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JULY 2020

PARTY CANCELLED – GRATITUDE CONTINUES

A very unusual tax season will end on July 15th. Our staff appreciation luncheon is a casualty of Covid-19 but our gratitude continues. We are thankful to our clients for the opportunities of working for them and to our staff for their excellent performance during a stressful time.

We will celebrate the completion of the filing season with our traditional next-day holiday by closing the accounting office on Thursday, July 16. The computer center will be open. The entire firm (including the computer center) will be closed on Friday, July 17. We are grateful for clients and staff. To both, we say **Thank you!**

THE REST OF THE SEASON

As many of you will recall, all 2019 federal individual tax returns and payments due April 15, 2020 were extended until July 15, 2020. July 15, 2020 is now the due date for federal individual returns and for the first and second estimated 2020 tax payments normally due on April 15 and June 15. All gift and estate tax returns with original or extended due dates within the period April 1, 2020 through July 15, 2020 were extended to July 15, 2020. Any specific acts associated with income, estate or gift tax filing required during the period April 1, 2020 through July 15, 2020 are now required to be completed by July 15, 2020.

The usual individual extension until October 15 of time to file (but not to pay) remains available for 2019 individual returns.

PPP FORGIVENESS CHANGES

Since its origination in April 2020, the Paycheck Protection Program (PPP) has changed significantly and often as regulations and forms have been developed. On June 17, 2020, the Small Business Administration (SBA), in response to the PPP Flexibility Act of 2020, released a new simplified form, PPP Loan Forgiveness Application Form 3508EZ, along with four pages of instructions and a checklist of certifications for its use. For those PPP loan recipients with a small static workforce, the new Form 3508EZ will probably require much less time to complete than

(Continued on reverse)

the standard Form 3508 revised June 16, 2020. Borrowers who meet one of the following three criteria are eligible to use the EZ form:

Criteria 1

Applied for the PPP Loan as a self-employed independent contractor or sole proprietor with no employees at the time of application.

Criteria 2

A. Did not, during the forgiveness covered period, reduce the annualized salary or wages of any employee by more than 25 percent from that employee's annualized salary or wages for the first quarter of 2020 *(excluded from "employees" are those who received salary or wages in any one pay period during 2019 that when annualized exceed $100,000)*;

AND

B. Did not reduce the number of employees or average hours of employees between January 1, 2020 and the end of the forgiveness coverage period *(except ignore reductions arising from an inability to rehire those who were employees on February 15, 2020 if there was also an inability to hire similarly qualified persons for unfilled positions on or before December 31, 2020)*.

Criteria 3

A. Complied with Criteria 2 A above;

AND

B. was unable to operate during the forgiveness coverage period at the same level of business activity as before February 15, 2020 as a result of Covid-19 related health directives issued by certain federal agencies.

PPP borrowers that believe they meet Criteria 2 or 3 above may, nevertheless, desire to prove to themselves through careful analysis that, for other than those employees earning more than $100,000 (*see Criteria 1 A above*), not a single employee's pay was reduced by more than 25 percent during the covered period and that the number of employees and average hours per employee were not reduced between January 1, 2020 and the end of the forgiveness coverage period.

We believe the use of Form 3508EZ will relieve smaller employers of the tedious employee-by-employee calculations of full-time employees (FTE) and annualized payrates for multiple periods of time. We believe Form 3508EZ accomplishes this for:

a. All borrowers that meet Criteria 1 above (the borrower is a self-employed person with no employees).
b. Borrowers with a small number of employees where it is easy to know, without performing the employee-by-employee calculations mentioned above, whether Criteria 2 or 3 above has been met.
c. Borrowers that did not furlough or lay-off any employees or reduce their paid hours and did not reduce pay rates more than 25 percent during the coverage period. These borrowers can probably assert with confidence that Criteria 2 has been satisfied without performing the employee-by-employee calculations mentioned above.

