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CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Year-End News Brief

Fall/Winter 2020

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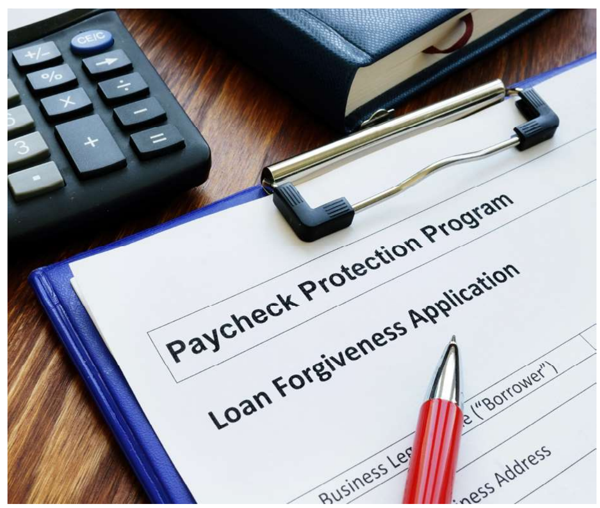
COVID-19 Relief Year-End Recap

By Michelle Flinn, CPA

As the year comes to a close, many small businesses and non-profits have reached, or will soon reach, the end of their 24-week covered period for their Paycheck Protection Program (PPP) loans. Entities may soon begin the process of applying for PPP loan forgiveness with their lenders. Borrowers of PPP loans have ten months from the end of their covered period to apply for forgiveness. If borrowers have not reached their 24-week covered period yet, but have spent all the funds, they can apply for forgiveness before the end of their covered period. Any salary or hourly wage rate reductions will still need to be calculated for the full 24-week period (if applicable), even if forgiveness is being applied for before the end of the covered period.

There are three forms that can be used to apply for forgiveness. Form 3508 is the full application and is needed if the borrower does not qualify for the EZ form or has any full-time equivalent (FTE) reductions or salary/hourly wage rate reductions. Form 3805-EZ can be used if there were no reduction in FTEs or salaries and wages or if any of the three applicable situations as listed on the instructions apply to the borrower. Lastly, there is a new form that was released in October of 2020, Form 3508S. This simplified form can be used if the borrower received a loan amount of $50,000 or less. Many lenders are utilizing an online platform to apply for forgiveness and will require an online application and supporting documentation to be uploaded at the time of application.



If the borrower received an Economic Injury Disaster Loan advance, the PPP loan forgiveness amount will be reduced by the amount of the advance. Any amounts not forgiven will have an interest rate of 1% and a repayment period of two to five years, depending on the date the loan was made and any agreements between the lender and borrower.

While the PPP loan was an attractive relief measure for many small businesses and non-profits, there may be some taxpayers who were either not eligible or chose not to take advantage of the program. The CARES Act also created additional relief measures to help with the burden on taxpayers due to COVID-19.

The Payroll Tax Deferral allows a deferral of payment of the employer's portion of social security taxes and certain railroad retirement taxes incurred from March 27th, 2020 through December 31st, 2020. The deferred amounts can then be paid in two installments which would be due on December 31st, 2021 and December 31st, 2022. Form 941 was revised beginning with the second quarter of 2020 to report these deferred taxes. If an employer takes advantage of the Paycheck Protection Program, they can only defer the employer's portion of the allowable taxes until the loan forgiveness decision has been made by the lender/SBA. ***Continued on Page 2***

COVID-19 Relief Year-End Recap

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Another payroll tax-related program established by the CARES Act was the Employee Retention Credit. Employers are eligible for this credit if there was a governmental order related to the pandemic that required the organization to partially or fully suspend operations; or if the employer experienced a reduction of greater than 50% in quarterly receipts, as measured by a year-over-year basis. Employers with less than 100 full-time employees are eligible to use all employees' wages while employers with more than 100 full-time employees can only use wages from employees who are furloughed or face reduced hours as a result of the employer's closure or economic hardship.

