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CERTIFIED PUBLIC ACCOUNTANTS

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Newsletter March 2021

March 2021 Due Dates

March 15 - Partnerships

File a 2020 calendar year return (Form 1065). Provide each partner with a copy of their Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., or a substitute Schedule K-1. If you want an automatic 6-month extension of time to file the return and provide Schedules K-1 or substitute Schedules K-1 to the partners, file Form 7004. Then, file Form 1065 and provide the K-1s to the partners by September 15.

March 15 - S-Corporations

File a 2020 calendar year income tax return (Form 1120-S) and pay any tax due. Provide each shareholder with a copy of Schedule K-1 (Form 1120-S), Shareholder's Share of Income, Deductions, Credits, etc., or a substitute Schedule K-1 (Form 1120-S). To request an automatic 6-month extension of time to file the return, file Form 7004 and pay the tax estimated to be owed. Then file the return; pay any tax, interest, and penalties due; and provide each shareholder with a copy of their Schedule K-1 (Form 1120-S) by September 15.

Unemployment Fraudsters May Create a Tax Nightmare for Unsuspecting Taxpayers

As if this past year with all of its pandemic perils has not been stressful enough, the Office of the Inspector General for the Department of Labor has just added to our anxieties by announcing that at least $36 billion and possibly as much as $63 billion has been lost to improper unemployment payments having been made. In many cases the improper payments are a result of fraudsters who spent the earliest months of the pandemic filing unemployment claims using stolen personal data. What this means is that millions of unsuspecting Americans are about to receive federal forms reporting unemployment benefits that they never received. Not only does this leave them potentially vulnerable to identify theft issues, but in the short term it also means that the federal government is expecting them to pay income taxes for money somebody else received.

We've all been told to watch out for identity theft, but this newest method feels particularly cruel in the face of all of the other struggles brought by the pandemic. The scammers have taken advantage of the CARES Act's high unemployment payouts, which included an extra $600 per week to offset the pandemic's worst effects on the economy. In an effort to get the relief out quickly, the Pandemic Unemployment Assistance program required little-to-no documentation, and this attracted quick attention from those eager to take unethical advantage. For those whose identify was stolen, what this means is that they may receive a form known as the 1099-G from the federal government, which treats unemployment benefits as taxable income.

If You Receive a 1099-G

There is a solution if you are sent a 1099-G for unemployment benefits that you did not receive, and though it represents a bit of work from the victim, the IRS has indicated that it is aware of the problem and working as hard as it can to help those who have been wronged. They say that recipients of an inappropriate, incorrect 1099-G need to contact their state's unemployment agency and ask them to send a corrected, revised form that will reflect the correct amount provided to them. Though this may be difficult if you live in a state where the unemployment agency's response rate has been slowed by the pandemic and increased need for assistance, some states have established hotlines dedicated to addressing this specific issue and have increased the number of support staff available to help. Much of this increase in attention is the result of guidance that the IRS issued to states at the end of 2020, notifying them of the identity fraud issue.

If you aren't able to get a revised form by the tax filing deadline, the IRS indicates that you should simply file a return that accurately reflects the amount that you received. Be sure to discuss with our office how we can best document your issue.

No Other Steps Required

It's completely natural to feel a bit panicked if you receive one of these forms erroneously, and to worry about the impact of having been the victim of identity theft, but the IRS has indicated that there is no need to file an Identity Theft Affidavit. The agency says that those affidavits are specifically for taxpayers whose e-filed tax return is rejected as a result of a duplication of the use of their Social Security number for a tax filing. Still, if you are concerned and want to take additional steps to protect your identity then you can ask for an Identity Protection PIN when you file your income taxes. Having this unique number will help keep anybody else from being able to use your Social Security number to file a fraudulent tax return.

Beyond that measure specific to the IRS, here are some additional steps you can take to help protect yourself against the impact of identity theft.

- Update your passwords on all personal accounts, including banking, shopping and email
- Notify creditors, banks and others with whom you have an account that you may have been a victim of identity theft. They will place a special alert on your account.
- Contact your local police department to file a report and keep a copy of that report to provide to credit agencies and others if needed.
- Start monitoring your credit report, keeping a sharp eye open for any transactions that you are not associated with. If you need to, dispute transactions with your credit cards or the three credit reporting agencies (Equifax, TransUnion or Experian), and if necessary ask them to freeze your credit until the situation is fully addressed and remedied.

Interaction between PPP Loans and the Employee Retention Credit

The Consolidated Appropriations Act, 2021 (CCA), which was passed by Congress and signed by the president late last December, included a very tax-beneficial provision that liberalized the interaction between PPP loans and the Employee Retention Credit (ERC). Prior to its passage, if an employer obtained a Paycheck Protection Program (PPP) loan, the employer was ineligible to claim the ERC.

However, under the legislation, an employer that is eligible for the ERC can claim the ERC even if the employer has received a PPP loan, under the following circumstances.

- An eligible employer can claim the ERC on any qualified wages that are not counted as payroll costs in obtaining PPP loan forgiveness.
- Any wages that could count toward eligibility for the ERC or for PPP loan forgiveness can be applied to either of these two programs **but not both**.

This gives rise to some beneficial tax opportunities.

- **PPP Loan Forgiveness Denied** – If an employer received a PPP loan and included wages they paid in the second and/or third quarter of 2020 as payroll costs in support of an application to obtain forgiveness of the loan (rather than claiming the ERC for those wages) and if the request for forgiveness was denied, then the employer can claim the ERC related to those qualified wages retroactively by amending their Forms 941 for 2020. This is done by using Form 941-X, Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund.

- **Business Qualified but Never Claimed the ERC** – If a taxpayer did not obtain a PPP loan, qualified for the ERC in 2020, and did not previously take the payroll credit, they can still do so by filing Form 941-X. Form 7200, which is used to request advance payment of the credit, cannot be used in this situation because it must be filed before the original 941 forms are.

The ERC is a government-sponsored program to keep workers employed and is funded by providing qualifying employers with a refundable credit against certain employment taxes. For 2020, the credit is a refundable payroll tax credit equal to 50% of qualified wages, up to maximum wages of $10,000 per employee. Thus, $5,000 is the maximum credit for qualified wages paid to any employee for 2020.

- Example 1: Eligible Employer pays $10,000 in qualified wages to Employee A in Q2 2020. The Employee Retention Credit available to Eligible Employer for the qualified wages paid to Employee A is $5,000.

- *Example 2: Eligible Employer pays Employee B $8,000 in qualified wages in Q2 2020 and $8,000 in qualified wages in Q3 2020. The credit available to Eligible Employer for the qualified wages paid to Employee B is equal to $4,000 in Q2 and $1,000 in Q3 due to the overall limit of $10,000 on qualified wages per employee for all calendar quarters of 2020.*

No credit is available for any period for which an employer is allowed a Work Opportunity Credit with respect to an employee.

Please give this office a call to determine if your business might benefit from this law change or other employer-beneficial changes to the ERC that are effective for 2021 and aren't covered in this article.

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.

Scott Jensen
Kramer & Jensen, LLC

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