

Kakaako Improvement Assn  
2020 Tax Update

# Covid 19 Tax Incentives for Individuals and Businesses

- Family Leave Tax Credit
- Sick Leave Tax Credit
- Employee Retention Credit
- Payroll Tax Deferral
- PPP loans
- Economic Injury Disaster Grants

# Family Leave Tax Credit

- Starting April 1, 2020
- Any employer with less than 500 employees
- Is required to provide 80 hours of paid leave to take care of
  - (A) family members who have Covid 19
  - (B) family who has been advised to self-quarantine due to symptoms
  - (C) caring for a child that cannot go to school or daycare due to closing
- Pay is required to be at federal minimum wage or two-thirds of regular pay, whichever is higher, up to a maximum of \$200 per day or \$2000 in the aggregate.

# Family Leave Credit

- The amount paid to the employee for the family leave is required to be reported on a new box on the employee's W-2.
- The credit is claimed on Form 941 and reduces the employer's portion of the Social Security and Medicare taxes on employee's wages
- The credit amount is the \$200 per day paid to the employee for a maximum of 10 days, and cannot exceed \$10,000 per employee.
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# Family Leave Credit

- Self-employed individuals are entitled to the credit on their 2020 federal income tax returns
- By filing Form 7202

# Sick Leave Credit

- Starting April 1, 2020
- For employers with less than 500 employees
- The employer is required to provide 80 hours of sick leave
- To any employee who
  - (A) Cannot work or telework due to a federal, state or local quarantine or isolation order
  - (B) has been advised by a health care provider to self-quarantine
  - (C) is experiencing symptoms of Covid 19 and is seeking a medical diagnosis

# Sick Leave Credit

- The employer is required to pay the employee who cannot work
- At the employee's regular rate of pay or minimum wage,
- whichever is higher
- Up to a maximum of \$511 per day or \$5110 in the aggregate.

# Sick Leave Credit

- The amount paid to the employee for the family leave is required to be reported on a new box on the employee's W-2.
- The credit is claimed on Form 941 and reduces the employer's portion of the Social Security and Medicare taxes on employee's wages
- The credit amount is the \$511 per day paid to the employee for a maximum of 10 days, and cannot exceed \$10,000 per employee.
- Self-employed individuals are entitled to the credit on their 2020 tax returns by filing Form 7202



# Employee Retention Credit

- Employers, including Tax Exempt Organizations, are eligible for the credit if they operate a trade or business during calendar year 2020
- And experience:
  - (A) business closure or partial closure due to governmental orders limiting commerce, travel or group meetings due to Covid 19
  - Or
  - (B) a significant decline in gross receipts

# Employee Retention Credit

- A significant decline in gross receipts begins
  - On the first day of the first calendar quarter of 2020
  - For which the employer's gross receipts are less than 50% of its gross receipts
  - For the same calendar quarter in 2019.
- The significant decline in gross receipts ends:
  - On the first day of the first calendar quarter of 2020
  - For which the employer's gross receipts are more than 80% of its gross receipts
  - For the same calendar quarter in 2019.

# Employee Retention Credit

- The credit applies to qualified wages and health insurance paid during the quarter in which the significant decline occurs.
- Qualified wages depends on the number of average fulltime employees
- More than 100 employees means that qualified wages are wages and health care costs paid to employees that are not working due to the suspension of operations or decline in gross receipts. Limited to payments of \$10,000 per employee, and limited to what the employee would have earned in 30 days in the previous quarter.

# Employee Retention Credit

- If the employer averaged 100 or fewer fulltime employees during 2019, then qualified wages are all wages and health insurance paid to employees during the period operations are suspended or during the downturn, regardless of whether employees are providing services.
- The credit is 50% of the qualified wages paid after March 12, 2020 and before January 1, 2021
- Claimed against social security and medicare taxes on Form 941

# Employee Retention Credit

- Is not available for the same wages used for
  - Family Leave Credit or
  - Sick Leave Credit
  - Work Opportunity Credit
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- If the employer received a PPP loan, then NO Wages qualify

# Claiming Advanced Credits

- Each of the three previous credits,
  - Family Leave Credit
  - Sick Leave Credit
  - Employee Retention Credit
- Can be claimed on Form 7200
- To receive an advance refund.
- The IRS will not process a Form 7200 with a new address. If the company address has changed a Form 8822 should be filed first.

