



AN ELECTION STORM: PPP UPDATE TAX PLANNING FOR 2020

A DISCUSSION OF THE PAYROLL PROTECTION PROGRAM AND YEAR-END TAX PLANNING CONSIDERATIONS

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WELCOME AND INTRODUCTIONS

Webinar Format

Polling Questions
Chat and Q&A
Webinar Survey
CPE
Slide Deck
Related Technical Content

Moderator

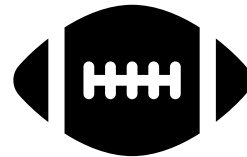
Cory Van Deusen



POLLING QUESTION #1



**Will Josh Allen carry
the Buffalo Bills to an
appearance in the Super Bowl?**



WELCOME AND INTRODUCTIONS

Presenters

PPP Update

Megan Morris and Jenna Torella



Business Tax Planning

Cheryl Jankowski



Personal Tax Planning

Robert Ingrasci



AGENDA

Payroll Protection Program

Tax Aspects and Financial Statement Presentation

Business Tax Planning

What do the election results mean?

How will that effect year end planning and beyond?

Personal Tax Planning

Estate and Gift Tax Planning

Income Tax Planning

Payroll Protection Program

PPP FORGIVENESS APPLICATION

- Three different SBA Forgiveness Application options
 - Form 3508 – Full detailed forgiveness application
 - Form 3508EZ – Easier application for qualified borrowers
 - Form 3508S – Simplified forgiveness application for borrowers who received loans under \$50,000
- Forgiveness Application is due 10 months after the end of your covered period

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RECENT SBA GUIDANCE

- Related Party Rents
 - Eligible for forgiveness only up to the amount of mortgage interest paid during the covered period for leases existing prior to February 15, 2020
- <5% owners of corporations
 - S&C Corporation Owners with less than 5% ownership are not subject to the PPP owner-employee compensation rules

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RECENT SBA GUIDANCE_(con't)

- Guidance concerning changes in ownership
 - Borrower must notify PPP lender prior to change in ownership
 - SBA approval may or may not be required
- Good Faith Certification
 - Questionnaire for borrowers that have received loans over \$2 million

POLLING QUESTION #2



**Have you already applied for
PPP loan forgiveness?**

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PPP FORGIVENESS REPORTING - FINANCIAL STATEMENTS

- Two Options

- Debt

- Liability until forgiven or the loan is paid off
 - Recorded as gain on extinguishment

- Government Grant

- Deferred revenue until there is reasonable assurance that conditions have been met and the assistance will be received
 - Business entity: record as other income or reduction of expense
 - Not-for-profit: record as a conditional contribution

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PPP FORGIVENESS REPORTING – TAX RETURN

- IRS Notice 2020-32 – the IRS will be disallowing the deduction for expenses that are used for PPP loan forgiveness
 - This treatment effectively makes the PPP loan taxable
 - Planning for PPP forgiveness timing is critical
- It is possible that Congress will pass legislation to correct this

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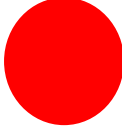
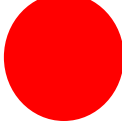
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WHAT DO WE KNOW?



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MAJOR TAX LEGISLATION AND CONGRESSIONAL CONTROL

Legislation	President	Senate	House
Deficit Reduction Act of 1993	CLINTON		
Bush Tax Cuts – 2001 and 2003	BUSH 43		
PPACA – Obamacare	OBAMA		
TCJA – Tax Cuts and Jobs Act	TRUMP		

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KEY FACTORS TO CONSIDER



Projected Joe Biden



Start as Republican
Georgia run-off election in Jan. 2021



Stay Democratic

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CURRENT/BIDEN TAX POLICIES COMPARISON

INDIVIDUAL TAX RATES

- **Current Tax Law (TCJA-Present)**
 - The top marginal rate is 37% for income over \$518,400 for individuals and \$622,050 for married filing jointly. This was lowered from 39.6% pre-TCJA.
- **Biden's Stated Goals**
 - Biden would restore the 39.6% rate for taxable income above \$400,000. This represents only the top rate.

