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

DECEMBER 2020

GRATITUDE AND CELEBRATION

We know that perpetual motion machines are impossible and that most physical things and feelings eventually pass. Nonetheless, we have just encountered what we thought impossible – a yearlong "tax season." We understand "season" to be a division of a year and, by definition, must be less than a year. Wrong. First, the 2020 due date of individual returns was, as a result of COVID-19, extended by the Internal Revenue Service to July 15, 2020. Individual taxpayers were allowed to automatically extend their due dates (and many did so) until October 15, 2020. Next, on August 27, 2020, Hurricane Laura arrived in Louisiana making available for most of Louisiana an additional automatic extension to December 31, 2020 of previously extended but unfiled 2019 returns. Accordingly, the season began on January 1 and will end with the year-end.

We are grateful for the cooperation of our clients and for availability of the extensions, as without them the lock-downs would have made it impossible to complete the returns by their original due dates and, in many cases, by their normal extended due dates. We are also grateful for the response of our staff – for their attitude and cooperation in meeting the requirements of a long season while at the same time responding to the demands of caring for elderly family and friends, for children out of school, and for the many other sources of the COVID-19 stress.

We will celebrate the end of the longest season by closing at 11:00 a.m. on Friday, December 18, 2020 and honoring our staff with a modified (to fit COVID-19 rules) Appreciation Luncheon followed by the remainder of the afternoon off.

SCHOLARSHIP WINNERS ANNOUNCED

Louisiana Tech University

Louisiana Tech University has recently announced the winners of our Excellence In Accounting Scholarships. The senior award winner is Carley Strickland of Ruston, Louisiana who plans on a career in public accounting. Carley works part-time and serves as vice-president of Beta Alpha Psi and is active in the college ministry of her church. The junior winner is Zachary Castille of Sulphur, Louisiana, who serves as a tutor with the Louisiana Tech Athletic Department and is active in the National Eagle Scout Association and the Association of Catholic Tech Students.

Louisiana State University – Shreveport

Louisiana State University-Shreveport has awarded the Cole, Evans & Peterson Excellence in Accounting Scholarships to Caitlyn Wade and Yoran Van Houdt. Caitlyn is

(Continued on reverse)

in her junior year and plans on pursuing her CPA certificate after graduation. Yoran, a senior, is a native of Mol, Belgium and is the goal-keeper for the LSUS soccer team. After graduation, Yoran plans on attending a top business school in Europe for his master's degree and will sit for the CPA exam.

We are grateful for the contributions of LSUS and Louisiana Tech to the well-being of our community and especially for the quality of the education and graduates they produce. We are honored to participate in the recognition of these outstanding young people and their universities.

REMINDER – FEBRUARY 1ST DUE DATE

Businesses and household employers should remember that to prevent penalties, 2020 Forms 1099-NEC and W-2 must be filed with the Internal Revenue Service (IRS) and delivered or mailed to recipients by February 1, 2021. The IRS has established this earlier due date for these forms as an aid in detecting refund tax fraud.

SOCIAL SECURITY WAGE BASE INCREASES FOR 2021

The Social Security Administration has announced that for 2021 the maximum earnings subject to the Social Security component of the FICA tax will increase from $137,700 to $142,800. The maximum Social Security tax for one employee is $17,707.20. The employer and employee will each pay $8,853.60, and a self-employed person with at least $142,800 in net self-employment earnings will pay $17,707.20 for the Social Security part of the self-employment tax. The unlimited Medicare tax remains at 1.45 percent of all employee earnings (2.9 percent of all self-employment income). Individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) will continue to pay an additional 0.9 percent in Medicare taxes on all earned income above the threshold amount.

FINAL THOUGHTS ON 2020 INCOME TAXATION

Federal income tax rules for 2020 are very similar to those applicable to 2019. The most significant changes include the reversion to the old net operating loss carryback rules, which are much more friendly to taxpayers with negative taxable income. The limit on charitable contributions was raised generally from 60 percent to 100 percent of adjusted gross income. Some comments on final year-end income tax planning were included in our October 2020 newsletter (at www.cepcpa.com) and remain applicable.

Almost all small business owners face a major uncertainty in thinking of their 2020 tax liability as Congress and the Internal Revenue Service (IRS) have different positions on the taxation of the forgiveness of the Paycheck Protection Program loans. Several leadership members of Congress, most notably, Senator Grassley, have asserted that the loan forgiveness was intended to be tax-free. The IRS has issued Revenue Ruling 2020-27 and Notice 2020-32 holding that the tax-free characteristic of the loan forgiveness is to be offset by disallowance of the expenses giving rise to the forgiveness. Thus, the IRS position is that the Congressional declaration of forgiveness as tax-free is without meaning. Hopefully, the technical correction bill now being considered by Congress will resolve the uncertainty in accordance with the original intent of Congress that the forgiveness is tax-free.

