Season 2 | Episode 33

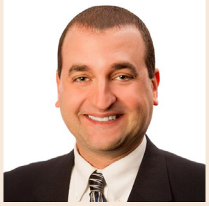
How the Second Stimulus Bill is Providing Tax Benefits for All Businesses

PAYCHEX Business Series

Coronavirus

Gene Marks

CPA, Columnist, and Host



Andy Gargana

Tax Benefits

Full transcript

Gene Marks:

Hey, everybody. This is Gene Marks and welcome back to the Paychex Business Series Podcast. And listen, I know taxes can be a little boring, I understand that. But hey, it's only what? Like 20% to 30% of our income. So it's kind of a big deal. Taxes cost a lot. And the people that I know, the business owners that are innovative and that are planning out their taxes, that save money, they wind up putting a lot of cash in their bank. And in these trying times, that's an important thing.

Gene Marks:

Now, the new Stimulus bill that came out at the end of the year has some pretty huge tax benefits for all businesses, whether or not you've been impacted by COVID or not. And I'm going to dig deep into those tax benefits with Andy Gargana, who's a Compliance Analyst at Paychex. We're going to talk about deferred taxes, we're going to talk about tax credit for the Families First Coronavirus Relief Act and the different types of employment tax credits that are available for you as well as a big tax benefit if you lost money in 2020. So, the first thing, Andy, that I want to talk about is, with you and get your perspective on, is deferred taxes related to the Stimulus bill. So tell us what you know about that. What should we know?

Andy Gargana:

Sure. First, it's good to talk to you again. I think it was eight months ago, we started with the COVID relief and here we are again talking about more COVID relief.

Gene Marks:

Yay.

Andy Gargana:

Yeah. So, the Consolidated Appropriations Act of 2021, which was passed right at the end of December, had several, 5,000 pages long, several provisions in it, which will be of interest, as you mentioned, with the Social Security Deferral taxes. What they did, if you remember back in August, the president signed a presidential memorandum, which allowed employers to defer the employee portion of Social Security tax from September 1st through December 31st. With that provision, the repayment was due by April 30th of 2021.

Andy Gargana:
With the Consolidated Appropriation Act, what they did is extend out that deadline. Now employers have until December 31st of 2021 to payback that employee Social Security. So, initially the way it was supposed to work is employers would collect randomly from their employees throughout the payback period, which was April 30th or until April 30th. Now they do the same thing, they would collect randomly and they would go all the way until December 31st. So, basically it granted a nine month extension on the repayment period for employers to pay back that deferred employee Social Security tax.

Gene Marks:
And this is an interest-free loan, I mean, there's no interest on this.

Andy Gargana:
Pretty much. Yeah. Yeah. I mean, that's a good way to look at it. Yeah. You're just deferring it and you have to pay it back, but you don't have to pay any interest on it unless you do not pay it back within the period.

Gene Marks:
Got it.

Andy Gargana:
So, if there's still an outstanding balance by December 31st of 2021, then the IRS can start accruing penalty and interest on whatever is paid afterwards.

Gene Marks:
This was also extended for, I believe, the first quarter of 2021. So, we can continue to withhold, not paying, or it deferred, sorry, our Social Security taxes, our employer's share, and then be allowed to defer that as well. Is that correct?

Andy Gargana:
No, actually they didn't extend the deferral period, just the payback period for it.

Gene Marks:
Got it. Okay. So, really. I'm sorry, go ahead.

Andy Gargana:
Yeah. So really they just gave you an extra nine months to pay it back. If you're an employer and your employees wanted that deferred, now they gave you an extra nine months to pay it back instead of just the four months they had. I'm sorry, eight months.

Gene Marks:
I see. So ,the deferred payroll taxes option has really ended at the end of December. We don't have that ability in 2021. Is that correct?

