

2020 Tax Update: How the EIDL, PPP, ERTC, PUA and Regional Grants Will Affect Your Taxes

Thursday, February 4, 2021



OneEastside
Stronger together.

Q&A Transcript

Has there been any adjustments to tax filing dates?

At this point the official word we've received is that we are going to try to stick to our standard tax filing deadlines. All indications are that we will be done with the regular tax season by April 15th. My suggestion is to file as soon as possible and to please file electronically, if at all possible. I'm sure, Ricky can tell you, and you may have experienced this yourselves as well, information that's coming to us on paper is taking an enormous amount of time to get processed. So file electronically, if at all possible.

The speaker stated that if you only paid your employee \$14K, you get refunded \$5K to meet the limit of \$19K (all generalities). Do you get credit for wages NOT paid?

You must pay wages to the employee to get the credit. Depending on the size of the business, the employee may not be providing services to receive the wages (paid furlough) however you will have to pay the employee to take the credit.

Do you think the States would treat regional grants as taxable revenue?

Personally, no I don't. It will depend on what state tax filing you are completing (income tax or sales tax) and the sourcing rules for that jurisdiction. I'm happy to discuss further if you have follow up questions. rickyw@falcosult.com.

If I am the owner and have my children working for me as W-2 employees do they qualify for ERC?

Most likely not. They are related parties under the tax code and related parties of owners are generally not eligible employees. You may wish to consult a tax professional to review your facts and circumstances.

I am a sole proprietor who worked and collected unemployment. I want to report all income but have not gotten all documentation. When are we to expect all 1099s?

They should have been filed by Monday, Feb 1st, so you should see them soon.

Do "owner employees" (those on W2s) qualify for ERC?

No, they do not. As employers they are not allowed to get the credit on your behalf it's only for employees. That would mean self-employed people who own their own business would not qualify for ERC, but also employee owners of an S-Corp or managing and general partners if they are very involved in the partnership are also considered owners under the definition of ERC.

If the accounting firm that we work with is not reliable ... is there a place I can get the professional input from an accountant?

Yes Falco Sult. Actually, please email me rickyw@falcosult.com regarding follow up questions. I'm happy to just have a quick 15 minute call with whoever needs help. I'm not going to charge you for it.

If we received forgiveness for our first PPP Loan, are we eligible for the ERTC? What if there were wages within a quarter with a loss and our PPP loan was depleted, would we get credit for that portion?

Those are great questions. In general, if you meet the qualifications for the ERTC you should be able to get the credit regardless of a loss or not. And regardless of PPP funds or forgiveness. The issue we have right now with determining the amount of credit is, we are not sure how to allocate wages between PPP Loan Forgiveness and Retention Credit, so we're in a holding pattern until we get some guidance on how to make the two elections. Once we get that IRS guidance, we'll have the answer on how to maximize the opportunity to 1) get PPP forgiveness, because that's most important, and then 2) to maximize your retention credits.

How should we report 2020 PPP proceeds to IRS that we expect to be forgiven, but haven't yet applied for forgiveness?

If you have a PPP loan, it should stay on your balance sheet until it's forgiven, in which case it would go from your balance sheet to your income statement as tax exempt income. If you are not required to maintain a balance sheet, I would not report it as tax exempt income until it was completely forgiven. It would just stay in your account and trial balance, until you receive forgiveness.

Related to 2020, if we did not claim the Employee Retention Tax Credit in 2020, whether we didn't know about it or had a PPP loan and were not eligible, how can we retroactively now go back and claim that considering most of us should have already filed our 941. What's the guidance on claiming the ERTC for 2020 retroactively?

Great question! One misconception is that you get one bite at the apple on Employee Retention Credit, that it must be done contemporaneously and it has to be done in the same quarter that the wages are paid, when they're eligible, etc, etc. That is NOT true, you can retroactively claim Employee Retention Credit as long as you otherwise meet all of the requirements. Unfortunately, it's not easy. The way that it would have to be done would require that you would need to amend your 941 and go back and claim it that way then you would get a refund for that quarter since you probably already paid your tax deposits and did everything else you were supposed to do for your trust fund taxes.

If there's like no balance due or anything else left for that quarter at this point, it would likely all be a refund to you but you will need to do an amended 941 in order to claim it. My personal suggestion, because amended returns are very difficult to get right and to get processed if they aren't done correctly is to use a tax professional or payroll specialist to help you file and amend those.

Would we file a 941- X for just the 4th quarter or we would do it for the 2nd, 3rd and 4th quarter assuming we qualify for all of them?

