



HAPPY HOLIDAYS FROM BGH

Thank you to all of our clients, contacts, and staff!

What Taxes May Look Like Under The Biden Administration

Democratic presidential nominee Joe Biden has proposed a number of policies that would affect taxes on individuals with income above \$400,000, including raising individual income, capital gains, and payroll taxes. Biden would enact tax changes on corporations by raising the corporate income tax rate and imposing a corporate minimum tax.

Biden's plan includes the following payroll tax, individual income tax, and estate and gift tax changes:

- Imposes a 12.4 percent Old-Age, Survivors, and Disability Insurance (Social Security) payroll tax on income earned above \$400,000, evenly split between employers and employees. This would create a "donut hole" in the current Social Security payroll tax where wages between \$137,700, the current wage cap, and \$400,000 are not taxed.
- Reverts the top individual income tax rate for taxable incomes above \$400,000 from 37 percent under current law to the pre-Tax Cuts and Jobs Act level of 39.6 percent.
- Taxes long-term capital gains and qualified dividends at the ordinary income tax rate of 39.6 percent on income above \$1 million and eliminates step-up in basis for capital gains taxation.
- Caps the tax benefit of itemized deductions to 28 percent of value for those earning more than \$400,000, which means that taxpayers earning above that income threshold with tax rates higher than 28 percent would face limited itemized deductions.
- Phases out the qualified business income deduction (Section 199A) for filers with taxable income above \$400,000.
- Expands the Earned Income Tax Credit (EITC) for childless workers aged 65+; provides renewable-energy-related tax credits to individuals.
- Expands the Child and Dependent Care Tax Credit (CDCTC) from a maximum of \$3,000 in qualified expenses to \$8,000 (\$16,000 for multiple dependents) and increases the maximum reimbursement rate from 35 percent to 50 percent.
- For 2021 and as long as economic conditions require, increases the Child Tax Credit (CTC) from a maximum value of \$2,000 to \$3,000 for children 17 or younger, while providing a \$600 bonus credit for children under 6. The CTC would also be made fully refundable, removing the \$2,500 reimbursement threshold and 15 percent phase-in rate.

- Reestablishes the First-Time Homebuyers' Tax Credit, which was originally created during the Great Recession to help the housing market. Biden's homebuyers' credit would provide up to \$15,000 for first-time homebuyers.
- Expands the estate and gift tax by reducing the exemption amount to \$3.5 million and increasing the top rate for the estate tax to 45 percent.

Biden's plan includes the following business tax changes:

- Increases the corporate income tax rate from 21 percent to 28 percent.
- Imposes a 15 percent corporate minimum tax on book income.
- Offers tax credits to small business for adopting workplace retirement savings plans.
- Expands several renewable-energy-related tax credits, including tax credits for carbon capture, use, and storage as well as credits for residential energy efficiency, and a restoration of the Energy Investment Tax Credit (ITC) and the Electric Vehicle Tax Credit. The Biden plan would also end tax subsidies for fossil fuels.

Remember that the President cannot raise or lower taxes on his own. Congress has to pass legislation to adjust taxes and then send the bill to the President for signature. If the Senate remains in control of the Republicans while the House is controlled by the Democrats, getting new tax legislation without many compromises may be difficult to achieve. ■

*Happy Holidays &
a Prosperous New Year!*

From our family to yours —
the **Partners** and **Staff** of

BORMEL, GRICE & HUYETT, P.A.



IMPACT OF CARES ACT ON YOUR 2020 TAXES

As you plan for the upcoming holiday season and as the end of this tumultuous year approaches, there may be some actions you can still take with the thought of lowering your tax bill. Other than using the common sense approach of deferring income and accelerating deductions to minimize your taxes, there are some things unique to 2020 that should be considered. You may recall that several federal bills were enacted earlier in the year to mitigate the economic and social impact of the coronavirus pandemic (COVID-19). For taxpayers, the most significant of these bills was the Coronavirus Aid, Relief and Economic Security (CARES) Act.