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COMPARING TAX POLICIES

CAPITAL GAINS AND DIVIDENDS

- **Current Tax Law (TCJA-Present)**
 - The top tax rate is 20% for income over \$441,450 for individuals and \$496,600 for married filing jointly. There is an additional 3.8% net investment income tax.
- **Biden's Stated Goals**
 - Biden would eliminate breaks for capital gains and qualified dividends for income above \$1 million. Instead, these would be taxed at ordinary rates.

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COMPARING TAX POLICIES

ITEMIZED DEDUCTIONS

- **Current Tax Law (TCJA-Present)**

- For 2020, the standard deduction is \$12,400 for single/married filing separately and \$24,800 for married filing jointly.
- After 2025, the standard deduction is scheduled to revert to pre-TCJA amounts, or \$6,350 for single /married filing separately and \$12,700 for married filing jointly.
- The TCJA suspended the personal exemption and most individual deductions through 2025.
- It also capped the SALT deduction at \$10,000, which will remain in place until 2025, unless repealed.

- **Biden's Stated Goals**

- Biden would enact a provision that would cap the tax benefit of itemized deductions at 28%.
- SALT cap: Senate minority leader Charles Schumer has pledged to repeal the cap should Biden win in November (the House of Representatives has already passed legislation to repeal to the SALT cap).

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COMPARING TAX POLICIES

ESTATE TAXES

- **Current Tax Law (TCJA-Present)**
 - The estate tax exemption for 2020 is \$11,580,000. Transfers of appreciated property at death get a step-up in basis.
 - The exemption is scheduled to revert to pre-TCJA levels, or \$5,800,000, in 2026.
- **Biden's Stated Goals**
 - Biden would maintain the 2026 reversion and eliminate the current step-up in basis on inherited assets.

POLLING QUESTION #3



When did you vote in the 2020 election?

- a. I voted early**
- b. I voted on election day**
- c. I didn't vote**

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CURRENT & BIDEN TAX POLICIES COMPARISON

CORPORATE TAX RATES, AMT, REAL ESTATE

- **Current Tax Law (TCJA-Present)**
 - Corporations have a flat 21% tax rate and no corporate alternative minimum tax (AMT), which were both changed by the TCJA.
 - *These do not expire*
- **Biden's Stated Goals**
 - Biden would raise the flat rate to the pre-TCJA level of 28% and reinstate the corporate AMT on profits of \$100 million or more.
 - Limit Qualified Business Income deduction for individuals
 - Elimination of Section 1031 like-kind exchanges that allow deferral of capital gains and elimination of \$25,000 exemption for middle-income individuals.

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CURRENT & BIDEN TAX POLICIES COMPARISON

PAYROLL TAXES (SOCIAL SECURITY TAX)

- **Current Tax Law (TCJA-Present)**
 - The 12.4% payroll tax is divided evenly between employers and employees and applies to the first \$137,700 of an individual's income.
- **Biden's Stated Goals**
 - Biden would maintain the 12.4% tax split between employers and employees and keep the \$137,700 cap but would institute the tax on earned income above \$400,000. The gap between the two wage levels would gradually close with annual inflationary increases.

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PLANNING IN AN UNCERTAIN ENVIRONMENT

- Overall tax rates:
 - Corporate tax rates – Flat Federal 21% rate, NYS rate of 6.5%.
 - Individual tax rates – Top Federal tax rate of 37% with qualified business income deduction. Top NYS rate of 8.82%

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YEAR END CONSIDERATIONS

- For cash basis businesses:
 - Payment of expenses by December 31st will allow deductibility in 2020.
 - If you believe that tax rates will go up in 2021, hold off paying expenses until 2021.
 - By deferring expenses until 2021, this could increase the qualified business income deduction on your 2020 return.
 - Understand the impact of PPP forgiveness on your tax liability.

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YEAR END CONSIDERATIONS FOR CASH BASIS TAXPAYERS (con't)

- Recognition of Income:
 - Generally, taxpayers try to defer the collection of receipts until after the end of the year. If you believe tax rates will increase in 2021:
 - Try and collect receipts by year end.
 - Although this would increase your taxable income, it could be partially offset with the qualified business income deduction.

