

# 2020 Year-End Tax Planning Guide for Businesses

Loree B. Dubois, CPA, MBA  
Partner, Corporate Tax  
Services Group



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# Year in Review

In 2020, business owners have endured unprecedented uncertainty and stress. The COVID-19 pandemic has affected different businesses in different ways, so there's no universal tax planning solution that's right for every business. In today's volatile climate, timely professional tax expertise is more important than ever before.

If we could rewind the clock to last year, no one could have predicted that 2020 would have turned out like it has. There have been two major developments that are likely to affect your company's current tax situation: the COVID-19 pandemic and the 2020 elections.

## **COVID-19 Crisis**

Some businesses were positioned to take advantage of market opportunities that were created by the COVID-19 pandemic. Others were able to shift to work-from-home arrangements or implement effective pivot strategies to keep their operations afloat during the downturn. But other businesses haven't been as fortunate. Some industries — including recreation, travel, hospitality and dine-in restaurants — have experienced severe hardship.

Throughout the year, Congress has enacted various economic relief measures to ease the financial distress caused by the pandemic.

Winter threatens to bring additional surges of COVID-19 and additional government restrictions. However, promising news of effective vaccines and the possibility of additional federal COVID-19 relief measures provide renewed hope for recovery in 2021.

## **2020 Elections**

The 2020 federal elections bring ongoing uncertainty in terms of tax planning. President-Elect Joe Biden would like to [roll back many of the tax breaks](#) provided under the Tax Cuts and Jobs Act (TCJA).

[Key Biden administration proposals](#) that could potentially affect businesses include:

- [Increasing the corporate tax rate from 21% to 28%.](#)
- Implementing a new 15% minimum tax on corporations with at least \$100 million in annual income,
- [Increasing the top marginal income tax rate for individuals \(including owners of pass-through businesses\) from 37% to 39.6%.](#)
- Raising the top long-term capital gains tax rate from 20% to 39.6% for individuals (including owners of pass-through businesses) with income exceeding \$1 million,
- Expanding and simplifying the qualified business income (QBI) deduction for profitable pass-through entities that aren't involved in rental real estate activities,
- Limiting QBI deductions for pass-through businesses earning more than \$400,000 per year,
- [Introducing a "Made in America" tax credit and an additional 10% "offshoring penalty surtax" on profits for goods and services produced overseas and sold back to the United States, and](#)
- Reinstating and expanding Obama-era green tax breaks.

Biden's ability to enact these proposals hinges on the balance of power in Congress. Though the Democrats have retained control of the House, their margin of control has been significantly reduced. Control of the Senate will be determined by a run-off election in Georgia on January 5. If the Democrats can win both seats in the run-off, the Senate will be split 50/50

with Presumptive Vice-President-Elect Kamala Harris casting the tie-breaking vote.

To complicate matters further, several state recounts and legal challenges are pending in the presidential race. The Electoral College is scheduled to certify the results of the presidential race on December 14.

If the Democrats control both the White House and Congress, major tax law changes are expected in 2021 and 2022. If Republicans retain control of the Senate, major tax law changes are less likely to happen over the short run.

### Time for Proactive Measures

In case certain provisions of the TCJA are reversed, it would be prudent to position your business to take advantage of limited-time tax savings opportunities before they expire. Also consider timing income and deductions to maximize taxable income in 2020 while you can count on historically low effective tax rates on income and capital gains.

This strategy runs contrary to the tried-and-true strategy of deferring tax in the current tax year. But it could be beneficial to report higher taxable income in 2020 if you expect tax rates to increase or other unfavorable tax law changes next year.

Each situation is unique. Talk to your tax advisor about what's right for you and your business in light of your current and expected income, future spending plans, relevant tax laws and political developments.

## We Can Help

As we head into 2021, an underlying tone of uncertainty remains. Strategic planning is difficult under these conditions. We continue to monitor tax law developments and encourage you to maintain an open line of communication with us. We can help you take advantage of tax-saving and financial-relief measures during these unprecedented conditions.

