

THE NEW \$900 BILLION COVID-19 STIMULUS PACKAGE

OVERVIEW & IMPACT







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Stimulus Payments

Another round of stimulus is coming to people:

- The amount is \$600 per person this time (not \$1,200)
- Dependents also get \$600
 - The age 17 restriction continues to apply
- Phaseouts are the same



Polling Question 1

What is the amount of the stimulus payment under the new legislation?

A. \$600

B. \$100

C. \$1 million

D. \$10 million



Stimulus Payments

- As with the last stimulus payment, this payment is considered an advance on a 2020 tax credit
- The payment amount is based on **2019** income
- Everything is reconciled on the 2020 return



Deceased Taxpayers

- The legislation addresses deceased people: anyone who was deceased before January 1, 2020, does not qualify for a payment



Unemployment Benefits



Unemployment

- Enhanced unemployment benefits have been reinstated
- \$300 per week through March 14, 2021
- \$100 per week for workers who have both wage and self-employment income but whose usual unemployment calculation doesn't consider the self-employment income

Charitable Contributions



Charitable Contributions

- The bill allows a deduction for charitable contributions of non-itemizers:
 - \$600 for MFJ
 - \$300 for all other filing statuses
 - For 2020 and 2021
- Also allows a charitable deduction of 100% of AGI for both 2020 and 2021



Polling Question 2

What is the amount of charitable deduction available to non-itemizers?

- A. \$600
- B. \$2,500
- C. \$10,000
- D. \$100,000



Credit Calculations



Credit Calculations

For earned income credit and child tax credit:

- Allows taxpayers to choose to use 2019 income for EIC and CTC on 2020 returns



Employee Retention Credit



ERC

- The Employee Retention Credit provides a credit to qualifying businesses that can show they were either shut down or had a revenue reduction
- Under the CARES Act, a business could NOT take the ERC if it received forgiveness on a PPP loan
- This legislation changes that



Also on the ERC

- Credit is increased to 70% instead of 50%
- Eligibility is based on a revenue reduction of 20% in a quarter instead of 50%
- Allows the relaxed credit calculation on businesses with 500 or fewer employees instead of 100 or fewer
- Extends the ERC through June 30, 2021
- Need more guidance on how these changes impact businesses that have already been claiming the ERC

FFCRA



FFCRA Review

Under the “Families First Coronavirus Response Act,” (FFCRA) businesses with fewer than 500 employees are required to provide emergency paid sick leave and family/medical leave. Employers receive a credit for wages paid.

1. Sick leave: required to pay up to 80 hours to an employee who is unable to work because they are under a quarantine order from the feds, state, or local government; or are under a quarantine order from a doctor; or are having COVID-19 symptoms and are seeking a medical diagnosis. A credit of 100% of wages paid, up to \$511 per day (\$5,110 total credit) is available. **Required for all employees regardless of how long they have worked for you.**
2. Leave to care for family member with COVID-19: employer can claim a credit of up to 2/3 of the employee’s pay, maximum of \$200 per day (\$2,000 total) is available. **Only required for employees who have worked for you for at least 30 days.**
3. Leave due to employee not having child care due to school closures or lack of daycare: credit available is up to 2/3 of employee’s regular pay, maximum of \$200 per day for up to 10 weeks (so \$10,000 total). **Only required for employees who have worked for you for at least 30 days.**

FFCRA

- Businesses that pay leave in Q1 of 2021 can take the credit through March 31, 2021



Presidential Memorandum



Presidential Memorandum

- Businesses that took advantage of the Presidential Memorandum, allowing deferral of employee-side Social Security tax withholding, were supposed to withhold those taxes between January 1 and April 30, 2021.
- The legislation allows the repayment to happen between January 1 and December 31
- **WARNING ABOUT W-2 reporting, see next slide**



W-2 Reporting

IRS guidance on W-2 reporting issued in late October:

<https://www.irs.gov/forms-pubs/form-w-2-reporting-of-employee-social-security-tax-deferred-under-notice-2020-65>

W-2 Reporting

1. Report Social Security wages paid in Box 3 of the W-2 like usual
2. But do NOT report, in Box 4, any taxes deferred in 2020
3. Then, when the deferred taxes are withheld in 2021, the employer should file a corrected W-2 (W-2c) for **2020** showing the withholdings