Andy Gargana:
Correct. Just another point to point out, because when you say deferral of Social Security taxes, there are kind of two deferrals. If you remember back to the initial CARES Act, they allowed the employer portion to be deferred. This only applies to the employee portion that was signed by the presidential memorandum in August. The employer portion has unchanged, the employer deferral. It still has the same deadlines, that ended as well December 31st. But this change only applies to the employee Social Security deferral.

Gene Marks:
Got it. All right. Well, that's really good news to know, and really thrilled to know that I've actually been giving out wrong information to some of my clients recently. So, I'm glad we had this conversation. So I'm going to have to… Let's end this right now so I can call them back up before they get angry. All right, that's great for deferred taxes. Thank you very much. Let's talk about the next item, which is the Families First Coronavirus Relief Act and what our tax benefits are that are continuing under that.

Andy Gargana:
Yeah, that's a mouthful. We'll just call it FFCRA for short.

Gene Marks:
FFCRA is good.

Andy Gargana:
Yeah. If you remember, I believe we talked about this last time, when we first talked, the FFCRA provided paid leave benefits to employees and an employer who paid out those benefits could take a tax credit on them. What this did is extend out. The initial FFCRA was due to expire 12/31. So, what this Consolidated Appropriations Act did is extend this out to 3/31.

Andy Gargana:
Now, important to know the only thing they extended was the tax credit portion for employers. So, when the FFCRA was first introduced back in April. So, April 1st through December 31st, an employer was mandated to provide these leave benefits to employees. They're no longer mandated to do so from January 1st onto March 31st.

Andy Gargana:
However, if they choose to do this and pay out those benefits to their employees, they can claim the tax credit. So essentially, what the bill did is extend out the option to take the tax credit from January 1st, 2021 till March 31st, 2021. But it is no longer mandated for an employer to pay these benefits. So, if they choose to do so, then they can still get the tax credit for it.

Gene Marks:
Got it. All right. That's really helpful to know. And I guess the employer, if they're a good person and they've got employees that are still having their kids, that are doing virtual learning. So, that's a COVID impact. They might be impacted by COVID both personally and their families. So, allowing them to stay at home and continuing to pay them is a great benefit that you should be providing. And although it's not required, but the government will give you the ability to claim that tax credit and that tax credit is on our corporate taxes. Correct, Andy? So, if we're going to continue that on into the first quarter of 2021, we really won't be able to get that money back until we file our 2021 taxes next year, in 2022. Am I saying that right?

Andy Gargana:
Actually, you can claim it against the payroll taxes and then you would end up claiming it on your Form 941. So, essentially an employer could reduce their deposits… They didn't change any of the provisions. So, if you provided this last year, the same provisions would apply. You could still claim it on your 941. You could still apply portions of it against your deposits. They didn't change any of that. So, you still can do that if you're going to claim the credit as an employer. And that would all be reconciled on the 941.

Gene Marks:
All right. That's very interesting. And when I talk with [Steve 00:00:08:00], we were talking about overlapping things. I'm assuming if you're an employer that is either participating in PPP and submitting payroll expenses for forgiveness, or maybe doing the ERTC, the Employee Retention Tax Credit, and using payroll expenses to calculate that credit. I'm assuming you can't use those same payroll taxes for the FFCRA tax credit. Is that a fair statement?

Andy Gargana:
Yep. Yeah. That's a good point to bring up. They don't want "double-dipping." So, yeah. Yeah. That's a very good point. You can't use the same wages on them. There's no prohibition on getting the PPP loan and having the FFCRA credits. There wasn't last year, there isn't this year. But you just can't use the same wages for both.

Gene Marks:
All right. That's great. So, that's deferred taxes, that's the FFCRA tax credit that's available. So, okay. My turn. I've got just three quick tax things that I'd also like to share with everyone. The first is the Work Opportunity Tax Credits, which has been extended through 2025. Why that's important is because if you hire anyone who is a qualified veteran, who has been on Medicare, it was out of prison, or most importantly, who has been unemployed for more than six months, and there were quite a few people out there that would fall into that category, you are eligible for credit of anywhere from $1,200 to $9,600 per employee per this year on your corporate tax returns. So, it's like an extra bonus that you can get from the government just by rehiring people, bringing them back as long as they fit into those eligibility. So, talk to your tax professional about that.

