



2021

Coronavirus Legislation

Tax Planning Opportunities



CPAs & Advisors | *Partnering for Success*

info@tgccpa.com | 703.385.8888 | www.tgccpa.com

Exclusive
Member of **CICPAC** 
CPAs WHO KNOW CONSTRUCTION

Sponsored by:
Foundation Software & Payroll4Construction

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

FOREWORD

On March 27, 2020 the President signed The Coronavirus, Aid, Relief and Economic Security Act (CARES Act). The CARES Act includes many tax provisions that are intended to put cash flow in the hands of individuals and businesses. Additional coronavirus relief related legislation has been passed and is included in this whitepaper.

The CICPAC Tax Thought Leadership Committee has compiled a summary of those changes potentially impacting our construction clients for consideration. In the interest of timing, this document only provides an overview for further consideration for planning in 2021 and beyond.

This document is a follow-up to the *2021 Tax Planning Opportunities for the Construction Industry* whitepaper that was published recently.

Many thanks to the members of the Tax Thought Leadership Committee (below) for their contribution to the CICPAC organization and their collective efforts resulting in this document. We are also grateful to Kathleen Baldwin and Michelle Class for bringing it all together.

Jackie Daenen, Daenen Henderson & Co., Co-Chair
Matt Neely, MCM LLP, Co-Chair
Kristin Bailey, KatzAbosch
Kati Denham, BerryDunn
Carlo Ferri, Kreischer Miller
Barry Fischman, Marcum LLP
Eric Fletcher, Thompson Greenspon
Kyle Kmiec, Calvetti Ferguson
Jacob Kotalik, BerganKDV
Chase Lister, Daenen Henderson & Co.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

Because many businesses face unparalleled economic uncertainty due to COVID-19, Congress passed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The CARES Act provided relief for businesses and individuals. As we approach tax year end planning, business taxpayers should consider the following provisions:

Net Operating Losses

The passage of the Tax Cuts and Jobs Act (TCJA) in 2017 made significant changes to the treatment of net operating losses (NOL) for both corporations and individual taxpayers. Under the provisions of the TCJA, NOLs generated in tax years beginning in 2018 and later years can no longer be carried back to prior years but must be carried forward indefinitely. Additionally, losses that are carried forward can only be used to offset up to 80 percent of taxable income in carryover years. NOLs related to farming businesses maintained the possibility of a two-year carryback.

The CARES Act reinstated and expanded the ability to carry back business losses. Under the CARES Act, losses arising in 2018, 2019, and 2020 tax years can be carried back to the previous five tax years. Furthermore, the taxable income limitation has been removed for losses arising in these years. Taxpayers can by election forego the loss carryback. For losses arising in the 2018 and 2019 tax years, the irrevocable election to forego carryback to the previous five years is made by attaching an affirmative statement to a timely filed return for the first tax year ending after the enactment date of the law, March 27, 2020. Taxpayers who are impacted by the rules for inclusion of deferred foreign income under Sec. 965(a), may also elect to forego the NOL carryback to any "section 965 year." NOLs still retain an indefinite carry forward. After 2020 and going forward, the treatment of net operating losses reverts to the rules provided by TCJA for which NOLs can only be carried forward and carry backs are not allowed. Additionally, an NOL can only offset 80% of taxable income for losses carried over from post 2017 tax years. This includes remaining losses generated in 2018-2020. This means that you cannot shelter 100% of your regular taxable income.

The deadline for filing Applications for Tentative Refunds must be filed within one year after the year in which the NOL arose. Therefore, NOLs that arose on 2020 calendar year tax returns have until December 31, 2021 to file a refund claim. As an alternative, taxpayers may continue to file amended returns subject to the statute of limitations to claim NOL carrybacks generated in tax years 2018 through 2020.