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ACCRUAL BASIS TAXPAYERS

- For accrued compensation:
 - Deductible in year of accrual if paid within 2 ½ months from the end of the calendar year as long as all events test met.
 - However for S corporation owners, no accruals are deductible. If you want the deduction , pay by year-end.

If you believe tax rates are increasing in 2021, pay bonuses by December 31st for year end taxpayers.

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2020 ASSET ADDITIONS

- Generally, taxpayers try and maximize their depreciation deductions on fixed asset additions:
 - Current law allows for the expensing of certain fixed asset additions (IRC 179) of up to \$1,040,000 and allows bonus depreciation of 100% for qualified new and used property acquired and *placed in service* in 2020.
 - Depending on each taxpayer's situation, the taxpayer can strategize to maximize or minimize the tax benefit.
 - Decisions related to depreciation deductions do not need to be made by December 31st.

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MAXIMIZING THE QUALIFIED BUSINESS INCOME (QBI) DEDUCTION

- The deduction can be up to 20% of pass-through entity owner's QBI:
 - Ensure that business has paid enough wages:
 - Deduction is limited to 50% of wages or
 - 25% of wages and 2.5% of UBI (assets)
 - Need to understand overall tax situation.

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UNDERSTAND THE IMPACT OF THE FORGIVENESS OF PPP LOANS

- Under current law:
 - The forgiveness will increase your taxable income.
 - Unclear how states will treat although it is likely they will follow current Federal guidance.

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TAX PLANNING IN UNCERTAIN TIMES

Summary

- Focus on current rules. In 2020, you can take action with certainty of tax result.
- Major tax changes are unlikely unless there is a clean sweep by one party.
- Tax Cuts and Jobs Act changes for individuals are set to expire on December 31, 2025.

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2020 YEAR-END PLANNING

- **Accelerating vs. Deferring Income**
 - Tax brackets in 2020 vs. 2021
 - 2020 Tax Brackets:

<i>Tax Rate</i>	<i>Taxable Income (Single)</i>	<i>Taxable Income (Married Filing Jointly)</i>
10%	Up to \$9,875	Up to \$19,750
12%	\$9,876 to \$40,125	\$19,751 to \$80,250
22%	\$40,126 to \$85,525	\$80,251 to \$171,050
24%	\$85,526 to \$163,300	\$171,051 to \$326,600
32%	\$163,301 to \$207,350	\$326,601 to \$414,700
35%	\$207,351 to \$518,400	\$414,701 to \$622,050
37%	Over \$518,400	Over \$622,050

Personal Tax Planning

2020 YEAR-END PLANNING

- Accelerating vs. Deferring Income
 - Examine the Impact of Sales on Investment Items
 - 2020 Capital Gain Rates:

	0%	15%	20%
MFJ	\$0 - \$80,000	\$80,001 - \$496,600	over \$496,600
MFS	\$0 - \$40,000	\$40,001 - \$248,300	over \$248,300
HOH	\$0 - \$53,600	\$53,601 - \$469,050	over \$469,050
Single	\$0 - \$40,000	\$40,001 - \$441,450	over \$441,450
E&T	\$0 - \$2,650	\$2,651 - \$13,150	over \$13,150

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2020 YEAR-END PLANNING

- Accelerating vs. Deferring Income
 - Examine the Impact of Net Investment Income Tax (NIIT)
 - 3.8% Additional Tax on Investment Income
 - Modified Adjusted Gross Income (MAGI) Limitations:
 - \$200,000 for Single Individuals
 - \$250,000 for Married Filing Jointly
 - Examine the Impact of Additional Medicare Tax
 - 0.9% Medicare Tax on Wages and Self-Employment (SE) Income
 - Salary and/or Net SE Income Above:
 - » \$200,000 for Single Individuals
 - » \$250,000 for Married Filing Jointly

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2020 YEAR-END PLANNING

- Maximizing/Accelerating Deductions
 - 2020 Inflation Adjusted Standard Deduction:
 - \$24,800 for Joint Filers
 - \$18,650 for Head of Household Filers
 - \$12,400 for All Other Filers
 - Accelerating Mortgage Payments
 - Prepayment of state and local income and property taxes
 - \$10,000 Maximum
 - Maximizing Charitable Deductions