Here's a brief summary of tax planning opportunities for your business to consider before year end, as well as links to relevant blogs we've posted in 2019 and 2020.



***"2020 has become the year of uncertainty when it comes to business operations and planning. Business owners have been encountering many unique challenges to their business, as they work to navigate changes under the Coronavirus, Aid, Relief and Economic Security (CARES) Act, and potential changes brought on by the recent election. Continuous planning for these changes and how to take advantage of any pro-taxpayer benefits will be important for the duration they are in place. I hope you find our Year-End Tax Planning Guide for Businesses helpful to navigate through all the changes that may affect your business."***

Loree B. Dubois, CPA, MBA, Partner, Corporate Tax Services Group

# Section 1: Tax Filing Deadlines

Tax Filing Deadlines for Calendar-year businesses – When Are Your 2020 Business Tax Returns Due?

Type of Return	Due Date for 2020 Original Returns
Form 1120 for C corps	Thursday, April 15, 2021
Form 1065 for Partnerships	Monday, March 15, 2021
Form 1120S for S corporations	Monday, March 15, 2021

## Not a Calendar Year Entity?

Companies that use a fiscal year end face the following deadlines for tax years beginning in 2016 or later:

- Form 1120 for C corps: the 15th day of the fourth month after the close of the corporation's tax year.
- Form 1065 for partnerships and Form 1120S for S corporations: the 15th day of the third month after the close of the partnership's tax year.

For C corporations with a June 30 year end, these deadlines aren't effective until the 2026 tax return.

## Disaster Relief

The IRS is providing various types of tax relief for victims of Hurricanes Laura, Sally and Delta, the Iowa derecho, the California and Oregon wildfires, and other natural disasters. If you do business in affected areas, we can help you understand the extended tax filing deadlines and other tax relief provisions that may apply for 2020.



# Section 2: Major Tax Law Developments

We had some big changes in 2020 – here's a summary.

The [Setting Every Community Up for Retirement Enhancement \(SECURE\) Act](#) made changes to the tax law to encourage employers to help people save for retirement.

The [Taxpayer Certainty and Disaster Relief Act](#) extended the following tax breaks through 2020:

- Empowerment zone tax incentives
- The New Markets credit
- The employer tax credit for paid family and medical leave
- The Work Opportunity Tax Credit (WOTC)

The [Families First Coronavirus Response Act](#) temporarily requires covered employers to provide paid sick and family leave for employees in certain situations related to the COVID-19 pandemic. Increased costs are offset by tax credits.

The **Coronavirus Aid, Relief and Economic Security (CARES) Act** provides the following financial relief measures for businesses during the COVID-19 pandemic:

- Retention tax credit for eligible employers that continue to pay employee wages while their operations are fully or partially suspended as a result of certain COVID-19-related shutdowns. Changes to the Employee Retention Credit as part of CAA Section 206 are retroactive to the effective date of the CARES Act.

- Deferral of the employer portion of payments of certain [payroll taxes](#)
- Modification of [net operating loss \(NOL\)](#) and limitation on losses rules
- Modification of the deduction limitation on [business interest](#)
- Technical correction for real estate [qualified improvement property \(QIP\)](#)

The CARES Act also provided loans through the [Paycheck Protection Program \(PPP\)](#) and **Economic Injury Disaster Loan (EIDL) and EIDL Advance program** to help struggling small businesses during the COVID-19 pandemic.

The [PPP Flexibility Act](#) liberalized the rules for how PPP funds can be spent and what qualifies for loan forgiveness.

The Consolidated Appropriations Act, 2021 (CAA, 2021), signed by the President on December 27, 2020 provides clarification of tax treatment of covered loan forgiveness. Taxpayers whose PPP loans are forgiven are allowed deductions for otherwise deductible expenses paid with the proceeds of a PPP loan, and the tax basis and other attributes of the borrower's assets will not be reduced as a result of the loan forgiveness. The law also clarifies that EIDL forgiveness will not be considered gross income. This is welcome news for business owners.

