

WILLIAM JEFFERSON COLE, C.P.A.
BARRY S. SHIPP, C.P.A.
STEVEN W. HEDGEPEETH, C.P.A.
STEVEN R. BAYER, C.P.A.
TIMOTHY R. DURR, C.P.A.
BAILEY B. BAYNHAM, C.P.A.
ROBERT A. BUSBY, C.P.A.
ANNE-MARIE COLE, C.P.A.
TIMOTHY W. BORST, C.P.A.
ERIC D. SMITH, C.P.A.
KYLE S. DOBBINS, C.P.A.
MATTHEW R. HAHN, C.P.A.
FAYE D. BARFIELD, C.P.A.
KELLY B. NELSON, C.P.A.
GEORGE D. FAUBER III, C.P.A.

J. AMY HEMMINGS, C.P.A.
LINDA K. BIBLE, C.P.A.
JANA JOHNSTON COX, C.P.A.
R. SCOTT MOORE, C.P.A.
ADAM JEFFERSON CAIN, C.P.A.
MADISON PAIGE LAIRD, C.P.A.
BONNIE C. PESNELL, C.P.A.
JENNIFER RENEE TURNER, C.P.A.
JONATHAN B. WEST, C.P.A.
MANDI ROSE KILLIAN, C.P.A.

COLE, EVANS & PETERSON

CERTIFIED PUBLIC ACCOUNTANTS

FIFTH FLOOR TRAVIS PLACE
624 TRAVIS STREET
SHREVEPORT, LOUISIANA 71101-3013

www.cepcpa.com

PARTNER EMERITUS
M. ALTON EVANS, JR.

OF COUNSEL
CAROL T. BARNES, C.P.A.
AUSTIN G. ROBERTSON, JR., C.P.A.

TELEPHONE (318) 222-8367
TELECOPIER (318) 425-4101

MAILING ADDRESS:
POST OFFICE DRAWER 1768
SHREVEPORT, LOUISIANA 71166-1768

JANUARY 2021

NEW COVID RELATED LAW

A lengthy (5,593 pages) omnibus spending bill, which includes the "COVID-related Tax Relief Act of 2020" (COVIDTRA), was enacted on December 27. The tax and business-related provisions in this law are too many to mention, but some of them of the most interest to us, and hopefully to you, are highlighted as follows:

PPP Loan Forgiveness. For Paycheck Protection Program (PPP) loans of \$150,000 or less, the new law mandates a simplified loan forgiveness process for use by lenders.

PPP Loan-Funded Expense Deductibility. The new law makes it clear that all PPP loan-related business expenses are deductible and that loan forgiveness is nontaxable. The Internal Revenue Service had previously announced its position that expenses paid with forgiven PPP loan proceeds were not deductible, which was a position clearly against Congressional intent. Congress has now made the law very clear that PPP loan forgiveness is tax-free and that business expenses are unaffected by loan forgiveness and remain fully deductible.

New PPP Loans (Round 2). The new law provides a \$284 billion second round (discussed below) of PPP loans for small businesses with 300 or less employees that experienced a 25 percent or more decline in gross revenue in any 2020 quarter compared to the same quarter in 2019.

2020 Stimulus Checks. The new law provides a refundable credit of \$600 to eligible individuals (\$1,200 for married filing jointly) that is phased out starting at \$75,000 of modified adjusted gross income for single filers (\$150,000 for married filing jointly). Like the previous stimulus checks, this credit will be paid directly to taxpayers by check based on the individual's previously filed (2019) income tax return.

Some of the tax law changes effective beginning January 1, 2021 are as follows:

Business Meal Deduction. For years 2021 and 2022, business meals provided by a restaurant will be 100 percent deductible, rather than the usual 50 percent deductible.

Charitable Contribution Deduction Limits. The new law extends the maximum current deduction for cash charitable contributions of up to 100 percent of adjusted gross income (AGI) for 2021 (previously only for 2020). The annual deduction limit will revert back to 60 percent of AGI after 2021.