POLLING QUESTION #1



**Are you more concerned with
the COVID-19 pandemic now than
you were in the spring?**

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2020 YEAR-END CHARITABLE PLANNING

Deductible Contribution Limits					
		Ordinary Income		Long Term Capital	
		Cash	Property	Gain Property	
Public Charity					30% of AGI if value is based on FMV
		60% of AGI	50% of AGI		50% of AGI if elected to use cost basis
Private Foundation		30% of AGI	30% of AGI		20% of AGI

- **Public Charities Include:**
 - Those that receive contributions from many sources
 - Churches
 - Medical Organizations
 - Schools
 - Colleges and Universities

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2020 YEAR-END CHARITABLE PLANNING

- CARES Act Provisions
 - The Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, is a \$2.2 trillion economic stimulus bill passed on March 27, 2020 in response to the economic fallout of the COVID-19 pandemic in the United States.
- New charitable rules include:
 - Individuals for 2020 may deduct up to 100% of their adjusted gross income for cash donations to public charities (up from 60%).
 - These donations only apply to qualified public charities and not donor-advised funds or private foundations.
 - For businesses, the CARES Act increases the deductible limit for cash donations made by C-Corporations to 25% of taxable income (up from 10%).

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2020 YEAR-END CHARITABLE PLANNING

- CARES Act Provisions (Continued)
 - There were no changes in the CARES Act for the deductible gift limits of 60% for cash donations to donor-advised funds (30% for appreciated stock) and 30% for cash gifts to private foundations (20% for appreciated stock gifts).
 - Taxpayers who don't itemize for 2020 will be able to claim a deduction for up to \$300 in **cash** donations to public charities. (Above-the-line deduction, \$300 for all filing statuses)
 - Amounts exceeding \$300 cannot be carried forward to future tax years
 - Carryforwards from PY do not apply
 - Non-cash contributions do not apply

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2020 YEAR-END CHARITABLE PLANNING

- “Bunching” Charitable Contributions
 - Increased Standard Deductions and SALT limitations result in fewer taxpayers from itemizing deductions Encourage clients to consolidate charitable contributions that would normally be made over multiple years into a single tax year
 - Encourage contributions to Donor Advised Funds
 - Up Front Charitable Deduction
 - Specific charitable gifts do not need to be made in the same year as the gift to the DAF
 - Account grows tax free
- Low Basis Stock Donations:
 - Gifts of appreciated stock or real estate have the double tax benefit of not having to pay capital gains tax on the appreciated value, while getting a deduction for the fair-market-value of the appreciated gift
- Qualified Charitable Deductions from IRA
 - Contribution of up to \$100,00 annually directly from IRA to satisfy RMD

Personal Tax Planning

2020 YEAR-END PLANNING – ADDITIONAL CONSIDERATIONS

- Maximize Education Credits and Deductions
 - Tuition and Fees Deduction set to expire on December 31, 2020
 - Individuals can claim a credit or deduction for tuition paid in 2020 for the 2021 Academic Year
 - Implementation of 529 Plan (\$10,000 Annual Maximum Deduction from NYS Taxable Income (MFJ)/\$5,000 (Single))
- Increase 401(k) Contributions
- Deductible IRA Contributions
 - Individuals eligible for deduction for amounts contributed through April 15, 2021
- Teacher Deductions
 - Educators can claim a deduction for up to \$250 of unreimbursed classroom expenses
- Roth IRA Conversion
 - Pair with 100% Charitable Contribution Deduction

PERSONAL TAX PLANNING

2020 YEAR-END PLANNING – ESTATE CONSIDERATIONS

- Annual Gifts
 - Annual Gift Exemption remains at \$15,000
- Lifetime Gifts
 - 2020 Federal Lifetime Gift/Estate Exemption - \$11,580,000
 - Indexed to \$11,700,000 for 2021
 - No claw back of gifts made in excess of exemption if amount is lowered in the future
- Direct Gifts to Educational or Medical Institutions
 - Do not count towards annual or lifetime exclusion amounts

THANKS FOR ATTENDING

PRESENTERS



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Service Expertise

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Family Wealth and Estate Planning
Individual Tax
Succession Planning

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