PPP 2 – Second draw PPP loans allows certain small businesses who have experienced a 25% reduction in gross receipts in any quarter during 2020 as compared to 2019 to apply for PPP 2 loan up to \$2 million. More details to follow as SBA guidance is released.



# Section 3: Business Structure & Tax Rates

## To Pass Through or Not to Pass Through?

### Business Structure

Many small businesses operate as sole proprietorships, partnerships, S corporations and other so-called “pass-through entities” to lower taxes. The TCJA temporarily levels the playing field between pass-through entities and C corporations, causing some businesses to question their current business structure.

Under the TCJA, a maximum effective tax rate of only 29.6% applies to pass-through entities that qualify for the full deduction for [qualified business income \(QBI\)](#). But not all entities will qualify for the full amount.

### What's Your Income Tax Rate for 2020?

#### C Corporations vs. Pass-Through Entities

- Federal income tax rate is *permanently* cut to a **flat 21%**.
- Tax rate cut is extended to **personal service corporations**.
- Corporate **AMT** is *permanently* repealed.
- Corporate income is still **double taxed**: 1) at the entity level, and 2) when income is distributed to shareholders.
- Federal income tax rates for individual owners are **slightly lower** through 2025.
- Income thresholds for application of individual rates **increased slightly** through 2025.
- Fewer individuals who own pass-through entities will be subject to the **AMT** through 2025.
- Owners may be eligible for the **QBI deduction** through 2025.
- No federal income tax is paid at the entity level.

Global businesses face complex tax rules under the TCJA. But, in general, there's an incentive for U.S. businesses with subsidiaries outside of the United States to repatriate. In addition, Presumptive President-Elect Biden would like to introduce an additional "offshoring penalty surtax" on profits for goods and services produced overseas and sold back to the United States.

Important: The IRS has plans to issue [proposed regulations](#) that clarify that businesses organized as partnerships and S corporations can exceed the \$10,000 limit on state and local tax (SALT) deductions imposed by the TCJA. Several states, including CT, NY and RI, have enacted laws to provide alternative federal tax benefits for their residents.

Biden would like to increase to the income tax rates for corporations and individuals (including owners of pass-through businesses), as well as limit QBI deductions for pass-through business earning more than \$400,000 per year. He would also like to expand and simplify the QBI deduction for profitable pass-through entities that aren't involved in rental real estate activities.

### **Are You Taking Full Advantage of the QBI Deduction?**

Owners of pass-through entities who employ tax deferral strategies — such as claiming first-year depreciation deductions or making large deductible retirement plan contributions — can inadvertently reduce their allowable QBI deduction. While tax deferral merely creates a timing difference, the QBI deduction is a use it-or-lose-it proposition.

To maximize owners' QBI deductions, before year end, a business might need to:

- Increase W-2 wages, or
- Purchase additional assets

The deductibility of expenses paid for with PPP loans plays a major wrinkle in the QBI deduction calculation as well.

If you're thinking about buying or selling a business, taxes are an important consideration. M&A deals should be timed and structured to minimize taxes. In addition to raising the corporate tax rate to 28%, Biden would like to increase the long-term capital gains tax rate for individuals (including owners of pass-through businesses) with income exceeding \$1 million to 39.6%.

## Section 4: Timing Issues

Have you projected Income and Expenses for 2020 and 2021?

Traditionally, it's better for to defer tax. However, if you expect tax rates to be higher next year, it might be better to shift income into the current tax year.

Under current tax law, corporate and individual tax rates are expected to remain stable. But, based on the results of the 2020 election, certain taxpayer friendly provisions of the tax law could be reversed. In addition, some TCJA provisions are only temporary.

We know the tax rates for 2020. Compared to historical levels, these rates are relatively low. If you believe that rates will remain stable through 2021, it makes sense to **delay income recognition** until next year and **accelerate deductible expenses** into the current year. This will lower taxable income for 2020.

