GEHRING & FARRWOOD

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Greetings!

We hope you are all safe and well during these troubling times. 2020 has been a tough year financially for many of you, so we wanted to update you on some of the changes that have been made since March. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the Families First Coronavirus Response Act (FFCRA) have provided many programs aimed to help individuals, businesses, and employers. Additionally, a few executive orders have been issued that may impact your tax situation. We have outlined the changes we think are most important below, starting with individuals and finishing with businesses and employers.

Individuals

Economic Impact Payments

You likely have already received a stimulus payment from the US Treasury.

- A $1,200 credit is available for every individual who is not a dependent on another individuals 2020 tax return. In addition, qualifying dependents under the age of 17 in 2020 increase your credit by $500.
- The credit is reduced by 5% for every dollar above certain adjusted gross income (AGI) limits: $75,000 for single filers, $112,500 for head of household, and $150,000 for joint-filers.
- These payments are a refundable tax credit on your 2020 return that were made in advance based on 2018 or 2019 adjusted gross income. If your advance payment was reduced based on your 2018 or 2019 AGI limits and your AGI goes down in 2020, you will receive the additional credit on your 2020 tax return. Conversely, if your 2020 AGI is higher than your 2018 or 2019 AGI, or you had a qualifying dependent in 2019 that is no longer a qualifying dependent in 2020, you will not have to pay back the excess credit you received in advance.
- If you have not received your stimulus payment, please visit www.irs.gov/coronavirus/economic-impact-payments.

Charitable Donations

The CARES act provides a $300 above the line deduction for qualifying charitable contributions.

- Above the line deductions do not require you to itemize to receive a tax benefit.
- In 2018, roughly 89% of filers did not itemize, so this deduction could provide an additional benefit to most taxpayers.

Coronavirus Related Retirement Distributions

Qualifying distributions up to $100,000 may be taken from an eligible retirement plan during 2020.

- Distributions are exempt from the 10% early withdrawal penalty.
- Distributions can be included in your income evenly over three years (2020-2022) or included entirely in 2020.
- You can repay any amount of the distribution within three years and qualify for a rollover. If you already paid tax in a prior year on an amount you paid, you can amend the prior year's return and receive a refund.
- Qualifying plans include IRAs, 401(k) plans, and 403(b) plans.
- Qualifying criteria include a COVID-19 diagnosis for yourself, spouse, or dependent, or adverse financial consequences due to COVID-19. These adverse consequences include being furloughed, reduced hours, lack of available childcare, reduced self-employment income, and others.

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Employee Payroll Tax Deferral

An executive order was passed in August, postponing the due date for the employee portion of Social Security tax (6.2%) from September 1, 2020 through December 31, 2020. The deferral would then have to be repaid through additional withholding on your paycheck from January 1, 2021 through April 30, 2021. Many questions about this order remain unanswered, and to our knowledge, no employer except for the federal government is participating in the deferral.

Required Minimum Distributions

The CARES act waived the RMD requirement for 2020 for most qualifying retirement plans.

Communication with the IRS

Almost all IRS employees were working from home until July this year, which put the IRS extremely far behind in processing mail. The situation has not improved as of the date of this letter, so please keep this in mind when trying to contact the IRS by phone or mail.

Employees and Employers

Emergency Paid Sick Leave & Family and Medical Leave

Part of the FFCRA, these programs provide paid sick & family and medical leave for qualifying persons affected by COVID-19.

- Employers are required to provide 80 hours of sick leave or family and medical leave to qualifying employees from the period beginning between April 1, 2020 and December 31, 2020.
- Employees qualify if they stay home due to a positive COVID-19 diagnosis, self-quarantine, if they are experiencing COVID-19 symptoms, or if their childcare provider or school closes due to COVID-19.
- Employers must provide 80 hours of sick leave to employees at their regular pay rate for the expected number of hours they miss each shift for all qualifying reasons except to care for a child whose childcare provider or school is unavailable.
- Employees who stay home to care for a child when a childcare provider or school is unavailable, the employee is to be paid at two-thirds their ordinary rate.
- Employees qualify for a maximum combined 80 hours of sick of family and medical leave in 2020.
- Employees whose pay varies, such as tipped and commissioned employees, are to be paid using their average rate from the prior six months.
- Employees able to entirely perform their work through telework do not qualify. If an employee can only complete part of their shift through telework, an employee may take paid sick leave or family and medical leave intermittently throughout the day for the portion of their shift they are unable to complete through telework.
- Employers pay no Social Security tax on these wages.
- Employers will receive a payroll tax credit on their quarterly 941 form for the full amount wages paid. If the employer paid more qualifying wages than their 941 balance, the employer would receive a refund.
- Small businesses with fewer than 50 employees can qualify for an exemption if they determine that these payments would cause undue financial hardship on the business, including the inability to keep the business open at minimal capacity; inability to replace a skilled employee; or not enough workers who are able to cover the employee's shifts.