Charitable Contribution Deduction for Non-Itemizers. For 2020, individuals who do not itemize their deductions may nevertheless, in computing taxable income, deduct up to \$300 of cash charitable contributions. This deduction is extended to the 2021 tax year and includes a

(Continued on reverse)

deduction of up to \$600 for married taxpayers filing a joint tax return.

Medical Expense Deduction. Total medical expenses in a year that exceed 7.5

percent of adjusted gross income are deductible as an itemized deduction. The 7.5 percent threshold was scheduled to revert back to 10 percent in 2021. The new law extends the 7.5 percent threshold without expiration.

IS PPP-2 FOR YOU?

On January 7, 2021, the Small Business Administration (SBA) released guidance for the new Payroll Protection Program Second Draw Program (PPP-2) created by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act that was signed into law on December 27, 2020. With certain key exceptions, PPP-2 will be administered in the same way as was the first round of PPP loans that is now being referred to as the PPP First Draw Program (PPP-1). The maximum amount of a PPP-2 loan is \$2,000,000.

Generally, an eligible borrower under PPP-2 is a business that: (1) previously received a PPP-1 loan and has or will spend the full amount of its PPP-1 loan on eligible expenses in compliance with PPP-1 rules before the PPP-2 loan is disbursed; (2) has 300 or fewer employees; and (3) has experienced a 25% or more reduction in gross revenue in at least one quarter of 2020 relative to that quarter of 2019. Gross revenue for this purpose does not include the amount of a forgiven PPP-1 loan but does include all revenue in whatever form received or accrued in accordance with the entity's accounting method from whatever source including interest, dividends, rents, and royalties. Businesses that have permanently closed or are in bankruptcy are not eligible for PPP-2 loans, but those that have temporarily closed are eligible.

PPP-2 loans to borrowers that meet the preceding eligibility requirements and whose NAICS code begins with "72" (indicating

accommodation and food service businesses) will calculate their loans as 3.5 times average monthly payroll costs whereas all other businesses will calculate their PPP-2 loans the same as PPP-1 loans were calculated, 2.5 times average monthly payroll costs. Average monthly payroll may be based on (1) calendar year 2019, or (2) calendar year 2020, or (3) the 12-month period prior to the PPP-2 loan disbursement. Like PPP-1 loans, allowed uses for PPP-2 loan proceeds are payroll costs, mortgage interest, rent, and utilities. Unlike PPP-1 loans, however, PPP-2 loan proceeds may also be used for covered operation expenditures (payments for software that facilitates business operations), covered property damage costs (uninsured vandalism or looting losses from public disturbances during 2020), covered supplier costs (purchase of goods (1) essential to operations and (2) pursuant to a contract or purchase order in effect before the covered period or, in the case of perishable goods, before or during the covered period), and covered worker protection expenditures (most any operating or capital costs incurred after March 1, 2020 to comply with governmental requirements or guidance).

Forgiveness of PPP-2 loans will be on the same terms and conditions as PPP-1 loans. SBA Form 2483-SD is used to apply for a PPP-2 loan. The last day to apply for a PPP-2 loan is March 31, 2021. The SBA's guidance, issued January 7, 2021, for PPP-2 loans and SBA Form 2483-SD can be found by visiting our website (www.cepcpa.com) and clicking on "Resources".

2021 LIMITATION CHANGES

The following is a list of some 2021 major limitations regarding Social Security, payroll taxes, and income taxes (most resulting from inflation indexing) with 2020 limitations for comparison. Some very early planning for 2021 is suggested by the limitation changes. Where possible, those funding Health Savings Accounts, IRAs, and other tax-favored accounts might consider funding these accounts early to take advantage of the additional tax-sheltered investment time.