The CARES Act also contained technical corrections to the TCJA's NOL provisions. NOLs generated in a year beginning in 2017 and ending in 2018 can now be carried back to the previous two tax years. Also, for tax years beginning after December 31, 2020, the 80% of taxable income limitation is calculated by adding back deductions under Sec. 199A and Sec. 250 and subtracting any NOLs carried forward from years ending before January 1, 2018.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

Because of reductions in tax rates included in the TCJA, there may be significant advantages to maximizing loss deductions for tax years ending prior to January 1, 2021. The rate variance is likely particularly significant for corporate taxpayers where corporate marginal rates for years prior to 2018 as high as 35 percent were replaced by a flat 21 percent rate. Taxpayers may want to consider aggressive use of bonus depreciation, accounting method changes such as converting to the completed contract method of accounting, or a cash method where allowable, and other acceleration of deductions to create larger losses for carryback. Both the TCJA and the CARES Act have many taxpayer-friendly provisions that will facilitate this planning.

There may also be negative consequences for NOL carrybacks and planning considerations should include:

- Alternative Minimum Tax generated in a prior year by an NOL carryback may reduce the benefit of the refund. The TCJA repealed the AMT for corporate taxpayers and significantly limited its application for individual taxpayers, however the pre-TCJA AMT rules will still apply to prior years when losses are carried back.
- NOL carrybacks to pre-TCJA years could result in permanent loss of tax credits, incentives and other deductions including the Sec. 199 Domestic Manufacturing Deduction.
- Most states do not conform to the federal carryback/carryforward provisions and guidance to date has been very limited. The use of a carryback at the federal level may result in a permanent loss of NOL carryforward deductions at the state level.
- The impact of NOL carrybacks on the taxation of foreign income such as GILTI and FDII, and Sec. 965(a) income should be modeled.
- NOL carrybacks can open statutes for closed years allowing the IRS a second opportunity for audit or adjustment. Amended returns claiming large refunds are likely to be reviewed prior to the issuance of the refund.
- The impacts of NOL carrybacks on financial statement reporting, and contractual agreements arising from mergers or other acquisitions should also be thoroughly investigated.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

CARES ACT – NOL CARRYBACKS AND CARRYFORWARDS

Tax Year	2013	2014	2015	2016	2017	2018	2019	2020	2021 & Beyond
2017									
2018									
2019									
2020									
2021									

NOL Year	Carryback Period	Carryover Period	Carryforward Limitation	
			2018-2020	> 2020
Pre-2018 NOLs	2 years	20 years	None	None
2018-2020 NOLs	5 years	Indefinite	None	80%
Post 2020 NOLs	No carryback	Indefinite	N\A	80%

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

Excess Business Loss Limitations

The TCJA includes provisions that limit how individuals can use business losses to offset nonbusiness income. Under provisions of the TCJA individual taxpayers are only allowed to deduct \$250,000 of net business losses (\$500,000 for joint filers) against other nonbusiness income. The amount of unused excess business losses are treated as net operating loss carryovers in subsequent tax years. The CARES Act repeals the limitation of excess business losses for tax years beginning before January 1, 2021. There is no provision allowing for elective application of the repeal. As such, taxpayers reporting excess losses for the 2018 or 2019 tax year must file amended returns to claim the full loss, even if the results are unfavorable.

The CARES Act also includes a number of technical corrections regarding the calculation of excess business losses. These changes will be applicable when the limitations are put back into effect for tax years beginning after December 31, 2020. These technical corrections include:

- Any gross income, deductions, or gains attributable to the trade or business of performing services as an employee will no longer be used in the determination of excess business losses. This means that beginning in the 2021 tax year, W-2 wages will no longer be included in calculating excess business losses.
- Net Operating Loss deductions under Sec. 172 and the Qualified Business Income Deduction under Sec. 199A are not considered in determining the taxpayer's business deductions for the purposes of Sec 461(l).
- Net capital gains attributable to a trade or business, limited to the taxpayer's overall capital gain net income, are considered in the determination of excess business losses. However, net capital losses attributable to a trade or business are not included in the calculation.

The excess business loss limitation applies for years beginning after December 31, 2020 and before January 1, 2027. The original provision under TCJA expired in 2025, but the American Rescue Plan Act of 2021 (ARPA) extended the limitation through 2026. Year-end tax planning for 2021 should consider the impact of excess business loss limitations.

