Who Qualifies for First-Draw PPP Money Today?

Two things to know about the Paycheck Protection Program (PPP) first draw enacted on December 27, 2020:

- The first draw is for those who missed getting in on the original PPP, which expired on August 8, 2020.
- Don't think of a PPP draw as a loan. It's not a loan. It's a cash infusion. You have to repay a loan. You don't have to repay the PPP funds.

Who qualifies for first-draw PPP money today? You, most likely—if you file a business tax return and have not yet received any PPP monies.

But don't wait. The money is going to run out fast, and once it's gone, so is the PPP. And the new PPP ends March 31, even if the money is not gone by then.

You qualify for the PPP if any of the following are true:

- You file your taxes on Schedule C of your tax return. Businesses that file on Schedule C include independent contractors (often called 1099 folks), single-member LLCs, proprietorships, and statutory employees such as life insurance salespeople.
- You file your taxes on Schedule F (ranchers and farmers).
- You are a general partner in a partnership, but the partnership asks for and receives the money based on your and your other partners' combined self-employment incomes, as adjusted.
- You operate as an S corporation.
- You operate as a C corporation.
- You are the only worker in the business—but if you have employees in the business, you qualify on both your ownership worker status and your employees' W-2 status.

PPP Forgiveness: One step closer for California Businesses

Governor Gavin Newsom on February 18, announced that they have reached an agreement on a package of immediate actions that will speed needed relief to individuals, families, and businesses suffering the most significant economic hardship from the COVID-19 recession.

Included in the agreement is partial conformity to new federal tax treatment for loans provided through the Paycheck Protection Program, allowing companies to deduct up to $150,000 in expenses covered by the PPP loan. All businesses that took out loans of $150,000 or less would be able to maximize their deduction for state purposes. Firms that took out higher loans would still be subject to the same ceiling of $150,000 in deductibility. This tax treatment would also extend to the Economic Injury Disaster Loans as well.

The proposal also includes stimulus payments to individuals, fee waivers for bars and restaurants, and continued grants of up to $25,000 for California businesses.

Reminder, this is not yet law so stay tuned.

COVID-19 Relief Law Turbocharges Employee Retention Credit

Before the December 27, 2020, enactment of the new COVID-19 relief law, you may have chosen the PPP loan and given no thought to the employee retention credit.

Remember, under the original law, you had to choose between the retention credit and the PPP loan. Millions chose the PPP loan route.

But now the game has changed. You may, as a PPP recipient, qualify to take the employee retention credit retroactively for tax year 2020 and also going forward in tax year 2021.

Here are the key changes you as a PPP player need to know:

- PPP loan recipients can retroactively claim the 2020 employee retention credit for wages not paid with forgiven PPP loan proceeds.
- Wages paid from March 13, 2020, through December 31, 2020, qualify for the retroactive credit.
- Wages paid from January 1, 2021, through June 30, 2021, can qualify for the more significant 2021 credit.
- For 2021 quarters only, you qualify for the credit if your gross receipts for a calendar quarter are less than 80 percent of gross receipts from the same quarter in tax year 2019. Alternatively, you can elect to qualify for a quarter by comparing the gross receipts of the immediately preceding quarter with the corresponding quarter in 2019.
- For 2021 quarters only, the relaxed requirements for qualifying wages apply to businesses with 500 or fewer 2019 full-time employees.

COVID-19 Relief Law Boosts Temporary Tax Deductions and Credits

Embedded in the COVID-19 relief law is $900 billion for financial assistance.

As you would expect in these unusual times, some of the relief is in the form of direct government financial assistance and some is from tax benefits that can impact both tax year 2020 and tax year 2021.

Most of the provisions create extra deductions or credits where Uncle Sam puts cash directly into your wallet. Here are four:

1. Recovery Rebate Payments and Credits

Remember those $1,200 checks many people got earlier in the year? Well, there's another round of $600 payments coming, with rules very similar to the first round.