Direct Primary Care (DPC) Arrangements and Healthcare Sharing Ministries (HCSM)

Proposed IRS rule would include DPC and HCSM expenses as qualifying medical expenses for itemized deductions and for healthcare reimbursement arrangements (HRA). Prior interpretations did not consider DPC and HCSM to be health insurance. The IRS will provide more information when they issue a final rule before the end of the year.

Businesses and Employers

Paycheck Protection Program (PPP)

Small business loans were available through August 8, 2020 to employers with less than 500 employees, including some non-profit organizations and self-employed individuals.

- The loan amount was equal to 250% of your average monthly payroll cost in the 2019 calendar year, or January 1, 2020 through February 15, 2020 for business not in existence in 2019.
- Eligible payroll costs include compensation, health and retirement benefits, and state payroll taxes. Self-employment income also qualifies for sole-proprietors and partnerships.
- Loans are entirely forgivable if a certain number of provisions are met.
- The covered period was initially 8 weeks, but was later extended to 24 weeks, beginning on your application date. Recipients prior to June 5, 2005 can elect to use either period, loans after June 5, 2020 must use the 24-week period.
- 60% (formerly 75%) of the loan must be spent on eligible payroll costs. Eligible compensation or self-employment income cannot exceed $100,000 annually per employee during the forgiveness period. The other 40% can be spent on rent, utilities, interest on debt related to your business, including mortgages.
- To qualify for full forgiveness, you must maintain the same level of full-time equivalent employees during the covered period as you had in either of the following periods: February 15, 2019 through June 30, 2019, or January 1, 2020 through February 29, 2020. Full-time equivalents can be calculated either by assigning a value of 1 to all full time (40 hours) employees and 0.5 to all part-time employees (less than 40 hours), or by dividing the number of hours per week for all employees by 40.
- Forgiveness applications are due within ten months from the beginning of your forgiveness period. There are still many questions surrounding the PPP forgiveness process, so many banks do not have their forgiveness application open.
- The current language of the CARES act is written in such a way that the forgiven amounts are not to be included in taxable income, but the expenses used to calculate forgiveness are also not deductible. Basically, this has the same effect as making the income taxable. Congress did not intend for this to happen, and hopefully they will include amended language in an upcoming bill.
- Proposed bills in Congress address automatic forgiveness for loans under $150,000, and making all expenses used to qualify for forgiveness deductible.
- PPP forgiveness is reduced by $10,000 for those who also received an Emergency Economic Injury Grant.
- Qualifying wages cannot double-dip with other programs such as Sick leave under FFCRA, or the Southeast Washington Economic Development Grant.

Economic Injury Disaster Loans (EIDL) and Emergency Economic Injury Grant (EEIG)

EIDLs are available through the Small Business Association.

- The loans have low interest rates and a 30-year payback period. Qualifying individuals can apply for up to $2 million in loans.
- EEIG provides $10,000 in immediate funds to eligible small businesses. Initially this was a faster way to get cash in the hands of business than the PPP loan process.
- There is no forgiveness process for the EEIG, unlike the PPP loans. However, a $10,000 EEIG reduces your PPP forgivable amount by $10,000.

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Employee Retention Credit

For employers whose activities were fully or partially suspended due to a government order due to COVID-19, or who experience a 50% reduction in gross receipts in a calendar quarter may qualify to receive an Employee Retention Credit for wages paid to employees in that same quarter.

- The Employee Retention Credit can be claimed for wages paid between March 13, 2020, and December 31, 2020.
- The credit is calculated as 50% of up to $10,000 of wages per quarter, which offsets employer Social Security tax.
- This credit is not available to businesses who also received a PPP loan.

Employer Payroll Tax Deferral

The due date of employer portion of Social Security tax (6.2%) through December 31, 2020 is now deferred.

- Half is due on December 31, 2021, and the other half is due on December 31, 2022.
- The due date for 6.2% of 2020 Self-Employment tax is also deferred until the same dates.
- We do not recommend that you participate in this deferral unless you have a viable plan for on-time repayment. The penalties for late payment of federal employment taxes are steep, so caution should be exercised.
- If you are already behind on your 2020 payroll taxes or self-employment taxes, then this will be a welcomed provision.

Net Operating Losses (NOL)

The 2018 Tax Cuts and Jobs act repealed the ability to carry NOLs back to prior years, and limited NOLs to 80% of taxable income. The CARES act restored these provisions for tax years 2018-2020, allowing losses for each year to be carried back five immediately preceding years, and suspended the 80% requirement.

Southeast Washington Economic Development Grant

Up to $10,000 Grant available to businesses located in Asotin, Garfield, and Whitman County who employ less than 20 employees in Asotin and Garfield, and 50 employees in Whitman County. Businesses must be negatively impacted by the COVID-19 emergency. Businesses can be reimbursed for certain operating costs paid from March 17, 2020 through the application due date of October 16, 2020. For more information, visit www.seweda.org/coronavirus.

Sincerely,

Gehring & Farrwood