Significant complications regarding the application of these provisions may arise at the state level, depending on how the state conforms to the federal law. It likely will be necessary to prepare pro forma excess loss limitation calculations and adjust state income accordingly.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

Employee Retention Credit

For many businesses during 2020 and 2021, operations were fully or partially suspended due to a government order limiting commerce, travel or group meetings. Companies have experienced significant decline in quarterly revenues. In these cases, a refundable payroll tax credit for a percentage of wages paid might be available. The CARES Act initially created the Employee Retention Credit (ERC) for qualifying wages paid from March 13, 2020 through December 31, 2020. The Taxpayer Certainty and Disaster Relief Act passed in December 27, 2020 retroactively modified, extended and enhanced the ERC. The American Rescue Plan Act (ARPA) extended the credit through December 31, 2021 and added new eligibility criteria. Finally, the 2021 Infrastructure Investment and Jobs Act ended the ERC early. **The ERC is available for qualifying wages paid from March 13, 2020 through September 30, 2021.**

For wages paid during the 2020 calendar year, the ERC is available to employers, including non-profits, whose operations have been fully or partially suspended as a result of a government order limiting commerce, travel, group meetings, or impacting suppliers. The credit is also provided to employers who have experienced a greater than 50% reduction in quarterly receipts, measured on a year-over-year basis until the quarter-end where gross receipts have recovered to 80% or greater compared to the same period in 2019.

The 2020 ERC is equal to 50% of qualified wages paid to employees after March 13, 2020 and before January 1, 2021. Qualified wages depend on the number of employees.

For employers who had an average number of full-time employees in 2019 of 100 or fewer, all employee wages are eligible, regardless of whether the employee is furloughed. For employers who had a larger average number of full-time employees in 2019, only the wages of employees who are furloughed or face reduced hours as a result of their employers' closure or reduced gross receipts are eligible for the credit.

**EMPLOYEE RETENTION
CREDIT IS EQUAL TO
50% OF QUALIFIED
WAGES PAID TO
EMPLOYEES.**

The term "wages" includes health benefits and is capped at the first \$10,000 in wages paid by the employer to an eligible employee.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

An eligible employer's ability to claim the Employee Retention Credit is impacted by other credit and relief provisions as follows:

- If an employer receives a Small Business Interruption Loan under the Paycheck Protection Program (PPP), authorized under the CARES Act, then any wages used towards PPP forgiveness are not eligible for this credit.
- Wages for this credit do not include wages for which the employer received a tax credit for paid sick and family leave under the Families First Coronavirus Response Act.
- Wages counted for this credit can't be counted for the credit for paid family and medical leave under section 45S of the Internal Revenue Code.
- Employees are not counted for this credit if the employer is allowed a Work Opportunity Tax Credit under section 51 of the Internal Revenue Code for the employee.
- Wages paid to related individuals of a greater than 50% owner shall not be taken into account for purposes of this credit.

In order to claim the new employee retention credit, eligible employers will report their total qualified wages and the related health insurance costs for each quarter on their quarterly employment tax returns, which will be Form 941 for most employers, beginning with the second quarter. The taxpayer may file an amended quarterly employment tax return using Form 941-X within three years of originally filed Form 941. The credit is taken against the employer's share of social security tax but the excess is refundable under normal procedures. The 2020 ERC received must be reported as a reduction of payroll expenses on the taxpayer's income tax return in the year the associated payroll expenses were incurred, regardless of when the credit is received. This may require taxpayers to amend previously filed business and individual income tax returns.

The 2021 ERC is for qualified wages paid January 1, 2021 through September 30, 2021 and includes modifications to eligibility and amount of available credit. The significant decline in gross receipts is changed to include taxpayers with a greater than 20% decline in gross receipts in calendar quarters in 2021 compared to same period in 2019. This continues until gross receipts have recovered to 80% or greater compared to the same quarter-end in 2019. Taxpayers may also use a look-back calculation to qualify if the preceding quarter had a greater than 20% decline in gross receipts compared to the same period in 2019.