The CARES Act created some changes for 2020 for both individual and business taxpayers including:

- Creating a \$300 (cash) partial above-the-line charitable contribution for individuals taking the standard deduction and for itemizers you can now deduct up to 100% of your AGI (up from 60%) with cash donations.
- Waiving the 10% early-withdraw penalty on retirement account distributions for individuals facing virus-related challenges who are younger than 59 ½ years of age.
- The required minimum distributions (RMDs) from an IRA or 401(k) plans have been waived for 2020.
- For plan participants that turn 70 ½ in 2020 or later, RMDs are now not required for any year before you reach the age of 72.
- Allowing businesses and other entities a five-year carryback of net operating losses (NOLs) incurred in 2018, 2019 or 2020. Carrybacks for 2018 and 2019 were formerly not allowed under the Tax Cut and Jobs Act (TCJA). The NOL limit of 80% of taxable income (enacted in 2018 under TCJA) is also suspended for these three years, so businesses and other entities may use NOLs to fully offset taxable income in future carryover years.

- Increasing the net interest deduction limitation, which limits a business's ability to deduct interest expense paid on tax returns from 30% of earnings before interest, tax, depreciation, and amortization (EBITDA) to 50% for 2020.

Please also keep in mind that 2020 will be the last year for the following:

- The Qualified Principal Residence Indebtedness (QPRI) Exclusion – a tax exclusion for canceled mortgage debt on a principal residence. If you are suffering from the economic impact of COVID-19 and are considering asking your mortgage lender to cancel part of your mortgage debt, ask for relief in 2020 and not 2021.
- The 7.5% floor for the medical expense itemized deduction (will go up to 10% in 2021).
- The 10% Residential Energy Property Credit for energy efficiency improvements (overall credit limit of \$500).
- Empowerment Zone tax credit.
- Work Opportunity tax credit.

For business owners, the expanded Code Section 179 expensing and 100% first-year bonus depreciation deductions are still available on the purchase of business assets. Also, the qualified business income deduction for taxpayers reporting income on a 1040 schedule C or income from an ownership in a business activity reported on a federal Form K-1 is available. Both of these deductions can help to reduce your 2020 taxable income.

Some of the items mentioned could pertain to your tax situation, so please consider them. If you have any questions on any of the items above or anything else related to your 2020 taxes, please reach out to us. We are happy to help. ■

Tax Due Date Calendar

January 15

- Final installment of 2020 estimated tax by individuals, trusts and estates due

February 1

- Last day to paper or electronically file W-2's and 1099-NEC
- Last day to receive W-2 forms and most 1099 statements from your employer, banker, broker, etc.
- Fourth quarter 2020 payroll tax returns and annual federal unemployment returns due

March 1

- Paper file Forms 1098, 1099, and W-2G
- If Forms 1098, 1099, or W-2G are filed electronically, the due date for filing with the IRS and SSA is extended to March 31, 2021

March 15

- S Corporation and Partnership income tax returns for calendar year 2020 due
- Last day for calendar year S Corporations and Partnerships to file Form 7004, an automatic six-month extension of time, for 2020 income tax returns

April 15

- Individual income tax returns or Form 4868 (automatic six-month extension) plus payment of any 2020 tax liability due
- First quarter individual estimated tax payments due for 2021 for individuals, trusts and estates
- C Corporation income tax returns for calendar year 2020 due or last day for calendar year C Corporations to file Form 7004, an automatic six-month extension of time for 2020 tax returns plus payment of any 2020 tax liability due
- 2021 Maryland personal property tax returns due
- Last day for making 2020 IRA contributions
- Gift tax returns (Form 709) and payment of any gift tax due for 2020. If your income tax return is extended, the gift tax return will automatically be extended for six-months, or otherwise file Form 8892
- Calendar year fiduciary income tax returns and requests for 5½ month automatic extensions due

- First installment for corporation estimated income tax due for 2021
- FinCEN 114 is due

