



# Newsletter

AUGUST 2020

*Freddi Eberhart & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.*

## This Month:

**This month:**

**September 7**

- Labor Day

Get a head start on your tax planning by reading about four new laws to help you in 2020. Also find out whether your business should incorporate and what you can do to increase the chances that your PPP loan is forgiven. Also included in this edition are mistakes to avoid when refinancing your mortgage.

Please call if you would like to discuss how this information could impact your situation. If you know someone who can benefit from this newsletter, feel free to send it to them.

## NEW Tax Rules for 2020!

Here are several new tax laws passed this year to consider as you start planning your 2020 tax obligation.

- **Make up to \$300 of charitable contributions.** For the 2020 tax year only, an above-the-line deduction of \$300 is available to all Americans who want to make a charitable contribution. You can donate to more than one charity, but the total amount of contributions must be \$300 or less to be able to take an above-the-line deduction. While you will still need to itemize your deductions if you want a tax break for donations greater than \$300, this above-the-line deduction for \$300 or less helps alleviate the elimination of the charitable deduction for most taxpayers. (NOTE: \$300 is the maximum above-the-line deduction per tax return, regardless of filing status.)

***What you need to do.** Donate \$300 to your favorite charitable organization(s) by December 31, 2020. You must receive a written acknowledgment from the charitable organization(s) to which you made the \$300 contribution before filing your 2020 tax return.*

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## NEW Tax Rules for 2020! (Cont'd)

- **Donate up to 100% of your income.** The normal contribution limit of 60% of your income is suspended for 2020, allowing you to contribute as much of your income as you want to various charities.

***What you need to do.** While only a tax break for a few taxpayers, this initiative is meant to help struggling charities during the pandemic. If you are considering additional giving, you must make your charitable contributions by December 31, 2020. Remember to obtain written acknowledgment from each charity you made a donation to before filing your 2020 tax return.*

- **Use retirement savings to pay for birth or adoption expenses.** Adding a child to your family is very expensive. To help with these costs, you can now cash out up to \$5,000 per parent from your retirement accounts to pay for birth and/or adoption expenses. While the withdrawal won't be hit with the 10% early withdrawal penalty, you'll still have to pay income taxes.

***What you need to do.** Consult your financial advisor or benefits coordinator to find out how to withdraw the funds from your retirement accounts. Since this withdrawal will deplete your retirement savings, first consider whether you have other sources of cash to cover expenses.*

- **No age limit for contributing to IRAs.** You can now contribute to an IRA regardless of your age as long as you have earned income. The old rule prevented you from contributing to an IRA past age 70½. The IRA contribution limit for 2020 is \$6,000 if you're under age 50 and \$7,000 if you're over age 50.

## Should You Incorporate Your Business?

You may have started your business as a simple sole proprietorship that files its taxes as a Schedule C on your Form 1040. As your business grows, you may want to change the structure. Here are several scenarios where it may make sense to do just that.

### Reasons to Create Business Entities

- **Establishing limited liability.** The primary reason businesses form corporations and limited liability companies is to create a separate legal entity that provides legal protection. If your business receives a legal summons for a claim, for example, having limited liability may protect your personal assets like your home and car.

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## Should You Incorporate Your Business (Cont'd)

- **Hiring your first employee.** Businesses are generally liable for their employees' actions taken on behalf of the company. If an employee performs an act that causes an outside party to sue your business, the outside party can come after your personal assets to satisfy the lawsuit if you don't have limited liability. You should, therefore, incorporate your business if you anticipate hiring your first employee in the near future.
- **Establishing credibility.** Having LLC or Inc. after your business's name conveys maturity in your business to customers and vendors.
- **Accessing credit and/or capital.** Incorporating can also make it easier for your business to obtain financing through banks or investors. Banks want to see that your business is legitimate and not simply a hobby. Bringing in investors also requires a business form that allows you to do this. Individuals often co-mingle personal funds with business activity, making it hard to consider lending money.

### What you need to do

There are several different business entities to consider, including corporations and limited liability companies. There are pros and cons to each entity that must be considered. Added to the complexity are constructing the correct legal filings and related tax obligations for sales tax, income taxes, unemployment and workers' compensation.