The 2021 ERC enhanced the credit to 70% of qualified wages and is capped at \$10,000 of qualified wages per quarter instead of the entire year. It also changed the definition of large employer to taxpayers with more than 500 average full-time employees in 2019. In addition to the 2020 exceptions, it also excludes wages paid that qualify for Shuttered Venue Operators Grants, Restaurant Revitalization Fund Grants, and the second round of PPP loan forgiveness.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

Taxpayers are required to aggregate its affiliates with common ownership under certain circumstances to determine ERC eligibility. This includes parent-subsidary controlled groups, brother-sister controlled groups, and combined groups of corporations.

The method of accounting used for tax accounting is required to be used to determine if a significant decline in gross receipts occurred. For contractors with a different tax accounting method than its financial or internal accounting method, this may result in a different eligibility for ERC. Contractors that also qualify if their suppliers were unable to deliver critical goods or materials due to governmental orders or shutdowns.

The window is closing for companies to take advantage of the Employee Retention Credit. Taxpayers should review the credit qualifications and their wages paid during the required period to determine if the credit is available.

Delay of Payment of Employer Social Security Taxes

Employers were able to delay paying their employer share of all social security taxes due between 3/27/2020 and 12/31/2020. Please note that the delay did not apply to the employee or employer Medicare taxes or the employee portion of social security taxes.

If employers took advantage of this delay, 50% of the deferred amount is due by 12/31/2021 and the remaining 50% due 12/31/2022. Failure to make a timely payment of these taxes will result in penalties and interest being assessed. Depending on your overall accounting method, the payment of these taxes would result in a tax deduction in the year of payment. Therefore, a taxpayer can opt to pay-off the entire amount of the deferral by December 31, 2021 if they are looking to maximize tax deductions.

Qualified Improvement Property

A technical glitch in the 2017 Tax Cuts and Jobs Act prevented taxpayers from applying 100% bonus depreciation to Qualified Improvement Property. Qualified Improvement Property (QIP) is defined as any improvement made to the interior portion of nonresidential real property after the date the building was first placed in service. Any enlargement of the building, any elevator or escalator or improvement to the internal structural framework of the building does not qualify as QIP. The QIP was originally intended to be 15-year property and subject to bonus depreciation, but it was excluded due to a drafting error.

The CARES Act fixed this “retail glitch” by including QIP in the definition of 15-year property. The change allows taxpayers to claim 100% bonus depreciation on QIP retroactively to January 1, 2018.

2021 Tax Planning Opportunities CORONAVIRUS LEGISLATION

Prepared by: CICPAC | Thompson Greenspon

Taxpayers can take advantage of this correction in the CARES Act by reviewing improvements to existing buildings to determine if the property qualifies as QIP allowing them to claim 100% bonus depreciation on the improvements. Cost segregation tools can assist with maximizing the amount eligible for Qualified Improvement Property. Taxpayers should also consider if electing out of bonus depreciation for QIP would be more advantageous in cases where there are limitations to consider such as passive activities, at-risk or basis limitations. In these considerations, taxpayers should be aware that many states have de-coupled from the federal bonus depreciation deductions which can potentially create another level of complexity in tracking basis and future asset sales as well as disparity in state taxable income on an ongoing basis.

Business Interest Expense

The 2017 Tax Cuts and Jobs Act established IRC Section 163(j) which limits business interest expense to 30% of Adjusted Taxable Income (ATI) for taxpayers with annual gross receipts of \$25 million dollars or more. The CARES Act increases the business interest deduction limit to 50% of ATI for 2019 and 2020 for taxpayers. The taxpayer may elect out of the increased business expense limitation.

**CARES ACT INCREASES
THE BUSINESS
INTEREST DEDUCTION
LIMIT TO 50% OF ATI,
FOR 2019 AND 2020.**

Partnerships must apply the 30% ATI limit for 2019 but will apply the 50% limit in 2020. Partners that are allocated 2019 excess business interest expense (EBIE) will treat 50% of the EBIE as paid or incurred in 2020 and will not be subject to the business interest limitation. Partners will treat the remaining 50% EBIE carried over from 2019 as subject to the limitations.