### 4 Ways to Minimize Taxable Income for 2020

1. Defer billing for products or services (cash-basis businesses).
2. Defer delivery of products or services (accrual-basis businesses).
3. Charge expenses on a credit card (deductible in the year charged regardless of when the bill is paid).
4. Accrue bonuses for certain employees and pay them within 2.5 months of the tax year end (accrual-basis businesses).

If you believe that certain favorable tax provisions are likely to be reversed or the tax benefits will be reduced in 2021, consider taking the **reverse timing strategy** to maximize business income that will be taxed at today's favorable rates.



## Have You Projected Income and Expenses for 2020 and 2021?

For **pass-through entities**, income deferral strategies may reduce an owner's QBI deduction. In some cases, it may be necessary to **boost W-2 wages and purchase additional fixed assets** at year end to maximize your QBI deduction. The rules are complex. We can help evaluate your company's specific tax situation to determine the optimal timing for revenue and expense recognition.

## Got NOLs?

The TCJA limited deductions for net operating losses (NOLs) to 80% of taxable income (determined without regard to the deduction). The TJCA also repealed the two-year carryback provision (except for certain farming businesses) for losses incurred after 2017, but it generally allows NOLs to be carried forward indefinitely. In addition, there are unfavorable (but temporary) changes to the rules for deducting pass-through business losses.

**Refund opportunity:** In 2020, many businesses expect to report a loss due to government mandated shutdowns during the COVID-19 pandemic. Fortunately, the [CARES Act](#) temporarily eases the rules for deducting NOLs arising in tax years beginning after December 31, 2017, and before January 1, 2021.

The modified rules allow NOLs to be carried back to each of the five tax years preceding the tax year of the loss. In addition, the CARES Act temporarily removes the 80% loss limitation. The more-restrictive TCJA rules are scheduled to be reinstated for tax years beginning after December 31, 2020. Amended federal income tax returns may be necessary to benefit from these relief measures for years that you've already filed returns.

Small businesses with a loss for 2020 might consider reporting a small amount of taxable income for 2020, rather than take an NOL utilizing tax planning strategies. Doing so can reduce the base for your 2021 estimated tax installments. To avoid an underpayment penalty, you generally must make estimated quarterly payments equal to the lesser of:

- 90% of the previous year's tax (assuming prior year tax was greater than zero), or
- 100% of the current year's tax.

# Section 5: Last-Minute Capital Investments

Should You Buy Equipment and Other Assets Before Year End?

## Section 179 Expensing

Sec. 179 expensing allows businesses to **immediately deduct** the cost of eligible new or used assets, such as equipment and furniture. You may be able to lower taxable income by accelerating depreciation on assets placed in service before year end. But, remember, it's not enough to simply purchase these assets by year end; they must be up-and-running in 2020 to qualify for Sec. 179.

**\$1.04 million** is the Sec. 179 **expensing limit** for 2020.  
The Sec. 179 **phaseout limit** for 2020 starts at **\$2.59 million**.

## Bonus Depreciation

Under the bonus depreciation program, companies can deduct the full cost of certain *new and used* capital expenditures in the year they're placed in service. This break isn't subject to any spending limits or income-based phaseout thresholds. It applies to qualifying property placed in service after September 27, 2017, and before January 1, 2023. Bonus depreciation will be gradually phased out, unless Congress extends it.

**Important:** Not all states allow for bonus depreciation or the higher Section 179 limits.

**New for 2020:** The CARES Act retroactively fixes a technical error in the TJCA that relates to real estate **qualified improvement property (QIP)**. The new law changes the classification of QIP from 39-year property to 15-year property, thereby making it eligible for first-year bonus depreciation. Businesses may be eligible for a refund or a one-time downward adjustment to income on their 2020 return for QIP placed in service after December 31, 2017.

