WILLIAM JEFFERSON COLE, C.P.A.
BARRY S. SHIPP, C.P.A.
STEVEN W. HEDGEPETH, 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

MARCH 2021

VIRTUAL CURRENCY REPORTING

As discussed in the article on page 3 of the accompanying *Tax and Business Alert*, generally, a U.S. person who has a financial interest in or control authority over any foreign financial account of $10,000 or more must file a Foreign Bank and Financial Accounts Report (FBAR) with the Financial Crimes Enforcement Network (FinCEN). Significant penalties apply for failure to file. At the present time, virtual currencies such as Bitcoin are not included in the regulations concerning foreign account holding and, accordingly, are not reportable on the FBAR.

In late December, FinCEN issued its Notice 2020-2 stating that it intends to propose an amendment to the regulations implementing the Bank Secrecy Act regarding reports of foreign financial accounts to include virtual currency as an account requiring FBAR reporting. The announcement is very short on details but indicates that the Treasury Department remains concerned with compliance on virtual currency transactions. The United States Treasury Secretary, Janet Yellen, has stated "Bitcoin is an extremely inefficient way of conducting transactions and the amount of energy that is consumed in processing those transactions is staggering." She went on to express concern about the use of Bitcoin in money laundering and other illegal activity stating "I fear it is often for illicit finance."

The Internal Revenue Service (IRS) presently views dispositions of virtual currency as a taxable event (sale or exchange of property) requiring income tax return reporting and not as a currency transaction. Taxpayers purchasing, selling, or exchanging virtual currencies can reasonably expect an increase in regulation, tax, and in reporting requirements from FinCEN and the IRS.

REMINDERS

Due Dates. For calendar year 2020, income tax returns of limited liability companies (LLCs), partnerships, and corporations electing subchapter S status, the due date is Monday, March 15, 2021. The due date for federal individual and regular corporation returns is Thursday, April 15, 2021.

Extensions. An additional six months for filing is available for all these returns by filing an automatic extension. Generally, subchapter S corporations do not incur federal income taxes. Partnerships and LLCs (unless they elect to be taxed as a corporation) do not incur income taxes. Accordingly, their returns can generally be extended without estimating taxable income. However, there is no automatic extension of time to pay taxes. Accordingly, to avoid the imposition of a late payment penalty, individual and regular corporation 2020 automatic extensions require an estimate of the 2020 tax and the payment of any remaining unpaid balance by April 15, 2021.

Tax Return Data – Soon. As always, tax preparers will appreciate and benefit from receiving complete (or nearly complete) individual income tax data as early as possible. Early receipt of all data (or

(*Continued on reverse*)

all but a missing Schedule K-1, etc.) allows time for more thoughtful preparation and diminishes the hazards of a rush to completion. Many taxpayers with complex returns, brokerage accounts with histories of corrected information forms, late K-1s, etc. will be well served by an automatic extension of time to file until October 15. Extensions of time to file do not, in our experience, prejudice the return in any way. An extension, however, does not extend the time to pay. Accordingly, early submission of the data for the computation of an estimated amount to be paid, if any, with the automatic extension will be helpful. For most individual income tax returns, the furnishing of all or almost all of the data by March 15 will allow the orderly preparation of a well-considered return. In instances where almost all of the data is not available by mid-March and for most very complex returns, automatic extensions are often the best choice.

IRA and HSA Contributions – April 15, 2021. Taxpayers making individual retirement account (Roth IRA and traditional IRA) or health savings account (HSA) contributions for 2020, and who have not already done so, will need to make the contributions on or before April 15, 2021. April 15, 2021 is the last available date for a 2020 contribution even if the taxpayer obtains an extension of time to file the 2020 individual income tax return.

The maximum contribution to an IRA (Roth or traditional) for 2020 is $6,000 for those below age 50 and $7,000 for those age 50 or above at December 31, 2020. We, of course, encourage early 2021 contributions to all tax-deferred accounts for those taxpayers certain of their eligibility. For 2021, the maximum IRA contributions are unchanged.

For 2020 and subsequent years, age no longer limits contributions to IRAs. Almost anyone with earned income (or a spouse with earned income) can contribute to a traditional IRA but the deduction for the contributions may be reduced or eliminated for those covered by a retirement plan at work. Roth IRA contributions are reduced or eliminated at higher incomes. However, Roth IRA accumulations are available at no additional tax cost to higher income taxpayers without traditional IRAs as the contribution to a new traditional IRA may be immediately followed by rollover from the traditional IRA to a Roth IRA.

The maximum HSA contribution for a single person for 2020 is $3,550 and for a family is $7,100. For 2021, the maximum for a single person increases $50 to $3,600 and, for a family increases $100 to $7,200. For those 55 and over, the 2020 and 2021 limits are increased by $1,000 for both single and family.

