As some of your business clients prepare to reopen their doors while ensuring the safety of their employees and customers, it's your job to nudge them to start gathering their tax documents and financials for the April deadline.

Nellie Akalp • Feb. 01, 2021

As some of your business clients prepare to reopen their doors while ensuring the safety of their employees and customers, it's your job to nudge them to start gathering their tax documents and financials for the April deadline. To help guide your clients through some of the changes due to the CARES Act and other stimulus

- Business Mortgage Interest Payments
- Business Rent or Lease Payments
- Business Utility Payments
- Total Salary/Hourly Wage Reduction

A PPP Schedule A Worksheet is included in the application. It requires your client to list every employee on payroll during the "Covered Period," their wages, hours, and any wage reductions. Employees outside of the U.S., independent contractors, the business owner, and partners should not be included. Also not included are any employees who made more than $100,000 in 2019 (there is another page for those employees in the application.)

The Flexibility Act, signed into law in June 2020, amended the PPP loan forgiveness requirements and now allows payroll costs to account for 60% of the loan and rent, mortgage interest, and utility costs to account for the remaining 40%. Plus, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 added to the list of forgivable expenses. It now includes software and cloud computing services used for business operations, property damage expenses due to civil unrest not covered by insurance, essential supplier costs paid for before receiving the PPP, and worker protection equipment (PPE).

Forgiveness is based on employers continuing to pay employees at pre-pandemic levels for a period between eight and 24 weeks following the loan's origination. The forgiveness application requires borrowers to acknowledge the following:

- If a 24-week Covered Period applies, the dollar amount for which forgiveness is requested does not exceed 2.5 months' worth of 2019 compensation for any owner, employee, or self-employed individual/general partner, capped at $20,833 per individual

- If the Borrower has elected an 8-week Covered Period, the dollar amount for

applications for Second Draw PPP Loans. Eligible borrowers must have no more than 300 employees and must show at least a 25%% reduction in gross receipts between comparable quarters in 2019 and 2020. Recipients of a PPP loan in the first round are also eligible. (See the SBA website for more information).

Economic Injury Disaster Loan (EIDL)

Business clients who received the EIDL Advance funding (the EIDL) grant in 2020 do not need to count the funds as taxable income and don't need to fill out a forgiveness application.

However, if your business clients received the EIDL loan, the funds are treated similarly to any other business loan.

Employee Retention Tax Credit (ERTC)

If your clients were forced to fully or partially suspend business operations during any quarter of 2020 due to COVID-19, the business is eligible to claim an Employee Retention Tax Credit. The credit also applies if the business's gross receipts substantially declined. Sole proprietors are not allowed to use the tax credit, nor are companies that received PPP funding. The ERTC credit is equal to 50% of employee wages from March 12, 2020, to January 1, 2021.

Payroll Tax Deferment

Employers that deferred the company's portion of Social Security tax on employee wages from March 27, 2020, through December 31, 2020, are required to pay half of the deferred amount by December 31, 2021. The remaining taxes must be paid by December 31, 2022.

Families First Coronavirus Response Act (FFCRA)

Clients who provided sick/family leave to employees affected by the pandemic are

For the 2019 and 2020 tax years, the deductible business interest expense increased to 50% of EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

Individual Business Loss Deduction

For clients wishing to claim business losses on their individual returns, the previous limitations were suspended for 2018-2020 tax years ($500,000 for couples and $250,000 for other filers).

Tax Cuts and Jobs Act of 2017 (TCJA)

The TCJA provided the following changes for businesses – these changes are currently in effect:

- C Corps are now taxed at 21%.
- Pass-through entities (sole proprietorships, partnerships, S Corps, and LLCs) can deduct up to 20% of net business income from their income taxes through 2025.
- Businesses can claim a 100% depreciation deduction in the first year of use for depreciable business assets such as machinery, equipment, computers, and appliances.

Sales Taxes

For clients selling taxable products and services, it's essential to keep an eye on how states handle the collection of sales taxes from remote sellers and marketplace sellers. According to Avalara's 2021 Sales Tax Changes Report, states hit hard by the pandemic will be under more pressure to crack down on tax compliance for any business selling goods and services beyond their state's borders. Likewise, if your clients have hired any employees out of state, they'll need to register for foreign qualification in that state and remit payroll taxes to the state.

=======