I would amend each quarter in which you have wages that qualify. That would be my recommendation Ricky what do you think? I think that's the safest way to do it. But I do think it is feasible to do it with just a Q4 amendment, it's just a little harder.

Regarding the FFCRA, is the credit 100% of the wage paid to an employee that could not work, because they were positive for COVID-19?

It is and it isn't, it is up to the full amount of the wages paid to the employees, but there are upper limits and there's a daily limit on that as well. I won't go into details here, but we do have that available an updated document with FFCRA requirements, limits and wage requirements. I'll forward it on to OneRedmond to share.

How does an employer actually apply for the FFCRA Tax Credit? What is the mechanism for doing that?

The FFCRA is applied for the same way the Employee Retention Credit is applied for, you're going to do it on your 941. And again, like the Employee Retention Credit if you didn't figure out that you qualified for the Family First Coronavirus Response Act (FFCRA) Credit until later, you can go back and amend the 941 if you need to, in order to claim the credit. But it is done through your employment tax return.

Is the Earned Income Tax Credit (EITC) in addition to any healthcare tax credit received?

Yes, those two are independent credits, they don't really have any effect on each other. So, you could certainly claim both and you could maximize both to the extent that you're allowed.

Regarding the ERC and the chart that was reviewed that did a comparison between 2019 and 2020, for Q1, Q2, Q3, Q4 to determine eligibility. Is the Q1 of 2019 comparable to Q1 of 2020? I was told by my payroll provider that this credit applies from only Q2.

It's a really great question, the credit applies starting Q2, but if your Q1 revenue drops enough you can qualify for a future credit. So, if you went below 50% in Q1, and you're still below 80% in Q2, then you get the credit for Q2. But if you were 50% in Q1 and you're above 80% in Q2, you'd still get the credit because that's the period in which you crossed over 80%. So, you won't get the credit for the wages paid in Q1, but you use Q1 as a test to see how far back you can go to get wages to qualify for the credit.

Let's say, in amending the 941s, if I amended for a particular employee I amended only Q3 and Q4, I was eligible only in those quarters. I am able to get the maximum the \$5,000 per employee then there's no point in amended Q2 even though I qualify correct.

To clarify your questions -- if you max out your eligible credit per employee by amending Q3 and Q4 is there any point in going back any further? I would say no, if you've already reached the maximum credit per employee.

Can you explain excess credit in regards to the Employee Retention Credit?

What this means is that if you get an Employee Retention Credit let's just say it's \$10,000 of your credit but you only paid in let's say \$7,000 in payroll taxes, you have an excess credit of \$3,000 – you would take it back on your 941-X, get a refund for the \$7,000 in payroll taxes and now you're left with an excess of \$3,000. This excess doesn't just go away, it's an excess credit that is refundable.

If you only paid your employee \$14,000, you get refunded \$5,000 to meet the limit of \$19,000 all generalities. Do you get credit for wages not paid?

You have to pay the wages. The employee doesn't have to be working, depending on the size of the business, you may be able to pay furloughed employees and have those wages count towards the maximum amount of wages that qualify you for the credit. But you still must pay the employees, there has to be wages paid in order to qualify for the Employee Retention Credit.

Are wages paid to the ERC fully deductible.

Yes, you can deduct the wages paid on your tax return.

In a normal tax year if you itemize you can elect to deduct charitable contributions equal to up to 60% of your adjustable gross income however, in 2020, the cares Act allows us to deduct up to 100% of AGI. Is that correct?

Yes, that is correct, but you will have to itemize to do that. Alternatively, if you do not itemize, or you don't feel you can exceed the standard deduction by itemizing, please remember that up to \$300 per return is deductible above the line for 2020 for charitable cash contributions. If you are filing separately, it is \$150. But for every other filing status, it is \$300 on the front page of the return, without having to itemize.

Let's say we were qualified for the ERTC for the first three quarters, then we exceeded, and we didn't qualify for the fourth quarter like how it was shown on your slide. For 2020 we go ahead and claim for the ERTC. Now what happens in first quarter of 2021, should I compare against first quarter 2020?

Q1 of 2021 is going to be a special quarter. There's going to be an election that will allow you to actually use the previous quarter, instead of the current quarter. Once that's finalized. Most people are going to be making that election to compare Q4 2020 to Q4 2019. But if that election guidance isn't yet in place -- Cathy please jump in if you have any insight.

My understanding is that we are still waiting on the guidance, but that whichever one is better for you, you can either compare Q1 2021 to Q1 2020 or Q1 2019. I agree you have some options and really it's whichever benefits you the most. As far as we know, that's the case. We're waiting for the final guidance.

