Q1 - 2021

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Tax Provision Highlights for 2021

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On December 27, 2020, the Consolidated Appropriations Act, 2021, H.R. 133 (CAA) was signed into law. While the second round of direct payments was more than likely the first thing we noticed, there are several other provisions and tax updates included in this act, including 100% deductibility of business meal expenses, extension of the $300 charitable contribution deduction for nonitemizers, and various disaster tax relief provisions through 2022.

Additional refundable tax credit

The law called for a refundable tax credit of $600 per taxpayer, in addition to $600 for a qualifying child.

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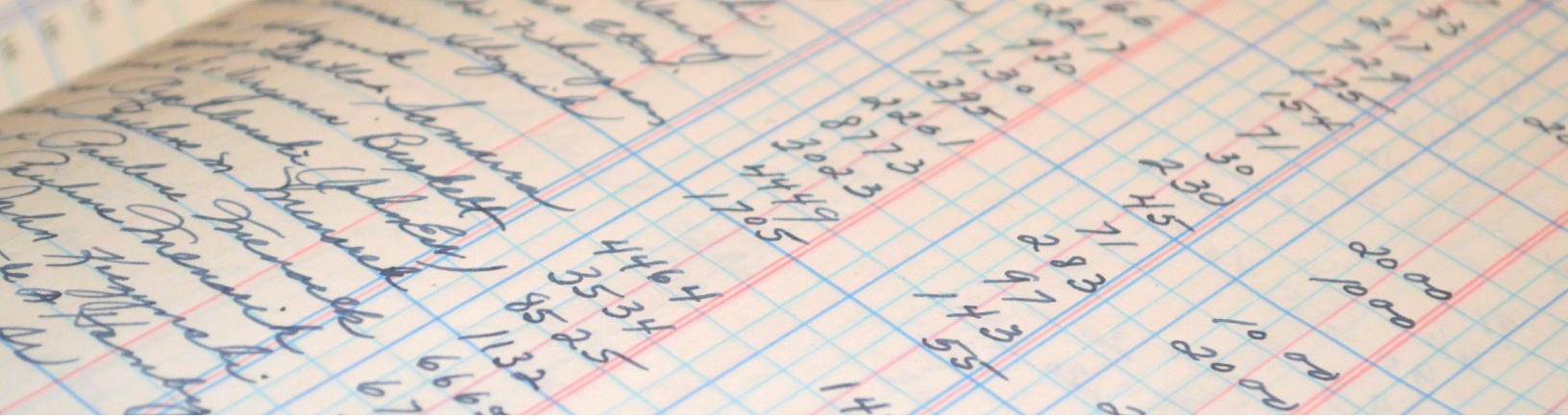

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Married couples filing jointly would receive $1,200. The credit discontinues at $75,000 of modified adjusted gross income for single filers, $112,500 for heads of household and $150,000 for married couples filing jointly. This part of the CAA also expanded eligibility on these payments to "mixed status households", meaning not every family member has a Social Security Number. Families who are eligible can claim a credit for the first round of payments on their 2020 federal tax returns if they did not initially qualify. This act also includes an extra $300 in unemployment benefits, and extends the Pandemic Unemployment Assistance program for 11 weeks.

Deductibility of PPP funded expenses

The bill specifies that gross income does not include any amount that would come from the forgiveness of a Payment Protection Program (PPP) loan. This provision also states that deductions are allowed for deductible expenses paid with the proceeds of a PPP loan that is forgiven, and the tax basis and other qualities of the borrower's assets will not be reduced as a result of the forgiveness. This is effective for tax years ending after the date of the enactment of the act. In addition to clarification of the deductibility of expenses paid with PPP funds, the bill states that deductions are allowed for deductible expenses paid by amounts not included by this section, and that tax basis and other attributes will not be reduced as a result of the exclusion from gross income.

Disaster Tax Relief

Businesses and individuals who have experienced major disasters in presidentially declared areas (other than Covid-19) after December 31st, 2019 qualify for tax relief.

- Allowed use of retirement funds for disaster mitigation
  - Residents of qualified disaster areas are allowed to take up to $100,000 from a retirement plan or an individual retirement account (IRA) without penalty.
- Employee retention credit for disaster zones
  - Employees are allowed a tax credit of 40% of wages who have conducted an active trade or business in a qualified disaster zone.
- Qualified disaster relief contributions
  - Allows corporations to make qualified disaster relief contributions of up to 100% of their taxable income.
- Qualified disaster-related personal casualty losses
  - Individuals who have a net disaster can increase their standard deduction amount by the amount of the loss.

As always, feel free to contact us for questions regarding your tax situation.

