UPDATE

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DwightDarby&Company

Certified Public Accountants

In This Issue

Brad Tushaus
Senior Partner

Dawn Lopez
Audit Partner

611 S. Magnolia Ave.
Tampa, FL 33606
813.251.2411

www.dwightdarby.com

Find Us

The Payroll Protection Program Loan Forgiveness

Pam Mattox

Under the CARES Act, recipients are eligible for forgiveness of indebtedness on a Paycheck Protection Program (PPP) loan in an amount equal to the sum of the following costs incurred and payments made during the covered period: (1) payroll costs, including benefits; (2) interest on mortgage obligations, incurred before February 15, 2020; (3) rent, under lease agreements in force before February 15, 2020; (4) utilities (including electric, gas, water, telephone and internet access), for which service began before February 15, 2020.

Employee and compensation levels are to be maintained to be eligible for PPP loan forgiveness. Your loan forgiveness is reduced if you decrease your full-time employee headcount. Loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than $100,000 annualized in 2019. You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

Additionally, not more than 25% of the loan forgiveness amount may be attributable to non-payroll costs.

The covered period to incur the eligible costs for the loan forgiveness is defined as the 8-week period beginning on the origination date of the PPP loan.

At the end of your covered period you will be required to submit a request for forgiveness to the lender that serviced your PPP loan. You will have to supply documents that verify the costs incurred and payments made and certify that the documents you supply are true. Documents required will include your state and federal payroll tax returns, invoices, cancelled checks, etc. The lender is to make the forgiveness decision within 60 days of receiving your request for forgiveness.

Any amount of loan forgiven as part of the PPP is excluded from gross income, and as such, is not taxable income.

If you are not eligible for full loan forgiveness, loan payments will be deferred for six months. No collateral or personal guarantees are required and neither the government nor lenders will charge small businesses any fees. This loan has a maturity of 2 years and an interest rate of 1%.

There are many loan forgiveness worksheets being developed that can be found on reputable sites all of which were developed based on current law and the interpretation thereof as some parts of the law are not well defined. Your lender may require you to use their own calculator or excel worksheet. However, below is a link to a more simplified worksheet to help you determine your loan forgiveness eligibility.

https://dwightdarby.com/pdfs/Paycheck_Protection_Program__Est_Max_Loan_Forgiveness.xls

The PPP remains a fluid program. The Small Business Administration has indicated that they will issue more guidance in the near future.

Good and Bad Things I've Learned While Working at Home During COVID-19

Dawn Lopez

BAD FAMILY MEMBERS (AND PETS) HAVE NO CONCEPT OF NEEDING TO BE QUIET DURING PHONE CALLS ON SPEAKER PHONE

BAD MY DOGS THINK THEY CAN DEMAND WALKS ALL DAY

BAD MY DOG SLEEPS A LOT DURING THE DAY AND SNORES A LOT

GOOD I'M MORE PRODUCTIVE AT HOME WORKING

BAD CLIENTS NOW HAVE MY CELL PHONE #

BAD WORK LONGER HOURS/NOT SET BOUNDARIES

BAD MISS MY CO-WORKERS

GOOD CAN MULTI TASK (THROW CLOTHES IN THE WASH, START DINNER)

BAD FORGET TO TAKE A SHOWER

GOOD LUNCH BY THE POOL IN THE SUN

GOOD PAJAMAS DURING THE WORK DAY

GOOD SAVE ON GAS AND TRAFFIC FRUSTRATIONS

BAD INTERNET BLIPS

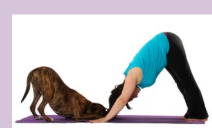
BAD RUN OUT OF PRINTER INK

GOOD LEARNED TO USE VIDEO CONFERENCING MORE AND LOVE IT

GOOD SAVE MONEY BECAUSE I'M NOT EATING OUT FOR LUNCH

GOOD HAVE TAKEN THE TIME TO CHECK ON A FEW OF MY ELDERLY CLIENTS TO MAKE SURE THEY HAVE TOILET PAPER

GOOD PLAY MUSIC LOUD AND/OR GET UP AND STRETCH --NO ONE CAN LOOK AT YOU FUNNY FOR DOING THE DOWNWARD DOG



BAD YOU NEVER LEAVE THE OFFICE/NEVER LEAVE THE HOUSE

GOOD CAN PROP MY BARE FEET UP ON THE DESK

GOOD ACTUALLY SPOKE TO A NEIGHBOR

GOOD WATCH BIRDS IN MY BIRDFEEDER OUTSIDE MY HOME OFFICE WINDOW

GOOD I DON'T HAVE TO PUT ON MAKEUP EVERYDAY AND FIX MY HAIR

Dave Bove

President Trump on March 27, 2020 signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation includes tax relief for businesses and individuals, including recovery rebates for certain individuals, changes to net operating losses, and business interest expense limitations.

