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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

2020 YEAR-END TAX PLANNING HIGHLIGHTS **FOR BUSINESSES**

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As the world continues to contend with the COVID-19 pandemic and its economic fallout, businesses are doing all they can to mitigate risks and plan for a recovery that's anything but certain.

The path forward will likely not be linear. Different regions, industries and business segments may be in different stages of recovery simultaneously.

The tax function plays a critical role in navigating recovery and positioning businesses to emerge from this crisis more resilient than before. Effective tax strategy can preserve liquidity, lower costs and work in tandem with overall business strategy.

Read on to explore the tax relief tactics that can help take your business from reacting to the day-to-day challenges to taking advantage of those incentives that are available to help move your business forward.

The information contained within this article is summarized. Taxpayers should consult their trusted advisor when making tax and financial decisions regarding any of the items mentioned. If you have questions or would like additional information, please contact a member of our Tax Consulting team or call your Saltmarsh tax advisor at (800) 477-7458.

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Finding Relief
Tax Strategies to Generate Immediate Cash Flow

During "the dip" immediately following a crisis, businesses of all sizes are in triage mode, taking immediate action to both protect their employees and keep the lights on. Achieving these goals requires agility, strategy and resilience, as well as liquidity.

During these challenging times, companies must have access to cash to help offset unforeseen costs, whether for buying personal protective equipment (PPE) for on-site employees or investing in the technology needed to keep a remote workforce safely and efficiently connected.

The tax function can be instrumental to identify and execute cash flow opportunities and to maintain the levels of liquidity needed to navigate the uncertainty that lies ahead. In the short term, tax professionals should look to "low-hanging fruit" to generate benefits as quickly as possible.

While not exhaustive, here are several tax strategies to consider:

DEBT AND LOSSES OPTIMIZATION

- File net operating loss (NOL) carryback and alternative minimum tax (AMT) credit refund claims to reduce tax payments and obtain immediate refunds for taxes paid in prior years.
- Analyze the tax impact of income resulting from the cancellation of debt in the course of a debt restructuring for possible exceptions due to insolvency or bankruptcy. Alternatively, if the income is taxable, consider possible strategies to generate capital gain vs ordinary income during a debt workout transaction.
- Decrease estimated tax payments based on lower 2020 income projections, if overpayments are anticipated.
- Consider filing accounting method changes to accelerate deductions and defer income recognition with the goal of increasing a loss in 2020 for expanded loss carryback rules under the CARES Act. Common method changes include deferral of advance payments, accelerating the deduction of certain prepaid expenses to the year of payment under the 12-month rule, deducting software development costs in the year incurred and applying the recurring item exception for property taxes, state taxes, rebates, allowances and payroll taxes.

MAKING THE MOST OF LEGISLATION

Understand how the CARES Act can provide relief to employers:

- Defer payment of the employer's share of Social Security taxes (i.e., 6.2% of payroll; deferral of Medicare taxes is not allowed). Deferral is allowed only until the earlier of (1) Dec. 31, 2020, or (2) the date the employer's Paycheck Protection Program (PPP) loan is forgiven. Half of the deferred deposit must be repaid by Dec. 31, 2021, and the other half must be repaid by Dec. 31, 2022. The deposit deferral is not subject to interest or penalties if the deferred amounts are timely repaid.

ADDITIONAL TAX STRATEGIES

- Take advantage of any remaining corporate AMT credit, which should be fully refundable beginning in 2019, with earlier elective application in 2018.
- Secure a quick tax refund in 90 days by using Form 1139 to file for a five-year NOL carryback for losses generated in 2018 through 2020. Taxable income for a year can be fully offset due to a temporary suspension of the 80% income limitation.
- Consider the Employee Retention Credit, which allows for a refundable payroll tax credit for eligible employers harmed by COVID-19. The credit is equal to 50% of up to $10,000 in qualified wages per employee (i.e., a total of $5,000 per employee). Employers generally are not eligible for the Employee Retention Credit if any member of their controlled or affiliated service group obtained a PPP loan.
- Regardless of which tax strategies you choose to leverage, keeping the focus on generating and retaining cash will ensure that your business is prepared to weather an extended period of disruption.