In addition to the loosened limitations, a taxpayer may elect to use the 2019 ATI when computing the business expense limitation in 2020. This provision assumes 2019 will have higher ATI than 2020 so the election potentially allows a larger business interest expense.

Taxpayers with annual gross receipts over \$25 million (subject to aggregation rules) should evaluate their 2020 ATI and determine if any business interest expenses elections should be made that may increase the deductible amount.

For tax years beginning in 2021, the rules revert to the treatment of business interest expense under TCJA whereby the limitation is 50% of ATI.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

Paycheck Protection Program (PPP)

The construction industry was the leading recipient of U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) funding when implemented this past spring at the onset of the coronavirus pandemic. The CAA expanded the PPP by allowing qualifying businesses to apply for a second loan. The CAA also allowed additional businesses to qualify under a first draw application.

For Federal purposes under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, PPP loan forgiveness was originally noted as excluded from gross income. Even though the IRS stated in a Notice that qualified expenses may not be deductible, the CAA clarified that businesses can deduct expenses even if the expenses were paid for by the PPP loans and forgiveness is obtained. The program creates a range of impact in various financial and tax areas to consider, such as state taxability, financial reporting, and bonding/surety communication.

Families First Coronavirus Response Act (FFCRA)

Please note that the following paid sick and family leave provided under the original FFCRA applied until March 30, 2021. This information provides some framework for the paid sick and family leave after March 30, 2021, but the American Rescue Plan Act expanded the benefits for the leave in place from April 1, 2021 through September 30, 2021.

- **Emergency Paid Sick Leave Act** – Employers with fewer than 500 employees and government employers must provide two weeks of paid sick leave to employees, regardless of how long they have worked, affected by the coronavirus until December 31, 2020.
 - Employees who are quarantined, isolated, or seeking a diagnosis or preventative care for coronavirus will be paid at their regular rate for those two weeks with a cap of \$511 per day.
 - Employees who are caring for family members with the same requirements listed in the bullet above or are caring for children who are affected by school closures or unavailable childcare will be paid at two-thirds their regular rate for those two weeks with a cap of \$200 per day.
 - Full-time employees are entitled to two weeks (80 hours) and part-time employees are entitled to the typical number of hours they work in a two-week period.
 - Employers cannot require the employees to find someone to do their jobs while they are out.
 - Employers of healthcare providers or emergency responders may elect to exclude these employees from application of paid sick leave.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

- Employers with fewer than 50 employees may request exemption from the Secretary of Labor.
- **Emergency Family and Medical Leave Expansion Act** – Employees of employers of fewer than 500 employees and government employees who have been on the job for at least 30 days will have the right to take up 12 weeks of job-protected leave to be used to care for a child of an employee if the child's school or place of care has been closed, or the childcare provider is unavailable, due to a coronavirus.
 - These individuals will receive two-thirds of their pay capped at \$200 a day and \$10,000 in the aggregate.
 - The first 10 days of leave may consist of unpaid leave; however, employees may elect to substitute any accrued vacation leave, personal leave, or medical or sick leave for the first 10 days.
 - The Secretary of Labor has the authority to exclude certain healthcare providers and emergency responders from eligibility of paid leave.
 - The Secretary of Labor also has the authority to exempt employers of fewer than 50 employees from requirements of paid leave if the imposition of such requirements jeopardize the viability of the employer as a going concern.
- **Payroll Credit for Required Paid Sick Leave** – The bill provides a refundable tax credit equal to 100% of qualified paid sick leave wages paid by an employer for each calendar quarter. The tax credit is allowed against the tax imposed by section 3111(a) (the employer portion of Social Security taxes). Qualified sick leave wages are wages required to be paid by the Emergency Paid Sick Leave Act and the following limits will apply:
 - For amounts paid to employees directly affected by the coronavirus as referenced above, the amount of qualified sick leave wages taken into account for each employee is capped at \$511 per day.
 - For amounts paid to employees caring for a family member or for a child whose school or place of care has been closed, the amount of qualified sick leave wages taken into account for each employee is capped at \$200 per day.
 - The aggregate number of days taken into account per employee may not exceed the excess of 10 over the aggregate number of days taken into account for all preceding calendar quarters.
 - If the credit exceeds the employer's total liability under section 3111(a) for all employees for any calendar quarter, the excess credit is refundable to the employer.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

