Covenant CPA LLC

TaxTips

Keeping You Informed • Winter 2020

Your Trusted Advisors

Covenant CPA LLC | *Taxpro@Covenant-cpa.com* | www.Covenant-CPA.com

Our mission is to partner with businesses and families to achieve financial success through Biblical principles in order to further God's kingdom.

Save Time, Go Paperless!

We can now offer you a completely paperless option for filing your tax returns using your portal and our new eSignature feature.

What is needed to use the eSignature feature?

- Existing portal with Covenant CPA LLC. Call us to create one for you if you do not already have one.
- Have an internet connection.
- Valid Taxpayer & Spouse (if applicable) email addresses. *They can not be the same email address.*
- Valid checking or savings account and routing numbers for all refunds and/ or payments.

What is the benefit of having a Portal? Your important documents at your fingertips, anytime, anywhere!

Due Dates for 2020 Filing:

Individual Returns:

April 15, 2021

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Partnership and S-Corp Returns:

March 15,2021

New Charitable Contribution Rules - *Non-Itemizers Can Claim a Deduction.*

The CARES Act makes two significant changes to the rules governing charitable deductions for individuals.

Individuals will be able to claim a $300 above-the-line deduction for cash contributions made to public charities in 2020. This rule effectively allows a limited charitable deduction to any taxpayer claiming the standard deduction. For this deduction, married taxpayers who file a joint return are considered one taxpayer and are limited to $300. Normal documentation rules apply.

For individuals, the limitation on charitable deductions that is generally 60% of modified adjusted gross income (the contribution base) does not apply to cash contributions made to public charities in 2020. Instead, an individual's qualifying contributions, reduced by other contributions, can be as much as 100% of the contribution base. No connection between the contributions and COVID-19 is required. Note: This higher limit does not apply to donations to private foundations or donor-advised funds.

Economic Impact Payments - *How Will They Affect Your 2020 Return?*

As part of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), the IRS made economic impact payments (EIPs) to certain taxpayers. The eligibility for and the amount of an EIP generally depended on the taxpayer's 2019 federal income tax return. If one was not filed at the time of eligibility, the IRS used the taxpayer's 2018 federal income tax return. If you received an EIP, the IRS mailed a Notice 1444 to your last known address. That form shows the amount of your EIP. Keep this notice with your tax records.

The EIP is considered an advance credit against your 2020 tax. You are not required to include the payment in taxable income on your 2020 tax return or pay income tax on the payment. When you file your 2020 federal income tax return next year, the EIP will not reduce your refund or increase the amount of tax you owe.

If the EIP was based on your 2018 tax return and your circumstances changed in 2019, you may claim any additional credit for which you are eligible on your 2020 return. This may occur, for example, if you had a child or if your income was lower in 2019. Conversely, if your payment was based on your 2018 return and circumstances changed so that you would have received a smaller amount based on your 2019 return, you are not required to repay the excess or reduce your 2020 refund.

Recent Legislation Changes Some IRA Rules - *How Does This Affect You?*

The CARES Act suspends the required minimum distribution (RMD) rules for 2020. This means any RMD a taxpayer would have been required to make before December 31, 2020, as well as any RMD required to be made by April 1, 2020, based on meeting the required beginning date in 2019, is not required. However, if the RMD due on April 1, 2020 was made before January 1, 2020, it may not be rolled over or redeposited.

If you received distributions from your IRA in 2020, you might be able to spread the tax over the course of three years if you were diagnosed with coronavirus, if your spouse or dependent was diagnosed with coronavirus or if you experienced adverse financial consequences while being quarantined, furloughed, laid off or had work hours reduced; were unable to work due to lack of child care because of the disease; or a business you operated closed or had reduced hours due to the pandemic.

