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Newsletter June 2020

Upcoming Tax Due Dates

July 15 - Individual Federal and Colorado Income Tax Returns and balance due for 2019 returns.

This date also applies to most states. However, Iowa state income tax returns are due 7/31; Hawaii on 7/20, and Idaho on 6/15. The Virginia date was 05/01.

July 15 - First Quarter 2020 Individual Estimated Tax Payments due.

This applies for federal and most individual state (including Colorado) estimated tax first quarter payments.

July 15 - Second Quarter 2020 Individual Estimated Tax Payments due.

This applies for federal and most individual state (including Colorado) estimated tax second quarter payments.

July 15 - C Corporation Income Tax Returns due for 2019 returns.

July 15 - Fiduciary Income tax returns due for 2019 returns

September 15 - S Corporation and Partnership 2019 Income Tax Returns due that were on extension.

September 15 - Third Quarter 2020 Individual Estimated Income Tax Payments due.

This applies for federal and most individual state (including Colorado) estimated tax third quarter payments.

September 30 - Fiduciary Income Tax Returns for 2019 due that were on extension

October 15 - Individual Income Tax Returns for 2019 due that were on extension

October 15 - Corporation Income Tax Returns for 2019 due that were on extension

Congress Passes Law Making Changes to the Paycheck Protection Program

There is some good news regarding the Paycheck Protection Program (PPP) initially passed by Congress in March as part of the CARES Act and subsequently infused with additional funding in April. As you may know, the initial rollout of the program was rocky and some provisions of the program were criticized by businesses as not doing enough to help. In an effort to address these issues and increase the program's impact, Congress has passed, and today, June 5, the President signed into law, the Paycheck Protection Program Flexibility Act (PPP Flexibility Act).

The changes make it easier for many borrowers to obtain forgiveness of PPP loans. Two of the biggest improvements are the extension of the time for using loan proceeds, and an increase in the percentage of loan proceeds that can be used for expenses other than payroll.

The PPP Flexibility Act extends the time frame (i.e., the covered period) in which PPP funds must be used in order to have the loan forgiven. The covered period, which was originally eight weeks, has been expanded to 24 weeks (but ending no later than December 31, 2020).

The PPP Flexibility Act also allows borrowers to spend up to 40 percent of loan proceeds on nonpayroll costs such as rent, utilities, and interest on mortgages, rather than the 25 percent that was initially specified. The improvement, however, comes with a catch: borrowers who use more than 40 percent of the loan proceeds for nonpayroll costs are now ineligible for loan forgiveness altogether.

Another favorable change was made to the time in which borrowers have to begin repaying a loan that doesn't qualify for forgiveness. That time period is now five years rather than two years.

With respect to the reduction in the amount of a loan that may be forgiven where an employer reduces employee headcounts or wages, a new exemption has been created for businesses that are unable to rehire employees (or hire replacements) or to return to their same level of business activity as before the COVID-19 pandemic as a result of compliance with federal health and safety guidelines.

Other changes in the PPP Flexibility Act include:

A revision to the six-month deferral period that allows borrowers to defer payments until they receive compensation for forgiven amounts, and for those that don't apply for forgiveness, extending the time to begin making payments to 10 months from the program's expiration;
The elimination of a provision that made a paycheck protection loan recipient who had PPP debt forgiven ineligible to defer payroll tax payments.

If you have received a PPP loan and would like more information on these changes or need help with assembling the numbers for a PPP loan forgiveness application, please don't hesitate to get in touch with me

Making Sense of the Stimulus Payment Confusion

Millions of Americans have already received their economic impact payments authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. If you have not received a payment or received an amount larger than you anticipated, you may be looking for some answers. But first, a little background on the payments:

1. The payment is actually a refundable credit that will be computed on your 2020 tax return based upon your 2020 family composition and adjusted gross income (AGI) that is being paid in advance.
2. The credit is $1,200 for each individual other than dependents.
3. Each qualifying individual (or married couple) with a dependent child under the age of 17 will receive an additional $500 for that child. There is no additional $500 credit for children 17 or over or for other dependents.
4. The payments are meant to assist lower-income individuals and families, so the amount of the payment is reduced for higher-income individuals. The reduction begins when a single individual’s AGI reaches $75,000 ($150,000 for married couples). For those that file as head of household, the reduction begins at $112,500. Payments are

reduced by 5% of AGIs exceeding these thresholds.
5. No payment will be made to someone without a Social Security number.

