc.
- Summary items to point out: (1) must be paid back; (2) has beneficial interest rate; (3) must be used for specific purposes



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CARES ACT – BUSINESS-RELATED CHANGES

FICA Tax Deferral

- Employer deferral of the payment of the employer's portion of Social Security tax (includes the 6.2% FICA portion)
- Half of the amount deferred is due on December 31, 2021, and the other half is due on December 31, 2022
- What tax year does the business get to deduct the taxes?



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CARES ACT – BUSINESS-RELATED CHANGES

Other Considerations

- Expansion of use of corporate net operating losses (NOLs) – CARES Act allows for a 5-year carryback for tax years 2018-2020 and temporarily eliminates the 80% taxable income limitation
- Qualified Improvement Property (QIP) – Technical correction made retroactively to January 1, 2018: all QIP placed in service in 2018 and beyond is 15-year property and eligible for 100% bonus depreciation



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CARES ACT – BUSINESS-RELATED CHANGES

Other Considerations

- 163(j) Business Interest Expense – Relaxes limitation to 50% of adjusted taxable income (compared to 30% pre-CARES Act)
- Acceleration of minimum tax credit – Earlier access to AMT credits



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THE CARES ACT – INDIVIDUAL-TAXPAYER CHANGES

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CARES ACT – INDIVIDUAL-TAXPAYER CHANGES

Economic Impact Payments (EIP)

- Also referred to as “stimulus checks” intended to help reduce the financial burden of COVID-19
- Automatic payments for most taxpayers – no action required by taxpayers who filed 2018 and 2019 tax returns, including most seniors and retirees
 - *\$1,200 per individual (\$2,400 MFJ) and \$500 per qualifying child*
 - *No minimum income required*
 - *Phase out for AGI of \$75,000 - \$99,000 (\$150,000-198,000 MFJ)*



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CARES ACT – INDIVIDUAL-TAXPAYER CHANGES

Economic Impact Payments (EIP)

- Those claimed as a dependent on another taxpayer's return are ineligible
- November 21: deadline to request EIP for those who haven't received it and don't normally file tax returns (<https://www.irs.gov/coronavirus/get-my-payment>)
- Payments not received in 2020 can be claimed on 2020 tax returns
- What if I haven't filed my 2018 or 2019 tax returns?
 - *The IRS insists on filing ASAP to receive payment*



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CARES ACT – INDIVIDUAL-TAXPAYER CHANGES

Economic Impact Payments (EIP)

- Potential second round of stimulus checks likely
 - *Republicans and Democrats in agreement about the need for second round*
 - *Disagreements about size of stimulus package*
 - *Timing uncertain, but unlikely in 2020*



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CARES ACT – INDIVIDUAL-TAXPAYER CHANGES

Qualified Retirement Plans and IRAs

- Required Minimum Distributions (RMDs):
 - *RMDs waived for 2020*
 - *Rollback back period: August 31, 2020*
 - *Excluded from 2020 taxable income to the extent of repayment*
 - *Repayments are not subject to the one-rollover-per-12-month period limitation*
 - *No coronavirus eligibility requirements*



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CARES ACT – INDIVIDUAL-TAXPAYER CHANGES

Qualified Retirement Plans and IRAs

- Withdrawal of up to \$100,000 for coronavirus-related distributions (CRDs)
 - *Includes 401(k), 403(b), and IRAs*
 - *Not subject to tax withholding requirements or 10% early withdrawal additional federal income tax*
 - *Repayable at any time during 3-year period starting the day after distribution is received*
 - *Taxable ratably over 3 years*



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CARES ACT – INDIVIDUAL-TAXPAYER CHANGES

Qualified Retirement Plans and IRAs

- Individuals qualified to receive CRDs include anyone who:
 - *Is diagnosed with COVID-19 (including spouse or dependent)*
 - *Experiences adverse financial consequences (including those resulting from a member of your principal residence) resulting from:*
 - Being quarantined, furloughed, or laid off due to COVID-19
 - Reduced work hours due to COVID-19
 - Inability to work due to lack of childcare due to COVID-19



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CARES ACT – INDIVIDUAL-TAXPAYER CHANGES

Deferral of Employee Social Security Tax

- Due date for withholding and payment of the employee's portion of the 6.2% Social Security Tax is deferred until the period between 01/01/21 – 04/30/21
 - *Deferred taxes must be withheld and paid from wages and compensation paid between January 1, 2021 and April 30, 2021*
 - *Deferral applicable for employees with biweekly, pre-tax pay of < \$4,000*
 - *Limitation equal to \$104,000 in annualized wages*
 - *Applies to wages paid in period between 09/01/20 – 12/31/20*



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CARES ACT – INDIVIDUAL-TAXPAYER CHANGES

Other Considerations

- Self-employed individuals:
 - *Can defer a portion of their self-employment taxes (even those with forgiven PPP loans)*
 - *May defer the payment of 50% of the social security tax imposed under section 1401(a) of the IRC on net earnings from self-employment income for the period beginning on March 27, 2020 and ending December 31, 2020*
- Individuals can carry back Net Operating Losses (NOLs) for up to five years



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YEAR-END TAX PLANNING CONSIDERATIONS



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YEAR-END TAX PLANNING

Critical Considerations

- Take care in completing the PPP loan forgiveness application
 - *Using a 24-week covered period should produce 100% forgiveness for most businesses that remained open for most of 2020*
 - *Contact us if you need help with your application*
- Timing the recognition of taxable income and deductions can be critical this year as a result of potential tax rate increases in the future
- Non-taxability of PPP loan can significantly impact your 2020 tax position and possibly create a situation where a NOL is generated and available for carryback



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YEAR-END TAX PLANNING

Critical Considerations

- Year-end capital improvements should be carefully considered
 - *Fixed asset additions (coupled with bonus depreciation) may cause current year net operating losses that may be carried back for up to five years to produce a refund of prior year taxes paid*
 - *Alternatively, deferral of fixed asset additions until 2021 may be beneficial if future depreciation deductions will offset future taxable income that is taxed at a higher rate*
- Don't forget to contribute to your retirement plans
- Defer state/local tax payments until 2021, as SALT rules are likely to change



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Questions?

For More Information About Tax-Related Issues Contact:

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***Administrative Concerns* should be directed to Mary Lou at: HARRISON@GYF.COM**