INDIVIDUAL TAX RELIEF

Recovery Rebates

The most well-publicized provision is the $1,200 recovery rebates for individual taxpayers. The rebate amounts are advance refunds of credits against 2020 taxes, and equal to $1,200 for individuals, or $2,400 for joint filers, with a $500 credit for each child. The amount of each rebate is phased out by $5 for every $100 in excess of a threshold amount. This threshold amount is based upon 2018 adjusted gross income (unless a 2019 return has already been filed), and the phaseout begins at $75,000 for single filers, $112,500 for heads of households, and $150,000 for joint filers. Thus, the rebates are completely phased out for single filers with 2018 (or 2019, if applicable) adjusted gross income over $99,000, heads of household with $136,500, and joint filers with $198,000.

Retirement Plans

The Act also waives the 10% penalty on early withdrawals up to $100,000 from qualified retirement plans for coronavirus-related distributions. For purposes of the penalty waiver, a coronavirus-related distribution is one made during the 2020 calendar year, to an individual (or the spouse of an individual) diagnosed with COVID-19 with a CDC-approved test, or to an individual who experiences adverse financial consequences as a result of quarantine, business closure, layoff, or reduced hours due to the virus. Any income attributable to an early withdrawal is subject to tax over a 3-year period, and taxpayers may recontribute the withdrawn amounts to a qualified retirement plan without regard to annual caps on contributions if made within 3 years.

The Act also waives all required minimum distributions for 2020, regardless of whether the taxpayer has been impacted by the pandemic.

Charitable Contributions

The Act enhances tax incentives for making charitable contributions for the 2020 tax year. It allows an above-the-line deduction of up to $300 for charitable contributions made by individuals. Therefore, it allows an individual to claim a deduction for a charitable contribution even if the individual does not itemize deductions.

Also, the percent-of-adjusted gross income (AGI) limitations are increased for all taxpayers as well as for specific types of contributions. For the 2020 tax year, individuals can claim an unlimited itemized deduction for a charitable contribution, which is normally limited to 50% of AGI. In the case of corporations, the usual 10% of AGI limitation is increased to 25% for the 2020 tax year. Lastly, the contribution of food inventory, the deduction for which is normally limited to 15% of AGI, is increased to 25% for the 2020 tax year.

Student Loans Paid by Employers

The Act provides for an exclusion of up to $5,250 from income for payments of an employee's education loans. For the exclusion to apply the loan must have been incurred by the employee for the education of the employee. The payment can be made to the employee or directly to the lender. The exclusion only applies for payments made by an employer after the date of enactment and before January 1, 2021.

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Five Tax Deductions That Can Save You Money

Rick Vernal

Charitable Contributions. Being generous can be a win-win proposition when it comes to taxes. Money or other assets that are donated to qualifying charities can be deducted. There are several rules, however, to be aware of when deducting the contributions. For starters, receipts or other acknowledgments from the charities will be needed in case the IRS wants to see them. If a taxpayer receives anything of value in return for their donation, that amount will need to be deducted from the amount claimed as a deduction. The fair market value of items donated to qualifying organizations can also be deducted. And finally, taxpayers that did some driving in service of a qualifying charity, such as delivering meals to the elderly, can deduct the mileage driven at the standard charitable mileage rate, which is $0.14 per mile in 2019.

Contributions to Retirement Accounts. Taxpayers may be able to deduct several thousands of dollars from their taxable income by making contributions to retirement accounts such as IRAs and 401(k)s. Both accounts come in a traditional or Roth variety. With a traditional IRA or 401(k) contributions are pre-tax, which reduces your taxable income and tax bill in the current year. Tax deductible contributions to a traditional IRA may be limited based on your income, if you are covered by a retirement plan at your work. Although Roth IRA or 401(k) contributions are not tax deductible in the current year, saving current taxes, they have future tax benefits including potential tax-free withdrawals.

Health Savings Account Contributions. A Health Savings Account (HSA) works much like a traditional IRA retirement account, contributions can be deductible from taxable income, thereby lowering the tax bill. Money withdrawn from HSA's can be used tax-free for qualifying healthcare expenses, such as doctor visits, lab work, and eye exams. The money in the account can accumulate over many years, with earnings growing tax deferred. When a taxpayer reaches age 65, withdrawals from an HSA can be made for any purpose, paying only ordinary income tax rates on the withdrawals with no penalties. Taxpayers will need to have a qualifying high-deductible health insurance plan to contribute to an HSA, and generally must have no other health coverage. In addition to current tax savings, HSA's can also deliver potential retirement savings as well.