2. Paid Sick and Family Leave Credits

As you may remember from the March 2020 law, Congress provided two ways to give workers paid sick and family leave:

1. Employers received refundable payroll tax credits to fully offset the cost of the government mandate that employers provide paid sick and family leave to their employees.
2. Self-employed persons also qualify for paid sick and family leave. They claim a refundable tax credit against their 2020 self-employment tax.

The tax credits require that the self-employed person or the employee was unable to work due to a qualifying situation between April 1, 2020, and December 31, 2020. The maximum non-working days eligible for the tax credits are

- 10 days for paid sick leave, and
- 50 days for paid family leave.

Under the new law, you now can claim these tax credits for qualifying days through March 31, 2021. But the new law did not increase the maximum creditable days.

3. 100 Percent Business Meal Deduction

The new December 27, 2020, law allows you to deduct 100 percent of your business-related expenses for food and beverages provided by a restaurant for amounts paid or incurred after December 31, 2020, and before January 1, 2023.

4. Charitable Contributions

The CARES Act made three major changes to charitable contribution deductions for tax year 2020:

1. For individuals, there is no adjusted gross income (AGI) limit for contributions normally subject to the 50 percent and 60 percent limitations. The 2020 no-limit rule does not apply to donor-advised funds.
2. For corporations, the 10 percent limitation goes up to 25 percent of taxable income.
3. If you are a non-itemizer, you may now deduct above-the-line cash charitable contributions up to $300 for tax year 2020 only.

The new law enacted on December 27, 2020, extends the increased charitable contribution deduction limits for individuals and corporations to tax year 2021. In addition, in tax year 2021, non-itemizers can deduct below-the-line cash charitable contributions up to $600 on a married-filing-joint return ($300 for singles).

Tax Extenders Passed with the COVID-19 Relief Law

The Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted on December 27, 2020, deals with the annual tax extenders. Congress made some of them permanent, while others got short- or long-term extensions.

These are the big five Form 1040 tax breaks that were scheduled to expire on December 31, 2020:

1. Exclusion from income for cancellation of acquisition debt on your principal residence (up to $2 million)
2. Deduction for mortgage insurance premiums as residence interest
3. 7.5 percent floor to deduct medical expenses (instead of 10 percent)
4. Above-the-line deduction for tuition and fees
5. Non-business energy property tax credit for energy-efficient improvements to your principal residence

Here is what Congress did with each of these five provisions:

1. **Cancellation of debt.** Extended through tax year 2025, but with a reduced maximum exclusion from $2 million to $750,000 for discharges of indebtedness after December 31, 2020.
2. **Mortgage insurance premiums.** Extended through tax year 2021 only.
3. **7.5 percent floor for itemized medical deductions.** This provision is now permanent!
4. **Tuition and fees deduction.** Eliminated, but the lifetime learning tax credit phaseout limit was increased to $80,000 (or $160,000 on a joint return) to increase access to this tax benefit.
5. **Principal home energy tax credit.** Extended through tax year 2021 only.

IRS Penalty Forgiveness Using Reasonable Cause

The IRS can waive penalties it assessed against you or your business if there was "reasonable cause" for your actions.

The IRS permits reasonable cause penalty relief for penalties arising in three broad categories:

1. Filing of returns
2. Payment of tax
3. Accuracy of information

Contrary to what you might think, the term "reasonable cause" is a term of art at the IRS. This seemingly simple phrase has a precise and detailed definition as it relates to penalty abatement.

Here are three instances where you might qualify for reasonable cause relief:

1. Your or an immediate family member's death or serious illness, or your unavoidable absence
2. Inability to obtain necessary records to comply with your tax obligation
3. Destruction or disruption caused by fire, casualty, natural disaster, or other disturbance

Here are five instances where you likely do not qualify for reasonable cause penalty relief:

1. You made a mistake.
2. You forgot.
3. You relied on another party to comply on your behalf.
4. You don't have the money.
5. You are ignorant of the tax law.

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Multiply Your Net Worth with a SEP IRA or Solo 401(k)

How do you multiply your net worth? Let the government help.

