

Webinar

The Business Owners' Financial Game Plan for 2021



Matt Rinkey

Today's Agenda

- Unpacking the Stimulus Loan & Tax Credit Enhancements
- Understanding Biden's Proposed Stimulus and Tax Plan
- Tax Reduction Strategies With The Changing Tax Code

The Legal Stuff

This webinar is provided for information purposes only and does not constitute professional advice and is not intended to form a client relationship.

As you are aware, things are changing quickly and there is no clear-cut authority or bright line rules. The slides are not unequivocal statements of the law, but instead represent our best interpretation of where things currently stand at the time of this webinar.

The slides do not address the other potential impacts of the numerous other local, state and federal orders that have been issued in response to the COVID-19 pandemic.

PPP Second Draw

Another \$275 Billion +
Unused PPP Funds for
Another Round of PPP
Funding thru March 31, 2021

Are PPP Funds Still Available?

As of Friday, January 31st, 2021
~\$68 Billion in loans have been
approved out of the \$284 Billion
program.

~70% of Funds Remain Available

Who is eligible for PPP2?

- In business as of Feb. 15, 2020
- Reduction in revenue of 25% in any one quarter of 2020 vs. 2019
- No more than 300 employees
- Cannot have a PPP loan under review
- If you have or will use all original PPP loan on qualified expenses

If your loan amount is > \$150,000 you must provide proof of the revenue decline

How Much Can I Borrow?

Rules

- **Individual max loan** - \$2 million
- **Group affiliation** - \$4 million

3.5x average monthly payroll for NAICS 72 companies

- Restaurant
- Lodging
- Food Service

2.5x average monthly payroll

- Calendar year 2019 (Same as PPP1)
- Calendar year 2020
- One year period before date on which loan is made
 - Now includes health insurance costs in payroll definition

How Can I Spend The Money?

Previously allowed expenses

- Payroll
- Certain benefits
- Rent
- Utils

**Owner-Employees:
\$20,833 max (24 weeks)**

**8 or 24 week covered period
to spend the funds**

**60-40 ratio of payroll to
non-payroll remains in effect**

Expanded covered expenses

- **Operating expenses:** business software (CRMs), payroll / HR tracking
- **Property damage costs:** due to non-covered costs from looting/ vandalism
- **Supplier costs:** essential to the operations, contract or PO, already in place
- **Worker protection expenditures:** PPE, barriers, expansion of facilities
- **Group life, disability, vision, dental:** in addition to health insurance

PPP2 Strategic Considerations

- Analyze payroll to determine most beneficial loan amount due to 3 different calculation periods
- Simplified forgiveness for loans Under \$150,000
- 60/40 remains so need to be mindful of when considering non-payroll expenditures
- The new covered expenditures can now be folded in to forgiveness analysis to increase likelihood of total qualifying expenses towards forgiveness (e.g. in event if you are shut down or can't fully operate)

Other Things To Be Aware Of

- Necessity is still a factor - Certify in good faith loan is necessary for ongoing operations
- FTE Employee & compensation levels need to be maintained in same manner required for PPP1

Employee Retention Credit (ERC)

Changes Open the Door For
Many More Business to
Qualify for this Tax Credit

What is the ERC?

- Was originally enacted as part of the CARES Act and is a refundable tax credit against an employer's share of FICA taxes.
- It was designed to reward those companies who kept employees on the payroll.
- The Consolidated Appropriations Act, 2021 made a number of changes to the ERC allowing many more companies to qualify.

What Changes Were Made?

- The revenue reduction requirement is lower
- Business that received a PPP are now eligible to apply
- You can't claim credit on wages paid with PPP funds
- The program is extended to July 1st, 2021
- The change is retroactive to March, 12 2020

What is the Credit?

2020 → 50% of qualified wages paid to an employee capped at \$5,000

2021 → 70% of qualified wages paid to an employee capped at \$7,000 per employee for EACH of the first two quarters

Companies could receive as much as \$19,000 per employee for 2020 and 2021

Who is Eligible?

