

COVID-Related Tax Relief Act of 2021

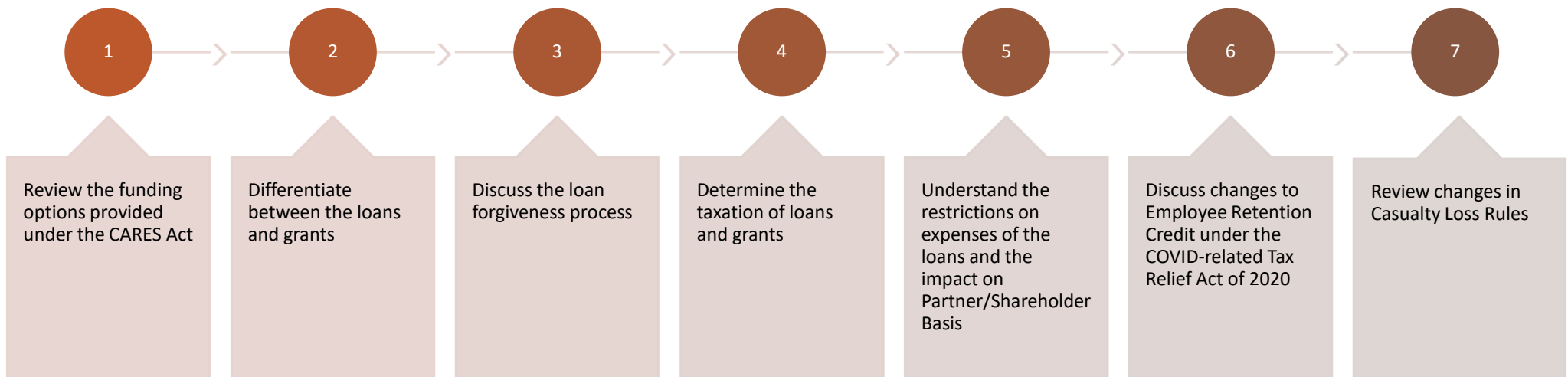
Economic Disaster Relief, PPP Loan Forgiveness
and Employer Credits

PRESENTED BY

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Objectives

Pg. 2



CARES Act Funding options

Economic Injury Disaster Loans (EIDL)

Economic Injury Disaster Loan Advance (EIDLA)

Paycheck Protection Program (PPP)

COVID-Related Tax Relief Act of 2021

PPP – 2nd Draw

- Targeted Small Business Relief
- § 311 (37)(A)(iv) defines and eligible entity as follows:
 - “any business concern” including nonprofit, housing cooperative, veteran organization, tribal business, self-employed individual, sole proprietor, independent contractor, or small agricultural cooperative: and
 - Has less than 300 employees; and
 - Has a 25% reduction in gross receipts in a calendar quarter as compared to the same calendar quarter in calendar year 2019.

COVID-Related Tax Relief Act of 2021

PPP – 1st time borrowers

- Targeted Small Business Relief
- § 311 (37)(A)(iv) defines and eligible entity as follows:
 - “any business concern” including nonprofit, housing cooperative, veteran organization, tribal business, self-employed individual, sole proprietor, independent contractor, or small agricultural cooperative: and
- Has less than 500 employees; and
- In operation February 15, 2020; and
- Eligible under the SBA 7(a) loan program; and
- Does NOT have to meet the 25% gross receipts restriction.

Industry Specific COVID Act PPP Loan

- NAICS code sector 72, Accommodation and Food Service
- Average total monthly payroll costs incurred or paid, the lesser of
 - 1-year period before the date of the loan; or
 - Calendar year 2019; or
 - 3.5 times average monthly payroll costs; or
 - \$ 2,000,000.
- Not more than 500 employees
- 25% reduction of Gross Receipts

SBA PPP2 Opening Dates

1st Time Borrowers

Mon. 11 Jan. 2021

Everyone Else

Fri. 15 Jan. 2021

Wed. 13 Jan. 2021

Industry Specific (NAICS code 72...)

Last day to apply for PPP2

March 31, 2021

PPP2
Application
Forms

SBA Form 2483-SD: 2nd
Draw Application

SBA Form 2483: Applicant
Ownership

SBA Form 2483 Addendum
A: Affiliates

PPP Loan Application Calculator

PPP Loan Application Calculator		
Borrower Name:		
Date of Business Formation (Must be prior to 2/16/2020)		
<i>If C-Corporation, S-Corporation, LLC, Partnership or Sole Proprietorship with Employees:</i>	Exclude 1099 "employees"	Source Documentation
Gross Employee Wages		
Gross Employee Wages should be derived from the following: 1) payroll provider reports (preferred) or 2) if W3 or W2 Box 5 or 3) if 944 (annual) line 4c, column 1 or 4) if 941 (quarterlies) line 5c		
Less: All Employee/Owner wages in excess of \$100,000		
Less: Wages to employees who reside outside the US	\$	-
Total Eligible Employee/Owner Wages	\$	-
Add: Group health care benefits - insurance premiums		
Add: Payment of retirement benefit		
Add: Payment of State unemployment taxes (via 1028 forms)		
Total "Payroll"	\$	-
<i>If Sole Proprietorship/Single Member LLC with Employees, Partnership, or Owner Portion if Not Recorded in Payroll Above:</i>		
Net income from 2019 Schedule C Line 31, 1099 Misc Box 7, 2019 profit & loss, or 2019 guaranteed payment from 1065 line 10		
Information must be derived from a 2019 tax return. If they have not yet filed the 2019 tax return, the form must be provided in order to be completed.		
Less: Amount in excess of \$100,000	\$	-
Add: health care costs paid (Sch. C line 14)	\$	-
Add: retirement costs paid (Sch. C line 19)	\$	-
Add: Payment of State unemployment taxes (via 1028 forms)		
Amount attributed to proprietor payroll	\$	-