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

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

Tax & Business Alert

DECEMBER 2020

WHAT'S YOUR TAXPAYER FILING STATUS?

For many, December 31 means a New Year's Eve celebration. From a tax perspective, however, it should mean thinking about the filing status you'll use when filing your tax return for the year. The one you use depends partly on whether you're married on that date.

THE FIVE STATUSES

When you file your federal tax return, you do so with one of five filing statuses. First, there's "single" status, which is generally used if you're unmarried, divorced or legally separated. A second status, "married filing jointly," is for married couples to file a tax return together. If your spouse passes away, you can usually still file a joint return for that year. A third status, "married filing separately," is for married couples who choose to file separate returns. In some cases, doing so may result in less tax owed.

"Head of household" is a fourth status. Certain unmarried taxpayers qualify to use it and potentially pay less tax. Finally, there's a fifth status: "qualifying widow(er) with a dependent child." It may be used if your spouse died during one of the previous two years and you have a dependent child. (Other conditions apply.)

HEAD OF HOUSEHOLD

Let's focus on head of household status because it's often misunderstood and can be more favorable than filing as a single taxpayer. To qualify, you must "maintain a household" that, for more than half the year, is the principal home of a "qualifying child" or other relative that you can claim as a dependent.

A "qualifying child" is defined as someone who lives in your home for more than half the year and is your child, stepchild, foster child, sibling, or stepsibling, or a descendant of any of these. A qualifying child must also be under 19 years old (or a student under age 24) and cannot provide over half of his or her own support for the year.

Different rules may apply if a child's parents are divorced. Also, a child isn't a "qualifying child" if he or she is married and files jointly or isn't a U.S. citizen or resident.

CAN YOU BE MARRIED AND A HEAD OF HOUSEHOLD?

You must generally be unmarried to claim head of household status. However, if you've lived apart from your spouse for the last six months of the year, you have a qualifying child living with you and you "maintain" the household, you're typically considered unmarried. In this case, you may be able to qualify as head of household.

For head of household filing status, you're considered to maintain a household if you live in it for the tax year and pay more than half the cost of running it. This includes property taxes, mortgage interest, rent, utilities, property insurance, repairs, upkeep and food consumed in the home. Medical care, clothing, education, life insurance and transportation aren't included.

Under a special rule, you can qualify as head of household if you maintain a home for a parent even if you don't live with the parent. To qualify, you must be able to claim the parent as your dependent.

NOT ALWAYS OBVIOUS

Filing status may seem obvious, but there can be situations in which it warrants careful consideration. If you have questions about yours, contact us. ■

INTRAFAMILY LOANS AND A FAMILY BANK

Among the primary goals of estate planning is to put in writing how you want your wealth distributed to loved ones after your death. But what if you want to use that wealth to help a family member in need while you're still alive? This has become an increasingly common and pressing issue this year because of the COVID-19 pandemic and changes to the U.S. economy.

One way to help family members hit hard by job loss or increased debt is through an intrafamily loan or even by establishing a full-fledged family bank.

STRUCTURE LOANS CAREFULLY

Lending can be a way to provide your family financial assistance without triggering unwanted gift taxes. As long as a loan is structured in a manner similar to an arm's-length loan between unrelated parties, it won't be treated as a taxable gift.

This means, among other steps, documenting the loan with a promissory note and charging interest at or above the applicable federal rate (which is now historically low). You'll also need to establish a fixed repayment schedule and ensure that the borrower has a reasonable prospect of repaying the loan.

Even if taxes aren't a concern, intrafamily loans offer important benefits. For example, they allow you to help your family financially without depleting your wealth or creating a sense of entitlement. Done right, these loans can promote accountability and help cultivate the younger generation's entrepreneurial capabilities by providing financing to start a business.

MAYBE OPEN A BANK

Too often, however, people lend money to family members with little planning or regard for potential unintended consequences. Rash lending decisions may lead to misunderstandings, hurt feelings, conflicts among family members and false expectations. That's where a family bank comes into play.

A family bank is a family-owned and funded entity — such as a dynasty trust, a family limited partnership or a combination of the two — designed for the sole purpose of making intrafamily loans. Often, family banks can offer financing to family members who might have difficulty obtaining a loan from a bank or other traditional funding sources, or lend at more favorable terms.