	2021	2020
Current Earnings Allowed Before Social Security Benefits Reduction:		
Worker Below Full Retirement Age	\$ 18,960	\$ 18,240
Worker Full Retirement Age and Above	- No Change - Unlimited	Unlimited
<i>(Full Retirement Age is 66 for those Born in 1954 or prior. For those Born Subsequent to 1954, Full Retirement Increases by a Few Months for Every Birth Year Until it Reaches 67 for People Born in 1960 or Later)</i>		
Social Security Taxes:		
<i>Old Age, Survivors, and Disability Insurance Income Portion of Tax:</i>		
Maximum Base for Tax	\$ 142,800	\$ 137,700
Tax Rate (Employee and Employer)	- No Change - 6.20%	6.20%
Tax Rate (Self-employed)	- No Change - 12.40%	12.40%
Maximum Tax (Employee)	\$ 8,854	\$ 8,537
Maximum Tax (Self-employed)	\$ 17,707	\$ 17,075
<i>Medicare Portion of the Tax:</i>		
Tax Rate (Employee and Employer)	- No Change - 1.45%	1.45%
Tax Rate (Self Employed)	- No Change - 2.90%	2.90%
Tax Rate (Employee and Self Employed) – Earnings in Excess of \$200,000 (\$250,000 Joint Return)	- No Change - 0.9%	0.9%
Maximum Base and Maximum Tax	- No Change - Unlimited	Unlimited
Louisiana Unemployment Tax:		
Maximum Base for Tax	- No Change - \$ 7,700	\$ 7,700
Auto Standard Mileage Deduction:		
Business Use	56¢	59.5¢
Use for a Charitable Organization	- No Change - 14¢	14¢
Use for Medical or Moving	16¢	17¢
401(k) Maximum Elective Deferral:		
Below Age 50	- No Change - \$ 19,500	\$ 19,500
Age 50 or Above	- No Change - \$ 26,000	\$ 26,000
Maximum Contribution to Defined Contribution Retirement Plan:		
General Limit – All Plans	\$ 58,000	\$ 57,000
With 401(k) Feature (Age 50 and over)	\$ 64,500	\$ 63,500
Individual Retirement Account Contribution (IRAs):		
Below Age 50	- No Change - \$ 6,000	\$ 6,000
Age 50 or Above	- No Change - \$ 7,000	\$ 7,000
SIMPLE IRA Maximum Deferral:		
Below Age 50	- No Change - \$ 13,500	\$ 13,500
Age 50 or Above	- No Change - \$ 16,500	\$ 16,500
Maximum Sec. 179 Deduction of Certain Depreciable Property	\$1,050,000	\$1,040,000
Maximum Bonus Depreciation of Certain Property	- No Change - Unlimited	Unlimited
Annual Gift Tax Exclusion Per Donee	- No Change - \$ 15,000	\$ 15,000
Health Savings Account		
Maximum Contribution – Individual Coverage	\$ 3,600	\$ 3,550
Maximum Contribution – Family Coverage	\$ 7,200	\$ 7,100
Age 55 and Over Catch Up	- No Change - \$ 1,000	\$ 1,000



Tax & Business Alert

JANUARY 2021

6 KEY TAX Q&AS FOR 2021

Right now, you may be more concerned about your 2020 tax bill than you are about how to handle your personal finances in the new year. However, as you deal with your annual tax filing, it's a good idea to also familiarize yourself with pertinent amounts that may have changed for 2021.

Not all tax figures are adjusted for inflation and, even if they are, they may be unchanged or change only slightly each year because of low inflation. In addition, some tax amounts can only change with new tax legislation. Here are six commonly asked (and answered) Q&As about 2021 tax-related figures:

1. How much can I contribute to an IRA for 2021? If you're eligible, you can contribute \$6,000 a

year into a traditional or Roth IRA, up to 100% of your earned income. If you're age 50 or older, you can make another \$1,000 "catch up" contribution. (These amounts are the same as they were for 2020.)

2. I have a 401(k) plan through my job. How much can I contribute to it? For 2021, you can contribute up to \$19,500 to a 401(k) or 403(b) plan. You can make an additional \$6,500 catch-up contribution if you're age 50 or older. (These amounts are also the same as they were for 2020.)

3. I sometimes hire a babysitter and a cleaning person. Do I have to withhold and pay FICA tax on the amounts I pay them? In 2021, the threshold for when a domestic employer must withhold and pay FICA for babysitters, house cleaners and other domestic employees is increasing to \$2,300 from \$2,200 for 2020.

