McCarthy & Company, PC cpas
Focused on you. Dedicated to your success.

Year-end Tax Planning Strategies for Businesses

As we wrap up 2020, year-end tax planning has never been more crucial. This year brought challenges and disruptions that significantly impacted your personal and financial situations – COVID-19, economic relief measures, new tax laws and political shifts. Now is the time to take a closer look at your current tax strategies to make sure they are still meeting your needs and take any last-minute steps that could save you money.

We're here to help you take a fresh look at the health of your tax and financial well-being. Please contact us at your earliest convenience to discuss your tax situation so we can develop a customized plan. In the meantime, here's a look at some issues to consider as we approach year-end.

Key tax considerations related to COVID-19

Many tax provisions were implemented under the Families First Coronavirus Response Act (FFCRA), Coronavirus Aid, Relief and Economic Security (CARES) Act and other legislation aimed to help businesses and individuals deal with the COVID-19 pandemic and its ongoing economic disruption.

Payroll tax credits and tax deferrals

- Several payroll tax credits are available as part of the passed legislation to assist with the recovery of COVID-19. There is a refundable tax credit to assist employers in retaining employees. Also, subject to limits and exceptions, employers of less than 500 employees (including eligible self-employed individuals) are required to provide mandatory sick time and paid family leave but are eligible for payroll tax credits to offset the costs. Contact us if you would like to discuss how these might apply to your business.
- Employers (including self-employed individuals) can postpone the employer's share of Social Security taxes through the end of this year. The delayed payments are due in two equal payments, one due Dec. 31, 2021 and the second due Dec. 31, 2022.

Small Business Administration (SBA) loans

- Small businesses could apply for an Economic Injury Disaster Loan grant of up to $10,000 and this grant does not have to be repaid.
- Small businesses could have applied for a loan through the Paycheck Protection Program (PPP). This program was designed to help provide capital to cover the cost of retaining employees. If certain criteria are met, the loan can be forgiven. There is uncertainty around the deductibility of expenses related to loans that have been forgiven. We can help you with scenario planning to understand how this might affect you and your business.

Net Operating Losses

Under the Tax Cuts and Jobs Act of 2017, the carryback of net operating losses (NOLs) was repealed effective for tax years ending after December 31, 2017. NOLs can be carried forward indefinitely. NOLs generated after 2017 cannot reduce taxable income by more than 80%.

The CARES ACT removed the limitation on excess business losses for taxpayers other than corporations for tax years beginning after December 31, 2017 and before January 2, 2021. It also modified the loss limitation for non-corporate taxpayers so they can deduct excess business losses arising in 2018, 2019 and 2020. For a loss that was not fully utilized in the year it arose, the CARES Act allows non-corporate taxpayers to carryback such losses five years unless an election is made to forego the carryback. The NOL limitation of 80% of taxable income has also been temporarily suspended. All limitations related to excess business loss (EBL) and NOL will resume for years beginning after 2020 and before 2026.

State tax obligations related to teleworking arrangements for employees

As the COVID-19 outbreak continues, many employers are encouraging or requiring their employees to work from home. Such remote working arrangements could potentially have tax implications that should be considered.

Fraudulent activity remains a significant threat.

Our firm takes security seriously and your business should as well. Fraudsters continue to refine their techniques and tax identity theft remains a significant concern. Beware if you:

- Receive a notice or letter from the Internal Revenue Service (IRS) regarding a tax return, tax bill or income that doesn't apply to you
- Get an unsolicited email or another form of communication asking for confidential information such as payroll or employee data
- Receive a robocall insisting you must call back and settle your tax bill

Make sure you're taking steps to keep financial information safe. Let us know if you have any questions or concerns about how to go about this.

The Affordable Care Act (ACA) and your taxes

The U.S. Supreme Court is expected to rule on the constitutionality of the ACA in 2021. Though many questions remain, the penalty that the ACA imposes on individuals who do not have health insurance was repealed. However, other aspects of the ACA are still in place. Contact us if you have questions about how this affects you.

Partnership audit and adjustment rules

New audit and adjustment rules are in effect. Careful planning today will help mitigate any unfavorable consequences on both the entity and the partners themselves. Also, be aware that even if your business isn't a partnership, you'll want to evaluate the effect these new rules could have if you've invested in any partnership.

Virtual currency/cryptocurrency

Virtual currency transactions are becoming more common. There are many different types of virtual currencies, such as Bitcoin, Ethereum and Ripple. The sale or exchange of virtual currencies, the use of such currencies to pay for goods or services or holding such currencies as an investment generally has tax consequences. We can help you understand those consequences.

Other tax matters to note:

- Purchases of property and equipment – With tax-favorable options available to businesses, many purchases can be completely written off in the year they are placed in service. Plus,

there were tax-favorable rules passed in the CARES Act that permit qualified improvement property to qualify for 15-year depreciation and, therefore, also be eligible for 100% first-year bonus depreciation. Let us help you receive the best tax treatment.
- Methods of accounting – More businesses can use the cash method of accounting. This can be helpful for cashflow purposes and is simpler than the accrual method. There are qualifications that must be met, but we can help you understand if your business would benefit.
- Preparing for disasters – Do you have a disaster recovery plan in place for your business and, if so, have you updated it recently? We can help you review your plan, especially as it relates to financial information.
- Sales and use tax considerations – The 2018 U.S. Supreme Court ruling in the case *South Dakota v. Wayfair, Inc*. affects where some businesses must file and pay sales and use tax. States are still making changes to their laws and filing requirements. Please ask us how this case impacts your business.
- Retirement plans – Have you revisited your company's retirement plan lately? Take a look at the many retirement savings options in order to make sure that you are taking advantage of tax deductions as well as providing opportunities for owners and employees to save for retirement.

Year-end planning equals fewer surprises

There are many other opportunities to discuss as year-end approaches. And, many times, there may be strategies such as deferral of income, prepayment of expenses, etc., that can help you save taxes. We are here to help.

Please contact our office today at (610) 828-1900 (PA) or (732) 341-3893 (NJ) to set up your year-end review. As always, planning ahead can help you minimize your tax bill and position you for greater success.

Stay safe,
David E. Gibbs, CPA, CCIFP, MBA
Tax Partner