GEHRING &
FARRWOOD

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Greetings!

We apologize for the delay of our year-end newsletter, but we wanted to wait until the recent COVID-19 relief bill passed. We know this has been a difficult year for many, and we hope the information in this newsletter will benefit you. There were four bills passed in congress this year with tax implications, and this newsletter will focus heavily on those changes. You can see our prior newsletter posted on our website for even more information on these bills.

- Setting Every Community Up for Retirement Enhancement (SECURE) Act
- Coronavirus Aid, Relief, and Economic Security (CARES) Act
- Families First Coronavirus Response Act (FCCRA)
- Consolidated Appropriations Act (CAA)

Our Firm & the Coming Tax Season

We recently added a new staff member to our team! Dana Collin was hired part-time in October and is now with us full-time. We hope that all of you have the chance to meet her. Melissa is still with us as well, and due to the restrictions of COVID-19 she may still be a new face to many of you.

Our office will be open this tax season, but we will attempt to limit in person contact as much as possible. We understand that certain clients will need to meet in person, so please call ahead of time if you need an appointment. Just like last year, we encourage you to drop your documents off ahead of time so we can begin preparing your return. We will call you once we have developed a list of questions and can discuss preliminary figures. Once complete, we can schedule a brief meeting to discuss your return and plan for the coming year.

We will be hosting a monthly drawing this tax season with some excellent prizes! All clients who leave an online review on Google or Yelp in February, March, or April will be entered into a drawing pool and the winner will receive a $500 gift card at the end of each month.

Please take note of the following deadlines

<u>January 2021</u>:	Be on the lookout for a tax organizer in the mail. It will include a list of questions that we must ask you as preparers. We changed the list of questions this year based on your feedback from prior years. The organizer will also have last year's figures for comparison. Please do your best to answer the questions, as doing so will improve the accuracy of your tax preparation and return.
<u>January 31, 2021</u>:	Form 1099-MISC and 1099-NEC
<u>March 15, 2021</u>:	Form 1065 (Partnerships) and Form 1120s (S Corporations)
<u>April 15, 2021</u>:	Form 1040, Form 1041 (Estates and Trusts), Form 1120 (Corporations), IRA Contributions, HSA Contributions, Foreign Asset Reporting

In the remaining pages of this newsletter are updates, general reminders, and strategies. We hope you find our information interesting and useful. Our team looks forward to serving your accounting and tax needs in 2021!

Sincerely,

GEHRING & FARRWOOD

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UPDATES, REMINDERS, STRATEGIES – FOR INDIVIDUALS

Key Changes & General Reminders

- The IRS is significantly behind in processing mail due to COVID-19. Expect long delays in receiving replies from written correspondence – we estimate it could take up to four months to receive a reply.
- All filers must now indicate whether they had any dealings with cryptocurrency. You will find a question regarding cryptocurrency in your tax organizer.
- If you take the standard deduction you do not ordinarily receive any benefit from charitable contributions. For tax year 2020, all filers who make cash donations can take a $300 deduction, even if you do not itemize. The limit is increased to $600 for joint filers in the 2021 tax year.
- Over the counter medical expenses now qualify for tax free treatment if paid with a Health Savings Account or Flexible Spending Arrangements. The prior law only allowed for medical expenses that were prescribed by a physician.
- This year only, unused funds from Flexible Spending and Dependent Care Benefit accounts can be rolled over from 2020 to 2021.
- A new W-4 Form is available for 2021. If your withholding from employment income is not enough to cover your tax each year, you may want to consider filling out an updated W-4.
- You need written acknowledgement from the entity for charitable contributions over $250. The IRS checks compliance of this matter through correspondence audits. Cancelled checks and/or credit card statements suffice for donations below $250.
- Many salaried workers are exempt from overtime rules. However, certain workers must be paid for overtime hours if their annual salary is under $42,712 in 2021 for employers with 1-50 employees, and $49,831 for employers with 51 or more employees. These rates will increase annually until 2028, capping out at $78,624. The affected worker classifications are administrative, executive, professional, computer employee, and outside sales. More information can be found in the checklists and forms section of our website.
- If your college age child received a refund from their university for money paid out of a 529 plan, don't forget to recontribute the funds to the account to avoid tax and penalties on the distribution.