Final three quarters of 2020

In any quarter, their gross receipts were less than 50% of their gross receipts in the same quarter in 2019

OR

Operations that were either fully or partially suspended by government order related to COVID-19

For the first two quarters of 2021 (in either quarter)

Gross receipts were less than 80% of their gross receipts in the same quarter in 2019 (or if their gross receipts for the prior quarter were less than 80% of their gross receipts compared to the corresponding quarter in 2019)

OR

Operations that were either fully or partially suspended by a government order related to COVID-19

Can be said as a 20% decline in gross receipts

What Wages Qualify For the Credit?

- Wages/compensation, in general, that are subject to FICA taxes, as well as qualified health expenses qualify
 - Health expenses include the employer and employee pre-tax portion
- Employers who take the employee retention credit cannot take credit on those same qualified wages for paid family medical leave
- A full-time employee is defined as one that in any calendar month in 2019 worked at least 30 hours per week or 130 hours in a month
 - This is different than the PPP FTE
- If an employee is included for the Work Opportunity or R&D Tax Credit, they may not be included for the employee retention credit

How Do I Receive The Credit?

- Your tax credit is taken off your quarterly payroll tax bill
- An employer can amend their Form 941 with a 941-X if they determine later that they qualified for the credit
- If your tax credit is greater than the amount paid in FUTA tax, you can receive a check from the IRS by filing Form 7200
- Advance payments are allowed up to 70% of average quarterly wages paid by the employer in CY 2019

We are waiting for additional guidance from the IRS on these changes, in particular for businesses that received a PPP loan who may now be eligible for the ERC retroactively.

SBA Loan Enhancements

More Funding &
Flexibility for SBA Loans

Most Common SBA Loan Programs

7(a) → Most Common

→ Covers a broad range of loan proceeds

→ Buying a business

→ Working Capital

→ Refinancing existing debt

→ Buying out a partner

→ Equipment

504 → Real estate & equipment loans

→ 10% Down

→ 50% Conventional Bank Loan

→ 40% SBA debenture with fixed rate for 20-25 years (rates at lows)

Enhancements to SBA Lending Programs

- Waives borrower & lender fees for 7(a) and 504 loans
- All borrowers on all qualifying SBA loans in place prior to the CARES Act will receive an additional 3 months of P&I capped at \$9,000 per month (an additional 5 months for those industries hit hardest)
- The SBA will cover the first 6 months of P&I on newly approved SBA loans will resume for all loans approved between Feb. 1 - Sept. 30, 2021 - capped at \$9,000 per month
- Increased the guarantee to 90%: up from 75% - SBA is taking on more risk
- Any payments the SBA makes are considered non-taxable income

Savings with an **SBA 7(a)** Loan Now

7(a) Loan Size	75% Guarantee (Original)	90% Guarantee (New)	Guarantee Fees (Now Eliminated)	Monthly Payments (6 Months Paid up to \$9K/Month)	Total savings
\$350K	\$262,500	\$315,000	\$7,875	\$3,886	\$31,191
\$500K	\$375,000	\$450,000	\$11,250	\$5,551	\$44,556
\$750K	\$562,500	\$675,000	\$16,875	\$8,327	\$66,837
\$1M	\$750,000	\$900,000	\$26,250	\$11,102	\$80,250
\$2M	\$1.5M	\$1.8M	\$56,250	\$22,204	\$110,250
\$5M	\$3,750,000	\$4.5M	\$140,625	\$55,510	\$194,625

Savings with an **SBA 504** Loan Now

504 Loan Size	Bank Loan 50% (25 years, 4%)	SBA 504 40% (25 years, 2.6%)	Down Payment 10%	Monthly Payments (6 Months Paid up to \$9K/Month)	CDC Processing Fee (eliminated)	Total Savings
\$350K	\$175,000	\$140,000	\$35,000	\$1,591	\$2,100	\$11,646
\$500K	\$250,000	\$200,000	\$50,000	\$2,263	\$3,000	\$19,278
\$750K	\$375,000	\$300,000	\$75,000	\$3,390	\$4,500	\$24,840
\$1MM	\$500,000	\$400,000	\$100,000	\$4,517	\$6,000	\$38,484
\$2MM	\$1,000,000	\$800,000	\$200,000	\$9,017	\$12,000	\$66,000
\$5MM	\$2,500,000	\$2,000,000	\$500,000	\$22,524	\$30,000	\$84,000