The credit is for 50% of eligible employees' wages (up to $10,000 per employee) paid after March 12th, 2020 and before January 1st, 2021. The maximum credit per eligible employee would be $5,000. The credit can be claimed on Form 941 on a quarterly basis, although advance payments of the credit can be claimed using Form 7200 between quarterly filings. Advances can be taken if the organization cannot reduce their employment tax deposits to fully account for the credit. This credit is not allowed if an organization takes advantage of the Paycheck Protection Program, but this credit can be used in conjunction with the Employer Payroll Tax Deferral.

Please feel free to reach out to Sciarabba Walker with any questions you may have, or to utilize our assistance when applying for PPP loan forgiveness. You can also find additional information on the implications of the CARES Act and other COVID-19 relief measures on our website, www.swcllp.com.

How Can Outsourced Accounting Benefit Your Organization?

Outsourcing your accounting function is a flexible, cost-effective way to address the ever-changing operational needs of your organization. Our Outsourced Accounting group is comprised of highly skilled professionals with the experience needed to provide the most effective and efficient accounting support for your organization.

"We have been working with Sciarabba Walker since our foundation in 2014. We have now grown to over 100 employees and maintain offices in three countries. We were looking for a real partner who would be willing to go the extra mile for us and we have found it in Sciarabba Walker. They were instrumental in setting up our accounting system and internal controls and providing monthly consolidated financial reporting to management and the Board. We heavily rely on them during annual audits and due diligence. Their knowledge and expertise allow us to stay on top of pertinent international issues and has greatly increased the sophistication of our financial analysis. Their advice considers not only US GAAP requirements but tax implications, as well. Sciarabba Walker is not just an accounting firm, but a true partner in business."

Ina Georgieva, Senior Manager Operations & General Manager Sofia
HyperScience

Email us at info@swcllp.com to learn more today.

The Election's Financial Planning Impact

By Cliff Acheson, CPA

This year, we have seen that trying to predict the economic future is quite difficult, even for a short time into the future. If I had told you at the beginning of 2020 that this year everything would shut down- manufacturing, retail sales, school, travel, entertainment, and so-on, and our government would decide to spend two trillion dollars, and maybe another 3 trillion dollars more, over and above the normal spending, you may have asked me what color the sky was in my world, yet here we are. With that in mind, allow us to attempt to predict what the next year could look like under a Trump or Biden administration.

While no guarantee of the future, past performance gives some context to what might be expected. Joe Biden was Vice President under President Barak Obama from 2009 to 2016. Donald Trump has served as President since taking the oath of office in early 2017. Below are some key indicators from each administration. 2020 has been excluded due to the unprecedented nature of the year.

Administration	**Obama/Biden 2009-2016**	**Trump/Pence 2017-2019**
Gross Domestic Product Average Growth Rate Per Year[1]	+1.57%	2.58%
Top Tax Rate - Individuals	39.60%	37.00%
Top Tax Rate - Corporations	35%	21%
Real Median Household Income (RMHI), in final year[2]	$62,898	$68,703
RMHI % Change From Start of Administration	+5.79%	+7.75%

Sources:
1 - https://www.macrotrends.net/countries/USA/united-states/gdp-growth-rate
2 - https://fred.stlouisfed.org

In general, a Biden administration would return to many of the policies of the Obama administration including higher taxes; Donald Trump would continue with more tax cuts. Putting the rhetoric aside, what do the numbers look like? Remember-- these are only projections for each administration's first year in office.

In the first year, under the Joe Biden plan, changes for earners above $400,000 include raising individual income, and payroll taxes. Biden would raise the highest tax rate on individuals back to 39.6%, raise the corporate tax rate to 28%, with a minimum 15% tax on large corporations, and eliminate the deduction of 20% of Qualified Business Income for certain business owners with over $400,000 income. While the Biden campaign strenuously argues that he will not raise taxes on middle class Americans making less than $400,000, the Committee for a Responsible Federal Budget stated: "While middle class Americans could see an increase in their net tax burden under a Biden administration, this would be an indirect result of higher corporate taxes (which are borne, in part, by workers), not from direct tax increases."

The Donald Trump administration's plan takes up less space because he has not specified many substantive changes to his current policy. His second term agenda includes an unspecified tax rate cut to boost take-home pay, "Made in America" tax credits, expansion of investments in qualified opportunity zones, and unspecified capital gains tax relief for investments in qualified opportunity zones.

