Coleman & Associates
Fully Integrated Tax, Accounting & Financial Services

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In This Issue

- Easier Loan Forgiveness Application for PPP Loans of $50k or Less
- How to Apply for PPP Loan Forgiveness
- IRS is Behind on Processing Payments
- Plan Now for Your Charitable Giving
- Surviving Spouse: Don't Forget About the Portability Election
- Consider Lifetime Gifts as Part of Your Estate Plan Strategy

Easier Loan Forgiveness Application for PPP Loans of $50k or Less

On October 8, 2020, the Department of Treasury introduced an easier Loan Forgiveness Application for businesses that received PPP loans of $50,000 or less. This new application does not require any calculations for loan forgiveness and borrowers are not subject to any wage or FTE reductions. All relevant payroll reports and records of other qualified expenses should still be kept on file, as they could be requested in the future by the SBA.

Form 3508S and the instructions can be found on the SBA website.

- Form 3508S: https://www.sba.gov/document/sba-form-3508s-ppp-loan-forgiveness-form-3508s)
- Related instructions: https://www.sba.gov/document/support-ppp-loan-forgiveness-form-3508s-instructions

How to Apply for PPP Loan Forgiveness

Below is in excerpt from the Small Business Administration website about obtaining Paycheck Protection Program (PPP) Loan forgiveness. Forgiveness starts with your lender. Some lenders are now accepting loan forgiveness applications, others are not. We've included some basic information here to get you started.

Borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities during either the 8- or 24-week period after disbursement. A borrower can apply for forgiveness once it has used all loan proceeds for which the borrower is requesting forgiveness. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred and borrowers will begin making loan payments to their PPP lender.

1) Contact your PPP Lender and complete the correct form

Many lenders are using a unique online portal for the forgiveness applications.

Your Lender can provide you with either the SBA Form 3508, SBA Form 3508EZ, SBA Form 3508S, or a Lender equivalent.

The 3508EZ and the 3508S are shortened versions of the application for borrowers who meet specific requirements. Your Lender can provide further guidance on how to submit the application.

2) Compile your documentation

Your lender will have a checklist of required documents and many have created unique spreadsheets. This list of documents required to be submitted to the Lender is not all-inclusive.

Payroll *(provide documentation for all payroll periods that overlapped with your 8 or 24 week covered period):*

- Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
- Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
    - Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
    - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the borrower included in the forgiveness amount.

Non-payroll *(for expenses that were incurred or paid during the 8 or 24 week covered period and showing that obligations or services existed prior to February 15, 2020):*

- Business mortgage interest payments: Copy of lender amortization schedule and receipts verifying payments, or lender account statements.
- Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments.
- Business utility payments: Copies of invoices and receipts, cancelled checks or account statements.

3) Submit the forgiveness form and documentation to your PPP Lender

Complete your loan forgiveness application and submit it to your Lender with the required supporting documents and follow up with your Lender to submit additional documentation as requested. Consult your Lender for additional guidance and provide requested documentation in a timely manner.

4) Continue to communicate with your Lender throughout the process

If SBA undertakes a loan review of your loan, your Lender will notify you of the review and the SBA loan review decision. You have the right to appeal certain SBA loan review decisions. Your Lender is responsible for notifying you of the forgiveness amount paid by SBA and the date on which your first payment will be due, if applicable.

Please Note:
If applicable, SBA will deduct any EIDL advance amount you have received from the forgiveness amount remitted to the Lender, as required by the CARES Act. Borrowers are required to retain certain documents for six years after the date the loan is forgiven or repaid in full.

For more information on the PPP, visit the SBA's website https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program

If you need assistance navigating your PPP Loan forgiveness application, please call our office.

IRS is Behind on Processing Payments

Have you mailed in check to IRS that hasn't yet cleared your bank account? Don't cancel the payment or send in another check.

IRS is still behind on processing the mail that has piled up due to COVID-19. Included in the backlog are tax returns or other correspondence sent in by taxpayers with paper checks. There is no need to worry about penalties if you sent the payment in on time. IRS credits payments to accounts based on the envelope's postmark date, not the date the payment is processed. Also, IRS will give relief to taxpayers for bad check penalties for dishonored checks received between March 1 and July 15.

Plan Now for Your Charitable Giving

Charities of all kinds are struggling, in large part because of the coronavirus pandemic. Charitable organizations, such as food pantries, animal protection groups, homeless shelters, churches, colleges and universities, and arts organizations, need help more than ever. Giving to charity not only helps the donee; the donations can be a great tax write-off. Here are tips to supercharge your deduction.

- **Bunch into 2020 the charitable donations that you would usually give over multiple years.** The goal is for your charitable write-offs, along with any other itemized deductions you plan to take on Schedule A, to exceed the standard deduction for your filing status. That's because taxpayers can either itemize or take standard deductions, but not both.

- **If you want to donate valuable property, contribute appreciated investments, such as stocks or shares in mutual funds.** Provided you have owned the property for more than a year, you can generally write off the full value if you itemize. Don't donate property that has declined in value since you acquired it.

- **Donate cash to make use of two new tax rules that apply only for 2020.** Nonitemizers can claim an above-the-line deduction of up to $300 for charitable cash contributions that they make in 2020. This means that for 2020, individuals who don't itemize on Schedule A can take both the standard deduction and a deduction for up to $300 in cash contributions. Note that this extra write-of is per return, meaning couples who file jointly can deduct only $300, not $600.