If this refundable credit is based on a 2020 tax return that won't be filed until next year, how does the IRS know how much to pay in advance? Good question! Since the purpose of these advance payments is to quickly get money in the hands of those who need it during this crisis, the government looked for a way to estimate the advance payments, and the most expeditious method was to base the payments on family composition and income from 2019 tax returns or 2018 returns for those who haven't yet submitted their 2019 returns.

Where the 2019 or 2018 return resulted in a refund and included direct deposit information, the advance payments were direct deposited into individuals' or couples' bank accounts in many cases. These direct deposits were made very early in the process. There have been hiccups in which bank account information had changed since the returns were filed, in which case those individuals have to wait for a check to be mailed later.

But the process is not without challenges. Suppose you and your ex-spouse filed a joint 2018 return and were divorced in 2019 but haven't filed your 2019 returns yet. Where will the joint payment go based upon the 2018 return? Or suppose you added a child to your family in 2019 but didn't file the 2019 return in time, and the payment was based on your 2018 return. Your payment will not include the extra $500 for your dependent child. We could go on and on with all sorts of scenarios that are creating unexpected results.

These payments are due to more than just those who filed a 2019 or 2018 tax return. There are many Americans who are not required to file a tax return, including retirees receiving only Social Security (SS) or Railroad Retirement, SS disability, SS survivor's benefits, and veterans' benefits, as well as those who should have filed returns but have not and the homeless.

To reach as many of those individuals as possible, the IRS is automatically making payments of $1,200 to recipients of Social Security or Railroad Retirement, SS disability, SS survivor's benefits, and veteran's benefits who have not filed a 2018 or 2019 tax return. Of course, the IRS has no way of determining if individuals in these categories have spouses who are not receiving benefits or if they have dependent children under the age of 17. These individuals were given the chance to provide their spouses' and dependent children's information to the IRS prior to payments being made. Unfortunately, the time to provide that information has passed. Where the IRS has direct deposit information, the payment will most likely be deposited into the individual's bank account. Others will have to wait for a paper check.

On May 18, 2020, the Treasury Department also announced that it will send nearly 4 million stimulus payments by prepaid debit card instead of paper check.

Those who are not in any of the previously discussed categories can provide their information to the IRS by using the non-filer tool on the IRS web site. **https://www.irs.gov/coronavirus/economic-impact-payments**

If the IRS does not have your direct deposit information, it has changed, or the bank rejected the IRS' attempt to deposit the payment, you will receive the payment by check or debit card. The payments are being issued to the lowest-income individuals first, where the need is the greatest, followed by others with increasing incomes.

What Happens if the IRS does not send me a Stimulus Payment?

The next big question you might have is "What happens if the IRS does not send me an advance payment?" Well, all is not lost, because the payments, as explained earlier, are an advance on a refundable credit allowed on your 2020 tax return when it is filed in 2021. So, if you were short-changed and should have received the advance payment, you will get your payment or any shorted amount as a refundable credit on your 2020 return.

- **Example:** Don and Shirley, whose AGI is less than $150,000, are newlyweds with no children and filed a joint return in 2019. They receive an advance economic impact payment of $2,400. In 2020, they have a baby, and when their credit is determined on the 2020 return, it is $2,900 ($1,200 + $1,200 + $500). Since they only received $2,400 as an advance payment, they will be entitled to a $500 refundable credit on their 2020 return. The credit will first be used to reduce their tax, and then any excess credit will be refunded.

However, keep in mind that the 2020 credit is based on filing status, dependent children under age 17, and AGI for 2020. The advance payment was based on filing status, children under age 17, and AGI for 2019 or 2018, which can create some substantially different results.

Of concern to those whose advance payment was too large is whether the excess will have to be repaid. The CARES Act that authorized this credit and the advance payments specifies that any amount by which the advance exceeds the credit computed for the 2020 tax return does not have to be repaid.

- **Example:** Shelly, a single parent, files her 2019 return claiming her 15-year old daughter, Whitney, as a dependent. Shelly's AGI is below $75,000, so Shelly will receive an economic impact payment of $1,700 ($1,200 for herself and $500 for Whitney). In 2020, Whitney goes to live with her dad, and so when Shelly files her 2020 tax return, she no longer has a dependent child under age 17. Thus, the credit computed on her 2020 return is only $1,200. However, Shelly does not have to pay back the difference.

As you can see, there are any number of variations that can impact how the advance payment was determined and how the credit is figured on the 2020 return, including marriage, divorce, births, deaths, emancipations, and AGI.
If you have questions, please give this office a call.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

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