Biden's Proposed Stimulus & Tax Plan

The Potential
Impact on
Business Owners

Biden's Stimulus Proposals To Prepare For

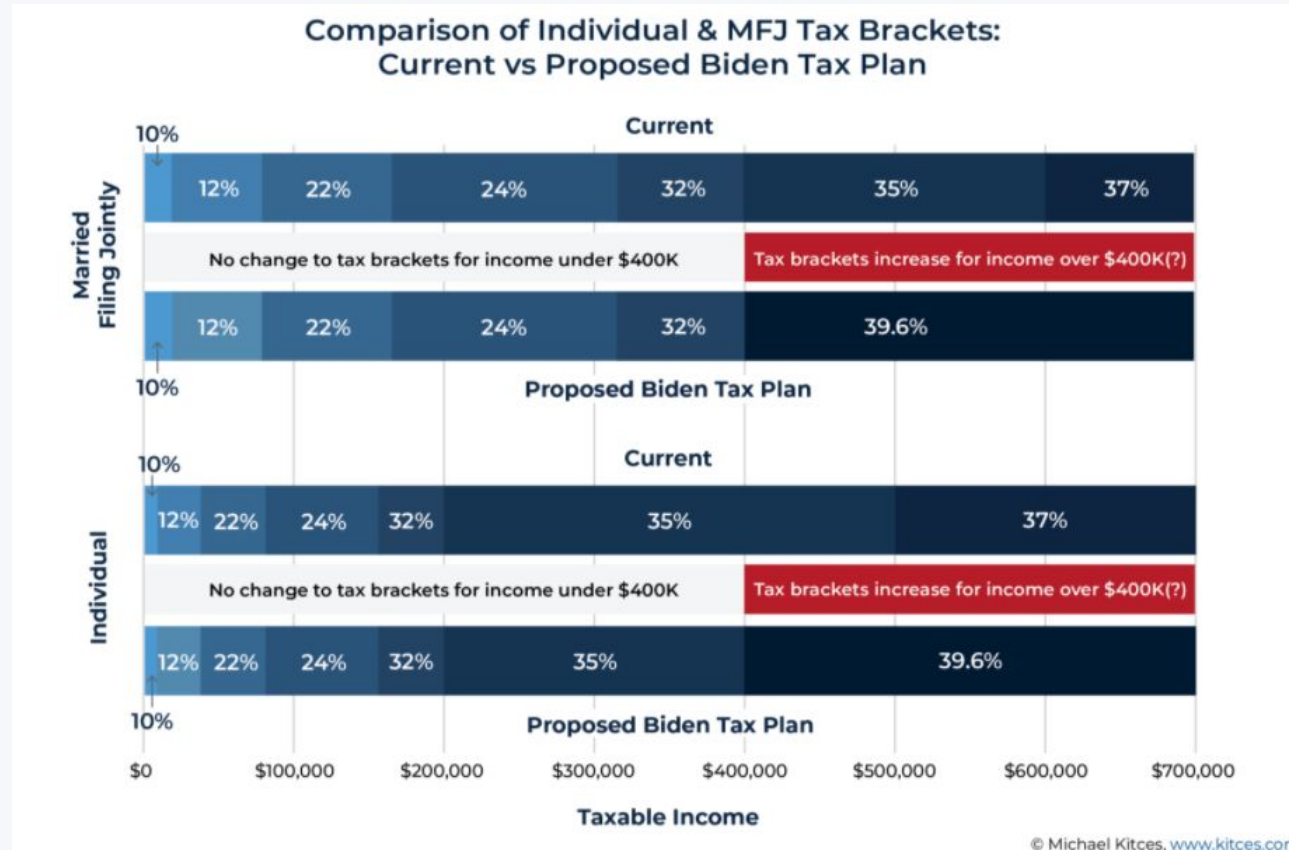
- Raising the federal minimum wage to \$15 per hour (this “raise” can trickle up the employee base)
- Extend the federal eviction moratorium thru September 30th
- Provide \$25 billion of rental assistance
- \$15 billion in small business grants and \$35 billion in low interest loans
- \$1,400 per person checks to households
- Expansion of the unemployment program at \$400/wk thru September