On the other hand, borrowers that have had furloughs or layoffs, reduced hours, and/or pay rate decreases will likely not be in a position to know with enough certainty whether Criteria 2 or 3 has been met without first performing at least some of the employee-by-employee calculations for employee counts and/or for payrate cuts.

The SBA also released on June 16, 2020 a revised Form 3508 (06/20) and related instructions, which continue to be applicable to borrowers who do not meet one of the three criteria listed above. Both the Form 3508EZ and instructions and the revised Form 3508 and instructions can be found on our website under Resources/Paycheck Protection Program.

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Tax & Business Alert

JULY 2020

PROTECTING YOURSELF FROM OPPORTUNISTIC FRAUD

The novel coronavirus (COVID-19) crisis has spurred much confusion and unprecedented economic challenges. It has also created ample opportunities for dishonest individuals and criminal organizations to prey on the anxieties of many Americans.

As the year rolls along, fraud schemes related to the crisis will continue as well, potentially becoming even more sophisticated. Here are some protective actions you can take.

WATCH OUT FOR PHONY CHARITIES

When a catastrophe like COVID-19 strikes, the charitably minded want to donate cash and other assets to help relieve the suffering. Before donating anything, beware that opportunistic scammers may set up fake charitable organizations to exploit your generosity.

Fake charities often use names that are similar to legitimate organizations. So, before contributing, do your homework and verify the validity of any recipient. Remember, if you're scammed, not only will you lose your money or assets, but those who would benefit from your charitable action will also lose out.

DON'T GET HOOKED BY PHISHERS

In a "phishing" scheme, victims are enticed to respond to a deceptive email or other online communication. In COVID-19-related phishing scams, the perpetrator may impersonate a representative from a health agency, such as the World Health Organization (WHO) or the Centers for Disease Control and Prevention (CDC). They may ask for personal information, such as your Social Security or bank account number, or instruct you to click on a link to a survey or website.

If you receive a suspicious email, don't respond or click on any links. The scammer might use ill-gotten data to gain access to your financial accounts or open new accounts in your name. In some cases, clicking a link might download malware to your computer. For updates on the COVID-19 crisis, go directly to the official websites of the WHO or CDC.

The IRS reports that its Criminal Investigation Division has seen a wave of new and evolving phishing schemes against taxpayers — and among the primary targets are retirees.

SHOP CAREFULLY

In many parts of the United States, and indeed around the world, certain consumer goods have become scarce. Examples have included hand sanitizer, antibacterial wipes, masks and toilet paper. Scammers are exploiting these shortages by posing as retailers or direct-to-consumer suppliers to obtain buyers' personal information.

Con artists may, for instance, claim to have the goods that you need and ask for your credit card number to complete a transaction. Then they use the card number to run up charges while you never receive anything in return.

Buy from only known legitimate businesses. If a supplier offers a deal out of the blue that seems too good to be true, it probably is. Also watch out for price gouging on limited items. If an item is selling online for many times more than the usual price, you probably want to avoid buying it.

HANG UP ON ROBOCALLS

You may have noticed an increase in "robocalls" — automated phone calls offering phony services or demanding sensitive information — since the COVID-19 crisis began. For instance, callers may offer COVID-19-related items at reduced rates. Then they'll ask for your credit card number to "secure" your purchase.

Reputable companies, charities and government agencies (such as the IRS) won't try to contact you this way. If you receive an unsolicited call from a phone number that's blocked or that you don't recognize, hang up or ignore it.

In addition, don't buy into special offers for items such as COVID-19 treatments, vaccinations or home test kits. You'll likely end up paying for something that at best doesn't exist and at worst could harm you.

TARNISH THEIR GOLD

For fraudsters, this year's worldwide crisis is a golden opportunity. Don't let them take advantage of you or your loved ones. ■

DON'T FORGET ABOUT THE PAYROLL TAX CREDIT

For many businesses, retaining employees has been difficult, if not impossible. If your company has been able to keep all or some of its workers, you may still be able to qualify for the payroll tax credit created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, known as the Employee Retention Credit.