Here's how: with both the SEP IRA and the solo 401(k) retirement plans, your investment in your tax-favored retirement

- creates tax deductions for the money you invest in the plan,
- grows tax-deferred inside the plan, and
- suffers taxes only when you take the money from the plan.

Example. You invest $1,000 a month in your retirement. You are in the 40 percent tax bracket (combined federal and state), and you earn 10 percent on your investments. At the end of 30 years, you have $1.58 million in after-tax spendable cash, which comes from (in round numbers):

- $1.2 million in after-tax cash from the retirement plan ($2 million gross less 40 percent in taxes—we're taking the entire amount out of the plan in this example)

- $380,000 in the side fund (created by investing the $400 of monthly tax savings—$1,000 deduction x 40 percent)

If you had no government help on the taxes and invested $1,000 a month in an investment that earned 10 percent (6 percent after taxes), you would have a little more than $950,000.

Winner. The retirement plan wins by $630,000—after taxes ($1.58 million vs. $950,000).

Okay, that's the big picture. It tells you that tax-advantaged investing multiplies profits. So, do it.

2021 Palos Verdes Virtual Economic Update Friday, March 19 8:30am

The Palos Verdes Chamber is expanding its popular economic forecast event to a more robust, content-driven half day Summit on March 19th. Renowned economist Dr. Christopher Thornberg, Beacon Economics, will start the Summit off with his Economic Forecast.

Following Dr. Thornberg's keynote address, attendees will have the option to participate in two Breakout Sessions, out of a menu of four choices. Each Breakout Session is designed to explore the impact of the economic forecast on a specific, relevant subject area. Breakout Session options will include:

Deep Dive into the 2021 Forecast with Dr. Thornberg. (This session will further dissect Dr. Thornberg's Economic Forecast. Participation in this Breakout Session will be limited)

Biden Tax Hike? What to Expect in 2021 or 2022. Featuring Michael Cody, Lieb Cody & Company.

Emerging Strong & Well-Positioned: Post COVID Investment Outlook. Featuring Terrance McGuire, Dividend Growth Partners

Federal Policy Agenda - Opportunities and Challenges for Business. The Outlook for Federal Policy and Legislation. Featuring Jennings Imel, United States Chamber of Commerce

Attendees have a choice to attend just the Keynote Economic Forecast, or the entire half-day Summit. Tickets and Sponsorship Opportunities are available on the Chamber website at www.palosverdeschamber.com or by phone 310-377-8111.

2021 Tax Season Client Meetings

The comfort, health, and well-being of you, your employees, and our staff here at LCC are very important to us. In light of the recent COVID-19 virus developments, we understand many government agencies are responding by looking to limit meetings and interactions with people outside the government for a period of time. As a result, we're offering you alternate ways to work with us.

Should you require a meeting, we are requesting video or phone appointments. We use Zoom meeting software, so you can have a video meeting with us. Zoom is free to download and use if you don't have it already. If you don't have a video camera or internet resource, you can call in on the phone. Either way, you can have the meeting from the privacy and comfort of your home or office.

2020 Tax Preparation Documents

We recently sent out the 2020 tax organizers. These will allow for you to gather your tax documents. You can return them to us three ways (Drop off), (Mail) or (secure via e-mail.)

If you choose to (Drop off), we are open 9am to 5pm (Mon thru Friday), we have modified the drop-off process to limit face to face exposure. There is a box located inside our office lobby where you can drop off documents. Afterhours you can drop them off by using our mail slot on the front door. However, when possible, we ask that you mail, fax or use our secure file exchange portal to send us your information rather than in-person drop-off.

Tax Deadline

Personal income tax returns are currently still due April 15, 2021. Business tax returns like Form 1120S and Form 1065 are due March 15, 2021. It is unlikely Congress will push this deadline back like they did last year.
Due to the December tax law changes made by Congress and California debating to conform to these changes we may need to extend your business or personal tax return.

We are asking clients to be patient as we will get your return done as quickly as possible.

Our Network

If you would like a second opinion regarding your Estate Plan or Financial Investing please contact us. We have attorneys and financial advisors ready to help.

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