PPP Loan Calculator

If Sole Proprietorship without Employees:		
Net income from 2019 Schedule C Line 31, 1099 Misc Box 7, or 2019 profit & loss	\$	-
Information must be derived from a 2019 tax return. If they have not yet filed the 2019 tax return, the form must be provided in order to be completed.		
Less: Amount in excess of \$100,000	\$	-
Amount attributed to proprietor payroll	\$	-
Prior 12 months cumulative qualifying payroll cost	\$	-
Average monthly payroll costs	\$	-
x 2.5		-
x3.5 for NAICS code 72		-
Amount of any SBA Economic Injury Disaster Loan EIDL obtained from January 31, 2020 to April 3, 2020 (if used for payroll)	\$	-
PPP Loan amount; lesser of calculation or \$10 million	\$	-
[1] For a new business that started in 2020 (prior to 2/15/2020) look at January and February 2020 payroll and take the monthly average (total divided by 2). For a seasonal business, look at the 12-week payroll from 2/15/2019-5/31/2019 and take the monthly average (total divided by 3)		
*****PLEASE PRINT, SIGN, DATE AND PROVIDE CALCULATOR TO YOUR LENDER*****		
I affirm that calculations provided are based from documentation submitted to the local, state, and federal government and are true and accurate.		
X _____		
Signature of Owner/Authorized Representative of Business	Date	

Print Name	Title	

PPP Loan Calculator

Economic injury disaster loan (EIDL)

- For Businesses
- Economic Hardship
- Loss of Revenue
- Working Capital and Normal Operating expenses
- Minimum Loan \$ 15,00
- 30 year amortization
- 3.75% apr
- 1 year payment deferral
- NOT Taxable Income
- NO restrictions on expenses

Extended through December 31, 2021





Whoville Manufacturing Inc received
\$ 45,000 EIDL

Journal Entry: Cash/Checking \$ 45,000
N/P SBA – EIDL 45,000



Loan – NOT Taxable Income

Example

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Economic Injury Disaster Loan Advance (EIDLA)

- \$ 1,000 per employee and per owner up to \$ 10,000
- Grant – NOT included in taxable income
- DOES NOT Reduce PPP Loan Forgiveness
- Treated as Tax-Exempt Income
- Basis impact

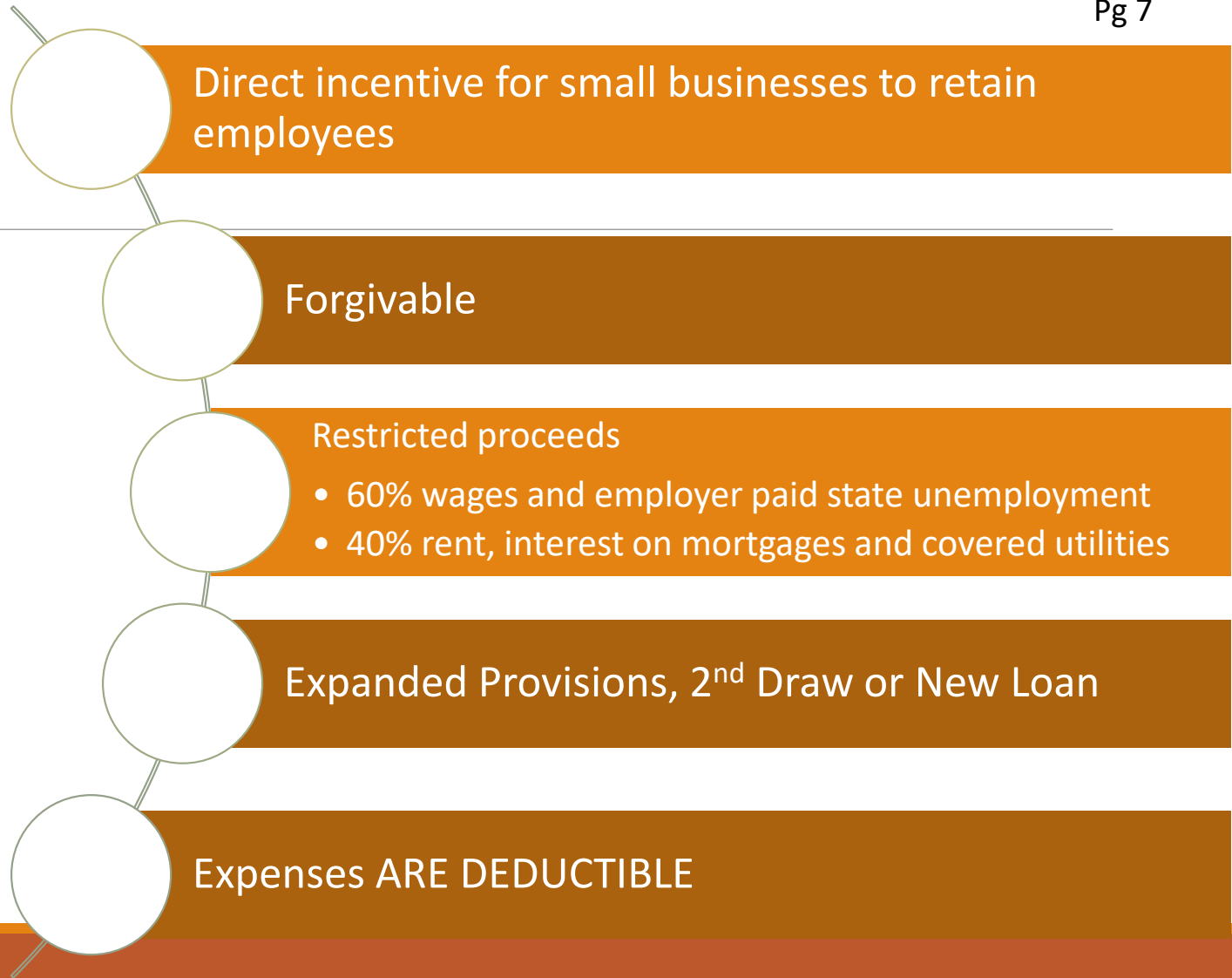
How do I differentiate between the EIDL and the EIDL Advance, the client said they don't know.