4. How much do I have to earn in 2021 before I can stop paying Social Security on my salary? The Social Security tax wage base is \$142,800 for 2021, up from \$137,700 for 2020. That means that you don't owe Social Security tax on amounts earned above that. (You must pay Medicare tax on all amounts that you earn.)

5. I didn't qualify to itemize deductions on my last tax return. Will I qualify for 2021? The Tax Cuts and Jobs Act eliminated the tax benefit of itemizing deductions for many people by increasing the standard deduction and reducing or eliminating various deductions. For 2021, the



standard deduction amount is \$25,100 for married couples filing jointly (up from \$24,800 for 2020). For single filers, the amount is \$12,550 (up from \$12,400) and, for heads of households, it's \$18,800 (up from \$18,650).

So, if the amount of your itemized deductions (such as charitable gifts and mortgage interest) are less than the applicable standard deduction amount, you won't itemize for 2021.

6. How much can I give to one person without triggering a gift tax return in 2021? The annual gift exclusion for 2021 is \$15,000, unchanged from last year. This amount is only adjusted in \$1,000 increments, so it typically increases only every few years.

These are only some of the tax figures that may apply to you. For more information about your tax picture, or if you have questions, don't hesitate to contact us. ■

BUSINESS BARTERING IS TAXABLE

During the COVID-19 pandemic, many cash-challenged businesses have bartered for goods and services instead of paying dollars for them. If your company gets involved in such a transaction, remember that the fair market value of goods that you receive is taxable income. And if you exchange services with another business, the transaction results in taxable income for both parties.

A COUPLE OF EXAMPLES

Let's say a computer consultant agrees to exchange services with an advertising agency. Both parties will be taxed on the fair market value of the services received. This is the amount they'd normally charge for the same services. If the parties agree to the value of the services in advance, that will be considered the fair market value unless contrary evidence exists.

In addition, if services are exchanged for property, income is realized. Say a construction company does

work for a retail business in exchange for unsold inventory. The contractor will incur income equal to the inventory's fair market value.

BARTER EXCHANGES

Many businesses join barter clubs that facilitate these transactions. Generally, these clubs use a system of "credit units" that are awarded to members who provide goods and services. The credits can be redeemed for goods and services from other members.

Bartering is generally taxable in the year it occurs. If you participate in a barter club, however, you may be taxed on the value of credit units at the time they're added to your account — even if you don't redeem them for actual goods and services until a later year.

By January 31 of each year, a barter club will send participants a Form 1099-B, "Proceeds from Broker and Barter Exchange Transactions," which shows the value of cash, property, services and credits that they received from exchanges during the previous year. The IRS will also receive this information.

If you join a barter club, expect to provide your Social Security number or employer identification number. You'll also be asked to certify that you aren't subject to backup withholding. Unless you make this certification, the club will withhold tax from your bartering income.

POTENTIALLY BENEFICIAL

So long as you're aware of the federal and state tax consequences, business bartering transactions can be beneficial. Contact us if you need assistance or would like more information. ■



ARE YOU AT RISK FOR INVESTMENT FRAUD?

Perpetrators of investment fraud know how to push the right psychological buttons to entice their “marks” to buy worthless or nonexistent securities. You can mitigate your risk by asking a few questions, performing some research and consulting with trusted advisors.

WATCH OUT

Be alert for these common scams:

Pyramid and Ponzi. The con artist promises high returns, often in a short period, yet there’s no actual investment product. Instead, the scheme relies on continually recruiting new participants whose money is used to pay “returns” to earlier participants. As the scheme grows, it becomes increasingly difficult to attract enough new investors and pay old ones. Eventually it collapses and most participants lose everything.

Pump and dump. Fraudsters use false or misleading statements to recruit investors and boost the price of an obscure and usually low-priced stock. When the stock rises to a certain level, the crooks dump their shares and disappear. The stock price plummets, leaving investors with nearly worthless holdings.