Charitable Contribution Receipt – Return Due Date. Please remember that taxpayers with charitable contributions should be sure to obtain properly worded receipts for contributions (cash, check or property) of $250 or more before the tax return is filed. The written acknowledgement must state whether the organization provided any goods or services in consideration for the contribution and the amount of such consideration, if any.

Qualified Plan Distribution – April 1. Participants in qualified retirement plans, tax-sheltered annuities, or IRAs (other than Roth IRAs) are generally required to begin withdrawals of minimum annual amounts from the plan by April 1 following the year in which they reach age 72. This rule generally applies to all such tax-favored plans. Individuals who are still employed at age 72 and are not five percent owners of their employer, however, generally are not required to begin receiving distributions from their employer's qualified plan until April 1 following the year in which they terminate employment. Distributions from traditional IRA accounts must begin by April 1 following the year in which the account holder attains age 72. Distributions are not required from Roth IRAs until after the death of the owner.

Although the first required distribution may be deferred until April 1 of the year following the year in which the account owner becomes 72, it is likely that the distribution should be taken in the year of becoming age 72 to avoid taxing two years' distributions in one year, possibly causing the recipient to be in a higher tax bracket or become subject to increased phase-outs of deductions, credits, etc.

Cole, Evans & Peterson, CPAs
www.cepcpa.com

624 Travis Street Shreveport, Louisiana 71101 (318) 222-8367

Tax & Business Alert

MARCH 2021

PPP LOANS: ONE YEAR LATER

About a year ago, the Paycheck Protection Program (PPP) was launched in response to the COVID-19 crisis. If your company took out such a loan, you're likely curious about the tax consequences — particularly for loans that have been forgiven.

FORGIVENESS CRITERIA

An eligible recipient may have a PPP loan forgiven in an amount equal to the sum of various costs incurred and payments made during the covered period. These include payroll costs, interest (but not principal) payments on any covered mortgage obligation (for mortgages in place before Feb. 15, 2020), payments for any covered rent obligation (for leases that began before Feb. 15, 2020), and covered utility payments (for utilities that were turned on before Feb. 15, 2020). Also eligible are covered operations expenditures, property damage costs, supplier costs and worker protection expenses.

Your covered period would normally have been the 24-week period beginning on the date you took out the loan (ending no later than Dec. 31, 2020, if that was before the expiration of the 24-week period). If you received a PPP loan before June 5, 2020, you could elect a shorter 8-week covered period. If you didn't elect the 8-week period and instead used the longer 24-week period, you had to maintain payroll levels for the full 24 weeks to be eligible for loan forgiveness. If you didn't make an election, the 24-week period applies.

An eligible recipient seeking forgiveness of indebtedness on a covered loan must verify that the amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered lease obligation or make covered utility payments.

CANCELLATION AND DEDUCTIBILITY

The reduction or cancellation of indebtedness generally results in cancellation of debt income to the debtor. However, the forgiveness of PPP debt is excluded from gross income. Your tax attributes (net operating losses, credits, capital and passive activity

"SECOND-DRAW" PPP LOANS LAUNCHED

Under the Consolidated Appropriations Act, eligible businesses may be able take out so-called "second-draw" PPP loans. These loans are primarily intended for beleaguered small businesses with 300 or fewer employees that have used up, or will soon use up, the proceeds from initial PPP loans. The maximum second-draw loan amount is $2 million, and only one such loan can be taken out.

To qualify for a second-draw loan, a company must demonstrate at least a 25% decline in gross receipts in any quarter of 2020 as compared to the corresponding quarter in 2019. Qualifying businesses can generally borrow up to 2.5 times their average monthly payroll costs for either the one-year period before the date on which the loan is made or calendar year 2019. The application deadline is March 31, 2021.

loss carryovers, and basis) wouldn't generally be reduced on account of this exclusion.

The CARES Act was silent on whether expenses paid with the proceeds of PPP loans could be deducted. The IRS took the position that these expenses were nondeductible. However, the Consolidated Appropriations Act, enacted at the end of 2020, provides that expenses paid from the proceeds of PPP loans are deductible.

ANY QUESTIONS?

A PPP loan may complicate your company's 2020 income tax filing. Please contact us with any questions you might have. ■

HOME'S WHERE A TAX BREAK MIGHT BE

If you own a home, the interest you pay on your home mortgage may provide a tax break in the form of the mortgage interest deduction. However, you must itemize deductions on your tax return and follow a few other rules.

ACQUISITION DEBT

A personal interest deduction generally isn't allowed, but one type of interest that is deductible is interest on mortgage "acquisition debt." This means debt that's: 1) secured by your principal home and/or a second home, and 2) incurred in acquiring, constructing or substantially improving the home. You can deduct interest on acquisition debt on up to two qualified residences: your primary home and one vacation home or similar property.

The deduction for acquisition debt comes with a stipulation. From 2018 through 2025, you can't deduct the interest for acquisition debt greater than $750,000 ($375,000 for married filing separately taxpayers). So, if you buy a $2 million house with a $1.5 million mortgage, only the interest you pay on the first $750,000 in debt is deductible. The rest is nondeductible personal interest.