The *Setting Every Community Up for Retirement Enhancement Act of 2019* (SECURE Act) also made changes to the RMD rules including raising the RMD to age 72 for individuals who had not yet attained age 70 1/2 by December 31, 2019, and limiting the type of beneficiaries who can continue to receive RMDs over the beneficiary's life expectancy. Nonspouse beneficiaries can no longer stretch inherited IRA distributions over their lifetime. Distributions must be made within 10 years of the IRA owner's death.

The additional 10% tax on early distributions from IRAs and defined contribution plans such as a 401(k) is waived for distributions made between January 1 and December 31, 2020 if you or a family member was infected with COVID-19 or were economically harmed by COVID-19. Penalty-free distributions are limited to $100,000 and, subject to plan guidelines, may be re-contributed to the plan or IRA. Income arising from the distributions is spread out over three years unless you elect to not have the three-year spread apply.

Did You Receive a PPP Loan? - *Some Banks Are Now Accepting Forgiveness Applications.*

Many small businesses impacted by the coronavirus pandemic were eligible to apply for a loan through the Payroll Protection Program (PPP). These loans were essential for helping to keep employees working and businesses open.

In general, 100% of the loan can be forgiven—if you meet certain criteria. First and foremost, to get your loan forgiven, you will need to complete a PPP loan forgiveness application form and submit it to your lender. You can obtain the necessary form (Form 3508 or Form 3508-EZ) from the Small Business Administration at sba.gov.

Secondly, you must use the funds from the loan for certain expenses. The funds from the PPP can be used for the following:

- Payroll (salary, wage, vacation, parental, family, medical or sick leave, health benefits).

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- Mortgage interest, if the mortgage was signed before February 15, 2020.
- Rent, if the lease agreement was in effect before February 15, 2020. (Rent includes rental of office space, business equipment, vehicles or warehouse.)
- Utilities, if service began before February 15, 2020. (Utilities include electricity, water, gas, sewage, cell phone/landline, internet and transportation costs.)

Eligible expenses are those that are incurred over 24 weeks, starting from the day the first payment was made by your lender. This is not necessarily the date on which you signed your loan agreement. At least 60% of the loan proceeds must be used to cover payroll costs. The remaining 40% can be used for other costs.

While all this seems straightforward, there are several other conditions of forgiveness that are dependent on how many employees you retain and how much you pay them. It is advisable that you seek assistance before attempting to tackle this on your own.

Section 179 vs. Bonus Depreciation - *Either Choice Brings Large Deductions.*

Typically, the cost of business assets is recovered over their expected life through depreciation. If your goal is to recover that cost faster, you can either expense it under section 179 or bonus depreciation.

Only certain property qualifies for the section 179 deduction. That property includes tangible personal property, certain computer software and certain qualified real property, such as interior improvements, HVAC or alarm systems or roofs. The property must be acquired by purchase, meaning it cannot be a gift to you or property that you already own and convert to business use.

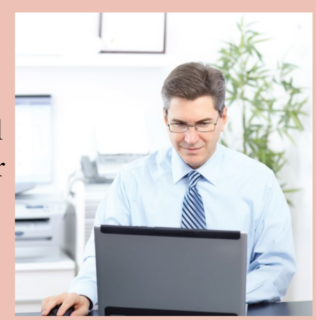
Under section 179, businesses can deduct up to $1,040,000 of qualified equipment immediately, with a limit of $2,590,000, after which the deduction begins to phase out on a dollar-for-dollar basis. The deduction is limited to your taxable income from the business; however, any amount that can not be deducted because of this limitation is carried over indefinitely to later years. Keep in mind, PA is limited to $25,000 of section 179.

One notable drawback to the section 179 deduction is that if the business use drops to less than 50%, some or all of your previous deduction must be recaptured.

Bonus depreciation, on the other hand, has slightly different rules. First, there are no income limits or limits on how much you can spend on assets and write off. If you are a larger business planning to make large purchases of new or used assets, this option may look better for you.

