



Covid-19 Resources

FAQs – April 8, 2021

Getting you the answers to the many questions related to Covid-19 and its impact to you is our first priority. Things continue to evolve and change very rapidly, but please know that our team is working as quickly as possible to understand all that is taking place and going to the source for the answers. Our goal is to get you answers and information that is in **your** best interest and not get waylaid with distractions. Below are the most recent questions we have been fielding.

Upcoming Tax Deadlines

The filing deadline for individual tax returns has been pushed back to May 17th, but April 15th may still loom as an important date for many. Certain due dates which are tied to the 1040 deadline (such as making prior year contributions to Individual Retirement Accounts or Health Savings Accounts) are extended to May 17th. However, **the first estimated payment for 2021 has not been extended and remains due on April 15th**. As this amount is often based on the prior year tax return, it may still be imperative to have your 2020 return completed, or at least to the point of a solid estimate, before April 15th.

One strategy often used when making the first estimated payment is to take an overpayment on a prior year return and apply that to the next year's estimate instead of getting a refund. This can even be done by making a payment with an application for extension. Some commentators are claiming that you can extend your 2020 return any time up to May 17th and make a payment that results in your 2020 return being overpaid. You can then apply that to your 2021 tax, which will be treated as if it had been paid when the first 2021 payment was due on April 15th. It is not clear if this will pass IRS scrutiny, so we are hesitant of this approach. To be entirely certain you should either make your first quarter estimated payment by April 15; or, make the extra payment with your extension – filed on or before April 15, 2021.

What's the plan with PPP/ERC – what do I do now?

When you applied for Round 1 of the PPP, the law stated that you cannot also participate in ERC payroll tax credits. This law has changed and you may now qualify for the ERC even if you received a PPP loan. One aspect of the law has not changed. That is, you may not use the same payroll for ERC that you used for PPP purposes.

To the extent you are successful in obtaining dollar-for-dollar payroll credits in 2020 from the ERC, it will increase your taxable business income resulting in a slightly higher income tax. For example, if you qualified for \$20,000 of payroll tax credits that would result in a \$20,000 refund from 2020 payroll taxes. Including the \$20,000 in income will increase your income tax by your tax bracket. For example, if you were in the 32% bracket the additional cost would be \$6,400. Your net savings are significant at \$13,600.

Priority has been given to clients who are required to pay 2021 estimated tax payments on April 15th given that the ERC affects the minimum safe harbor calculations. If you have not already been contacted about your eligibility

to claim the Employee Retention Credit (ERC) we will be coordinating with you in May to determine what your qualifying period and potential credit may be to determine if pursuing the credit is worthwhile depending on your specific set of circumstances.

Assuming the net benefit will outweigh the cost to pursue the credit, the process of optimizing the ERC and the PPP is the outcome. In addition to calculating the amounts to claim for both programs, we can coordinate with your payroll provider or prepare the 941X Form(s) (Amended Federal Payroll Tax Forms) ourselves for you to submit the claim for refund. It will also involve amending your income tax return(s) with additional income tax due.

We will have more on this special project and its estimated cost in May. Since PPP payments will start to become due about mid-summer, we will want to have this wrapped up in advance so that PPP forgiveness application can be submitted before required PPP loan payments are due (10 months after the covered period which presumably was the 24-week period starting the day you received the original PPP loan proceeds). Example: A PPP loan received on 5/4/2020 using a 24-week covered period (ends on 10/19/2020) has up to 8/19/2020 before a monthly payment is due.

The Application Deadline for the Second PPP Loan has been extended to May 31, 2021

The Paycheck Protection Program now allows borrowers that previously received a PPP loan to apply for a second loan with similar general terms. Eligibility includes:

- Previously received a first draw on the PPP Loan and has or will use the full amount for authorized uses
- Has no more than 300 employees
- Can demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020

Generally applying with the same lender you received the first loan through will be the best way to go.

In addition, to the above the following which comes directly from the SBA should be considered:

"...all borrowers must assess their economic need for a PPP loan under the standard established by the CARES Act and the PPP regulations at the time of the loan application. Although the CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act), borrowers still must certify in good faith that their PPP loan request is necessary. Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that [c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.' Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business. For example, it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and such a company should be prepared to demonstrate to SBA, upon request, the basis for its certification"

Dental Group, LLC - We continue to work both in the office and remotely. Our meetings will be done via teleconference and or online collaboration. If you plan to drop off documents, please call ahead to coordinate a time when we will be in the office as there is no safe place to leave documents at the door.

If you have any questions, please do not hesitate to contact us directly at (425) 216-1612.

Dependent Care Exclusion for Employees (or if your spouse is covered through their employer)

Under prior law, a Dependent Care Assistance Program (DCAP) allows a qualified employee to elect to have up to \$5,000 of their salary tagged as DCAP if their employer has adopted a DCAP Plan. The amount so elected, up to \$5,000, is tax free as long as the taxpayer can document at least that amount of qualified expenditures on a child up to and including 13 years of age during the course of the year as well as certain adults requiring eldercare.

For 2021 only and retroactive to January 1, a DCAP under Internal Revenue Code Section 129 (standalone DCAP) or under Section 125 (Flexible Spending Plan with DCAP) can be amended to cover up to \$10,500 of qualified expenses versus the heretofore “normal” limit of \$5,000. The qualifying child can also be up to age 14 versus 13 for 2021. Unless extended, the limits and age requirements revert back to \$5,000 and age 13 respectively effective for 2022 and forward.

If you offer such a program to your employees you might consider this amendment to your plan. If you have a spouse that utilizes a DCAP through their employer your spouse should inquire if the employer has or will adopt this provision for 2021.

Net Portal Ends 6/1/2021

Effective June 1st, 2021, the old Net Client Portal system will be no longer be accessible. If you have documents in the old portal system that you have not downloaded, please do so before June 1st. If convenient, you may upload those documents to the new TaxCaddy software and use that as your storage location. If you later realize you need something, simply call and we can email it to you via a secure and encrypted email.

Please note that adding folders for prior years is not currently available in TaxCaddy. Thus, if you were to store old files there, we recommend clearly labeling them with dates in the name and using the 2020 folder while keeping 2021 open for current files.

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