April 30

- First quarter 2021 payroll tax returns due

June 15

- Payment of second installment of 2021 estimated tax by individuals, trusts and estates is due
- Second quarter of 2021 estimated tax is due by calendar-year corporations

August 2

- Due date for 2020 Annual Return/ Report of Employee Benefit Plan (Form 5500)
- Second quarter 2021 payroll tax returns due

September 15

- Payment of third installment of 2021 estimated tax by individual, trusts and estates
- Payment of third installment of 2021 estimated tax by calendar-year corporations

- Last day of filing 2020 Form 1065 for S Corporations and Partnerships that obtained an automatic six-month extension

September 30

- Form 1041 extended due date

October 15

- Last day for filing 2020 income tax return by calendar-year corporations that obtained an automatic six-month filing extension
- Last day for filing 2020 individual income tax returns for those who obtained an automatic six-month filing extension
- Form 5500 extended due date

November 1

- Third quarter 2021 payroll tax returns due

December 15

- Payment of last installment of 2021 estimated tax by calendar-year corporations

If you have any questions about these new due dates, please feel free to call our office

Paycheck Protection Program Loan Forgiveness

The SBA is currently taking applications for loan forgiveness, however you must first apply to your lender. Your lender will notify you when you may apply for forgiveness.

This article summarizes the key concepts and considerations of the PPP Loan forgiveness process. Borrowers will undeniably have their own specific situations that will still need to be addressed with their banks and advisors.

If you have any questions regarding PPP loan forgiveness, please feel free to reach out to one of the many trained accounting professionals at Bormel, Grice & Huyett, P.A.

The Paycheck Protection Program Flexibility Act was enacted on June 5, 2020

The two biggest changes are:

- The 8-week period to use your PPP funds has now been extended to 24 weeks.
- Previously, you had to spend at least 75% of the funds on payroll. You now need to spend only 60% of the funds on payroll.

If you received your PPP loan before June 5th, you can still use an 8-week period.

The conditions of the Paycheck Protection Program

The loan amount is based on your average monthly payroll cost for 2019. You can receive 2.5 times that amount to help cover 8 weeks of payroll.

Following are the terms of the PPP loan:

The funds from the PPP can be used for the following purposes:

- Payroll
- Mortgage interest
- Rent
- Utilities

All expenses that fall under those categories are eligible for forgiveness. Each category has a specific set of parameters. Contact us if you need further guidance.

The following conditions will also apply for the 24 week coverage period:

Eligible expenses are those that are incurred over 24 weeks, starting from the day the first payment was made by your lender.

December 31, 2020 is the final cutoff date for eligible expenses. For loans being disbursed July 16th and later, this means that you will not be able to take full advantage of the 24 weeks.

The 60/40 rule

At least 60% of your loan must be used for payroll costs.

Staffing requirements

Spending your PPP funds on the right things is straightforward enough. But things get more complicated when you do not keep your headcount and employee pay levels the same. This becomes relevant if your loan is based on payroll expenses alone or you did not have enough additional other eligible expenses. In addition, borrowers choosing shorter than eight- or 24-week covered periods, and that have a reduction of salaries or wages of more than 25%, must calculate the forgiveness reduction over the entire eight- or 24-week forgiveness period.

Reductions in your forgiveness amount (Headcount and Wage reductions) - Each of these potential reductions offer a Safe Harbor solution to qualify for full forgiveness.

Consideration for any FTEE reduction over the coming weeks will be important as well. The application requires a borrower to account for the total spent on all eligible expenses on the application during the covered period and then apply the FTEE reduction percentage.

FTE Requirement - You must maintain the number of employees on your payroll

Safe Harbor - Exemptions on rehiring employees – See application or contact us for specific details

Pay requirements - You must maintain at least 60% of total salary.

This requirement will be individually assessed for every employee that did not receive more than \$100,000 in annualized pay in 2019.

Safe Harbor - Rehiring grace period - See application or contact us for specific details

Forgiveness for self-employed individuals

You are entitled to use the PPP loan to replace lost compensation due to the impacts of COVID-19. You are eligible to claim 2.5 months' worth of your 2019 net profit to replace pay. If you did not have any other payroll expenses factoring into your PPP loan amount, this means that your entire PPP loan could be forgiven for the 24-week period.