There will be 2 deposits into the bank account

The EIDL also requires the borrower to sign loan documents

04/14	External Deposit SBAD TREAS 310 - MISC PAY NTE*PMT*EIDLADV: _____ \ EIDLADV: _____	\$7,000.00
04/22	External Deposit SBAD TREAS 310 - MISC PAY RMT*CT* _____	\$45,000.00

Paycheck protection program



COVID Act 40% Non-Payroll Cost Expansion

➤ **Covered Operations –**

- *business software or cloud computing service that facilitates business operations, product or service deliver,*
- *the processing, payment, or tracking of payroll expenses,*
- *human resources,*
- *sales and billing functions,*
- *accounting or tracking of supplies, inventory, records and expenses*

➤ **Covered Property Damage –**

- *cost related to property damage and vandalism or looting due to public disturbances that occurred during 2020*
- *not covered by insurance or other compensation*

COVID Act 40% Non-Payroll Cost Expansion

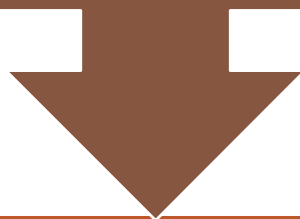
➤ **Covered Supplier Costs –**

- *an expenditure made by an entity to a supplier for goods for the supply of goods that*
 - *(A) are essential to the operations of the entity at the time of which the expenditure is made; and*
 - *(B) made pursuant to a contract order, or purchase order*

➤ **Covered Worker Protection –**

- *operating or a capital expenditure to facilitate the adaptation of the business activities or an entity to comply with requirements established or guidance issued by the Department of Health and Human Services, the Centers for Disease Control, or the Occupational Safety and Health Administration, or any equivalent*
- *Expenses may include renovations to property, plant, and equipment to comply with guidance.*
 - *“...assets that create or expand drive-through window facility; indoor, outdoor, or combined air or air pressure ventilation or filtration systems; or physical barrier such as a sneeze guard...”*

10 months after last day of covered period



Covered Period

June 5, 2020 -
Paycheck
Protection
Flexibility Act

8-weeks

24-weeks

Ending March 31,
2021

PPP Loan
Forgiveness
Pg. 8

Annual salaries or hourly wages may not decrease by more than 25% compared to January 1, 2020 through March 31, 2020;

Salary limitations for employees receiving more than \$ 100,000 annually (\$ 15,384.62 prorated for 8-week covered period or \$ 46,154 for 24-week covered period);

Owner compensation is limited to the SMALLER of \$ 15,384.62 for 8-week covered period or \$ 20,833 for 24-week covered period or the prorate of 2.5x their monthly compensation/equivalent from 2019;

FTE employee headcount could not have decreased between January 1, 2020 and the end of the covered period. FTE is defined as 40 hours on average with aggregation for part-time employees. (Act §1106(d)(2));

FTE safe harbor allows the taxpayer to elect a reference period between February 15, 2019 through June 30, 2019 OR January 1, 2020 through February 29, 2020; AND

Seasonal employers may elect the 12-week period from May 1, 2019 through September 15, 2019.

PPP Loan
Forgiveness
Continued Pg. 9

- Loans less than \$ 150,000
 - Streamlined Forgiveness
 - One Page Affidavit

- Loan Terms on unforgiven amount
 - 1% Annual Interest Rate
 - Amortized over 2 years – loan received prior to June 5, 2020
 - Amortized over 5 years – loan received after June 5, 2020



FORM 3508EZ



FORM 3508S



FORM 3508



FORM TBD

SBA Form 3508EZ Appendix B

- The Borrower is a self-employed individual, independent contractor, or sole proprietor who had no employees at the time of the PPP loan application and did not include any employee salaries in the computation of average monthly payroll in the Borrower Application Form (SBA Form 2483).

- The Borrower did not reduce annual salary or hourly wages of any employee by more than 25 percent during the Covered Period or the Alternative Payroll Covered Period (as defined below) compared to the period between January 1, 2020 and March 31, 2020 (for purposes of this statement, “employees” means only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000);

AND

The Borrower did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period. (Ignore reductions that arose from an inability to rehire individuals who were employees on February 15, 2020 if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020. Also ignore reductions in an employee’s hours that the Borrower offered to restore and the employee refused. See [85 FR 33004](#), 33007 (June 1, 2020) for more details.

- The Borrower did not reduce annual salary or hourly wages of any employee by more than 25 percent during the Covered Period or the Alternative Payroll Covered Period (as defined below) compared to the period between January 1, 2020 and March 31, 2020 (for purposes of this statement, “employees” means only those employees that did not receive, during any single period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000);

AND

The Borrower was unable to operate during the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.