Networking During a Pandemic

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Whether you are trying to grow your business, grow your professional network, or support an organization, traditional networking has been a great way to do so. However, for nearly a year now our networking has looked very different. Even in the cases where events do occur, capacity and spacing has made it feel very different. Many of us crave that personal interaction, and we miss those opportunities. I know I do! Walking into a filled room, seeing smiling faces, shaking hands, and having in-depth discussions. But until things change, we must adapt. Here are four tips for networking during a pandemic.

Attend Virtual Events

By now many of us have experienced Zoom fatigue. One virtual meeting after the next causing us to feel burnout. So, when met with an opportunity to attend an optional event, many say no. This is a very real experience, but it doesn't mean we should stop attending meetings. Instead, we need to practice some good habits like building in breaks between sessions, taking time away from the screen, and reducing too many things on the screen at once. These will all help with Zoom fatigue and may allow you to attend some networking events.

When you attend the event, make sure you don't just turn on the screen and scroll on your phone: actually participate. Respond in the group chats, speak up and ask questions,

and find ways to actually engage with the event. Many people I talk to who dislike virtual events say that they feel like they are not connected. You won't be connected if you don't engage in the discussion. Sometimes it can feel a little awkward, but it is worth it!

Follow-Up with an Email

After attending a virtual event, make it a priority to reach out to someone. This is a way to make an impact. This can be a person you already know or someone you just met. You can keep a conversation going through email, or even schedule a time for a more in-depth discussion.

One of the best ways to do this is by listening during the virtual events. Listen to what others are saying and what they care about. You can identify a single concept and email them about that. You will be surprised with how quickly you grow your network this way.

Join Online Communities

Virtual events are typically augmented versions of existing events. If you are looking to expand your reach, consider joining online communities. I especially recommend this for people who are looking for professional development.

Social media platforms like LinkedIn and Facebook have groups that are industry specific. I like joining groups on LinkedIn because I then have access to articles on trends and topics within my field. To fully leverage these groups, you can actually connect with individuals. This can help you grow your network and stay current on emerging trends within your field.

Schedule Time for Phone Calls

Finally, consider scheduling time for checking in with people within your network. Obviously, this is a good idea to do for existing clients, but it is also a good idea for prospective clients, industry professionals, and friends. Many people are struggling with the limited human interaction. Although mediated meetings are better than no meetings, there is still a difference. Schedule time each week to make a few calls. You will remain top of mind for potential clients, and (perhaps more importantly) you will have an opportunity to engage on a more meaningful level.

Many of us truly miss the human interaction with networking in person, but we can still engage with people if we look to find some creative solutions.

Common IRS Surprises

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No one likes surprises from the IRS, but they do occasionally happen. Here are some examples of unpleasant tax situations you could find yourself in and what to do about them.

An expected refund turns into a tax payment
Nothing may be more deflating than expecting to get a nice tax refund and instead being met with the reality that you actually owe the IRS more money.

What you can do
Run an estimated tax return as early as possible to see if you may be in for a surprise. If so, adjust how much federal income tax is withheld from your paycheck for the balance of the year. Consult with your company's human resources department to figure out how to make the necessary adjustments for the future. If you're self-employed, examine if you need to increase your estimated tax payments due in April, June, September and January of the following year.

Getting a letter from the IRS
Official tax forms such as W-2s and 1099s are mailed to both you and the IRS. If the figures on your income tax return do not match those in the hands of the IRS, you will get a notice from the IRS. In some cases, the notice will merely require a response to or acceptance of a proposed adjustment. In other cases, it may involve an audit.

These audits are now done by mail and are commonly known as correspondence audits. The IRS assumes their figures are correct and will demand payment for the taxes you owe on the amount of income you omitted on your tax return.

What you can do
Assuming you already know you received all your 1099s and W-2s and confirmed their accuracy, verify the information in the IRS letter with your records. Believe it or not, the IRS sometimes makes mistakes! It is always best to ask for help in how to correspond and make your payments in a timely fashion, if they are justified.

Getting a tax bill for an emergency retirement distribution
Due to the pandemic, you can withdraw money from retirement accounts in 2020 without getting a 10% early withdrawal penalty, but you'll still have to pay income taxes on the amount withdrawn. If you don't plan for this extra tax you will be surprised with an additional tax bill.

You could still get an underpayment penalty bill from the IRS because you did not withhold enough during the year. You may also still receive an early withdrawal penalty in error because the IRS is still scrambling to update their systems with all of this year's tax relief changes.

What you can do
Set aside a percentage of your distribution for taxes. Your account administrator may have withheld funds automatically for you when you requested the withdrawal, so check your statements. Your review should be for both federal and any state tax obligations. If the withholding is not sufficient, consider sending in an estimated tax payment. And if you are charged a withdrawal penalty, ask for help to correspond with the IRS to get this charge reversed.