Economic Impact Payments

- Congress approved two direct payments to individuals in the COVID-19 relief bills passed in 2020. These payments are 2020 tax credits sent in advance. Payments are based on income from your last tax return on file, which likely would have been from 2018 and 2019.
- The CARES act provided $1,200 to individuals and $500 per child. Payments were reduced if income was in excess of $75,000 for single filers and $150,000 for joint filers without children. Both thresholds are higher for filers with children.
- The CAA provides $600 to single filers, $1,200 for joint filers, and $600 per child. Payments will be reduced based on the same income limitations as the first direct payment. Payments are already being disbursed as of the date of this letter. You should receive this payment in the same form as the first direct payment. The IRS is issuing these payments via direct deposit, paper check, and prepaid debit card.
- Filers who were claimed or are eligible to be claimed on another taxpayer's return do not qualify for either payment. This means that your college-age dependent does not qualify for the credit if they are eligible to be claimed on your return.
- If you have not received either of these direct payments, you will receive a credit on your 2020 tax return which will decrease your tax due or increase your refund.
- For this year's tax preparation, please provide us the total received for both payments.

Retirement

- Traditional and Roth IRA contribution limits did not increase, staying at $6,000 plus a $1,000 catch up for those 50 and older. The deadline for contributing for the 2020 tax year is April 15, 2021.
- The requirement to take minimum distributions from retirement accounts was waived for 2020.
- Required minimum distributions will now begin when the account holder turns 72, up from 70 and a half under the prior law.
- Inherited IRAs now must be distributed within ten years after the death of the account owner, though there are exceptions to this rule such as inheritance from a spouse, disability of the beneficiary, or the age difference between the account holder and beneficiary.
- The 10% penalty for early withdrawal is waived for distributions up to $5,000 for qualified births and adoptions.
- The CARES act provides the ability to take a COVID-19 related distribution of up to $100,000 without incurring a 10% penalty. There are many qualifying factors, and repayments can be made over three years if you want to treat the distribution as a loan. Please see our previous newsletter for more information on this provision.

UPDATES, REMINDERS, STRATEGIES – FOR BUSINESS OWNERS & EMPLOYERS
(including rental properties)

Reminders & Key Changes

- Minimum Wage is now $13.69 in Washington state.
- Expect higher unemployment rates due to increased unemployment claims from COVID-19
- New this year, payments that used to be reported in Box 7 of Form 1099-MISC for non-employee compensation will now be reported on Form 1099-NEC. The due date for both forms is January 31.
- If you are claiming a deduction for automobile expenses you are required to keep a mileage log for each vehicle used in your business. Your log should include dates, locations, and a description of the business purpose for each trip. Failure to keep a mileage log will result in automobile expense being disallowed upon audit. The requirement is the same regardless of whether the business owns the vehicle or if you own it personally.
- We recommend that you take a picture of the odometer on January 1 each year for all vehicles in which an automobile expense deduction is taken. This helps substantiate business mileage upon audit.
- Net Operating Losses for tax years 2018, 2019, and 2020 can be carried back five years to offset prior tax, which can result in a refund. The ability to carry back losses was removed with the Tax Cuts and Jobs Act in 2018.
- The employee side of self-employment tax for tax year 2020 can now be deferred. Half is due by December 31, 2021, and the other half is due by December 31, 2022. You qualify for the deferral if your return includes self-employment tax and you have a balance due. We recommend that you do not defer paying your balance due unless absolutely necessary.
- The deadline for contributing to a SEP IRA has the same due date as your tax return and can be extended by filing a timely extension. Doing so will extend the SEP contribution due date to October 15, 2021 for individuals, and September 15, 2021 for partnerships and s-corporations.
- If you are operating in Washington state, you may need to register for a tax account with the state. You must register if you are required to collect sales tax, or if you earn over $12,000 gross of revenue.
- The Tax Cuts and Jobs act of 2018 allows small businesses that are required to keep inventory to treat their inventory as incidental materials and supplies, which allows for an immediate deduction in the year paid instead of when the good sells (otherwise known as cost of goods sold). An election can be made on your tax return if you are a new business or have never kept inventory before. Otherwise, a change of accounting method must be filed on Form 3115 to request approval for the change by the IRS.