You may also be interested to know how the plans will affect estate and gift tax, and some steps you can take to mitigate possible adverse tax effects. Under a Biden administration, the plan is to return the estate and gift tax exemption back to pre-2018 levels. The current exemption amount in 2020 is $11.58M. It is unclear whether Biden would decrease the exemption down to around $5.5M (pre-Tax Cuts and Jobs Act) or decrease it even lower to match older historical exemption amounts. If you are a cautious planner, you may choose to use more of your available exemption in 2020 by gifting more. Forming certain types of trusts may also be beneficial. Trump does not plan to change the exemption amounts. Note that the higher exemption amounts are scheduled to expire at the end of 2025 under either administration. Biden has also proposed eliminating the step-up in basis for inherited assets, the effects of which are hard to explain in short but could cause significant tax issues for heirs at all income levels. It is unclear whether assets would be taxed upon inheritance, or once sold by heirs. Cautious planners may choose more gifting during life and restructuring assets to include more life insurance and less capital assets.

Keep in mind that this article is written prior to the election and these predictions may change as the candidate/president-elect's plans evolve and either find support or do not find support in congress. In general, and for the short-term, if Trump is re-elected, taxes are likely to remain at historically low rates. If Biden is elected, taxes are more likely to increase for higher earners, and many sources (such as CRFB, etc.) are predicting modest tax increases for most people. Whether your taxes will increase under either plan depends on your personal situation and circumstances. Whether under the Biden or Trump administration, or a future president, if you believe tax rates will increase over time, one planning move-- converting traditional IRA's (where you pay tax as you withdraw, at the current rate) to ROTH IRA's (pay tax on conversion, then withdraw tax-free from then on) is generally a very good tax move.

Please consult with your tax advisor and attorney before you revise your estate plan and be sure to read our annual year-end tax planning letter after the election.

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Importance of Internal Controls in a Remote Work Environment

By Elyse McMillen, CPA

COVID-19 has required many of us to leave our offices and begin working from home on a more consistent basis. Along with the complexities of making sure that we have the proper equipment, strong enough internet access, scanning capabilities, and a host of other factors, we also need to make sure that we are taking internal control issues into consideration when working on open networks, over shared Wi-Fi, and when we cannot simply walk down the hall to have something signed.

Internal controls that were designed to operate effectively in an office environment may not hold up when moving to a remote setting and may prove ineffective in our current situation. Below are some internal control challenges, along with potential solutions, relating to the transition to a remote work environment.

The concept of segregation of duties is far and away the most important as the whole system will fail without proper checks and balances. Although employees may be shifting their responsibilities and schedules may be more flexible, this needs to be a top priority for management and should be constantly assessed and updated as circumstances evolve.

Secondly, in a predominantly paper environment, invoices may be approved by management with a simple initialing of an invoice or by sending the approved invoices from the Management team to someone in the Accounts Payable department to prepare the payments. Under the current circumstances, moving to a more paperless environment makes more sense than ever. There are many solutions available today that can make this feasible.

Receiving and approving invoices via email, using wire and ACH transfers, and digital signatures and sign-offs, are all options that are now widely used and advanced enough to keep up with the integrity and confidentiality that we are all used to. We can still have a secure environment even when while working from our homes.

While moving to a paperless environment can certainly create efficiencies, the changes in our procedures and normal day to day work can take time to adjust to and even the simplest of tasks may take two to three times longer than we are used to. For this reason, it is very important to continue to review work on a timely basis. As things are evolving so quickly, the implications of a slow-moving review process could be disastrous if errors are discovered.

Lastly, we need to monitor our internal controls. Although we may have put additional procedures in place or changed procedures to work more effectively with staff working remotely, the controls may not be working the way we expect them to. We need to check in with our teams, assess what is going right, what may not be working, and adjust our processes as necessary and in a timely manner. The quicker we can catch mistakes, the less disastrous the results will be if errors are present.

If you have any questions about your organizations internal controls, please reach out to your personal Sciarabba Walker contact or email us at info@swcllp.com