

Monthly Newsletter - January 2021

In This Issue

- 2021 Has 53 Fridays – Does This Mean an Extra Payroll?
- 2021 Retirement Plan Limits
- More Stimulus Payments on the Way
- PPP Loans Are Now Tax Deductible

Important Dates & Deadlines to Note

January 15th

- ❖ 4th quarter estimated payments due
- ❖ 1099 information due in our office if we prepare your forms

February 1st

- ❖ W-2's must be distributed to employees and submitted to Social Security Administration
- ❖ 1099's must be distributed to recipients

2021 Has 53 Fridays – Does This Mean an Extra Payroll?

Our year is 365 (or 366) days long. This does not divide evenly into the seven days of the week. This year contains 53 Fridays, which give your weekly or bi-weekly salaried employees an extra paycheck in 2021.

In any year with 365 days, there will be six days of the week that occur 52 times and one day of the week that occurs 53 times. In a leap year, with 366 days, there will be five days of the week that occur 52 times and two days of the week that occur 53 times.

If you pay your salaried employees on Fridays, then you have 53 or 27 paydays in 2021.

There are three options for you:

- Do nothing and pay the same amount for each payday, recognizing one extra paycheck in the year. This results in a higher annual payroll cost for salaried employees.
- Divide annual salaries by 53 or 27 paydays. This will result in smaller employee checks each payday, countered by an extra paycheck at year's end. For instance, if a salaried employee is paid \$52,000 a year, an employer can recalculate the per-paycheck amount so it ends up working out to be \$52,000 over 27 paychecks every other week instead of 26 paychecks. Employers electing this option should ensure compliance with the federal Fair Labor Standards Act and any relevant state wage laws.
- Another solution some favor is to change from a paycheck every two weeks to a twice-per-month paycheck. Be sure to adjust benefits deductions accordingly.

2021 Retirement Plan Limits

As part of your 2021 tax planning, now is the time to review funding your retirement accounts. By establishing your contribution goals at the beginning of each year, the financial impact of saving for your future should be more manageable.

Here are annual contribution limits for 2021:

Plan		2020	2021	Change
SIMPLE IRA	Annual Contribution <i>50 or over catch-up</i>	\$13,500 <i>Add \$3,000</i>	\$13,500 <i>Add \$3,000</i>	No Change <i>No Change</i>
401(k), 403(b), 457 and SARSEP	Annual Contribution <i>50 or over catch-up</i>	\$19,500 <i>Add \$6,500</i>	\$19,500 <i>Add \$6,500</i>	No Change <i>No Change</i>
Traditional IRA	Annual Contribution <i>50 or over catch-up</i>	\$6,000 <i>Add \$1,000</i>	\$6,000 <i>Add \$1,000</i>	No Change <i>No Change</i>
AGI Deduction Phaseouts:	Single; Head of Household	65,000 - 75,000	66,000 - 76,000	+ \$1,000
	Joint nonparticipating spouse	196,000 - 206,000	198,000 - 208,000	+ \$2,000
	Joint participating spouse	104,000 - 124,000	105,000 - 125,000	+ \$1,000
	Married Filing Separately (any spouse participating)	0 - 10,000	0 - 10,000	No Change
Roth IRA	Annual Contribution <i>50 or over catch-up</i>	\$6,000 <i>Add \$1,000</i>	\$6,000 <i>Add \$1,000</i>	No Change <i>No Change</i>
Contribution Eligibility	Single; Head of Household	124,000 - 139,000	125,000 - 140,000	+ \$1,000
	Married Filing Jointly	196,000 - 206,000	198,000 - 208,000	+ \$2,000
	Married Filing Separately	0 - 10,000	0 - 10,000	0 - 10,000
Rollover to Roth Eligibility	Joint, Single, or Head of Household	No AGI Limit	No AGI Limit	No AGI Limit
	Married Filing Separately	Allowed / No AGI Limit	Allowed / No AGI Limit	Allowed / No AGI Limit

If you have not already done so, please consider:

- Reviewing and adjusting your periodic contributions to your retirement savings accounts to take full advantage of the tax advantaged limits
- Setting up new accounts for a spouse or dependent(s)
- Using this time to review the status of your retirement plan
- Reviewing contributions to other tax-advantaged plans including flexible spending accounts and health savings accounts

Questions about your retirement plan options? We can help.

More Stimulus Payments on the Way

You could soon see another stimulus payment in your bank account with the recent passage of the Emergency Coronavirus Relief Act of 2020, which means more direct relief to you and your family. Here are some of the major points you need to know that are buried inside this \$900 billion piece of legislation.

Direct stimulus payments to you. The legislation includes a \$600 payment per person, including adults and dependent children who are under age 17. Payments are based on your 2019 income and should start being distributed shortly, per Treasury Secretary Mnuchin. The payment amount phases out for adjusted gross incomes over \$75,000 for single taxpayers and \$150,000 for married couples.

Extension of unemployment benefits. Federal unemployment benefits of up to \$300 per week are extended through March 14. Benefits for self-employed workers, set to expire at the end of 2020, are also extended.

You must first file for unemployment with your state, if you have not already done so. These benefits also apply to self-employed and part-time employees. Many workers who were eligible for this unemployment earlier in 2020 did not file because this class of workers is typically not eligible for most state unemployment programs.

New PPP loan funds. There is additional money available from the Small Business Administration (SBA) for a new round of Paycheck Protection Program (PPP) loans. The new loan program is targeted to businesses that need the funds. To qualify, your business must have 300 or fewer employees and have seen a drop in revenue of 25% or more during any quarter in 2020. Some of the money is earmarked for very small borrowers, underserved communities, and small lenders. There are even simplified requirements for forgiveness if the loan amount being applied for is less than \$150,000.

Eviction moratoriums and rent assistance. The bill extends until January 31, 2021 a moratorium on evictions that was scheduled to expire at the end of 2020. The bill also includes \$25 billion in emergency assistance to renters.

There is much more in this huge bill, including relief for hard-hit industries, education, student loans, and vaccine assistance.

PPP Loan Expenses Are Now Tax Deductible

If you or your business received funds from the Paycheck Protection Program (PPP), the recently passed Consolidated Appropriations Act, 2021 will help to dramatically cut your tax bill. Here's what you need to know.

The bill specifies that business expenses paid with forgiven PPP loans are tax-deductible. This supersedes IRS guidance that such expenses could not be deducted and brings the policy in line with what many have argued was Congress's intent when it created the original PPP as part of the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act.

The pandemic relief bill clarifies that "no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied, by reason of the exclusion from gross income provided" by Section 1106 of the CARES. This provision applies to loans under both the original PPP and subsequent PPP loans.

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

This publication provides summary information regarding the subject matter at time of publishing. Please call with any questions on how this information may impact your situation. This material may not be published, rewritten or redistributed without permission, except as noted here. This publication includes, or may include, links to third party internet web sites controlled and maintained by others. When accessing these links the user leaves this newsletter. These links are included solely for the convenience of users and their presence does not constitute any endorsement of the Websites linked or referred to nor does COLEMAN & ASSOCIATES CPAs LTD have any control over, or responsibility for, the content of any such Websites. All rights reserved.