When will we get the final guidance for the ERTC?

The IRS and the people who are responsible for providing this guidance and getting all the forms updated are very consumed on making sure the filing season 2021 for 2020 is going to go smoothly. Once that's up and running February 12th, priority should shift to these other provision that came out towards the end of 2020. We're hoping by the end of this month we should see the guidance. As soon as I see it, I'll be forwarding to my business stakeholders including OneRedmond.

If we amend the 941-X for 2020 and we do receive some credits, can we use those credits to avoid paying further payroll taxes for the next few months while we wait for the additional guidance?

You could do that. You could leave it in your 941 to cover your payroll tax or you could ask for a refund.

Please get us the contacts of Ricky and Cathye, so in case we can reach out

Ricky Waldmann's email at Falco Sult is rickyw@falcosult.com Unfortunately, Cathye's role at the IRS does not allow her to respond to emails.

Do we pay taxes on our EIDL loan, and the unforgivable portion of our PPP Loan?

No a loan is a loan and you do not need to pay taxes on that.

Are there any other credits that small businesses may qualify for?

There are a lot of them out there. I would recommend that you find a tax professional to assist with tax planning to identify potential tax credits by industry. A big one that we see being used is the R&D tax credits. My understanding is the requirements for the R&D tax credits are less onerous than they've been in the past.

What about the new state legislation to provide relief to regional grant recipients.

Yes, that would be state relief, but it wouldn't make those funds federally tax exempt.

If I understand this correctly I'm a sole proprietor, who received both the PPP loan and the EIDL loans. Currently my financial institution has not released the application for PPP forgiveness, so will I show both of these as loans on my 2020 return, and they will not be considered income.

That's correct.

To take advantage of the additional EIDL Advance, since we didn't receive up to \$10,000, do we re-apply?

You would have to have qualified for the initial advance to take advantage of the change to max out the \$10k. There is no "new" advance. The SBA will contact if you qualify for additional advance.

We qualified for the initial advance, what are the steps we need to do to rectify any mistakes?

If you qualified for the initial EIDL Advance and did not get the maximum amount (\$10k) the SBA will outreach to you if you meet the criteria for increased Advance funding. Remember, its capped at \$1k per employee per round.

Where do we go to reach into EIDL advance to max out our \$10, we got \$2 on the first round

OneRedmond is hosting a webinar next Thursday 2/11 on the EIDL Advance, EIDL and the Shuttered Venue Operators Grant

EIDL Advance - We did not get it first time? Are we qualified this time?

You may be. The SBA's Office of Disaster Assistance is following up with those that qualify. OneRedmond is hosting a webinar next week Thursday, 4/11 at 1pm on the EIDL and Shuttered Venue Operators Grant.

With the new u Federal Aid package, do you anticipate that any EIDL loans (especially the smaller ones) will be forgiven?

It's unlikely the EIDL loans will be forgiven. They are low-interest, 30-year loans so a good option for accessing capital if needed.

Great about the additional EIDL grants? What's the process, and where does one go to request the additional \$1k/employee?

OneRedmond is hosting a webinar next week on the EIDL, EIDL Advance and the Shuttered Venue Operators Grant. Thursday 2/11 at 1pm. The Targeted EIDL Advance does have specific criteria including a focus on businesses in low-income communities.

Thanks!live answered

How does one apply for another EIDL Advance for round two?

You would have to have qualified for the initial EIDL Advance to be able to max out the amount in round 2. If you did not qualify for the initial EIDL, you will not qualify for round 2. If you did qualify for the initial

EIDL but did not take the full amount, you may if you meet the specified criteria qualify for additional funding.

I applied and received the first one EIDL Advance. I am a sole prop, so received \$1000. Is that considered full amount?

Yes, the EIDL Advance was capped at \$1k per employee with a maximum of \$10k. If you are the only employee, the max is \$1k.

My PPP 1 loan was 100% forgiven by the SBA. Yet the bank subtracted the EIDL Advance from the forgiveness and now I'm paying back that portion plus interest in a loan. I'm reading mixed messages that the EIDL Advance is not to be paid back and if it's not, what action can I take to request the bank to remove the loan?

The SBA is doing a reconciliation with the lenders for the forgiven loans which were reduced by the amount of the EIDL Advance. Your lender will let you know when the payment is received from the SBA. Please contact your lender to see if you are able to cease making payments on it. Also, your lender will reimburse you for the payments you made on the loan for the EIDL Advance portion.