# Other Incentives

- Loss carrybacks
  - Where a company or individual's deductible BUSINESS expenses exceed the business gross receipts,
  - The company or individual is entitled to carry the loss to another tax year.
- Prior to the CARES act, the loss was required to be carried forward to the following tax year and could only offset 90% of the tax on that year. Any excess would carryforward indefinitely.
- Due to the CARES act, the loss can be taken back to the first of the 5 previous years for any loss in 2018, 2019 or 2020
- For example, a 2020 loss carries back to 2015. Then the 2015 tax is recalculated using the loss as a deduction, and any overpayment is refunded.
- If the entire loss is not used up in 2015, then it carries to 2016, where the tax is recalculated. If the entire loss is not used up, it continues to carry until all taken.

# Deferred payment of Payroll Taxes

- The CARES act allows employers to defer paying the employer's portion of the payroll taxes for wages paid
- Beginning March 27, 2020 through December 31, 2020
- For each employee, 7.65% of the social security and medicare tax is required to be paid by the employer. The same percentage is taken out of the employee's wages before the employee is paid.
- The deferral is made by not depositing the amount that would otherwise be owed.



# Payroll Tax Deferral

- An employer that has received a PPP loan can still defer the employer's share of payroll taxes.
- In addition, the employer can reduce the payroll tax deposits by the expected Family Leave Credit, the Sick Leave Credit and the Employee Retention Credit, and then defer any remaining employer payroll tax.
- The amount not paid is due 50% on December 31, 2021 and
- The rest on December 31, 2022
- IRS will be sending reminder notices for the amounts due.

# Payroll Tax Deferral

- Self-employed persons are allowed to use 50% of the expected Social Security and Medicare Tax as a deferral
- Meaning that they can reduce their 2020 Estimated Tax Payments
- The unpaid Self-Employment Tax is also due
  - December 31, 2021 for 50%
  - The rest December 31, 2022.

# Payroll Tax Deferral

- Under President Trump's executive order,
  - Employees can defer their portion of the Social Security (6.2%), as well.
  - This is an election by the employee.
  - Deferral would start on Sept. 1, 2020
  - Applies to worker who make less than \$4000 every two weeks.
  - The amount will be due on the 2020 income tax returns.
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- Nothing in the President's order relieves an employer from the liability that if the employee does not pay the tax, then the employer could be liable with interest and penalties.

# IRA provisions

- Early withdrawal of up to \$100,000
- Will not be subject to the 10% early withdrawal penalty
- Can be included in income equally over the next 3 years
  
- Qualified Plan loan amounts are increased from a maximum of \$50,000 to \$100,000 for loans made between March 27 and September 22, 2020
  
- Qualified plans may also suspend repayments for the period from March 27, 2020 to December 31, 2020

# IRA provisions

- All required minimum distributions for 2020 have been suspended
- Any one who took their required minimum distribution earlier this year can rollback the amount to an IRA by August 31, 2020.
- (Does not apply to defined benefit plans).
- Beneficiaries of inherited IRAs must put the money back into the same IRA.
- The age for RMDs was changed to 72 years old.
- Roth conversions can no longer be undone.

# PPP Loan forgiveness

- As of August 19, none of the local banks had their “forgiveness portals” open yet. There is still a lot of uncertainty about the rules.
- IRS issued a notice that if the PPP was forgiven, then the expenses paid with it will not be deductible.
- AICPA has requested Congress to change this, but so far, nothing has been done.
- The covered period for the loan was extended from 8 weeks to 24 weeks, and only 60% of the funds must be used for payroll, health insurance or self-employment profit. The rest can be used for business mortgage interest payments, rent or lease payments for real or personal property, water, electric, gas utilities or transportation.

# Economic Injury Disaster-SBA grants/loans

- Under the CARES act, grants are limited to \$10,000
  - If you got a PPP loan, can't get a grant as well.
  - Grants do not have to be repaid.
  - As best we can tell, grants are taxable income.
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- SBA also provides Economic Injury Disaster Loans of up to \$2M
  - Which are loans—therefore not taxable income
  - Repayable over 30 years

# Charity provisions

- The maximum charitable deduction has been increased to 100% of taxable income (from 50%).
- There is a new \$300 charitable deduction for non-itemizers.
  - (You still have to have proof that you gave over \$250 with a letter from the organization.)