### First-Year Bonus Depreciation Percentages

<b>2018-2022</b>	<b>100%</b>
<b>2023</b>	80%
<b>2024</b>	60%
<b>2025</b>	40%
<b>2026</b>	20%

**Important:** If you expect federal income tax rates to increase under a prospective Biden administration, you may decide to forgo Sec. 179 expensing and bonus depreciation and, instead, depreciate 2020 asset purchases using regular MACRS depreciation schedules. This alternative would increase taxable income in 2020 when tax rates are lower and decrease taxable income in later years when tax rates may be higher. We can help evaluate what's right for your business.

### Financing Considerations

**The TCJA limited interest expense deductions** to 30% of adjusted taxable income (ATI). The limitation applies to C corporations with average annual gross receipts above \$26 million for the three-tax-year period ending with the preceding tax year. Other exceptions for auto dealers, farmers and real estate businesses apply.

This limitation also applies to pass-through entities (such as partnerships and S corporations). It applies to these entities if there are losses in the current year being allocated more than 35% to limited partners or limited entrepreneurs (even if the entity's average income is under \$26 million).

**Refund opportunity:** For 2019 and 2020, the CARES Act generally increases the **limit on deducting business interest** to 50% of ATI. This favorable change provides opportunities for business owners to file amended returns to recover some federal income taxes paid for 2019. It could also lower your tax bill for 2019 and 2020 or create a net operating loss (NOL) that can be carried back five years (another temporary change made under the CARES Act).

The limitation on deducting business interest could affect your after-tax cost of capital and may cause you to **lease** (rather than purchase) assets.

Commercial buildings generally don't qualify for bonus depreciation or Section 179 expensing. But a cost segregation study can identify building components that qualify for these breaks. By carving out certain shorter-lived components — like cubicles, carpeting, decorative lighting, signage and parking lots — you can help reduce taxable income.



# Section 6: Special Rules for Vehicle Purchases



Do You Know the Limits that Apply to Deductions and Fleet Expansions?

The TCJA expands the **breaks for heavy vehicles** (above 6,000 pounds). New and used vehicles placed in service between September 28, 2017, and December 31, 2026, are now eligible for **100% first year bonus depreciation**, if they're used over 50% in your business.

The limit for "luxury vehicles" has also been increased. For passenger vehicles acquired after September 27, 2017, and placed in service during 2020, you can deduct up to:

Year	Sec. 179	Bonus Depreciation	Total Deduction
1	\$10,100	\$8,000	\$18,100
2	\$16,100	-	\$16,100
3	\$9,700	-	\$9,700
4 and beyond	\$5,760	-	\$5,760

Under current law, these allowances are adjusted annually for inflation.

Additional restrictions may apply if the vehicle is used for both business and personal purposes. If a vehicle is used less than **100% for business**, these allowances are cut back proportionately. If business use is **50% or less**, you must use the straight-line method and can't opt for Sec. 179 expensing. In addition, the **bonus depreciation program disappears after 2025**, unless it's extended by Congress.

# Section 7: Research Expenditures

## How Much Have You Spent on R&D?

The TCJA includes a provision that requires companies, for tax years starting in 2022, to **capitalize specified research or experimental costs** and amortize them over five years or 15 years for research conducted outside of the United States.

Before this change goes into effect, these costs can be expensed immediately, and you can claim the research credit (if you qualify). Fortunately, the TCJA also preserves the research tax credit.

### Research Tax Credit

The research tax credit isn't just for high-tech companies and science labs. Qualified research expenditures (QREs) include a variety of activities that develop or enhance product performance or functionality, manufacturing processes, or information technology. But claiming this credit can be confusing.

### Calculating Your Credit

$$\begin{array}{l} 20\% \text{ of the Excess} \\ \text{of Annual QREs} \\ \text{Over a "Base} \\ \text{Amount"} \end{array} + \begin{array}{l} \text{University Basic} \\ \text{Research Credit} \end{array} + \begin{array}{l} 20\% \text{ of Qualified Energy} \\ \text{Research Expenses} \\ \text{Undertaken by an Energy} \\ \text{Research Consortium} \end{array}$$

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**= Research Tax Credit**

The credit is generally for **increasing** your research spending. So, first you need to calculate a fixed-base percentage, and then it's multiplied by annual gross receipts over the preceding four tax years to arrive at your base amount.