W-2 Reporting

- **EXAMPLE:** Cherry Tree, Inc. employs George. George makes \$2,000 per payday and is paid twice a month. Cherry Tree decides to do the Presidential Memorandum and not withhold employee-side SS tax in September through December of 2020.
- Normal SS tax: $\$2,000 \times .062 = \124
- Number of paydays of deferral = 8
- $124 \times 8 = \$992$ of employee-side tax deferral

W-2 Reporting

- In a normal year, George's wages would be: $\$2,000 \times 24$ paydays = $\$48,000$ per year
- EE SS withholding would be: $\$48,000 \times .062 = \$2,976$
- As shown on the previous slide, $\$992$ of this is deferred
- So: $\$2,976 - \$992 = \$1,984$ actually withheld

W-2 Reporting

22222		a Employee's social security number 111-11-1111		OMB No. 1545-0008	
b Employer identification number (EIN) 99-9999999		1 Wages, tips, other compensation 48,000		2 Federal income tax withheld 4,800	
c Employer's name, address, and ZIP code Cherry Tree, Inc.		3 Social security wages 48,000		4 Social security tax withheld 1,984	
		5 Medicare wages and tips 48,000		6 Medicare tax withheld 696	
		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits	
e Employee's first name and initial George		Last name Washington		Suff.	
f Employee's address and ZIP code		11 Nonqualified plans		12a	
		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b	
		14 Other		12c	
				12d	
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

W-2 Reporting

- Then, per IRS instructions released October 29th, **the employer issues a Form W-2c** “as soon as possible after you have finished withholding the deferred amounts.”

Form W-2c

4444		For Official Use Only ▶ OMB No. 1545-0008																																							
a Employer's name, address, and ZIP code		c Tax year/Form corrected / W-2	d Employee's correct SSN																																						
		e Corrected SSN and/or name (Check this box and complete boxes f and/or g if incorrect on form previously filed.) <input type="checkbox"/>																																							
		Complete boxes f and/or g only if incorrect on form previously filed ▶																																							
b Employer's Federal EIN		f Employee's previously reported SSN																																							
b Employer's Federal EIN		g Employee's previously reported name																																							
		h Employee's first name and initial	Last name Suff.																																						
<p>Note. Only complete money fields that are being corrected (exception: for corrections involving MQGE, see the General Instructions for Forms W-2 and W-3, under Specific Instructions for Form W-2c, boxes 5 and 6).</p>		i Employee's address and ZIP code																																							
		<table border="1"> <thead> <tr> <th>Previously reported</th> <th>Correct information</th> <th>Previously reported</th> <th>Correct information</th> </tr> </thead> <tbody> <tr> <td>1 Wages, tips, other compensation</td> <td>1 Wages, tips, other compensation</td> <td>2 Federal income tax withheld</td> <td>2 Federal income tax withheld</td> </tr> <tr> <td>3 Social security wages</td> <td>3 Social security wages</td> <td>4 Social security tax withheld 1,984</td> <td>4 Social security tax withheld 2,976</td> </tr> <tr> <td>5 Medicare wages and tips</td> <td>5 Medicare wages and tips</td> <td>6 Medicare tax withheld</td> <td>6 Medicare tax withheld</td> </tr> <tr> <td>7 Social security tips</td> <td>7 Social security tips</td> <td>8 Allocated tips</td> <td>8 Allocated tips</td> </tr> <tr> <td>9</td> <td>9</td> <td>10 Dependent care benefits</td> <td>10 Dependent care benefits</td> </tr> <tr> <td>11 Nonqualified plans</td> <td>11 Nonqualified plans</td> <td>12a See instructions for box 12</td> <td>12a See instructions for box 12</td> </tr> <tr> <td>13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/></td> <td>13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/></td> <td>12b</td> <td>12b</td> </tr> <tr> <td>14 Other (see instructions)</td> <td>14 Other (see instructions)</td> <td>12c</td> <td>12c</td> </tr> <tr> <td></td> <td></td> <td>12d</td> <td>12d</td> </tr> </tbody> </table>	Previously reported	Correct information	Previously reported	Correct information	1 Wages, tips, other compensation	1 Wages, tips, other compensation	2 Federal income tax withheld	2 Federal income tax withheld	3 Social security wages	3 Social security wages	4 Social security tax withheld 1,984	4 Social security tax withheld 2,976	5 Medicare wages and tips	5 Medicare wages and tips	6 Medicare tax withheld	6 Medicare tax withheld	7 Social security tips	7 Social security tips	8 Allocated tips	8 Allocated tips	9	9	10 Dependent care benefits	10 Dependent care benefits	11 Nonqualified plans	11 Nonqualified plans	12a See instructions for box 12	12a See instructions for box 12	13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>	12b	12b	14 Other (see instructions)	14 Other (see instructions)	12c	12c			12d
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Meal Deductions

Meal Deductions

- Meal deductions for **2021** and **2022 (NOTE: not 2020!)** are 100% as long as the meal is provided by a restaurant



Polling Question 3

For 2021 and 2022, what is the new meal deduction limit?

