BUSINESS / CORONAVIRUS

TRACKING THE CORONAVIRUS

Several tax opportunities for small businesses set to expire at year end

Michael Ceschini, managing member of Ceschini CPAs in Miller Place. Credit: Jad Nammour

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Updated November 12, 2020 7:00 AM

Many businesses are ready to say good riddance to 2020, but before the year closes there are some key tax considerations to consider.

Among them are some expiring tax provisions, as well as incentives offered as part of COVID-19 relief legislation.

"This is a year like no other," Barbara Weltman, a Vero Beach, Florida-based small business tax specialist and author of "J.K. Lasser's Small Business Taxes 2021," says. "There are several new tax rules related to COVID-19 and other rules set to expire this year."

Among COVID-relief provisions, the CARES Act allows self-employed individuals to defer 50% of the Social Security tax on net earnings for the period beginning March 27 through Dec. 31, 2020, she says. Half of the deferred payments must be paid back by Dec. 31, 2021, and the other half by Dec. 31, 2022, says Weltman.

Also the CARES Act allows for a five-year carry back of net operating losses, so 2020 losses can be carried back five years beginning after Dec. 31, 2017 and before Jan. 1, 2021, says Weltman. This helps offset taxable income for those tax years and could result in a 2020 tax refund, she says.

Section 179/bonus depreciation

Those planning to purchase new or used property such as machinery/equipment could potentially benefit from Section 179 and bonus depreciation deductions, says Weltman. They both allow for deductions related to the cost of certain property placed in service before year-end.

While they seem similar, bonus depreciation is usually taken after Section 179's deduction limit is reached and certain types of property are eligible for one and not the other so consult your CPA, she says. See www.section179.org/section_179_faqs/.

Thanks to the CARES Act, "qualified improvement property" is now eligible for bonus depreciation, meaning the cost of most improvements made to the interior of commercial buildings are 100% deductible the year improvements were made, says Jeffrey Cohen, tax services leader at Grassi Advisors & Accountants in Jericho.

Keep in mind for planning purposes that business expenses paid for with Paycheck Protection Program funds such as wages currently aren't tax deductible according to the Internal Revenue Service, but that could change with congressional action by the first quarter of 2021. "Thus we are encouraging PPP loan recipients to file for forgiveness with the SBA while putting their 2020 entity returns on extension," says Cohen.

Those that didn't get a PPP loan can be eligible for the employee retention credit, which allows employers to offset up to $5,000 per retained employee against federal payroll taxes, he says.

Neil B. Fang, a partner at Schwartz, Fang & Keating PC, a Woodbury-based estates, trust, probate and elder law firm. Credit: Schwartz, Fang & Keating PC

Estate planning

For 2020, business owners may want to take advantage of the increased estate tax exemption of $11.58 million for individuals and $23.16 million for married couples created by the Tax Cuts and Jobs Act, says

Neil B. Fang, a partner at Schwartz, Fang & Keating PC, a Woodbury-based estates, trust, probate and elder law firm.

This means an individual can transfer up to $11.58 million in assets including stock in their business free of federal gift taxes, says Fang.

This isn't set to sunset until Dec. 31, 2025, when it's slated to return to $5-million adjusted for inflation, but that could change with governmental action so business owners may want to act sooner than later, he says.

There are also discounts tied to the businesses' valuation allowing individuals to actually transfer more — up to a third of the value of shares being transferred — on top of the estate tax exemption amount, says Fang.

Other credits

An Energy Efficient Commercial Buildings Tax Deduction is due to expire Dec. 31 that primarily enables building owners to claim a tax deduction of up to $1.80 per square foot for installing qualifying systems in buildings to reduce energy and power costs by 50%, says Michael Ceschini, managing member of Ceschini CPAs in Miller Place.

Your business may also be eligible for an R & D tax credit, which is for taxpayers who design, develop, or improve products, processes, techniques, formulas or software, he says. It's calculated on the basis of increases in research activities and expenditures and is intended to reward companies that pursue innovation with increasing investment, says Ceschini.

The Work Opportunity Tax Credit for hiring individuals in certain targeted groups expires at year-end unless renewed and includes a credit of up to $2,400 for hiring long-term unemployment recipients, says Weltman.

Fast Fact:

In a recent Grant Thornton survey, when it comes to postelection impact, among surveyed CFOs, 60% expressed uncertainly about tax planning.