By "professionalizing" family lending activities, a family bank can preserve the tax-saving power of intrafamily loans while minimizing negative consequences. The key to avoiding family conflicts and resentment is to build a strong governance structure that promotes communication, decision making and transparency.

Establishing guidelines regarding the types of loans the family bank is authorized to make — and allowing all family members to participate in the decision-making process — ensures that family members are treated fairly and avoids false expectations.

LEARN MORE

More than likely, someone in your extended family has faced difficult financial circumstances this year. Contact us to learn more about intrafamily loans and family banks. ■

HANDLE MUTUAL FUNDS CAREFULLY AT YEAR END

As we approach the end of 2020, now is a good time to review any mutual fund holdings in your taxable accounts and take steps to avoid potential tax traps. Here are some tips.

AVOID SURPRISES

Unlike with stocks, you can't avoid capital gains on mutual funds simply by holding on to the shares. Near the end of the year, funds typically distribute all or most of their net realized capital gains to investors. If you hold mutual funds in taxable accounts, these gains will be taxable to you regardless of whether you receive them in cash or reinvest them in the fund.

For each fund, determine how large these distributions will be and get a breakdown of long-term vs. short-term gains. If the tax impact will be significant, consider strategies to offset the gain. For example, you could sell other investments at a loss.

BUYER BEWARE

Avoid buying into a mutual fund shortly before it distributes capital gains and dividends for the year. There's a common misconception that investing in a mutual fund just before the ex-dividend date (the date by which you must own shares to qualify for a distribution) is like getting free money.

In reality, the value of your shares is immediately reduced by the amount of the distribution, so you'll owe taxes on the gain without actually achieving an economic benefit.

SELLER BEWARE, TOO

If you plan to sell mutual fund shares that have appreciated in value, consider waiting until just after year end so you can defer the gain until 2021 — unless you think you'll be subject to a higher rate next year.

In that scenario, you'd likely be better off recognizing the gain and paying the tax this year.

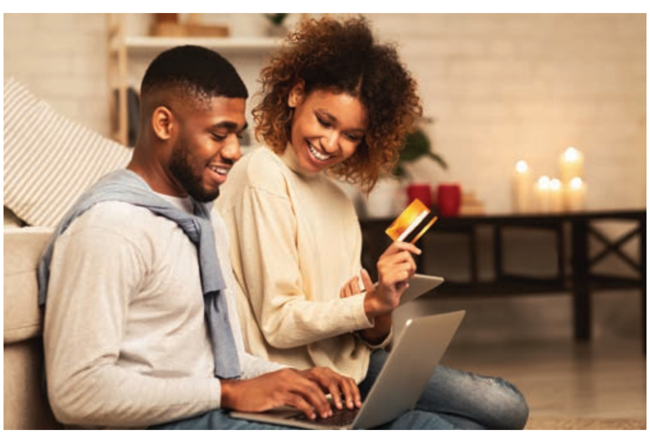
When you do sell shares, keep in mind that, if you bought them over time, each block will have a different holding period and cost basis. To reduce your tax liability, it's possible to select shares for sale that have higher cost bases and longer holding periods (known as the specific identification method), thereby minimizing your gain (or maximizing your loss) and avoiding higher-taxed short-term gains.

THINK BEYOND TAXES

Investment decisions shouldn't be driven by tax considerations alone. You also need to know your risk tolerance and keep an eye on your overall financial goals. Nonetheless, taxes are still an important factor. Contact us to discuss these and other year-end strategies for minimizing the tax impact of your mutual fund holdings. ■

BUSINESSES SHOULD REVIEW SALES TAX LAWS

It's been more than two years since the U.S. Supreme Court ruled in *South Dakota v. Wayfair* that states may require out-of-state sellers to collect sales and use tax even if they lack a physical presence in a state. Since that time, most states that have a sales tax have enacted "economic nexus" laws that expand the reach of their sales tax collection obligations beyond their borders.



Many of these laws are similar to the one upheld in *Wayfair*. It applies to sellers that, on an annual basis, deliver more than $100,000 in goods or services into the state or engage in 200 or more separate transactions for the delivery of goods and services into the state. Some states have eliminated the number-of-transactions threshold, to avoid applying their laws to small sellers, such as those that sell 250 items at $1.50 each.

Since the COVID-19 pandemic was declared, online transactions have soared. If your business sells products or services in states in which it lacks a physical presence, review the economic nexus laws in those states and assess their sales-tax-compliance impact. Also, some states have issued specific guidance on whether telecommuting employees temporarily working in a state because of the COVID-19 crisis create nexus for an employer who doesn't operate in that state. We can help you explore and respond to these matters. ■