Gene Marks:
Number two, if you're making charitable contributions, this stimulus is now allowing individuals to deduct either 300 individually or 600 jointly over and above your standard deduction this year. And if you're a company, you can actually take up to a 25% of your taxable income deduction for any charitable contributions that your company makes just this year, because that's over and above the normal 10% of taxable income. So, that's another big help, not only for companies to take the deductions, but for nonprofits to market and get some money in.

Andy Gargana:
Yeah. That's definitely going to be helpful for them because they're getting hammered in this economy. [crosstalk 00:10:33].

Gene Marks:
They really are. Actually, it's funny, Andy, because I know a lot of people and I sit on a couple of nonprofit boards. I mean, it was huge in December. This was an extension of what started in 2020. They're doing it again for 2021. And I know a lot of the places that I know really took advantage of it and it was a lifeline. So, you're absolutely right.

Gene Marks:
The final tax thing. So, I talked about, the Work Opportunity Tax Credit, charitable contributions. Net operating losses, guys, I have to tell you right now, if your business lost money in 2020, you need to get your tax returns filed fast, talk to your accountant. And here's the reason why. One time only you are allowed to carry back that loss up to five years. By the way, it also applies if you lost money in 2019 and 2018 as well. You can carry back that losses five years into the past. You're not normally allowed to do that, but this year you're allowed to do it.

Gene Marks:
And that means if you paid any taxes in prior years, you can actually get that money back, because you would reduce your taxable income in those prior years by whatever loss you had this year, and therefore you overpaid your taxes, you'll get the money back. You can't do that until you get your tax returns filed. So talk to your accountant if you think you lost money this year, or frankly, if you lost money in 2019 or 2018, it also applies. Go ahead and amend those returns and refile the returns and carry back those losses. You can get money back from the government.

Gene Marks:
So, Andy, the five things we talked about on this segment. You told us about deferring taxes and how the rules have been, the payback terms have been extended if you've deferred any of your payroll taxes until the end of 2021. So, that's good.

Gene Marks:
Number two, you also say that if you want to continue on, and it's optional, the provisions of the FFCRA, the Family First Coronavirus Relief Act [inaudible 00:12:30] been affected by COVID, the government through March 31st will give you a tax credit for doing that. So it's optional, but you can get that tax credit. So, that's also really good news.

Gene Marks:
Speaking of tax credits, I mentioned the Work Opportunity Tax Credit. If you're hiring anybody that's been unemployed for six months or a veteran or out of prison or off of Medicaid or Medicare welfare. Sorry, not Medicaid welfare if they're off of. You can get up to a $9,600 tax credit for that person. If you're making charitable contributions, there are bigger deductions this year, both for individuals and corporations.

Gene Marks:
And finally, if you lost money in 2020, 2019, or 2018, you want to carry those losses back. You're allowed to do that just this year. And that way you can get any taxes back that you paid once you offset those profits with losses from these past couple of years, and that's a big potential tax benefit.

Gene Marks:
So, I think that's all we have with taxes. I'm hoping everybody is still awake after this conversation. Listen, I mean, what, it's only like 20% to 30% of our income we're paying in taxes. It's not like this topic isn't important or anything.

Andy Gargana:
Yep, definitely.

Gene Marks:
But I want to thank you. Andy Gargana is a Compliance Analyst at Paychex. We love having you on. We're going to continue to have you on because you've got some great information. So, thanks, Andy, for joining us. Everyone, if you're interested in more information and help and advice and running your business, please visit us at paychex.com/WORX. That's W-O-R-X. My name is Gene Marks and we will see you again next time.

Speaker 3:
This podcast is property of Paychex, Inc. 2021. All rights reserved.