CPA Practice Advisor

COVID-19

2020 Year-End Tax Planning Tips for Businesses and Individuals

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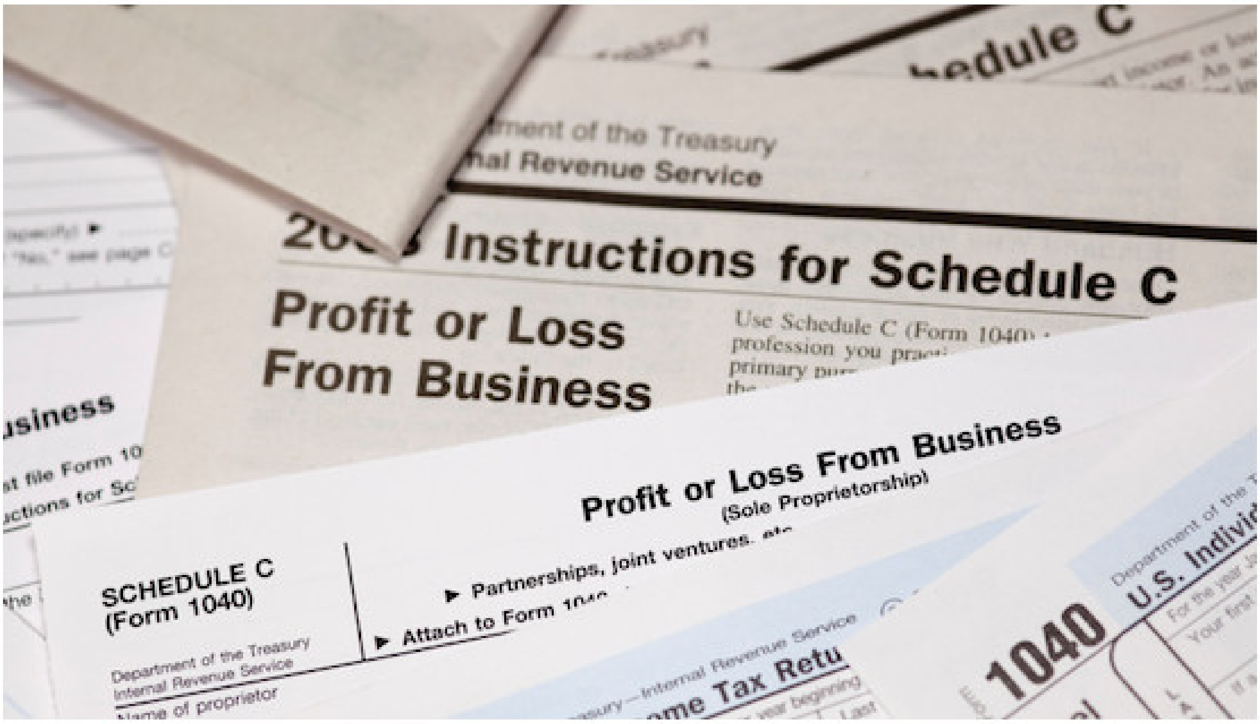

COVID-19 brought financial challenges to much of the public and forced companies to reimagine how business is done. Congress responded with generous relief, much of which runs through the tax code. National tax and accounting firm Grant Thornton LLP has developed guides to help businesses and individuals with their year-end tax planning.

"Year-end tax planning is more important than ever this year," said Renato Zanichelli, national managing partner of Tax Services at Grant Thornton. "Businesses both large and small have been dealt a tough hand. Having the right tax strategy will help businesses navigate this time of historic disruption and put them on the right track as a new year begins."

"Lawmakers dedicated trillions of dollars to keep families and businesses afloat, but those provisions may also require quick action, in many cases by the end of this year," added Dustin Stamper, managing director in Grant Thornton's Washington National Tax Office. "The government wants to get money in the hands of those who need it, and many of the most generous provisions are tax changes that provide welcome liquidity for businesses and timely relief for individuals."

Here are key tax considerations for year-end planning for both businesses and individuals:

Business year-end tax-planning considerations:

1. **Accelerate AMT refunds.** When the Tax Cuts and Jobs Act (TCJA) repealed the corporate alternative minimum tax (AMT), it allowed corporations to claim all their unused AMT credits in the tax years beginning in 2018, 2019, 2020 and 2021. The Coronavirus Aid, Relief, and Economic Security (CARES) Act accelerates this timeline, allowing corporations to claim all remaining credits in either 2018 or 2019. This gives companies several different options to file for quick refunds. The fastest method for many companies will be filing a tentative refund claim on Form 1139, but corporations must file by Dec. 31, 2020 to claim an AMT credit this way.
2. **Use current losses for quick refunds.** The CARES Act resurrected a provision allowing businesses to use current losses against past income for immediate refunds. Net operating losses (NOLs) arising in tax years beginning in 2018, 2019 and 2020 can be carried back five years for refunds against prior taxes. These losses can even offset income at the higher tax rates in place before 2018. Consider opportunities to accelerate deductions into a loss year to benefit from this rate arbitrage and obtain a larger refund. Accounting method changes are among the most powerful ways to accelerate deductions, but remember any nonautomatic changes you want to make effective for the 2020 calendar year must be made by the end of the year. C corporations make NOL refund claims themselves, but pass-

through businesses like partnerships and S corporations pass losses onto to owners, who will make claims. The fastest way to obtain a refund is generally by filing a tentative refund claim, but these must be filed by Dec. 31, 2020 for the 2019 calendar year. If your losses will be in 2020, start preparing to file early because you cannot claim an NOL carryback refund until you file your tax return for the year.