### Calculating Your Base Amount for Established Firms

$$\frac{\begin{array}{c} \text{Total QREs} \\ 1984 - 1988 \end{array} \div \begin{array}{c} \text{Gross Receipts 1984} \\ - 1988^{**} \end{array}}{\begin{array}{c} \mathbf{X} \text{ Average Annual Gross Receipts 2015 - 2019} \end{array}} \\ \hline \mathbf{\text{Base Amount for 2020}^*}$$

\* The base amount can't be less than 50% of your current-year QREs. Special rules apply for start-ups and companies that didn't have at least three years of QREs and gross receipts from 1984 to 1988.

\*\* The ratio of total QREs over total gross receipts is capped at 16%.



## Section 8: Research Tax Credit



Looking for a simpler way to compute your research tax credit? Consider the [alternative simplified credit](#).

Under prior law, businesses that were subject to the alternative minimum tax (AMT) generally couldn't offset the research credit against their AMT liability. Now, the TCJA has eliminated the corporate AMT, and caused fewer owners of pass-through entities to be subject to the individual AMT. So, unused research credits that have been carried forward from prior tax years can be offset against a corporation's tax liability and may even generate a refund (subject to certain restrictions).

For Companies with Annual Receipts of	Research Tax Credit Can Be Taken Against
≤ \$50 million	Income or Alternative Minimum Tax (AMT) liabilities
< \$5 million	Income taxes, AMT or ≤ \$250,000 in FICA taxes annually for up to 5 years

# Section 9: HR Decisions

## Calculating Your Base Amount for Established Firms

For many employers, the COVID-19 pandemic and resulting economic fallout have spurred **layoffs, furloughs and hiring freezes**. Others have implemented **remote working arrangements and/or pay cuts** during these difficult times. Going forward, businesses will have to make important decisions about whether to continue to offer flexible working arrangements and whether to forgo bonuses and raises in anticipation of more financial struggles in the future.

On the other hand, businesses that offer essential goods and services, along with those that implemented effective pivot strategies during the pandemic, may currently be in a strong financial position. Some may even have plans to hire *additional* workers to keep up with *increased* demand.

Depending on where your business stands, current tax law includes various provisions related to compensation and benefits. For example:

- For 2020, businesses that offer **paid family and medical leave** may qualify for a credit of up to 25% of wages paid during leave, if they meet the IRS requirements. This break was scheduled to expire on December 31, 2020 but has been extended through March 31, 2021. Wages taken into account when computing the [new paid leave credit amount under the CARES Act](#) won't be taken into account when computing this paid family medical leave credit.
- The Families First Coronavirus Response Act requires certain employers to provide their employees with [expanded family and medical leave for specified reasons related to COVID](#), as well as expand food assistance and unemployment benefits. This law was amended by the CARES Act. Those amendments essentially [advance the credits for paid and sick family leave](#) through quarterly payroll tax filings.