## Don't Make These Mortgage Refinancing Mistakes

With 30-year fixed rate mortgages approaching historical lows of 3%, you may be thinking about refinancing an existing mortgage. But you better read the fine print before signing on the dotted line to avoid paying too much money. Here are some common mistakes homeowners make when refinancing their mortgage.

- **Not shopping around.** When looking to refinance a mortgage, many homeowners simply check a couple advertised rates and pick the lowest one. But there are many factors affecting the total cost of refinancing, so it pays to carefully look at not just rates but also terms and fees offered by different lenders. Remember that a mortgage with a lower rate and higher closing costs from one lender can ultimately cost more overall than a mortgage with a higher rate but lower closing costs from another lender.

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## Don't Make These Mortgage Refinancing Mistakes (Cont'd)

- **Saying yes to current mortgage loan forbearance.** Loan forbearance occurs when your current lender allows you to delay making a payment or allows you to lower your payments. This is a common offer during the current pandemic. If you are considering refinancing in the future, think twice before taking advantage of this offer. Accepting a bank's offer to skip a couple payments, even during a pandemic, may signal cash flow problems that could negatively affect your mortgage refinancing options.
- **Not improving your credit score.** The willingness of banks to lend you money at favorable rates is often contingent on your credit score. You must therefore know your current score and actively work to improve it. So don't take out a new loan or credit card in the months leading up to refinancing. Also pay your bills on time and never use more than 15% to 20% of your available credit line on credit cards. By doing this you can vastly improve your interest rates and related closing fees.

**Not looking over the good faith estimate.** Origination fees, points, credit reports and other fees are all included with closing costs when refinancing a mortgage. These fees aren't finalized until you receive a good faith estimate (GFE). Any changes you notice to fees on the GFE compared to what you were originally told is a red flag. Compare the final refinancing document you're about to sign with the rates and fees originally presented to you. Challenge any increases.

By being aware of refinancing pitfalls, you can actively eliminate any surprises and create a situation where multiple lenders are fighting for the right to lend you funds.

## Build a Fortress Defense for PPP Loan Forgiveness

More than 70% of small businesses in America now have loan proceeds from the Paycheck Protection Program (PPP) to help retain employees during the current pandemic. The entire amount of a PPP loan is eligible to be forgiven if the funds are used for qualified expenses. Recent legislation liberalizes the terms of loan forgiveness for funds used for payroll, utilities and rent. It is now based on a 24-week period, not just eight weeks.

But how can you best position your company to fully benefit from PPP loan forgiveness? Here are five tips to help meet the challenge.

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## Build a Fortress Defense for PPP Loan Forgiveness (Cont'd)

- **Restore your staff.** If possible, restore the number of full-time equivalent (FTE) employees to previous levels by the safe-harbor due date of December 31 (extended from June 30). Bring back furloughed FTEs as soon as you can. Of course, this should fit into your overall business plan. If an employee does not return, document the refusal. All these actions will help when the forgiveness formula is applied to your loan.
- **Pile on payroll costs.** Run payroll and other remaining qualified expenses—including mortgage interest, rent and utilities—on the last day of the 24-week period. This will enable your business to maximize the amount of loan forgiveness allowed under the calculation.
- **Reward employees.** Consider paying out reasonable incentive amounts to maximize the forgiveness of payroll costs. The bonuses can even go to family members like your spouse or children. But remember that you can only count up to \$100,000 of wages per person, pro-rated for the covered year, and you must be able to defend these payments as reasonable.
- **Use the simplified application form.** There are two loan forgiveness forms - the regular form (Form 3508) and a simplified version called Form 3508EZ. Review both forms before deciding which one is right for your situation. For instance, there are fewer calculations on the simplified form with less documentation required. To qualify for the simplified form, you must meet at least one of these requirements:
  - You're self-employed and have no other employees.
  - You didn't reduce employee hours or reduce their wages and salaries by more than 25%.
  - You lost business due to health directives relating to COVID-19 and didn't reduce employee wages and salaries by more than 25%.
- **Document everything.** Once you receive PPP loan funds, keep supporting documentation on everything related to the loan. Document when you receive the loan, each time you spend part of the loan and accrued interest expense on the loan. Also keep copies of receipts and invoices to document all loan expenditures, including bank account statements and journal entries.

*This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.*