ASSESSING YOUR QUALIFICATIONS

The Employee Retention Credit is a refundable payroll tax credit for 50% of wages paid by eligible employers to certain employees. The credit is available to employers whose operations have been fully or partially suspended as a result of a government order limiting commerce, travel or group meetings during the novel coronavirus (COVID-19) crisis.

The credit is also available to employers that have experienced a greater than 50% reduction in quarterly receipts, measured on a year-over-year basis. When such an employer's gross receipts exceed 80% of the comparable quarter in 2019, the employer no longer qualifies for the credit beginning with the next quarter.

EXAMINING WAGES PAID

For employers that had an average number of full-time employees in 2019 of 100 or fewer, all employee wages are eligible, regardless of whether an employee is furloughed or has experienced a reduction in hours.

For employers with more than 100 employees in 2019, only wages paid to employees who are furloughed or face reduced hours because of the employer's closure or reduced gross receipts are eligible for the credit. No credit is available for wages paid to an employee for any period for which the employer is allowed a Work Opportunity Tax Credit with respect to the employee.

In the context of the credit, the term "wages" includes health benefits and is capped at the first $10,000 in wages paid by the employer to an eligible employee. Wages *don't* include amounts considered for required paid sick leave or required paid family leave under the Families First Coronavirus Response Act. In addition, wages applicable to this credit aren't taken into account for the employer credit toward paid family and medical leave.

CLAIMING ADVANCE PAYMENTS AND REFUNDS

The IRS can advance payments to eligible employers. If the amount of the credit for any calendar quarter exceeds applicable payroll taxes, the employer may be able to claim a refund of the excess on its federal employment tax return.

In anticipation of receiving the credits, employers can fund qualified wages by 1) accessing federal employment taxes, including withheld taxes, that are required to be deposited with the IRS or 2) requesting an advance of the credit from the IRS on Form 7200, "Advance Payment of Employer Credits Due to COVID-19." The IRS may waive applicable penalties for employers who don't deposit applicable payroll taxes in anticipation of receiving the credit.

OBTAINING RELIEF

The credit applies to wages paid after March 12, 2020, and before Jan. 1, 2021. Contact our firm for help determining whether you qualify and, if so, how to claim this tax break. ■

CHARITABLE GIVING IN A TIME OF CRISIS

The sudden and severe impact of the novel coronavirus (COVID-19) pandemic has created much financial stress, but the crisis has also generated an intense need for charitable action. If you're able to continue donating during this difficult period, the Coronavirus Aid, Relief, and Economic Security (CARES) Act may make it a little easier for you to do so, whether you're a small or large donor.

TAX BENEFITS

From an income tax perspective, the CARES Act has expanded charitable contribution deductions. Individual taxpayers who don't itemize can take advantage of a new above-the-line $300 deduction for cash contributions to qualified charities in 2020. "Above-the-line" means the deduction reduces adjusted gross income (AGI). You can take this in addition to your standard deduction.

For larger donors, the CARES Act has eased the limitation on charitable deductions for cash contributions made to public charities in 2020, boosting it from 60% to 100% of AGI. There's no requirement that your contributions be related to COVID-19.

CAREFUL STEPS

To be able to claim a donation deduction, whatever the size, you need to ensure you're giving to a qualified charity. You can check a charity's eligibility to receive tax-deductible contributions by visiting the IRS's Tax-Exempt Organization Search.

If you're making a large gift, it's a good idea to do additional research on the charities you're considering so you can make sure they use their funds efficiently and effectively. The IRS tool provides access to detailed financial information about charitable organizations, such as Form 990 information returns and IRS determination letters.