Mortgage Interest. Most taxpayers can deduct most or all the interest they pay on their mortgage each year, which can result in significant tax savings. The recent tax law changes reduced the maximum home loan size for which interest can be deducted from $1 million to $750,000. Additionally, the new law limits the deductibility of interest on home equity loans. Taxpayers can now only deduct the interest if the home equity loan was used to buy, build, or improve the home, and it doesn't push the total outstanding mortgage debt above the $750,000 limit. These new rules apply to mortgages originated after 2017. The older rules and limits apply still apply to mortgages acquired before 2018.

Home Office Deduction. A self-employed taxpayer that maintains an office in their home, may be able to benefit from the home office deduction. There are some rules. For starters, the office in the home must be exclusively used for business. If it's in a room that's also use as a home gym, or a playroom for the kids, it doesn't qualify. The space must also be the business's principal place of business, or where customers are met regularly. To claim the deduction, taxpayers will need to determine what percentage of the home the office takes up. Based on that, taxpayers can deduct that percent of utilities such as electricity and heat, as well as mortgage interest, property taxes, home insurance, security expenses, homeowner association fees, home repairs, and maintenance expenses. Additionally, the full cost of a dedicated phone line into the office, and the full cost of any repairs specific to that room can be fully deducted.

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BUSINESS TAX RELIEF

Employee Retention Credit

The Act grants eligible employers a credit against employment taxes equal to 50% of qualified wages paid to employees who are not working due to the employer's full or partial cessation of business or a significant decline in gross receipts. The credit is available to be claimed on a quarterly basis, but the amount of wages, including health benefits, for which the credit can be claimed is limited to $10,000 in aggregate per employee for all quarters. The provision contains several requirements defining qualified wages, qualified employees, and qualified employers. The credit applies to wages paid after March 12, 2020 and before January 1, 2021.

Payroll Tax Deferral

The Act defers the payment of payroll taxes in order to free up employers' cash flow and retain employees during times of quarantine or shutdown. Payroll taxes due from the period beginning on the date the Act is signed into law and ending on December 31, 2020, are deferred. The 6.2% OASDI portion of payroll taxes incurred by employers, and 50% of the equivalent payroll taxes incurred by self-employed persons qualify for the deferral. Half of the deferred payroll taxes are due on December 31, 2021, with the remainder due on December 31, 2022.

Net Operating Losses

The Act allows for a 5-year carryback of net operating losses (NOLs) arising in 2018, 2019, or 2020 by a business. Businesses will be able to amend or modify tax returns for tax years dating back to 2013 in order to take advantage of the carryback. Under current law, only farming NOLs are allowed to be carried back, and the carryback is limited to 2 years.
The Act also eliminates loss limitation rules applicable to sole proprietors and passthrough entities to allow them to take advantage of the NOL carryback.

Lastly, the Act allows for NOLs arising before January 1, 2021, to fully offset income. Under current law, NOLs are limited to 80% of taxable income.

Business Interest Expense Limitation

The Tax Cut and Jobs Act (TCJA) limited the amount of allowable deductions for business interest for tax years beginning after 2017. The limitation is generally the amount of business interest income for the year plus 30% of the taxpayer's adjusted taxable income for the year. The limitation does not apply to taxpayers with average annual gross receipts for the prior 3 years below an inflation-adjusted amount. For 2020, this amount is $26 million or less. The Act increases the limitation amount to 50% of the taxpayer's adjusted taxable income for 2019 and 2020.

Qualified Improvement Property

The Act corrects a Congressional oversight when it drafted the TCJA by defining qualified improvement property as 15-year property, thus allowing 100% of improvements to be deducted in the year incurred. The change is made as if included in the TCJA and, thus, is effective for property acquired and placed in service after September 27, 2017. This technical correction allows any expenses incurred by owners to make improvements to the physical premises related to these businesses, which were previously depreciated as 39-year property, to be accelerated into the 2017 or 2018 tax year on an amended return or the 2019 tax year on a return due July 15, 2020.

Closing Entries

ANNIVERSARIES

The following Dwight Darby & Company employment anniversaries will be occurring this Summer.

Dawn Lopez – 27 years in August

Christina Winters – 14 years in August

Matt Saucier – 1 year in August

Life is not about how you survive the storm,
It's about how you dance in the rain…

This newsletter is published for our clients and other interested persons. Since this information

Dwight Darby & Company
611 S. Magnolia Ave.
Tampa, FL 33606-2744

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