Paycheck Protection Program
PPP Loan Forgiveness Application Form 3508S

OMB Control No. 3245-0407
Expiration date: 11/30/2020

A BORROWER MAY USE THIS FORM ONLY IF THE BORROWER RECEIVED A PPP LOAN OF \$50,000 OR LESS.
A Borrower that, together with its affiliates, received PPP loans totaling \$2 million or greater cannot use this form.

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____
 PPP Loan Amount: _____ PPP Loan Disbursement Date: _____
 Employees at Time of Loan Application: _____ Employees at Time of Forgiveness Application: _____
 EIDL Advance Amount: _____ EIDL Application Number: _____
 Forgiveness Amount: _____

By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower:

The Authorized Representative of the Borrower certifies to all of the below by **initialing** next to each one.

- The dollar amount for which forgiveness is requested does not exceed the principal amount of the PPP loan and:
 - was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
 - includes payroll costs equal to at least 60% of the forgiveness amount;
 - if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and
 - if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
- I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
- The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness, and has accurately calculated the forgiveness amount requested.
- I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
- The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.
- I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the Borrower's loan forgiveness application.

The Borrower's eligibility for loan forgiveness will be evaluated in accordance with the PPP regulations and guidance issued by SBA through the date of this application. SBA may direct a lender to disapprove the Borrower's loan forgiveness application if SBA determines that the Borrower was ineligible for the PPP loan.

Signature of Authorized Representative of Borrower _____
 Print Name _____

Date _____
 Title _____

SBA Form 3508S Appendix C



Paycheck Protection Program
PPP Loan Forgiveness Application Form 3508S

PPP Borrower Demographic Information Form (Optional)

Instructions

- Purpose.** Veteran/gender/race/ethnicity data is collected for program reporting purposes only.
- Description.** This form requests information about each of the Borrower's Principals. Add additional sheets if necessary.
- Definition of Principal.** The term "Principal" means:
 - For a self-employed individual, independent contractor, or a sole proprietor, the self-employed individual, independent contractor, or sole proprietor.
 - For a partnership, all general partners and all limited partners owning 20% or more of the equity of the Borrower, or any partner that is involved in the management of the Borrower's business.
 - For a corporation, all owners of 20% or more of the Borrower, and each officer and director.
 - For a limited liability company, all members owning 20% or more of the Borrower, and each officer and director.
 - Any individual hired by the Borrower to manage the day-to-day operations of the Borrower ("key employee").
 - Any trustor (if the Borrower is owned by a trust).
 - For a nonprofit organization, the officers and directors of the Borrower.
- Principal Name.** Insert the full name of the Principal.
- Position.** Identify the Principal's position; for example, self-employed individual; independent contractor; sole proprietor; general partner; owner; officer; director; member; or key employee.

Principal Name	Position
Veteran	1=Non-Veteran; 2=Veteran; 3=Service-Disabled Veteran; 4=Spouse of Veteran; X=Not Disclosed
Gender	M=Male; F=Female; X=Not Disclosed
Race (more than 1 may be selected)	1=American Indian or Alaska Native; 2=Asian; 3=Black or African-American; 4=Native Hawaiian or Pacific Islander; 5=White; X=Not Disclosed
Ethnicity	H=Hispanic or Latino; N=Not Hispanic or Latino; X=Not Disclosed

Disclosure is voluntary and will have no bearing on the loan forgiveness decision

Paperwork Reduction Act – You are not required to respond to this collection of information unless it displays a currently valid OMB Control Number. The estimated time for completing this application, including gathering data needed, is 15 minutes. Comments about this time or the information requested should be sent to Small Business Administration, Director, Records Management Division, 409 3rd St., SW, Washington DC 20416, and/or SBA Desk Officer, Office of Management and Budget, New Executive Office Building, Washington DC 20503. **PLEASE DO NOT SEND FORMS TO THESE ADDRESSES.**

SBA Form 3508S Appendix C

Taxation of Loans & Grants

EIDL – Loan NOT taxable income

EIDLA – Tax-Exempt Income

- Basis Impact

PPP – Tax-Exempt Income

- Basis Impact

- Expenses ARE DEDUCTIBLE

I.R.C. §108
Cancellation of Debt

- Does NOT apply
- PPP Loan Forgiveness IS NOT COD
- NO 1099-C

IRS Notice 2020-52 -- application of I.R.C §265

Specifically, this notice clarifies that interest on a loan is **not** allowed under the Internal Revenue Code (Code) for an individual taxpayer if the payment of the expense results in a covered loan pursuant to section 1106(b) of the Code (as amended by the Economic Security Act (CARES Act), Public Law 116-260, 2019-2020) and the **income** associated with the loan is excluded from the taxpayer's gross income for purposes of the Code pursuant to section 1106(i) of the Code.

“Sense of Congress”

This revenue ruling provides guidance on whether a Paycheck Protection Program (PPP) loan participant that paid for certain otherwise deductible expenses can deduct those expenses in the taxable year in which the expenses were incurred if, at the end of such taxable year, the participant reasonably expects the continuation of the business of the covered business to occur.

The revenue ruling also provides that if, at the end of the 2020 taxable year, the PPP loan participant has not reasonably expected the continuation of the business of the covered business to occur, the expenses are not deductible in the next taxable year.

Judicially determined reasonable expectations of the continuation of the business of the covered business will occur

Expenses are NOT deductible

REV. RUL.
2020-27

“Sense of Congress”

REV. RUL. 2021-2

Obsolete – Notice
2020-32 and Rev. Rul.
2020-27



Amends SBA § 7A(i) – no
amount forgiven is
included in gross income
and no deduction
reduced...