Advance fee. These schemes usually target individuals holding a failed investment. A fraudster may offer, for example, to take a losing stock off your hands for an attractive price provided you pay an up-front fee. Once you pay the fee, the thief vanishes.



LOOK FOR SIGNS

Be suspicious of investments that offer guaranteed returns or remarkably consistent returns even during turbulent times. Avoid unregistered

securities sold by unlicensed individuals or investments that lack documentation (for example, a prospectus).

You can verify a professional’s credentials with the U.S. Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and state securities agencies. If you’re tempted to invest with an unknown “broker” or buy an unfamiliar stock, FINRA’s website (finra.org) offers a variety of points to double-check before engaging in the transaction.

Most investments must be registered before they can be sold to the public, so plug the security’s name into the SEC’s EDGAR database (sec.gov/edgar.shtml). Keep in mind that registration alone doesn’t guarantee that an investment is legitimate or appropriate.

RELY ON GOOD ADVICE

Ultimately, the best defense against investment fraud is to work with financial advisors you know and trust. If you’ve received a “hot tip,” always run it by at least one trusted advisor before plunking down any money. ■

TAX CALENDAR

January 15

Individual taxpayers’ final 2020 estimated tax payment is due.

February 1

File 2020 Forms W-2 (“Wage and Tax Statement”) with the SSA and provide copies to your employees.

- File 2020 Forms 1099-NEC (“Nonemployee Compensation”) reporting nonemployee compensation payments with the IRS and provide copies to recipients, along with a related Form 1096 (“Annual Summary and Transmittal of U.S. Information Returns”) to the IRS.
- Most employers must file Form 941 (“Employer’s Quarterly Federal Tax Return”) to report Medicare, Social Security and income taxes withheld in the fourth quarter of 2020. If your tax liability is less than \$2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until February 10 to file the return. Employers who have an estimated annual employment tax liability of \$1,000 or less may be eligible to file Form 944 (“Employer’s Annual Federal Tax Return”).
- File Form 940 (“Employer’s Annual Federal Unemployment [FUTA] Tax Return”) for 2020. If your undeposited tax is \$500 or less, you can either pay it with your return or deposit it. If it’s more than \$500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.

- File Form 943 (“Employer’s Annual Federal Tax Return for Agricultural Employees”) to report Social Security, Medicare and withheld income taxes for 2020. If your tax liability is less than \$2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 945 (“Annual Return of Withheld Federal Income Tax”) for 2020 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc. If your tax liability is less than \$2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.

March 1

File 2020 Form 1099-MISC (“Miscellaneous Income”) reporting certain payments to certain persons and provide copies to recipients, along with a related Form 1096 (“Annual Summary and Transmittal of U.S. Information Returns”) to the IRS.

March 15

2020 tax returns must be filed or extended for calendar-year partnerships and S corporations. If the return isn’t extended, this is also the last day for those types of entities to make 2020 contributions to pension and profit-sharing plans.

TWICE AS NICE: THE TEMPORARY GIFT TAX BREAK

The Tax Cuts and Jobs Act temporarily doubled the federal gift and estate tax exemption through 2025. Adjusted for inflation, the exemption currently allows an individual to transfer up to \$11.7 million free of federal gift or estate tax in 2021 (up from \$11.58 million in 2020). Married couples can shield up to \$23.4 million from those taxes in 2021.

These sizable exemption amounts create an attractive opportunity to minimize taxes on your wealth by gifting business interests or other assets to family members before they drop to their previous levels of \$5 million and \$10 million, respectively (adjusted for inflation) on January 1, 2026.

Some affluent families have been reluctant to take advantage of this opportunity for fear of a “clawback.” In other words, they are worried that a portion of their pre-2026 gifts may be clawed back and subject to estate taxes if the exemption amount is lower when they die.



Although Congress didn't appear to intend such a result, a literal reading of the tax code suggested that previous gifts could be added back into one's estate and subject to tax based on the exemption amount in effect in the year of death. Fortunately, IRS regulations finalized in November 2019 provide assurances that this won't happen. ■