- The CARES Act gives employers and self-employed individuals the option to **defer employer social security taxes** incurred from the date of enactment through December 31, 2020. Employers and self-employed individuals will be required to pay 50% of the deferred amounts by December 31, 2021, and the remaining 50% due by December 31, 2022. The new law, signed by the President on December 27, 2020 extends the repayment period of the deferred employee taxes through December 31, 2021. It also provides that penalties and interest will not begin to accrue on the deferred amounts until January 1, 2022.
- Business operations that were fully or partially suspended by a COVID-19-related shutdown order and those that experienced a gross-revenue decline of more than 50% when compared to the same quarter in the prior year may qualify for the Employee Retention Credit. This refundable tax credit equals 50% of wages paid to employees, limited to the first \$10,000 of compensation paid to each employee. Sections 206 and 207 extends and expands the ERC provisions from January 1, 2021 through June 30, 2021. The ERC rate is increased from 50% to 70% of qualified wages, expands eligibility for credit by reducing the required year-over-year gross receipts decline from 50% to 20% and other favorable changes. Businesses can no longer deduct the costs of **transportation fringe benefits and certain achievement awards** provided to employees. The limits on **deducting company vehicles** also have increased significantly under the TCJA. For passenger autos first made available to employees for use in calendar year 2020, the inflation-adjusted maximum value is \$50,400, the same as for 2019.
- Under current law, businesses can generally deduct only 50% of the costs of **meals provided on their premises**. After 2025, the cost of meals provided through an on-premises cafeteria or otherwise on the employer's premises won't be deductible. In 2020, many companies canceled company outings, such as employee retreats, holiday parties and picnics. However, any outings that you did host are still 100% deductible — if the entire staff was invited. New law under the Act, provides 100% deduction for businesses to expense food or beverages provided by a restaurant that are paid or incurred after December 31, 2020 and before January 1, 2023.
- Employees must claim **moving expense reimbursements** as taxable income. Consider grossing up moving allowances to account for the incremental taxes employees will owe.
- Employees can no longer claim itemized deductions for **unreimbursed business expenses**. If you don't already have an **accountable plan** in place to reimburse your employees for out-of-pocket business expenses — including costs incurred while working from home offices during the pandemic — consider implementing one before year end.



- Qualified employees can defer taxable income for up to five years from exercising a stock option or receiving restricted stock. **Stock-based compensation** can be an attractive perk, especially for firms that are strapped for cash.

Watch for state-specific guidance on telecommuting issues and how each state is responding to remote work assignments in terms of creating nexus for businesses, payroll issues, etc.

\$1 million is the **limit on annual officers' compensation for public companies** under current law.

Amounts above this limit generally aren't deductible for federal tax purposes. But there are no longer exceptions for excess compensation attributable to commissions and performance-based compensation.

Employers may need to revise their compensation and benefits packages to comply with current law and ensure their offerings remain competitive. Some benefits that aren't deductible under the TCJA may need to be discontinued.

## Retirement Benefit Plans

Do you offer a **tax-favored retirement plan** to help owners and employees save for retirement? Current retirement plan rules allow for significant deductible contributions. From SEP-IRAs to 401(k) plans, there are a variety of options available, depending on the size and nature of your business.

**New for 2020:** The [SECURE Act](#) made changes to encourage employers to help workers save for retirement. Notably, the law requires employers to allow part-time workers who have either worked at least 1,000 hours in one year or three consecutive years of at least 500 hours to participate in retirement plans. It also increases the tax credits for eligible small employers that adopt a new qualified retirement plan, SIMPLE-IRA plan or Simplified Employee Pension (SEP) plan.

In addition, for tax years beginning after 2019, the SECURE Act creates a new tax credit of up to \$500 per year for small employers that establish new 401(k) plans or SIMPLE IRA plans that include an **automatic enrollment feature**. This credit is also available to small employers that modify existing plans to include an automatic enrollment feature.

The SECURE Act also **extends the deadline for setting up a retirement plan** to the due date (including any extensions) for the employer's return for the tax year for which you want the plan to become effective.

## Do You Qualify for the [Work Opportunity Tax Credit \(WOTC\)](#)?

The WOTC can significantly reduce your tax bill, if you hire workers from certain “target” groups before year end. This break has been extended through 2025.

### Common WOTC Target Groups

- Veterans
- Ex-felons
- Temporary Assistance for Needy Families (TANF) recipients
- Supplemental Security Income (SSI) recipients
- Food stamp recipients
- Individuals who have been unemployed for at least 27 weeks

These dollar amounts apply for targeted individuals employed more than 400 hours. Some credits may apply for individuals working less than 400 hours.

\$2,400 is the typical WOTC for each qualifying new hire.

\$4,000 is generally available in the first year for hiring a long-term recipient of TANF.

\$4,800 is generally the maximum WOTC for hiring a disabled veteran.

\$5,600 is generally the maximum WOTC for hiring a nondisabled veteran who's been unemployed for six months or longer.