Rev. Proc. 2020-51

This revenue procedure provides a safe harbor for certain Paycheck Protection Program loan participants, **whose loan forgiveness has been partially or fully denied, or who decide to forego requesting loan forgiveness**, to claim a deduction for certain otherwise deductible eligible payments on (1) the taxpayer's timely filed, including extensions, original income tax return or information return, as applicable, for the 2020 taxable year, or (2) an amended return or an administrative adjustment request (AAR) under section 6227 of the Internal Revenue Code (Code) for the 2020 taxable year, as applicable.

For taxpayers that decide to forego requesting loan forgiveness, the safe harbor also allows these taxpayer to claim a deduction for the otherwise deductible eligible payments on an original income tax return or information return, as applicable, for the taxable year in which the taxpayer decides to forego requesting forgiveness.

Do we need to file form 8275?

Used by taxpayers and tax return preparers to disclose items or positions, except those taken contrary to a regulation, that are not otherwise adequately disclosed on a tax return to avoid certain penalties.

The form is filed to avoid the portions of the accuracy-related penalty due to disregard of rules or to a substantial understatement of income tax for non-tax shelter items if the return position has a reasonable basis.

It can also be used for disclosures relating to the economic substance penalty and the preparer penalties for tax understatements due to unreasonable positions or disregard of rules.



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What about QBI?

PPP loan \$ 50,000 & EIDL \$ 10,000, so you don't take the \$ 50,000 in expenses & you don't put the loan in income, but you pay a loan of \$ 10,000.

The EIDL is picked up in income & expense is taken.

Is that correct? NOT COMPLETELY


EIDL is a Loan

PPP is Tax-Exempt Income with Basis Implication.
Expenses are taken

Question:


Question:

EIDL is \$ 25,000 PPP is \$ 9,000 – how does that work



Are EIDL grants the same as SBA loans?

If yes are the SBA loans going to be treated the same as EIDL loans?



EIDL is a Loan under SBA 7(a) lending

SBA Q & A

#7 The CARES Act excludes from the definition of payroll costs any employee compensation in excess of an annual salary of \$ 100,000. Does that exclusion apply to all employee benefits of monetary value?

No. The exclusion of compensation in excess of \$ 100,000 annually applies only to cash compensation, not to non-cash benefits, including:


- employer contributions to defined-benefit or defined-contribution retirement plans;
- payment for the provisions of employee benefits consisting of group health care coverage, including insurance premiums; and
- Payment of state and local taxes assessed on compensation of employees.

8 Do PPP loans cover paid sick leave?

Yes, PPP loans covers payroll costs, including costs for employee vacation, parental, family, medical and sick leave. However, the CARES Act excludes qualified sick and family leave wages for which a credit is allowed under §7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116-127)

9 My small business is a seasonal business whose activity increases from April to June. Considering activity from that period would be a more accurate reflection of my business' operation. However, my small business was not fully ramped up on February 15, 2020. Am I still Eligible?

In evaluating a borrower's eligibility, a lender may consider whether a seasonal borrower was in operation on February 15, 2020 or for an 8-week period between February 15, 2019 and June 30, 2019



20 The amount of forgiveness of a PPP loan depends on the borrower's payroll costs over an 8-week or 24-week period; when does that 8-week or 24-week period begin?

The 8-week or 24-week period starts on the date your lender makes a disbursement of the PPP loan to the borrower. The lender must disburse the loan no later than 10 calendar days from the date of loan approval.

The Paycheck Protection Program Flexibility Act of 2020, which became law on June 5, 2020, extended the covered period for loan forgiveness from 8 weeks after the date of the loan disbursement to 24 weeks after the date of loan disbursement, providing substantially greater flexibility for borrowers to qualify for loan forgiveness. The 24-week period applies to all borrowers, but borrowers that received an SBA loan number before June 5, 2020, have the option to use an 8-week period



32 Does the cost of a housing stipend or allowance provided to an employee as part of compensation count toward payroll costs?

Yes, Payroll costs include all cash compensation paid to employees, subject to the \$ 100,000 annual compensation per employee limitation.

SBA Loan Payment Relief

- 504 or 7(a) loans for business
- § 1112 of CARES Act
- SBA makes payments for 6 months or COVID Act expansion
- Tax-Exempt Income
- Basis Impact
- General Welfare Exclusion – only if individual

“...shall be treated as tax exempt income for purposes of (I.R.C. 1986) § 705 and § 1366...the Secretary of Treasury (or the Secretary’s delegate) shall prescribe rules for determining a partner’s distributive share of any amount described in subparagraph (A) for purposes of section 705 of the Internal Revenue Code of 1986.”

§ 705 –
Partner's
Basis

§ 1366 –
Shareholder's
Basis

Partnership
Basis = Inside
& Outside

S Corp Basis =
Outside

Basis Impact
Review
Pg 11

Example
Pg. 12

Whoville Manufacturing Inc, taxed as an S Corp,

Received an EIDLA of \$ 7,000

Received a PPP of \$ 25,000.

Meet all the criteria for PPP loan forgiveness.

\$ 25,000 will be forgiven.

There are two shareholders of the S Corp.