Optimizing Operations
Uncover Tax Relief Opportunities

During "the Trough" period of economic recovery, the initial tumult of the pandemic and economic fallout has passed, but significant challenges remain. Although companies that have managed to survive up to this point will have overcome immediate safety and cashflow problems, they still face an uncertain future. No one can predict how long the downturn will last, whether the world will revert into crisis mode or whether the path towards long-term recovery has begun.

Despite the uncertainty, savvy companies can position themselves to outperform their competitors by capitalizing on market shifts and strengthening their core business models.

After taking advantage of tax solutions that are within reach, it's time to consider low-risk strategies that will plant the seed for future growth.

Consider which tax strategies can help you find a competitive edge, including:

- R&D tax credit studies: The money companies spend on technology and innovation can offset payroll and income taxes via R&D tax credits. The credits benefit a broad range of companies across industries, yet many businesses are leaving money on the table.

- Property tax assessment appeals: In the wake of the COVID-19 pandemic, some jurisdictions are reevaluating their property tax processes, for example, via disaster relief and conducting assessments at an earlier date. However, assessed property values tend to lag true market value in an economic recession. Property tax appeals can generate cash savings by challenging assessed values and reducing property tax liabilities.

- Cost segregation studies: Cost segregation studies can help owners of commercial or residential buildings increase cash flow by accelerating federal tax depreciation of construction-related assets. The extension of bonus depreciation for assets with a useful life of 20 years or less, including qualified improvement property as corrected by the CARES Act, will substantially enhance the benefit of these studies. Depending on the type of building and cost, the increased cash-flow and time-value benefits are often significant.

- State and local credits and incentives projects: By taking advantage of existing programs, as well as those implemented as a result of COVID-19, companies can qualify for state tax credits and business incentives. These programs help companies maintain payroll, manage business costs, such as utilities, and facilitate capital investment.

- Opportunity zone program: This federal program is structured to encourage investors to shift capital from existing assets to distressed, low-income areas, and in doing so, deferring and even reducing taxes. While investment in opportunity zones has slowed recently, COVID-19 and additional guidance has created renewed interest in using this program to assist with underserved communities and to provide tax relief for investors.

Moving Forward
Adopt New Business Strategies to Reimagine the Future

In the recovery phase, demand for goods and services will return to pre-pandemic-recession levels. The wisest companies won't spend this time resting on their laurels but will instead use it to reimagine their futures in a world forever changed.

Plans made prior to spring 2020 may no longer make sense in a post-COVID world. To stand apart from competitors, companies need to not only recover from COVID-19, but also integrate the lasting forces of change brought on by the pandemic to emerge more resilient and more agile than before it began.

It's time to reset vision and strategy—and tax needs to be an integral part of that process.

QUESTIONS?

Our tax advisors can help.

David Uslan, CPA
Tax Shareholder
David.Uslan@saltmarshcpa.com
P: (850) 435-8300

Frank Riehle, CPA, CIT
Tax Shareholder
Frank.Riehle@saltmarshcpa.com
P: (850) 435-8300

Michael Miller, CPA, CIT
Tax Shareholder
Michael.Miller@saltmarshcpa.com
P: (850) 435-8300

Beth Varhalla, CPA
Tax Shareholder
Beth.Varhalla@saltmarshcpa.com
P: (850) 435-8300

Glenn Scharf, CPA, CVA
Tax Shareholder
Glenn.Scharf@saltmarshcpa.com
P: (850) 243-6713

Gregg Noble, CPA, PFS
Tax Shareholder
Gregg.Noble@saltmarshcpa.com
P: (850) 435-8300

Ronald Jackson, CPA, CGMA
Tax Shareholder
Ron.Jackson@saltmarshcpa.com
P: (850) 435-8300

Norm Provvidenza, CPA, CGMA
Tax Director
Norm.Provvidenza@saltmarshcpa.com
P: (813) 287-1111

Beth Skarda, CPA
Tax Senior Manager
Beth.Skarda@saltmarshcpa.com
P: (850) 435-8300

Lisa Fairbanks, CPA, MST
Tax Senior Manager
Lisa.Fairbanks@saltmarshcpa.com
P: (850) 435-8300

Bob Slaby, CVA
Tax Senior Manager
Bob.Slaby@saltmarshcpa.com
P: (850) 435-8300

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