No one likes surprises when filing their taxes. With a little planning now, you can reduce the chance of having a surprise hit your tax return later.

Human Resources & Covid-19 Trends

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As we enter 2021, we still face the organizational problems of the Covid-19 pandemic every day. While all organizations are built and operate differently, there are some major similarities we are seeing across the board that these businesses are facing, especially in the field of human resources. The following topics detail many of the trends HR professionals can expect to experience.

Virtual Interviews
Many employers needed to move to virtual interviews. But this also entails some unforeseen technical and organizational difficulties. When setting up an interview for the candidate, make sure they are aware that they will be receiving a link to join the virtual interview when it is time. Also notify the candidate that if he or she does not have access to a computer with a video camera, they may call into the interview by audio alone.

While preparing for the interview, test out your company's technology. The audio and video components both need to be turned on and working properly. Always give yourself extra time for possible technological or internet connection issues, as you should be flexible with your candidate if they should experience these as well. As an HR professional would for any in-person interview, make sure to have a structured technique. Prepare a list of questions, and make sure the meeting is interviewer-led. After you've checked off all of these boxes, make sure that you have a quiet, well-lit room to interview in, as this can also impact the quality of an interview.

Virtual Onboarding
After you hire an employee, make sure you have a good onboarding process, even if it is virtual. You can explain and send all start dates, new hire documents and processes the employee needs to complete prior to their first day by email or phone. For their actual first day, it is a great idea to set up a video meeting or phone call to review their documents with them and answer any questions they may already have.

Even though you may be working remotely, you still need to receive, inspect, and retain Form I-9 within the first three days an employee is hired. HR professionals can review the IDs virtually during your video onboarding meeting, or the new hire can email you electronic copies of their ID. When completing a Form I-9, employers should enter COVID-19 in section 2 as the reason for the physical inspection delay. Once the organization returns to the office, the same staff member must review the IDs in person within three days of returning, and add a notation indicating "documents physically examined" along with the date. If the employee needs to be present in the office, make sure to inform them on all of the processes and procedures the office has in place regarding Covid-19. Some of the safety measures Donnelly-Boland requires include mask wearing, temperature taking, social distancing for work stations, and capacity limits for bathrooms and elevators.

The CARES Act & OTC
Over the counter medications (OTC) are now considered eligible expenses for HSAs and other tax-advantaged arrangements such as health Flexible Spending Accounts (FSA) or Health Reimbursement Arrangements (HRA).

New Quarantine Guidance
The CDC recommendations for a quarantine period continue to change. Based on local circumstances and resources, there could be new guidance regarding the recommended quarantine period. If you have been in close contact with someone who tested positive for Covid-19, quarantine may end after day 7 if you receive a negative test, or day 10 without a test.

Contact Tracing
Donnelly-Boland created its own internal form to help track possible exposures. This provides an easy way for HR professionals to organize and track exposures in the office, as they may be difficult to avoid completely. The form asks about the employee's current Covid-19 status, where they have been in the office, and staff members with whom they were in close contact. This ensures everyone with a possible exposure is contacted.

If you have any questions about your own HR procedures, reach out to anyone in our HR Department.

PPP Loan Expenses Are Now Tax Deductible

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If you or your business received funds from the Paycheck Protection Program (PPP), the recently passed Emergency Coronavirus Relief Act of 2020 will help to dramatically cut your tax bill. Here's what you need to know.

Background

The PPP program was created by the CARES Act in March 2020 to help businesses which were adversely affected by the COVID-19 pandemic. Qualified businesses could apply for and receive loans of up to $10 million. Loan proceeds could be used to pay for certain expenses incurred by a business, including salaries and wages, other employee benefits, and rent or utilities. Loans spent for eligible purposes, with at least 60% of loan proceeds used for payroll expenses, are eligible to be forgiven.

The Dilemma

While the CARES Act spelled out that a business's forgiven PPP loan would not be considered taxable income, the legislation was silent about how to treat expenses paid for using PPP loan proceeds if the loan was ultimately forgiven.

Congress intended for these expenses to be deductible for federal tax purposes. But since the legislation was silent on this issue, the IRS swooped in and deemed these expenses to be nondeductible. There was considerable debate over the latter half of 2020, with Congressional politicians explaining that their intent was that the expenses be deductible. The IRS responded by officially announcing that the expenses were nondeductible.

The Solution

Congress overruled the IRS's position in the Emergency Coronavirus Relief Act of 2020. The legislation officially makes deductible for federal tax purposes all expenses paid for using proceeds from a forgiven PPP loan. These relief acts are changing day to day, so it is important to stay tuned for updates as to how this new legislation affects your business.

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