Worksheet for Figuring a Shareholder's Stock and Debt Basis				
Part 1 -- Shareholder Stock Basis				
1	Stock basis at the beginning of the corporations tax year			1 8,000.00
2	Basis from any capital contributions made or additional stock acquired during the tax year			2
3a	Ordinary business income	a		
b	Net rental real estate income	b	22,000.00	
c	Other net rental income	c		
d	Interest income	d	53.00	
e	Ordinary dividends	e		
f	Royalties	f		
g	Net capital gains	g		
h	Net section 1231 gain	h		
i	Other income	i		
j	Excess depletion adjustment	j		
k	Tax-exempt income	k	32,000.00	
l	Recapture of business credits	l		
m	Other items that increase stock basis	m		
4	Add lines 3a through 3m		54,053.00	
5	Stock basis before distributions. Add lines 1, 2, and 4			5 62,053.00
6	Distributions (excluding dividend distributions)			6
	Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D			
7	Stock basis after distributions. Subtract line 6 from line 5. If the result is < zero, enter -0-, skip lines 8 through 14 and enter -0- on line 15			7 62,053.00
8a	Nondeductible expenses	a	1,100.00	
b	Depletion for oil and gas	b		
9	Add lines 8a and 8b		1,100.00	
10	Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is < zero, enter -0-, skip lines 11 through 14, and enter -0- on line 15			10 60,953.00
11	Allowable loss and deduction items.	11	43,050.00	
12	Debt basis restoration	12		
13	Other items that decrease stock basis	13		
14	Add lines 11, 12, and 13		43,050.00	
15	Stock basis at the end of the corporations tax year. Subtract line 14 from line 10. If the result is < zero, enter -0-			15 17,903.00

Basis Limitations

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LB & I
Letter 5969

I.R.C. § 465

I.R.C. § 469

§ 465, Deductions Limited to At-Risk

“...engaged in an activity to which this section applies, any loss from such activity for the taxable year shall be allowed only to the extent of the aggregate amount with respect to which the taxpayer is at risk (within the meaning of subsection (b)) for such activity at the close of the taxable year.”

§ 465

- *465(b)(1) In general.— For purposes of this section, a taxpayer shall be considered at risk for an activity with respect to amounts including—*
- *465(b)(1)(A) - the amount of money and the adjusted basis of other property contributed by the taxpayer to the activity, and*
- *465(b)(1)(B) - amounts borrowed with respect to such activity (as determined under paragraph (2)).*

§ 469, Passive Activity Losses & Credits Limited

- **469(c)(1) In general.**—The term “passive activity” means any activity
- **469(c)(1)(A)** - which involves the conduct of any trade or business, and
- **469(c)(1)(B)** - in which the taxpayer does not materially participate.

Taxpayer Certainty & Disaster Tax Relief Act of 2020

EMPLOYEE RETENTION CREDIT

Employee
Retention Credit
1st & 2nd Q 2021

Pg. 13-16

PPP – NOT same \$\$\$

70% of qualified wages

\$ 10,000 wage cap per quarter

20% Decline in Gross Receipts

Expires June 30, 2021

Form 941, 943, or 944

Form 7200

Employee
Retention Credit
Retroactive

Pg. 13-16

PPP – NOT same \$\$\$

50% of qualified wages

\$ 10,000 wage cap per year

20% Decline in Gross Receipts

Retroactive back to January 1, 2020

Expires December 31, 2020

Form 941, 943, or 944

Form 7200



Example

Pg. 14

-
- Whoville Manufacturing Inc
 - Taxed as an S Corp
 - Received a PPP of \$ 25,000
 - Payroll cost of \$ 30,000
 - Used the PPP funds over two months in the same quarter as well as paying the remaining \$ 5,000 of payroll costs
 - Whoville is eligible for the ERC on \$ 5,000 of the payroll cost.

Employer identification number (EIN) -

Name (not your trade name)

Trade name (if any)

Address
Number Street Suite or room number

City State ZIP code

Foreign country name Foreign postal territory Foreign postal code

Report for this Quarter of 2020
 (Check one.)

1: January, February, March

2: April, May, June

3: July, August, September

4: October, November, December

Go to www.irs.gov/Form941 for instructions and the latest information.

Read the separate instructions before you complete Form 941. Type or print within the boxes.

Part 1: Answer these questions for this quarter.

1 Number of employees who received wages, tips, or other compensation for the pay period including Sept. 12 (Quarter 3) or Dec. 12 (Quarter 4) 1

2 Wages, tips, and other compensation 2 . 00

3 Federal income tax withheld from wages, tips, and other compensation 3 . 00

4 If no wages, tips, and other compensation are subject to social security or Medicare tax Check and go to line 6.

	Column 1		Column 2
5a Taxable social security wages	<input type="text" value="30000"/> . 00	$\times 0.124 =$	<input type="text" value="3720"/> . 00
5a (i) Qualified sick leave wages	<input type="text" value="0"/> . 00	$\times 0.062 =$	<input type="text" value="0"/> . 00
5a (ii) Qualified family leave wages	<input type="text" value="0"/> . 00	$\times 0.062 =$	<input type="text" value="0"/> . 00
5b Taxable social security tips	<input type="text" value="0"/> . 00	$\times 0.124 =$	<input type="text" value="0"/> . 00
5c Taxable Medicare wages & tips	<input type="text" value="30000"/> . 00	$\times 0.029 =$	<input type="text" value="870"/> . 00
5d Taxable wages & tips subject to Additional Medicare Tax withholding	<input type="text" value="0"/> . 00	$\times 0.009 =$	<input type="text" value="0"/> . 00
5e Total social security and Medicare taxes. Add Column 2 from lines 5a, 5a(i), 5a(ii), 5b, 5c, and 5d			<input type="text" value="4590"/> . 00
5f Section 3121(g) Notice and Demand—Tax due on unreported tips (see instructions)			<input type="text" value="0"/> . 00
6 Total taxes before adjustments. Add lines 5, 5e, and 5f			<input type="text" value="4590"/> . 00
7 Current quarter's adjustment for fractions of cents			<input type="text" value="0"/> . 00
8 Current quarter's adjustment for sick pay			<input type="text" value="0"/> . 00
9 Current quarter's adjustments for tips and group-term life insurance			<input type="text" value="0"/> . 00
10 Total taxes after adjustments. Combine lines 6 through 9			<input type="text" value="4590"/> . 00
11a Qualified small business payroll tax credit for increasing research activities. Attach Form 8974			<input type="text" value="0"/> . 00
11b Nonrefundable portion of credit for qualified sick and family leave wages from Worksheet 1			<input type="text" value="0"/> . 00
11c Nonrefundable portion of employee retention credit from Worksheet 1			<input type="text" value="1560"/> . 00