A. 10%

B. 100%

C. 5%

D. \$1,000



PPP Tax Deductions



Tax Deductions

- In the latest stimulus bill passed December 21, 2020, Congress included language which allows businesses to take tax deductions for expenses paid with forgiven PPP proceeds
- Let's trace the history on this



Tax Deductions

- In the beginning there was the CARES Act, which created the PPP
- Normally, forgiven debt is taxable, but the CARES Act specifically said forgiven PPP debt is not taxable
- But the CARES Act did not address tax deductions



Tax Deductions

- The IRS came on the scene on April 30th with Notice 2020-32
- In this notice, the IRS said deductions would not be allowed for expenses paid with forgiven PPP proceeds, because those proceeds are tax exempt
- Per IRC Section 265, expenses paid with tax-exempt income are not deductible



Tax Deductions

- The IRS, in November, released two more pieces of guidance
 - Revenue Ruling 2020-27
 - Revenue Procedure 2020-51
- These pieces of guidance drove home the IRS's viewpoint that expenses would not be deductible



Tax Deductions

- Congress's intent was for the PPP to be a "tax nothing"
- Numerous Congresspeople said so, and that they were outraged over the IRS's stance ... but Congress did nothing
- The Joint Committee on Taxation confirmed over the summer that their assumption on the CARES Act was that deductions would be allowed ... meaning, passing legislation to allow deductions would not cost the government any money



Tax Deductions

- Under the latest relief bill, “The Consolidated Appropriations Act, 2021”: Congress finally addressed the issue of deductions
- Deductions are allowed
- Also for partnerships and S-corps: the forgiven debt is considered tax-exempt income which means shareholders/partners get a basis increase



PPP2

Second Round of PPP

- For “PPP2” the following qualifications apply:
 - If already received a PPP loan:
 - Must have fewer than 300 employees
 - Have already used (or will use) all of their first PPP loan
 - Can show a 25% reduction or more in gross revenue in any quarter in 2020 compared to 2019



Second Round of PPP

For new borrowers:

- 500 or fewer employees
- A 501(c)(6) (business leagues and such) if they have 300 or fewer employees — (this is new)
- Accommodation and food services businesses with fewer than 300 employees (NAICS codes starting with 72)



Revenue Decline

- 25%+ decline in revenue in any quarter in 2020 compared to the same quarter in 2019
- For applications filed before the end of 2020, can only use Q1, 2 or 3; if application filed in 2021, can use Q4 of 2020
- For new businesses, different look-back periods apply
- EXAMPLE: not in business in Q1 or Q2 of 2019 but was in Q3 and Q4: use total of Q1, 2 and 3 of 2020 compared to Q3 and Q4 of 2019



Polling Question 2

What is the revenue decline needed in order to qualify for PPP2:

A. 100%

B. 25%

C. 80%

D. 1%



First-Time Borrowers

- It appears that businesses that have not already received PPP funds will be subject to the original CARES Act requirements for qualifying



China

- The bill contains a provision which says businesses organized under Chinese law, businesses with “significant operations” in China, or where 20%+ ownership is by people or entities from China, a PPP loan is not allowed



PPP2 Calculation

- Uses the same calculation formula as PPP1
- Payroll divided by 12 times 2.5:
 - Can use 2019 payroll, or payroll for the 1-year period before the date the loan is made
 - **Borrowers with NAICS code 72 can take payroll times 3.5**
- The maximum loan under PPP2 is \$2 million (was \$10 million under PPP1)
- Application deadline is March 31, 2021



Allowable Expenses

- For PPP2, forgiveness is given on the same costs as PPP1 but also including:
 - PPE and other “facility modification expenditures” to comply with COVID-19 federal health and safety guidelines
 - Expenses paid to essential suppliers
 - Software, cloud computing and accounting needs
 - **The 60% rule still applies**
 - Borrowers can use either 8-week or 24-week forgiveness



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