Paycheck Protection Program (PPP)

- The first PPP was passed in March with the CARES act and provided funds to employers and self-employed persons impacted by COVID-19. The loans were equal to 2.5 times the average monthly payroll and self-employment earnings from the prior year.
- The loans are forgivable if certain criteria are met, such as 60% being spent on payroll during the period.
- Loan recipients have an 8 or 24 week “covered period” to use the funds for qualified purposes in order to qualify for forgiveness. Applications for forgiveness are due ten months after the covered period ends.
- The CAA passed in December includes a second round of PPP funding for businesses who experienced losses of at least 25% in any calendar quarter of 2020 compared to the same quarter in 2019. Loan amounts will be the same as the first PPP, except critically impacted industries such as restaurants will get 40% more this time around. We encourage you to reach out to your lender for more information on the application process.
- Forgiven funds are not taxable income, and the expenses paid from forgiven funds can now be deducted, as of the passing of the CAA in December.
- A simplified forgiveness application process is being developed currently by the SBA for loans under $150,000. We expect that lenders will revise their forgiveness process to incorporate these changes. We encourage you to contact your lender for more information on the forgiveness application process.
- Once loan repayments begin, forgiveness can still be applied for after the ten-month window has expired, but only for the amount of the loan remaining. In other words, you cannot get the repayments you’ve made back from the lender.
- You may have received a $10,000 advance EIDL payment. Prior to the CAA, that $10,000 payment reduced the amount of forgiveness available on the first PPP loan by $10,000. That provision has been changed, so full forgiveness can now be obtained on the first PPP regardless of the advance payment.

Employee Retention Credit

- The employee retention credit was introduced in March but didn't receive much attention because it was not available to businesses who received a PPP loan. This restriction was removed, so PPP recipients can now claim an employee retention credit using wages that were not used to calculate forgiveness on PPP loans.
- The provision is retroactive on wages back to March 12, 2020 and is now extended through June 30, 2021.
- To qualify, you must experience a 20% revenue loss in any calendar quarter in 2020 or 2021 compared to the same quarter in the prior year.
- A credit of up to 70% of qualifying wages paid can be claimed against employer taxes, up from 50% in the prior bill.
- Up to $10,000 of wages per employee can be used each quarter to calculate the credit, up from $10,000 per year in the prior bill.
- A maximum credit of $7,000 per employee can be claimed each quarter.
- Businesses not in existence in 2019 do not qualify for the credit for any quarter in 2020, but they can qualify for both quarters in 2021.
- Qualifying wages include gross amounts paid to employees as wages, as well as employer provided health benefits. Wages do not qualify if another credit or provision was already used on those wages, such as forgiven PPP wages, National Paid Sick Leave, or the Work Opportunity Tax credit.
- As of the date of this letter, the IRS has not updated their instructions for claiming this credit. In addition, it is very difficult to determine which wages qualify for the credit until your PPP loan exhausted. Therefore, we do not recommend attempting to calculate an Employee Retention Credit until after June 30, 2021. We will gladly assist you in the calculation, and in preparing amended payroll reports.
- The Employee Retention credit does not affect employees W2s, so there will not be a need to amend W2s even if quarterly employer payroll reports are amended.

National Paid Sick & Family Leave

- The FFCRA provides a credit to employers for qualified sick and family leave wages if an employee is absent for a qualifying COVID-19 reason. Please see our prior newsletter for more information on this credit.
- The CAA extends this provision through March 31, 2021 on a voluntary basis. Qualifying wages earned before January 1, 2021 were mandatory in most cases.
- If you believe you had a qualifying circumstance but you either didn't pay the employee at all, or you paid the employee and didn't receive a credit on your payroll tax return, please contact us and we can help you resolve the issue.