950220

Name (not your trade name) Whoville Manufacturing Inc. Employer identification number (EIN)

Part 1: Answer these questions for this quarter. (continued)

11d	Total nonrefundable credits. Add lines 11a, 11b, and 11c	11d	<input type="text" value="1560"/>	<input type="text" value="00"/>
12	Total taxes after adjustments and nonrefundable credits. Subtract line 11d from line 10	12	<input type="text" value="8750"/>	<input type="text" value="00"/>
13a	Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), 944-X, or 944-X (SP) filed in the current quarter	13a	<input type="text" value="10590"/>	<input type="text" value="00"/>
13b	Deferred amount of social security tax	13b	<input type="text" value="0"/>	
13c	Refundable portion of credit for qualified sick and family leave wages from Worksheet 1	13c	<input type="text" value="0"/>	
13d	Refundable portion of employee retention credit from Worksheet 1	13d	<input type="text" value="640"/>	<input type="text" value="00"/>
13e	Total deposits, deferrals, and refundable credits. Add lines 13a, 13b, 13c, and 13d	13e	<input type="text" value="11230"/>	<input type="text" value="00"/>
13f	Total advances received from filing Form(s) 7200 for the quarter	13f	<input type="text" value="0"/>	
13g	Total deposits, deferrals, and refundable credits less advances. Subtract line 13f from line 13e	13g	<input type="text" value="11230"/>	<input type="text" value="00"/>
14	Balance due. If line 12 is more than line 13g, enter the difference and see instructions	14	<input type="text" value="0"/>	
15	Overpayment. If line 13g is more than line 12, enter the difference <input type="text" value="2500"/> <input type="text" value="00"/> Check one: <input type="checkbox"/> Apply to return: <input checked="" type="checkbox"/> Send a refund			

Part 2: Tell us about your deposit schedule and tax liability for this quarter.

If you're unsure about whether you're a monthly schedule depositor or a semiweekly schedule depositor, see section 11 of Pub. 15.

- 16 Check one: Line 12 on this return is less than \$2,500 or line 12 on the return for the prior quarter was less than \$2,500, and you didn't incur a \$100,000 next-day deposit obligation during the current quarter. If line 12 for the prior quarter was less than \$2,500 but line 12 on this return is \$100,000 or more, you must provide a record of your federal tax liability. If you're a monthly schedule depositor, complete the deposit schedule below; if you're a semiweekly schedule depositor, attach Schedule B (Form 941). Go to Part 3.

- You were a monthly schedule depositor for the entire quarter. Enter your tax liability for each month and total liability for the quarter, then go to Part 3.

Tax liability:	Month 1	<input type="text" value="5295"/>	<input type="text" value="00"/>
	Month 2	<input type="text" value="5295"/>	<input type="text" value="00"/>
	Month 3	<input type="text" value="0"/>	
Total liability for quarter		<input type="text" value="10590"/>	<input type="text" value="00"/>

Total must equal line 12.

- You were a semiweekly schedule depositor for any part of this quarter. Complete Schedule B (Form 941), Report of Tax Liability for Semiweekly Schedule Depositors, and attach it to Form 941. Go to Part 3.

▶ You MUST complete all three pages of Form 941 and SIGN it.

Next ▶▶

Worksheet 1. Credit for Qualified Sick and Family Leave Wages and the Employee Retention Credit

Keep for Your Records 

Determine how you will complete this worksheet

If you paid both qualified sick and family leave wages and qualified wages for purposes of the employee retention credit this quarter, complete Step 1, Step 2, and Step 3. If you paid qualified sick and family leave wages this quarter but you didn't pay any qualified wages for purposes of the employee retention credit this quarter, complete Step 1 and Step 2. If you paid qualified wages for purposes of the employee retention credit this quarter but you didn't pay any qualified sick and family leave wages this quarter, complete Step 1 and Step 3.

