Freddi Eberhart & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

OCTOBER 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:

October 15

- Extension deadline for individual and C corporation tax returns

October 31

- Halloween

Does your monthly income seem a little higher than normal? If so, that may actually be a sign of trouble ahead. Find out how a tax trap could be lurking in your paycheck. Also read about 2020 IRS payments, and PPP Loan Forgiveness.

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.

Is a Tax Trap Lurking in Your Paycheck?

Does your paycheck look a little higher than normal? If so, it could be a tax trap.

The Problem

A payroll tax holiday effective September 1 was recently signed via a presidential executive order. Payroll tax holidays typically provide forgiveness of Social Security and Medicare taxes that are normally withheld from your paycheck.

This year's tax holiday, however, is NOT necessarily a forgiveness of Social Security and Medicare taxes because the order is not yet supported by an underlying legislative action. So even if your employer removes your Social Security and Medicare tax from recent paychecks, there is a possibility you will need to pay it back at a later date. That could mean a pretty large tax bill for you in early 2021!

What you need to do

- **Compare paychecks.** Get your last paycheck from August and your first paycheck from September. Compare the amount of Social Security and Medicare taxes withheld from your August paycheck to your September paycheck. If the amounts are the same, then your Social Security and Medicare taxes are still being withheld.

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Is a Tax Trap Lurking in Your Paycheck? (Cont'd)

- If you notice that the amounts are different, or that no Social Security or Medicare taxes are withheld from your September paycheck, then that's a signal you may have a tax repayment bill in early 2021.
- **Remember to keep checking each paycheck.** Companies are struggling to figure out if they are required to comply with the presidential executive order, payroll providers are trying to figure out how to comply, and everyone is wondering whether the tax obligation will be permanently forgiven.
- **Be prepared to pay it back.** If no Social Security or Medicare taxes have been withheld from your paycheck through the end of 2020, be prepared to write Uncle Sam a check to pay these taxes in early 2021. If possible, open a savings account to set aside the Social Security and Medicare taxes that were not withheld from your paychecks. When it comes time to pay your taxes, the money will be ready to go.

Check back here for updates. There's a chance Congress passes a law that forgives the Social Security and Medicare taxes not withheld from your paychecks. If this happens, you will have a nice start on an emergency savings fund should you need it.

If you have any questions about how this payroll tax executive order affects you, please call.

IRS Hasn't Cashed Your Check? Don't Panic

Don't cancel the payment or send in another check. IRS is still behind on processing the mail that has piled up due to COVID-19. Included in the backlog are tax returns or other correspondence sent in by taxpayers with paper checks. There is no need to worry about penalties if you sent the payment in on time. IRS credits payments to accounts based on the envelope's postmark date, not the date the payment is processed. Also, IRS will give relief to taxpayers for bad check penalties for dishonored checks received between March 1 and July 15.

PPP Loan Forgiveness

You May Want to Wait to File

Most Paycheck Protection Program (PPP) borrowers are working toward full forgiveness of their PPP loans and are anxious to get this process started. There are many considerations you should take into account when deciding WHEN to submit forgiveness applications to the lender.

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PPP Loan Forgiveness (Cont'd)

The covered period of PPP loans was extended, so there is no need for a borrower to rush the loan forgiveness application process; time is on your side. The Paycheck Protection Program Flexibility Act of 2020 (PPPFA) was enacted on June 5, 2020, and it extended the covered period from 8 weeks to the earlier of December 31, 2020, or 24 weeks from the date of the loan. If a borrower received its PPP loan before June 5, 2020, the PPPFA allows the borrower to elect to use an 8-week covered period. The covered period extension was made with retroactive effect as if it were originally enacted in the CARES Act. If the borrower does not apply for loan forgiveness within 10 months after the last day of the covered period, or if the SBA determines that the loan is not eligible for forgiveness (in whole or in part), the payments on the PPP loan are no longer deferred and the borrower must begin paying principal and interest. Taking advantage of the full 24 weeks may give a borrower more time to take steps that will help them qualify for full loan forgiveness. This is especially true for the self-employed and owner-employees whose compensation was capped at 2.5 months' worth of 2019 net profit. However, it should be noted that waiting may increase the amount of interest a borrower pays with respect to any part of the loan that will not ultimately be forgiven. In addition, there may be other reasons, not to wait. It is also important to note that, although the PPPFA amended the covered period for loans received prior to June 5, 2020, it did not change the original maturity date of two years from loan disbursement. A pre-June 5th borrower may extend the maturity date to five years under a mutual agreement with the lender. Waiting to apply and/or pay back the loan may cause payments to start much closer to the maturity date if it cannot be extended. The PPPFA did change the maturity date to five years for all loans received on or after June 5th, 2020.

Because of the constantly evolving guidance with respect to loan forgiveness, borrowers should consider waiting before they file their loan forgiveness applications. Although the plain language of the acts related to the PPP may seem clear, the constantly evolving guidance from the SBA and Treasury may change interpretations. Because new interim final rules are coming out and further pandemic aid bills are still being introduced into Congress, hurrying up the process of filing for loan forgiveness may not be warranted if the forgiveness landscape continues to change.

The forgiveness applications issued by the SBA require that they be accompanied by detailed documentation and that additional documents be retained by the borrower. If the lender identifies errors in the borrower's calculations or a material lack of substantiation in the borrower's supporting documents, the lender is to work with the borrower to remedy the issue. A borrower should take the time to make sure they have both the accompanying documentation and the documents to be retained available at the time of the submission. Don't put off getting the "retained" documents together. The SBA has a right to request that retained information as part of its review. If the borrower does not promptly provide documents, this may cause delay and possibly denial of forgiveness. Furthermore, as the rules for PPP loan forgiveness contain so many gray areas, borrowers should also document how a conclusion was reached and what guidance they used to reach the conclusion.

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PPP Loan Forgiveness (Cont'd)

The PPP process has been uneven and frustrating for may borrowers. The loan forgiveness process will be a new system for the lenders and for the SBA. Borrowers should consider whether they want to be the first ones through the system or whether they want to wait for the process to get established before submitting an application.

The following articles are posted on the SBA website: www.sba.gov

Frequently Asked Questions (FAQs) on PPP Loan Forgiveness
Interim Final Rule on Appeals of SBA Loan Review Decisions under the PPP
Interim Final Rule on Treatment of Owners and Forgiveness of Certain Nonpayroll Costs

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