- **Payroll Credit for Required Paid Family Leave** – The tax credit is allowed against the tax imposed by section 3111(a) (the employer portion of Social Security taxes). Qualified family leave wages are wages required to be paid by the Emergency Family and Medical Leave Expansion Act.
 - A refundable tax credit equal to 100 percent of qualified family leave wages paid by an employer for each calendar quarter is available.
 - The amount of qualified family leave wages taken into account for each employee is capped at \$200 per day and \$10,000 for all calendar quarters.
 - If the credit exceeds the employer's total liability under section 3111(a) for all employees for any calendar quarter, the excess credit is refundable to the employer.

Employers were required to provide COVID sick leave and family leave under FFCRA through December 31, 2020. In December 2020, the CAA extended the payroll tax credits for the amount of the FFCRA benefits paid through March 31, 2021 but did not extend the requirement for employers to provide the FFCRA leave. The original FFCRA limits on paid sick and family leave applied from March 2020 through March 31, 2021.

Expansions Under the American Rescue Plan Act for COVID Sick and Family Leave

The American Rescue Plan Act (ARPA) extended the FFCRA paid sick and family leave through September 30, 2021. The 10-day limit on the sick leave for which an employer can claim the sick leave credit also reset at April 1, 2021.

The ARPA added additional reasons an employee can use leave such as:

- Obtaining a COVID-19 immunization
- Recovering from an injury, disability or condition related to COVID-19 immunization
- Seeking or awaiting the results of a COVID-19 test or diagnosis because either the employee has been exposed to COVID or the employer requested the test

The amount of wages for which an employer can claim the credit for paid family leave increased from \$10,000 to \$12,000.

The original qualifications for the paid sick and family leave under FFCRA continue to be available under the expanded leave provided by the ARPA.

Section 139: Tax Free Reimbursements for COVID-19 Expenses

In response to the ongoing pandemic, on March 13, 2020, President Trump declared the coronavirus or COVID-19, a national disaster under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. This declaration put into play a little-known *existing* provision of the tax law –Section 139 of the Internal Revenue Code.

**ANY AMOUNT RECEIVED
AS “QUALIFIED DISASTER
RELIEF PAYMENT”
CANNOT BE TAXED TO
EMPLOYEE AS INCOME.**

Section 139, however, provides that any amount received as a “qualified disaster relief payment” cannot be taxed to the employee as income. These payments are not subject to any federal withholding obligations and do not need to be reported on a Form W-2 or 1099. Significantly, any amounts paid as a “qualified disaster relief payment” are also deductible by the employer.

A “qualified disaster relief payment” under Section 139 includes payments by an employer, not compensated for by insurance or otherwise, paid to or for the benefit for its employees to:

- reimburse or pay reasonable and necessary personal, family, living, or funeral expenses incurred as a result of a qualified disaster; and
- reimburse or pay reasonable and necessary expenses incurred for the repair or rehabilitation of a personal residence or repair or replacement of its contents to the extent that the need for such repair, rehabilitation, or replacement is attributable to a qualified disaster.

The IRS has not issued any guidance specific to COVID-19 and thus it is not entirely clear what types of expenses during this time will be considered “qualified disaster relief payments.” Nevertheless, legislative history and a reasonable interpretation of the statutory text provides that the following payments or reimbursements from employer to employee should qualify under Section 139 provided the expenses are reasonable and necessary, relate to the COVID-19 pandemic, and are not otherwise compensated by insurance:

- Medical expenses of the employee not covered by insurance or otherwise (i.e., copays incurred for COVID-19 treatment);
- Health-related expenses other than medical expenses (i.e., over-the-counter medications used to treat COVID-19);
- Dependent care expenses, such as childcare or tutoring expenses for an employee’s dependent due to school closures; remote learning or home-schooling expenses, such as home internet, computer for use by a dependent, educational materials, subscriptions to online educational resources, etc.;