- **The 60%-of-AGI limit on charitable gifts of cash by individuals is suspended.** Gifts to donor-advised funds and private nonoperating foundations are excluded. The relief applies only to charitable cash contributions that you make this year and deduct on Schedule A of the 2020 Form 1040 or 1040SR that you file in 2021. Carryovers of excess charitable contributions from prior years don't get the break. If you've been contemplating a large cash gift to charity, now's the time to do it.

- **Give to an IRS-recognized section 501(c)(3) charitable organization.** Use IRS's online "Tax Exempt Organization Search" tool to verify whether a group is tax-exempt and whether it is eligible to receive tax-deductible contributions.

- **Watch out for bogus charities and solicitors.** IRS is warning taxpayers to be alert both to scammers who claim to solicit funds for coronavirus victims and to charities with names similar to well-known charitable institutions.

- **Donations you make to individuals are not tax-deductible.** Donations you make through personal fund-raising websites that are earmarked for a single person or small group are also not deductible. This includes payments made on sites to assist with a person's medical costs or to help a family who is struggling because of the coronavirus pandemic or a natural disaster.

Surviving Spouse: Don't Forget About the Portability Election

Portability allows a surviving spouse to apply a deceased spouse's unused federal gift and estate tax exemption amount toward his or her own transfers during life or at death. For 2020, the exemption amount is $11.58 million, and the IRS just announced that that amount will increase to $11.7 million for 2021.

To secure these benefits, however, the deceased spouse's executor must have made a portability election on a timely filed estate tax return. The return is due nine months after death, with a six-month extension option. Unfortunately, estates that aren't otherwise required to file a return (because they don't meet the filing threshold) often miss the deadline.

Qualifying for an automatic extension
In 2017, the IRS made it easier for estates to obtain an extension of time to file a portability election. For all deaths after 2010, the IRS grants an automatic extension, provided:

- ✓ The deceased was a U.S. citizen or resident,

- ✓ The executor wasn't otherwise required to file an estate tax return and didn't file one by the deadline,
- ✓ The executor files a complete and properly prepared estate tax return on Form 706 within two years of the date of death, and
- ✓ The following language appears at the top of the return: "FILED PURSUANT TO REV. PROC. 2017-34 TO ELECT PORTABILITY UNDER §2010(c)(5)(A)."

Other considerations

Bear in mind that portability isn't *always* the best option. All relevant factors should be considered, including nontax reasons that might affect the distribution of assets under a will or living trust. For instance, a person may want to divide assets in other ways if matters are complicated by a divorce, a second marriage or unusual circumstances.

Also, absent further legislation, the federal gift and estate tax exemption is slated to revert to pre-2018 levels after 2025. Portability continues, though, for those whose estates will no longer be fully sheltered, so additional planning should be considered.

Don't miss the deadline

If your spouse predeceases you and you'd benefit from portability, be sure that your spouse's estate files a portability election by the applicable deadline. Contact us with any questions you have regarding portability.

Consider Lifetime Gifts as Part of Your Estate Plan Strategy

With the federal gift and estate tax exemption now at a record high $11.58 million for 2020, increasing to $11.7 million for 2021, most estates aren't taxable. But that doesn't mean making lifetime gifts isn't without significant benefits — even if your estate isn't taxable under the current rules. Let's examine reasons why gifting remains an important part of estate planning.

Lifetime gifts reduce estate taxes

If your estate exceeds the exemption amount — or you believe it will in the future — regular lifetime gifts can substantially reduce your estate tax bill. The annual gift tax exclusion allows you to give up to $15,000 per recipient annually tax-free without using up any of your gift and estate tax exemption. In addition, direct payments of tuition or medical expenses on behalf of your loved ones are excluded from gift tax.

Taxable gifts — meaning gifts beyond the annual exclusion amount and not eligible for the tuition and medical expense exclusion — can also reduce estate tax liability by removing future appreciation from your taxable estate. You may be better off paying gift tax on an asset's current value rather than estate tax on its appreciated value down the road.

When gifting appreciable assets, however, be sure to consider the potential income tax implications. Property transferred at death receives a "stepped-up basis" equal to its date-of-death fair market value, which means the recipient can turn around and sell the property free of capital gains taxes. Property transferred during life retains *your* tax basis, so it's important to weigh the estate tax savings against the potential income tax costs.

Tax laws aren't permanent
Even if your estate is within the exemption amount now, it pays to make regular gifts. Why? Because even though the Tax Cuts and Jobs Act doubled the exemption amount, and that amount will be adjusted annually for inflation, the doubling expires after 2025. Without further legislation, the exemption will return to an inflation-adjusted $5 million in 2026.

The good news is that the IRS issued final regulations in late 2019 that should provide comfort to taxpayers interested in making large gifts under the current gift and estate tax regime. The concern was that a taxpayer would make gifts during his or her lifetime based on the higher exemption, only to have their credit calculated based on the amount in effect at the time of death.

To address this fear, the final regs provide a special rule for such circumstances that allows the estate to compute its estate tax credit using the higher of the exemption amount applicable to gifts made during life or the amount applicable on the date of death.

Gifts provide nontax benefits
Tax planning aside, there are other reasons to make lifetime gifts. For example, perhaps you wish to use gifting to shape your family members' behavior — for example, by providing gifts to those who attend college.

Regardless of the amount of your wealth, consider a program of regular lifetime giving. We can help you devise and incorporate a gifting program as part of your estate plan.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.