Even if a charity is financially sound when you make a gift, there's no guarantee it won't suffer financial distress, file for bankruptcy protection or even cease operations down the road. The last thing you likely want is for a charity to use your gifts to pay off its creditors or for a purpose unrelated to the mission that inspired you to give in the first place.

One way to manage these risks is to restrict the use of your gift. For example, you might limit the use to assisting a specific constituency or funding medical research. These restrictions can be documented in a written gift or endowment fund agreement.

GENEROUS IMPACT

Indeed, charitable giving is more important than ever. Contact our firm for help allocating funds for a donation and understanding the tax impact of your generosity. ■

TAX CALENDAR

July 15*
Due date (without extension) for the following:

- 2019 individual income tax payments and return filing on Form 1040.
- 2019 calendar-year corporate income tax payments and return filing on Form 1120.
- 2019 estate and trust income tax payments and return filing on Form 1041.
- 2019 calendar-year exempt organization return filing on Forms 990 or 990PF and business income tax and other payments and return filings on Form 990-T.
- 2020 first and second quarter quarterly estimated income tax payments calculated on or submitted with Form 1040-ES ("Estimated Tax for Individuals"), Form 1041-ES ("Estimated Income Tax for Estates and Trusts") and Form 1120-W ("Estimated Tax for Corporations").
- If the monthly deposit rule applies, employers must deposit the tax for payments in June for Social Security, Medicare, withheld income tax and nonpayroll withholding.**

July 31
The second quarter Form 941 ("Employer's Quarterly Federal Tax Return") is due. If you deposited the tax for the quarter in full and on time, you have until August 12 to file the return.

August 17
If the monthly deposit rule applies, employers must deposit the tax for payments in July for Social Security, Medicare, withheld income tax and nonpayroll withholding.**

September 15
Third quarter estimated tax payments are due for individuals, trusts and calendar-year corporations.

- If an extension was obtained, partnerships should file their 2019 Form 1065 by this date.
- If an extension was obtained, calendar-year S corporations should file their 2019 Form 1120S by this date.
- If the monthly deposit rule applies, employers must deposit the tax for payments in August for Social Security, Medicare, withheld income tax and nonpayroll withholding.**

September 30
Calendar-year estates and trusts on extension must file their 2019 Form 1041.

* This list is *not* all-inclusive. See IRS Notice 2020-23, 2020-18 IRB 742 for more information.

** Any payroll taxes that are being deferred under the CARES Act or used as an advance payment for certain COVID-19-related credits don't have to be made.

Note: It's possible some of these due dates could be postponed (or postponed again). Contact our firm for the latest information.

INSTALLMENT SALES MAY ATTRACT PROPERTY BUYERS

Because of this year's unforeseen economic slowdown, many businesses and individuals are unexpectedly looking for liquidity. One way to raise cash is to sell off real property such as land or a building. Finding a buyer may not be easy, but an installment sale might help.

An installment sale occurs when you transfer property in exchange for a promissory note and receive at least one payment after the tax year of the sale. Doing so allows you to receive interest on the full amount of the promissory note, commensurate with the installment payments received, often at a higher rate than you could earn from other investments — all while deferring taxes and improving cash flow.

An installment sale may appeal to buyers in today's environment because, rather than having to pay for the property all at once, they can pay in installments. After all, even people or entities in a position to buy may wish to carefully manage their cash flow. This does present a risk for you, the seller: A buyer may not make all payments, and you may have to deal with foreclosure.

You generally must report an installment sale on your tax return under the "installment method." Each installment payment typically consists of interest income, return of your adjusted basis in the property and gain on the sale. For each tax year in which you receive an installment payment, you must report as income the interest and gain components.

Calculating taxable gain involves multiplying the amount of payments received in the tax year, excluding interest, by the gross profit ratio for the sale. This isn't a simple calculation, so be sure to obtain professional assistance when reporting an installment sale to the IRS. We'd be happy to help you decide whether one of these transactions is right for you and, if so, carry out and report the sale. ■