HIGHER LIMITS ON THE WAY

Beginning in 2026, you'll be able to deduct the interest for acquisition debt up to $1 million ($500,000 for married filing separately).

The higher $1 million limit also applies to acquisition debt incurred before Dec. 15, 2017, and to debt arising from the refinancing of pre-Dec. 15, 2017, acquisition debt, to the extent the debt resulting from the refinancing doesn't exceed the original debt amount. Thus, taxpayers can refinance up to $1 million of pre-Dec. 15, 2017, acquisition debt, and that refinanced debt amount won't be subject to the $750,000 limitation.

The limit on home mortgage debt for which interest is deductible includes both your primary residence and your second home, combined. Some taxpayers believe they can deduct the interest on $750,000 for each mortgage. But if you have a $700,000 mortgage on your primary home and a $500,000 mortgage on your vacation place, the interest on $450,000 of the total debt will be nondeductible personal interest.

"HOME EQUITY LOAN" INTEREST

"Home equity debt," as specially defined for purposes of the mortgage interest deduction, means debt that is secured by the taxpayer's home, and *isn't* "acquisition indebtedness" (meaning it wasn't incurred to acquire, construct or substantially improve the home).

From 2018 through 2025, there's no deduction for interest on a home equity loan unless you use the loan proceeds to buy, build or substantially improve your main home or second home. Other requirements apply. Interest on the home equity loans that are used to pay personal living expenses, such as credit card debts, is not deductible.

MORE INFORMATION

Your home is valuable in many ways. Contact us with questions or if you'd like more information about the mortgage interest deduction. ■

HAVE A FOREIGN ACCOUNT? FILE AN FBAR

Any U.S. person who has a financial interest in, or signature or other authority over, any foreign financial accounts must file a Report of Foreign Bank and Financial Accounts (FBAR) if the aggregate value of the foreign financial accounts exceeds $10,000 at any time during the calendar year. Let's explore more of the pertinent details.

PERSONS AND ACCOUNTS

A "U.S. person" is generally a U.S. citizen, including a child. However, a U.S. person may also be an individual who's a resident alien (under the Internal Revenue Code) of the United States, the District of Columbia, Native American lands (as defined in the Indian Gaming Regulatory Act), or the Territories and Insular Possessions of the United States.

Also qualifying as a U.S. person is an entity — including a corporation, partnership, trust or limited liability company — organized or formed under U.S. laws or the law of any State, the District of Columbia, U.S. Territories or Insular Possessions, or Native American tribes.

A "foreign financial account" is a financial account located outside the United States. For FBAR purposes, the United States includes the states themselves as well as the District of Columbia, territories and possessions of the United States, and certain Native American lands.

An account maintained with a branch of a U.S. bank that's physically located outside of the United States *is* a foreign financial account. An account maintained with a branch of a foreign bank that's physically located inside of the United States *isn't* a foreign financial account.

WHAT DEFINES INTEREST

A U.S. person has a financial interest in a foreign financial account if the U.S. person is the owner of record or holder of legal title, regardless of whether the account is maintained for the benefit of the U.S. person or for the benefit of another person.

A financial interest may also exist if the owner of record or holder of legal title is one of certain listed entities. These include certain entities controlled by the U.S. person or an agent, a nominee, an attorney or someone acting in another capacity on behalf of the U.S. person.

PENALTY AMOUNTS

Civil penalties for nonwillful violations can exceed $10,000 per violation, as adjusted for inflation. For willful violations, civil penalties can range up to the greater of $100,000 as adjusted for inflation or 50% of the amount in the account at the time of the violation. Contact us for more information. ■

RECONSIDERING YOUR PERSONAL EMERGENCY FUND

When the COVID-19 pandemic first hit, many people's emergency funds were suddenly put the test — if the funds existed at all. Now, about a year later, and presumably with the benefit of some hindsight, you might want to reconsider your savings for a rainy day. You've probably heard that, to guard against an emergency, you need to save enough to cover three to six months of living costs. But this rule isn't as straightforward as it may sound.

An emergency cushion is indeed important — and it's certainly better to be conservative rather than cavalier when estimating your financial requirements. However, believe it or not, there may be a danger to saving too much in certain vehicles. For example, if you put away substantially more than you'll reasonably need in a low-interest savings account, you may lose money to inflation over time. Plus, you might miss out on opportunities to invest those funds in tax-advantaged retirement accounts or other assets.

Rather than blindly following a rule of thumb, tailor your emergency savings to your financial situation. A smaller emergency fund may suffice if, for instance, your spouse has a reasonably secure job; you have relatives who can provide financial assistance in an emergency; or you have reason to believe that you'd be able to find other work quickly should you lose your job. Conversely, if you're the sole breadwinner or you simply have a low tolerance for risk, a bigger emergency fund is likely appropriate. Our firm can help you find the right balance. ■