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

- Expenses associated with working from home, including home office set-up costs, computer, internet, printer, and cell phone costs, and even increased utility costs on account of the home office;
- Transportation expenses due to work relocation including costs associated with taking a taxi or ride-sharing app service from home due to mass public transport closures;
- Critical care and funeral expenses of an employee or a member of the employee's family, who dies from a COVID-19 infection; and
- Other living expenses due to an employee's known exposure to COVID-19 such as hand sanitizers and home disinfectant supplies.

"Qualified disaster relief payments" do not include nonessential, luxury, or decorative items or services. Additionally, Section 139 does NOT cover payments that are wage replacement payments such as sick pay, family medical leave pay, or any other type of salary or leave pay). As such, wage replacement payments will still be taxable wages and will remain subject to income and payroll tax withholding and reporting.

Section 139 does not impose limits on the amount of "qualified disaster relief payments" that employers can make to employees (either individually or in the aggregate). Moreover, Section 139 does not require that employees reach a certain period of employment in order to receive tax-free payments.

2021 Tax Planning Opportunities **CORONAVIRUS LEGISLATION**

Prepared by: CICPAC | Thompson Greenspon

2021 Considerations for Year-End Tax Planning

With the Democrats in control of the house and the senate, the chances of increased income and estate tax rates are very likely to occur for 2022 and beyond. As we continue to follow this development, taxpayers should consider deferring deductions to 2022 and accelerating recognition of income into the 2021 tax year. By doing so could potentially create permanent tax savings. Below are items to consider:

- Accelerate income into 2021
 - Businesses should consider accelerating income or deferring deductions in 2021. Year over year, this could result in real tax savings. This will also maximize the QBI deduction while it is at its current levels. To preserve deductions at higher tax rates, defer equipment purchases and consider not taking bonus or section 179 if you place assets in service in 2021.
 - Defer losses and deductions to years later than 2021 as the value of the deduction could be worth more if tax rates increase as represented under proposed legislation.
 - Individuals should consider converting any traditional IRA to Roth IRA to take advantages of lower rates
- Take advantage of capital gains rates in 2021
 - Consider selling appreciated capital assets and equities to take advantage of preferential rates. Please consult with your investment advisor as there may be other non-tax strategies associated with stocks and bond investments.
 - Consider harvesting capital losses to carry over to subsequent years as a hedge against proposed increases in capital gains rate. Keep in mind the wash sale rules.
 - S Corporations should consider paying out any remaining C corporation Earning & Profits as a dividend in 2020
 - C corporations should consider paying dividends while both the C corporation taxes are lower and the individual taxes are lower.
- If you have management team making over \$400,000 a year, consider a deferred compensation package. This will both push deductions into future years and help avoid the social security donut tax.
- Consider increased gifting and trust strategies to take advantage of the current high estate tax exemption

**We could not
produce our
timely
resources
without the
generous
support of
our sponsors!**



Job Cost Accounting | Project Management | Mobile | Estimating

Helping CPA Firms and their construction clients for over 36 years with software and services specialized for the industry.

- Understands the importance of the client/CPA relationship
- Dedicated, in-house development, sales and support teams
- Used and trusted by over 25,000 contractors and professionals
- Serving contractors and construction-focused CPAs since 1985

Schedule a live demo for your firm or construction clients by visiting foundationsoft.com/live-demo

★ PREMIER SPONSOR



Payroll Processing & Reporting Exclusive to Construction

- Full payroll service provider for all construction trades and sizes
- Checks, Direct Deposits, Tax filings, W2s, ACA and more
- Multiple states, rates and trades on a single timecard
- Mobile app to sync timecard data from the field
- Automated and free construction reporting, including certified payroll, job costing, union and more
- Integrates with popular accounting software, including FOUNDATION®

Schedule a live demo for your firm or construction clients by visiting payroll4construction.com/tour-2

★ SUPPORTER SPONSOR