Step 1.		Determine the employer share of social security tax this quarter after it is reduced by any credit claimed on Form 8974 and any credit to be claimed on Form 5804-C.	
1a	Enter the amount of social security tax from Form 941, Part 1, <u>line 5a</u> , column 2	1a	3720.00
1b	Enter the amount of social security tax from Form 941, Part 1, <u>line 5c</u>	1b	3720.00
1c	Add lines 1a and 1b	1c	7440.00
1d	Multiply line 1c by 50% (0.50)	1d	3720.00
1e	If you're a third-party payer of sick pay that isn't an agent and you're claiming credits for amounts paid to your employees, enter the employer share of social security tax included on Form 941, Part 1, <u>line 5</u> (enter as a positive number)	1e	
1f	Subtract line 1e from line 1d	1f	3720.00
1g	If you received a Section 3121(g) Notice and Demand during the quarter, enter the amount of the employer share of social security tax from the notice	1g	
1h	Employer share of social security tax. Add lines 1f and 1g	1h	3720.00
1i	Enter the amount from Form 941, Part 1, <u>line 13a</u> (credit from Form 8974)	1i	
1j	Enter the amount to be claimed on Form 5804-C, line 11, for this quarter	1j	
1k	Total nonrefundable credits already used against the employer share of social security tax. Add lines 1i and 1j	1k	0.00
1l	Employer share of social security tax remaining. Subtract line 1k from line 1h	1l	3720.00
Step 2.		Figure the sick and family leave credit	
2a	Qualified sick leave wages reported on Form 941, Part 1, <u>line 5a(i)</u> , column 1	2a	
2a(i)	Qualified sick leave wages included on Form 941, Part 1, line 5c, but not included on Form 941, Part 1, line 5a(i), column 1, because the wages reported on that line were limited by the social security wage base	2a(i)	
2a(ii)	Total qualified sick leave wages. Add lines 2a and 2a(i)	2a(ii)	
2b	Qualified health plan expenses allocable to qualified sick leave wages (Form 941, Part 3, <u>line 10</u>)	2b	
2c	Employer share of Medicare tax on qualified sick leave wages. Multiply line 2a(ii) by 1.45% (0.0145)	2c	
2d	Credit for qualified sick leave wages. Add lines 2a(ii), 2b, and 2c	2d	
2e	Qualified family leave wages reported on Form 941, Part 1, <u>line 5a(ii)</u> , column 1	2e	
2e(i)	Qualified family leave wages included on Form 941, Part 1, line 5c, but not included on Form 941, Part 1, line 5a(ii), column 1, because the wages reported on that line were limited by the social security wage base	2e(i)	
2e(ii)	Total qualified family leave wages. Add lines 2e and 2e(i)	2e(ii)	
2f	Qualified health plan expenses allocable to qualified family leave wages (Form 941, Part 3, <u>line 10</u>)	2f	
2g	Employer share of Medicare tax on qualified family leave wages. Multiply line 2e(ii) by 1.45% (0.0145)	2g	
2h	Credit for qualified family leave wages. Add lines 2e(ii), 2f, and 2g	2h	
2i	Credit for qualified sick and family leave wages. Add lines 2d and 2h	2i	
2j	Nonrefundable portion of credit for qualified sick and family leave wages. Enter the smaller of line 1l or line 2i. Enter this amount on Form 941, Part 1, line 11b	2j	
2k	Refundable portion of credit for qualified sick and family leave wages. Subtract line 2j from line 2i and enter this amount on Form 941, Part 1, line 13c	2k	
Step 3.		Figure the employee retention credit	
3a	Qualified wages (excluding qualified health plan expenses) for the employee retention credit (Form 941, Part 3, <u>line 21</u>)	3a	5000.00
3b	Qualified health plan expenses allocable to qualified wages for the employee retention credit (Form 941, Part 3, <u>line 20</u>)	3b	
3c	Add lines 3a and 3b	3c	5000.00
3d	Retention credit. Multiply line 3c by 50% (0.50)	3d	2500.00
3e	Enter the amount of the employer share of social security tax from Step 1, line 1l	3e	3720.00
3f	Enter the amount of the refundable portion of the credit for qualified sick and family leave wages from Step 2, line 2k	3f	
3g	Subtract line 3f from line 3e	3g	3720.00
3h	Nonrefundable portion of employee retention credit. Enter the smaller of line 3d or line 3g. Enter this amount on Form 941, Part 1, line 11c	3h	1860.00
3i	Refundable portion of employee retention credit. Subtract line 3h from line 3d and enter this amount on Form 941, Part 1, line 13d	3i	640.00

Casualty Loss

Casualty Loss

pg 18

TCJA Restrictions

Federally declared disaster areas

Sudden, unexpected and unusual

Casualty
examples
pg 18

- Hurricanes
- Tornadoes
- Earthquakes
- Fire
- Flood
- Automobile accident
- Terrorist
- Vandalism
- Economic

Non-casualty
examples
Pg 18

- Termite
- Rotten Timber
- Infestation
- Normal wear and tear
- Gradual or progressive deterioration

1. Deduction limitation – the lesser of the adjusted tax basis or decrease in fair market value (FMV) of the property.
2. Reductions –
 - a. Insurance proceeds
 - b. \$ 100 per casualty event; AND
 - c. 10% of taxpayers adjusted gross income (AGI) for all casualty events for the tax year.
 - d. For federally declared disasters declared before February 19, 2020 and occurred in 2018 but before December 21, 2019 through January 19, 2020 the \$ 100 per casualty increased to \$ 500 and the 10% AGI reduction was eliminated.
3. Report Casualty on Schedule A of Form 1040 – if a taxpayer does not use that for the casualty loss it provides no tax benefit to the taxpayer.

Timing of Loss Deduction



YEAR OF LOSS



PRECEDING YEAR



ELECT PRIOR YEAR – 6
MONTH AFTER DUE DATE

CARES Act
Penalty Relief
Pg. 19

- 10% penalty relief, I.R.C. 72(t)(2)
- \$ 100,000 withdrawal
- 3-year repayment or tax-free rollover period

To qualify for the penalty, repayment or tax-free rollover the individual must meet the following criteria:

1. Diagnosed with COVID-19, verified with testing;
2. Spouse or dependent is diagnosed, verified with testing;
3. Experiences adverse financial consequences due to quarantine, furlough, lay off, work reduction due to COVID-19;
4. Experiences adverse financial consequences due to childcare, school, business closures due to COVID-19.

QUESTIONS?