3. **Retroactive refund for bonus depreciation.** The CARES Act fixed a technical problem with bonus depreciation, a generous provision that allows companies to immediately deduct the full cost of many types of business investments. The legislation expands bonus depreciation to apply to a generous category of qualified improvement property (QIP). QIP is commonly thought of as a retail and restaurant issue, but it is much broader and applies to almost any improvement to the interior of a building that is either owned or leased. The fix is retroactive, so you can fully deduct qualified improvements dating back to Jan. 1, 2018, which may offer relatively quick refunds. Taxpayers who filed 2018 and 2019 returns before the law changed can choose whether to reflect the additional retroactive deduction entirely in the 2020 year with an accounting method change, or amend both the 2018 and 2019 returns to apply bonus depreciation for QIP in each of those years.
4. **Claim quick disaster loss refunds.** Tax rules allow businesses to claim certain losses attributable to a disaster on a prior year tax return. This is meant to provide quicker refunds. President Donald Trump's COVID-19 disaster declaration was unprecedented in scope, designating all 50 states, the District of Columbia and five territories as disaster areas. This means essentially every U.S. business is in the covered disaster area and may be eligible for refunds from certain types of losses. Under this provision, a business could claim a COVID-19 related disaster loss occurring in 2020 on a 2019 amended return for a quicker refund. The provision may potentially affect losses arising in a variety of circumstances, including the loss of inventory or supplies or the closure of offices, stores or plants. To qualify, the loss must actually be attributable to or caused by COVID-19 and satisfy several other requirements.
5. **Consider the timing of payroll tax deduction.** The CARES Act allows employers to defer paying their 6.2% share of Social Security taxes for the rest of 2020. Half of the deferred amount is due by Dec. 31, 2021, with the other half due by Dec. 31, 2022. This provides a great liquidity benefit, but taxpayers should consider the impact on deductions before the end of the year. Businesses generally cannot deduct their share of payroll taxes until paid. For most businesses, the value of deferring the actual payment is worth also deferring the deduction, but there may

be some benefits for paying early to take the deduction in 2020, such as increasing an NOL for the rate arbitrage benefits discussed above. Some taxpayers using specific methods of accounting may also be able to pay the taxes as late as 8½ months into 2021 and still claim the deduction for 2020.

6. **Examine your tax function**. Many tax departments at even the largest and most sophisticated companies still dedicate most of their time to basic number-crunching and repetitive processes. These kinds of inefficiencies make it hard to meet deadlines, present audit and tax risks, and cost businesses money — especially during unprecedented times like the COVID-19 pandemic, when teams may be lean and struggling to keep up. Data analytics and automation can help mitigate these problems and enable your tax function to focus more on strategic, value-added solutions — shifting away from a compliance-only role.

Individual year-end tax-planning considerations

1. **Use the above-the-line charitable deduction.** Everyone is entitled to a charitable deduction this year. The TCJA doubled the standard deduction while repealing or limiting many itemized deductions, leaving millions fewer taxpayers claiming actual itemized deductions. Typically, there is no tax benefit for giving to charity unless you itemize deductions. However, the CARES Act created an above-the-line deduction of up to $300 for cash contributions from taxpayers who don't itemize. If you would like to take advantage of this provision, make sure to donate before the end of the year.
2. **Understand the impact of your stimulus check.** The CARES Act directed the IRS to issue stimulus checks of up to $1,200 per taxpayer and $500 per qualified child dependent earlier this year. The payments were paid based on 2018 or 2019 return information, but are actually structured as advances of 2020 tax credits. The credits phase out for higher income taxpayers, so you want to understand the implications if the check you received based on 2018 or 2019 won't match the amount of credit you will calculate on the 2020 return. If the 2020 credit calculation is less than you received, there is no clawback. If you received less than the credit calculated for 2020, you can claim it as an additional refund.
3. **Supercharge your investment with opportunity zones.** Opportunity zones are one of the most powerful incentives ever offered by Congress for investing in specific geographic areas. In certain scenarios, not only can you potentially defer paying tax on gains invested in an opportunity zone until as late as 2026, but you only recognize 90% of the gain if you hold the investment five years. Additionally, if you hold the investment for 10 years and satisfy the rules, you pay no tax on the appreciation of the opportunity zone investment itself. If you're worried about

capital gains rates going up under a new administration, this may provide an excellent tax-free investment. There are more than 8,000 opportunity zones throughout the United States, and many types of investment, development and business activities can qualify.

4. **Make up a tax shortfall with increased withholding.** COVID-19 created cash-flow problems for many individuals. Make sure your withholding and estimated taxes align with what you actually expect to pay while you have time to fix a problem. If you find yourself in danger of being penalized for underpaying taxes, you can make up the shortfall through increased withholding on your salary or bonuses. A larger estimated tax payment at the end of the year can still expose you to penalties for underpayments in previous quarters, but withholding is considered to have been paid ratably throughout the year, so increasing it for year-end wages can save you in penalties.
5. **Leverage low interest rates and generous exemptions before they're gone.** The historically low interest rates and lifetime gift and estate tax exemptions present a powerful estate-planning opportunity. Many estate and gift tax strategies hinge on the ability of assets to appreciate faster than the interest rates prescribed by the IRS. In addition, the economic fallout of COVID-19 is depressing many asset values. There's a small window of opportunity to employ estate-planning techniques while interest rates are still low and the lifetime gift exemption is at an all-time high. The current gift and estate tax exemptions are set to expire in a few years, and a new administration in the White House could accelerate that timeline.

These tax-planning considerations are just the start. There are many other important opportunities, and lawmakers are still considering further stimulus and economic recovery legislation. It's possible some of the benefits above are enhanced and new benefits may be offered. For additional tax-planning insights, visit Grant Thornton's 2020 year-end tax guides for public companies and private businesses.

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