Biden's Tax Plan

- Higher income tax rates for individuals and corporations
- Highest Individual Tax Rate: 39.6%
- Corporate Tax Rate Up to 28%
- Capital gains tax rate to 39.6% on income > \$1mIn
- Elimination of step-up in basis
- Cap on itemized deductions for high income earners to 28%
- Cap on 401(k) taxable income deduction to 26%
- Reduce estate tax exemption to \$3.5mIn / pp (down from \$11.7mIn)

Biden's Tax Plan

cont.



The potential 'damage' done via an increase in tax rates could be much more dramatic for individuals who are not already in the highest income tax bracket.

Tax Reduction Strategies with the Changing Tax Code

Recent Positive Tax Law Changes

- Expenses paid with forgiven PPP funds are deductible from federal income
 - Check your state - CA does not conform to federal for example
- EIDL advance grants are NOT taxable income and now do not reduce PPP forgiveness (if you have not applied for forgiveness yet)
- Deadline to repay deferred payroll taxes extended to Dec. 31, 2021
- Carryover unused 2020 FSA account balances thru 2021 and into 2022
- **Certain meal expenses are now 100% deductible for 2021 & 2022**
 - **For food or beverages provided by a restaurant**

TAX PLANNING OPPORTUNITY

NOL Carryback

- Net operating loss: An NOL is the excess of a business's tax deductions for the tax year over its taxable income for that year
- Under the CARES Act an NOL from 2018, 2019, 2020 can be carried back five years
- You must carryback an NOL to the earliest year in the five-year period
- Usually better for C-corps as pre-TCJA (2017) tax brackets were 35% vs. 21%
- Requires amending tax returns for all carryback years as of Dec 31

TAX PLANNING OPPORTUNITY

Owners Can Establish a Defined Benefit Plan for 2020 (still)

- Prior to 2020, employers could NOT adopt a qualified retirement plan after the close of the taxable year
- If your income rose substantially in 2020, you can still establish a defined benefit plan for tax year 2020 up until your tax return extension deadline (September 15th is minimum funding deadline)
- A 50 year old can contribute \$~162,000 above and beyond the 401(k) salary deferral of \$26,000 to turbocharge retirement savings
- Could provide income tax savings ~\$50,000

TAX PLANNING OPPORTUNITY

Preparing for the Biden Tax Law & Higher Taxes

- Potentially accelerate income in 2021 & defer expenses into 2022
- Partial roth conversions to realize income in 2021 and grow tax-free
- Consider harvesting capital gains (CG) on significantly appreciated assets with high incomes (~ double CG tax bracket over \$1mIn)
- Get assets outside of estate due to reduced gift & estate tax exemptions (exemption could drop to \$3.5mIn from \$11.7mIn/pp)
 - Consider a spousal lifetime access trust (SLAT)
 - Gifting assets

TAX PLANNING OPPORTUNITY

Get a Second Opinion on Taxes Every Two to Three Years

- You can only amend your tax returns once every 3 years
- If you don't, and the accountant you are working with made an error OR missed an opportunity, you can't go back and correct that error
 - Correct mistakes
 - Claim missed deductions or tax credits
 - Identify new laws applied retroactively that impacted you
 - Retroactive S-corp election
 - Others
- No matter how much you love your CPA - ensure you get a second opinion

Any Questions?

Thank you!

BigTime

bigtime.net

✉ sales@bigtime.net

Illumination Wealth

illuminationwealth.com

✉ matt@illuminationwealth.com



| BIGTIME