

## Aronson & Associates LLP

### 2021 Year End Tax Planning Information for Business

2021 has been another challenging year as businesses continue to navigate the effects of the pandemic, the disruptions in supply chains, and a shifting labor force. Here are some issues we would like to bring to your attention as we approach the end of the year.

#### **PPP Loan Forgiveness**

Most businesses have already applied for & received forgiveness for their first & second PPP loans.

For any portion of the PPP loan that is not forgiven, repayment starts 10 months after the END of your covered period (whether 8 weeks or 24 weeks). Contact your lender for information regarding their application process if you have not submitted for forgiveness or you have not had a response from your bank or the SBA.

PPP loan forgiveness will be reported as forgiven debt income on your financial statement but it will not be taxable to you. It will be treated as tax-exempt income on your return & will increase your basis. All expenses paid with PPP Loan funds will be deductible on the tax return.

#### **EMPLOYEE RETENTION CREDIT**

The employee retention credit is a quarterly tax credit against the employer's share of certain payroll taxes signed into law as part of the Cares Act, this bill was significantly expanded in 2021.

The credit can be up to \$7000 per employee, per quarter in 2021 & is available for Q1 – Q3 of 2021.

To qualify, your business must have been negatively impacted by the COVID pandemic in one of the following ways:

- A government authority required full or partial shutdown of your business in 2020 or 2021
- Gross receipts reduction for 2020/2021 compared to 2019 of a certain percentage.

You cannot use wages covered by PPP Loan funds to qualify for the ERC.

This credit is claiming by filing Form 941-X for the applicable quarter. The IRS is currently dealing with a large backlog of these forms & has been slow to release credit funds. As of Nov 2021, IRS posted that there are about 400,000 unprocessed 941-X forms & 2 million unprocessed original 941 forms related to ERC. Current turnaround time is expected to be 9-12 months.

**S CORP SHAREHOLDERS –** Make sure that health insurance premiums paid by the corporation or reimbursed to the shareholder are included on the 2021 W2 form. Please make sure to notify your payroll processor before the end of the year so that they do not run your W2 forms without this information.

## FILING DEADLINES

Partnership Form 1065	****	<b>Due Date: 3/15</b>	<b>Extended Due Date: 9/15</b>
S Corporation Form 1120S		Due Date: 3/15	Extended Due Date: 9/15
C Corporation Form 1120		Due Date: 4/15	Extended Due Date: 10/15

## 1099 NEC FORMS

The IRS continues to use the 1099-NEC form to report non-employee compensation, this replaces the 1099-MISC. If your business paid a contractor (not a corporation) more than \$600 for services in 2021 you will be required to report this information on the 1099-NEC These are due to the recipient, the IRS, & the Wisconsin Department of Revenue by **JANUARY 31, 2022.**

**If you file 10 or more W2 forms or 10 or more 1099 forms, you must file them electronically.**

Other types of miscellaneous income (not subject to self-employment tax); i.e., Box 3 income & rent or royalty income will still be reported on a 1099-MISC.

## RETIREMENT PLANS

If your business does not already have a retirement plan, this is a good time to consider one. Current retirement plans allow for significant deductible contributions. Options include a 401K, SIMPLE-IRA, and a SEP-IRA and each plan has different rules, limitations, and benefits. We encourage you to ask questions about how these plans would impact you tax-wise and encourage you to discuss with a financial advisor as well.

## Net Operating Losses

The Cares Act temporarily removed the 80% limitation on taxable income for deducting net operating losses for 2020. For losses arising in taxable years beginning after 2020, the net operating loss can offset only up to 80% of your taxable income before your 20% Sec 199A deduction.

You cannot carry back your NOL, but you can carry it forward an indefinite number of years.

## LOOMING TAX LEGISLATION

One of the tax proposals currently being considered is an expansion of the 3.8% net investment income tax to apply to active business income from pass-through businesses such as LLCs, LLPs, partnerships, and S Corps. This tax would likely apply to taxpayers with taxable income over certain thresholds.