\$9,600 is the maximum WOTC for hiring a disabled veteran who's been unemployed for six months or longer.

# Section 10: ACA Compliance

## Could You Be Hit With Shared-Responsibility Provision Penalties?

The **Affordable Care Act (ACA)** remains the law, despite several repeal attempts in recent years. It imposes a penalty on “large” employers if just one full-time employee receives a premium tax credit. This credit is available to people who enroll in a qualified health plan through a government-run Health Insurance Marketplace and meet certain income requirements — but only if:

1. They don't have access to “minimum essential coverage” from their employer, or
2. The employer coverage offered is “unaffordable” or doesn't provide “minimum value.”

### Shared-Responsibility Requirements in 2020

Full-time-employee (or equivalent) threshold for large employers	50
Percentage of full-timers that must be offered minimum essential coverage	95%

#### If You Fail to Provide Minimum Essential Coverage ...

**\$2,570** is the 2020 penalty **per full-time employee in excess of 30**

#### If the Coverage You Offer Is Unaffordable or Doesn't Provide Minimum Value ...

**\$3,860** is the 2020 penalty **per full-time employee who has received a credit —**  
or **\$2,570 per full-time employee in excess of 30**, if that amount is less.

## When Are ACA Filings Due?

**ACA Filings** - Send 2020 Forms 1095-B, Health Coverage, and 1095-C, *Employer-Provided Health Insurance Offer and Coverage Insurance*, to individuals by March 2, 2021. (This due date has been extended from January 31, 2021.)

File 2020 Forms 1094-B, 1095-B, 1094-C and 1095-C with the IRS by February 28, 2021, if not filing electronically, or March 31, 2021, if filing electronically.

## Do You Qualify for the Small-Business Health Care Credit?

Employers with 10 or fewer full-time equivalent employees (FTEs) may be eligible for the **Small-Business Health Care Credit** if certain conditions are met. Contact us to see if you qualify for 2020.

Various rules and restrictions apply.

**Other Health Benefits** - In addition to offering health care coverage, employers might want to consider offering other health-related benefits to workers, such as:

- Health savings accounts (HSAs)
- Flexible spending accounts (FSAs)
- Health reimbursement accounts
- Wellness programs

Besides benefiting from a healthier, more productive workforce, employers who provide these benefits may reap various tax breaks.



# Section 11: State Tax Issues



## Do You Sell Products Online?

States have the right to require online businesses with no physical presence in the state to register as a vendor and collect sales tax on their sales. Most states have enacted these types of laws to generate additional tax revenue and achieve parity with brick-and-mortar retailers.

Each state sets its own rules for establishing nexus. We can help you comply with these evolving regulations and discuss ways to minimize your exposure to [back taxes](#) on Internet sales.

## Multistate Tax Issues

If you do business in multiple states, ask yourself three questions:

1. Where do you derive sales?
2. Where do your employees or subcontracted representatives or agents perform duties at your request?
3. Where do you own property?

## To Conform or Not to Conform?

Many states model their tax laws on the federal tax laws. But some states have decided to decouple from certain provisions of current tax law. One area that federal and state tax laws may not sync for businesses is the expanded Sec. 179 expensing and bonus depreciation deductions. Another is the complicated QBI deduction for pass-through entities. Some deductions at the federal level may not necessarily apply at the state level.

# Share This Guide

**December 31** is an important tax deadline that you might not be aware of: With a few exceptions, it's the date by which most of your tax planning strategies must be implemented to reduce your 2020 tax bill.

**Contact our tax team** to set up a meeting to brainstorm financial planning strategies to help your business succeed in the future — and minimize your tax obligations for 2020.



## ABOUT THE AUTHOR: Loree B. Dubois, CPA, MBA

Loree is Chair of the firm's Corporate Tax Group and Co-chair of the [Healthcare Services Group](#). She has over 20 years of experience providing tax advisory services to closely held, medium sized and publicly held businesses and has expertise in large to mid-size entity tax issues including ASC 740, tax planning and compliance.

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