Essentially, bonus depreciation allows you to deduct 100% of the cost of an asset in one year. Qualifying property for bonus depreciation must have a class life of 20 years or less and can include a wide variety of interior, non-load-bearing building improvements. Unlike section 179, bonus depreciation does not apply to roofs, HVAC, fire protection systems, alarm systems and security systems.

One significant difference between bonus depreciation and section 179 is that if you place several assets with the same class life, you must elect bonus depreciation for all or none of them. Electing section 179 allows you to choose. The 100% bonus depreciation amount remains in effect from September 27, 2017 until January 1, 2023. After that, first-year bonus depreciation goes down 20% each year and is set to completely expire after 2026. There is no statutory end to section 179.



PA Tax Change Highlights - *New Beginning Farmer Tax Credit.*

This credit is available for owners of agricultural land or agricultural assets that sell or lease these assets to a Beginning Farmer. Beginning farmer status must be granted through the PA Department of Agriculture. The owner of the agricultural assets is eligible for a tax credit equal to 5% of the lesser of the sale price of FMV of the asset up to max of $32,000 or 10% of the gross rental income of the 1st, 2nd, and 3rd year of the rental agreement, up to $7,000 per year. The credit can be taken against personal PA income tax.

How to Protect Your Business and Your Customers - *Cyberthieves Are Everywhere!*

Everyone knows that having strong locks, a security alarm and perhaps a security guard will help protect your business from a physical break in. But what about the sneaky cyberthieves you can not see coming? There are several things you must implement to protect yourself, your livelihood and your client or customer data. Here are a few essential tips:

- Encrypt your data. Software programs are available to help you do this.
- Use strong passwords and change them often. The longer the password, the better.
- Back up your files often, daily if possible. Using the cloud is a great option.
- Avoid public Wi-Fi. If you do one thing, forbid all use of public Wi-Fi for work activities.
- Provide alternatives such as a mobile virtual private network (VPN) for employees to use when they are not in the office.
- Install antivirus software and use firewalls to protect you from unwanted intrusions.
- Keep your operating systems up to date with the latest security features.
- Develop policies for suspicious emails. This means educating your employees on how to recognize phishing and other suspicious emails.

Cyberattacks have become common, and there is no better investment for your business than a good security plan. If you are not confident you can create one on your own, hire an expert.

Working From Home? - *Know What is Deductible!*

During 2020, many employees were sheltering in place and forced to work from home. The current rules for deducting home office expenses do not apply to employees since deductions for employee business expenses have been suspended until 2026. However, your employer may reimburse you tax free for the actual cost of the business portion use of your home if you meet the exclusive use requirements explained below. The simplified method is not allowed for reimbursement.

If you are self-employed and use part of your home for business, you may be able to deduct expenses allocable to the business use. The home office deduction is available for homeowners and renters. To qualify for the deduction, you must use the space in your home regularly and exclusively as your principal place of business. Any personal use of the space will disqualify you from claiming a home office deduction.

You may choose one of two methods for calculating your deduction—the simplified method or the regular method. The simplified method allows you to claim $5 per square foot for a maximum of 300 square feet. This gives you a home office deduction of no more than $1,500. No other deductions are allowed. You are still permitted, however, to claim any mortgage interest or property taxes on Schedule A, if you itemize deductions.

The regular method requires a bit more recordkeeping. Generally, when using the regular method, deductions for a home office are based on the percentage of your home devoted to business use. So, if you use a whole room or part of a room for conducting your business, you need to figure out the square footage of the business use compared to the square footage of your entire home. This percentage is then used to calculate the percentage of deductible expenses such as mortgage interest, insurance, utilities, repairs and depreciation.

You may choose to use either the simplified method or the regular method for any taxable year. Once you choose, you cannot change your mind for that year. You can, however, use the simplified method one year and the regular method in another. If you use the simplified method for one year and use the regular method for any subsequent year, you must calculate the depreciation deduction for the subsequent year using the appropriate optional depreciation table.

Save a Tree, Use Your Portal!

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