Applying for loan forgiveness

If you have used all of the loan proceeds for which you are requesting forgiveness, you can apply for forgiveness at any time if your bank is accepting applications.

Applications for loan forgiveness will be processed by your lender. You will need to fill out a PPP Loan Forgiveness Application form and submit that to your lender. You must request forgiveness of your loan using one of three forgiveness application forms approved by the SBA.

Application Forms

3508EZ – Released June 16, 2020 – Self Employed and no employees and no employee payroll cost or meets the FTE and Salary reduction requirements

3508S – Released October 8, 2020 - Loans under \$50,000

3508 – Revised version released June 16, 2020 – Use if not qualified for 3508EZ or 3508S

After you submit your application for forgiveness, your lender is required by law to provide you with a response within 60 days.

Your lender will send their decision to the SBA. The SBA has 90 days to evaluate your application.

These are just some of the considerations to apply for the PPP Loan forgiveness. By contacting us, we can tailor a particular plan that will work best for you. ■

The BGH UPDATE is published for our clients, staff, and professional contacts. Copies will be provided to other business people upon written request. Any action based on information contained herein should be taken only after a detailed review of the specific situation.

The following members of our firm have contributed to this edition:
Larry Bormel, Marlene Collins, Steve Hartong, Matthew Bormel, Laura Quinn and Diane Kriker.

2020 Top 100 Accounting Firms to Work for

The Certified Public Accounting firm of **Bormel, Grice & Huyett, P.A.** was named one of the **2020 Best Accounting Firms to Work for**. Our firm was selected as the 16th best firm to work for in the USA. The annual list of "Best Accounting Firms to Work for" was created by Accounting Today Magazine and Best Companies Group and co-sponsored by ADP.

Founded in 1968 and celebrating 52 years of service, Bormel, Grice & Huyett, P.A. is one of the Baltimore Washington Corridor premier accounting firms, providing the highest quality accounting, tax, audit, financial, business, and professional services to both individual and organizations. The firm provides industry expertise in a number of areas such as not-for-profits, real estate, construction, and professional service providers.

10 Best Firms for Women

Accounting Today annually recognizes the Top 10 Best Firms for Women To Work For and we are extremely proud to announce that Bormel, Grice & Huyett was selected as the **No. 5** firm in the nation!

2020 BGH Staff Awards & News

The 2020 BGH Staff Awards were presented to the following very deserving staff members:



Award of Appreciation

Pictured left to right

Tina Megofna, Marlene Collins, and Dawn Milam



Thumbs Up

April Miller



Superstar

Mary DeStefano



BGH's **Ron Rendle** distributed gifts for needy children in the Laurel area. Our staff contributed gifts and money to help with this awesome endeavor. This was organized by LARS.



BGH welcomed new team member **Diane Kriker** to our tax department. She is a graduate of Strayer University. She has been working in the accounting field for 30 years. She enjoys the outdoors and visiting new places.



BGH also welcomed new team member **Michelle Parcels** as our new Firm Administrator. Michelle has over 20 years' experience in administration/operations in diverse industries for both domestic and international firms. She enjoys traveling and exploring new cultures.

Barry Fields, CPA, recently conducted a tax planning seminar for members of the Central Maryland Chamber of Commerce.

We would like to congratulate **Matthew Bormel** and **Lindsay Kleeman** on their wedding on October 17, 2020.



In addition to supporting children in the Laurel area, BGH provided dinner to the Laurel Volunteer Fire Department first responders.

TENANT SPACE AVAILABLE IN 20TH HOLE OFFICE BUILDING AT THE GREENS OF PATUXENT!

20TH HOLE, LTD. has suites available for occupancy up to 5,500 square feet available located at 14409 Greenview Drive, Laurel, MD 20708.

Please call **Tina Megofna** at **(301) 953-3259** for further information.