

Memo

To: All Clients - Merry Christmas and Happy New Year!

From: Gregory Barford

Date: 12/3/20

Subject: Business Income Tax Planning for 2020 (See the enclosed for Individual Income Tax Planning for 2020)

Although this extraordinary and difficult year is nearing an end, the events we have experienced undoubtedly will have an effect well into the future. Naturally, the most significant impact is the human toll of the pandemic, and the lingering effects of the economic downturn on our community, the nation, and the world. This year also brings an election that could possibly lead to changes in the nation's tax laws. At this time, it is not possible to know or even predict precisely what changes may occur.

Biden has made no secret of his desire to raise nearly \$3.5 trillion in additional tax revenue through his new tax plan, which would raise taxes on individuals with income above \$400,000, including raising individual income, capital gains, and payroll taxes. Biden would also raise taxes on corporations by raising the corporate income tax rate and imposing a corporate minimum book tax. This proposed tax plan is anticipated to be implemented starting in 2021 or later, so there would be no impact on 2020 taxes.

As 2020 draws to a close, businesses should review their tax planning strategies and techniques. This memo explores some of the year-end planning consideration that affect business in general. Of course, every business is unique. Our office can review your business and together we can design a year-end tax strategy.

Paycheck Protection Program (PPP) forgiveness

The (Small Business Administration) SBA is now accepting Paycheck Protection Program (PPP) forgiveness applications. These applications need to be submitted to the SBA through the lender that you received the loan from. While some lenders have started to accept loan forgiveness applications, many lenders have not.

Businesses who received PPP loans must determine if they are ready right now to navigate the complex system for having loans forgiven, or if it makes sense to wait and see if Congress intervenes and simplifies the process. Ultimately, many businesses are waiting until 2021 to request PPP loan forgiveness. Businesses need to file for forgiveness within 10 months of the end of their loan's covered period, which could be through December.

Although PPP loan forgiveness is excluded from taxable income, any expenses that were incurred and funded with PPP proceeds cannot be deducted from taxable income. If a taxpayer has a reasonable expectation of having some or all of the loan forgiven in 2021, the taxpayer cannot deduct the expenses that are related to the amount of the expected loan forgiveness in 2020. So, without a legislative change, a taxpayer cannot deduct the expenses allocable to the portion of the loan they reasonably expect will be forgiven.

We are available to assist you to submit your forgiveness application. Contact our office for further details.

Proactive Cash Flow Recommendations Due to Temporary Corona Virus Business Disruption

1. **Slim down your business**- Cut expenses to keep the business operating and serve your customers. This may mean temporarily laying off employees, reducing advertising, and modifying your hours if needed.
2. **Prioritize the cash**- Only pay vendors that you need to keep your door open. At the same time, be proactive in talking to your vendors about your business plans.
3. **Use your line of credit from your bank now**- As a precaution, take a cash advanced of 50% or more from your line of credit from your bank now. Deposit the cash into a checking account to use as needed. If possible, the account should be at a different bank than where your line of credit is. Never run out of cash, businesses do not go out of business because they are not profitable, they go out of business because they run out of cash.
4. **Use credit cards**- Use your credit cards to pay key expenses. Only pay the minimum balance owed on the credit cards to preserve cashflow.

Key Actions to Take Before 2020 Year End to Lower Income Taxes

1. **Fixed Assets**- Be sure to purchase machinery, equipment, furniture, fixtures, etc. before year end. Do not make over purchases of fixed assets to lower income taxes; **purchase only what you need.**
2. **Pay Expenses and Defer Collections of Receivables**- Pay where you can, before the end of 2020, money owed to vendors that you would normally pay to vendors in 2021. Defer collections of receivables to 2021 where you can.
3. **Retirement Plans**- Maximize simple IRA and 401 K deductions for yourself, spouse and where applicable, your children before the end of 2020.

Employer Plan Type	Under Age 50	Age 50 and Over
Simple IRA	\$13,500	\$16,500
401K and 403B	\$19,500	\$26,000

4. **Children on Payroll**- Put children on your payroll to shift income to lower tax brackets; contact my office for further details. In addition, it is also possible to pay children \$599, and you do not have to report on a 1099, and the child may not have to pick this up as income on their tax return.
5. **Make Loans to the Business to Deduct Business Losses**-When you have business losses, we have to make sure you have basis to deduct these losses. Therefore, we may have you make a short-term loan to the business by year end so we can deduct these losses.

Contact our office for further details: 301-865-4648 or gab@gabcpa.com