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**BUSINESS TAX CHANGE MEMO 2020-2021**

**TAX RETURN DUE DATES**

- **March 15<sup>th</sup>** - Partnership (form 1065) and S Corp (form 1120 S) returns
  - **April 15<sup>th</sup>** - C Corp (form 1120), sole proprietors and single member LLC returns
- If an extension is filed, this allows an additional 6 months.

**PAYCHECK PROTECTION PROGRAM (PPP)** – At the end of 2020 it was announced that deductions are allowable for expenses paid with proceeds from a forgiven PPP loan. This is retroactive to March 27, 2020. The loan forgiveness application was also simplified to be less than one page, for loans under \$150,000. It was just announced that there will be another round of PPP loans. These will be for businesses who did not apply for one previously or who were approved and returned the funds. Also available for the hardest hit businesses will be “PPP second draw” loans. To be eligible, businesses must employ fewer than 300 employees, have used or will use all the funds of their first PPP loan AND demonstrate at least a 25% reduction in gross receipts in the 1<sup>st</sup>, 2<sup>nd</sup> or 3<sup>rd</sup> quarter of 2020 relative to the same quarter in the prior year. As we experienced last year, the information on these loans is constantly changing. For most up to date information on these loans please visit the SBA website at: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>.

**1099 FILING DUE DATES AND INCREASED PENALTIES.** Form 1099 forms are due out to vendors you paid more than \$600 to for services or rent in your trade or business by January 31<sup>st</sup>. Be sure to file your tax forms by the due dates. If you need us to prepare your 1099 forms, please call ahead for current hours and drop off/pickup options. Each vendor you need a form 1099 for needs to have a completed form W-9. The penalties for late filing or non-filing have drastically increased and range from \$50-\$530 per form.

**EMPLOYERS WITH PAYROLL** – Make sure for all new hires you have all employees fill out form WT-4 for the state of Wisconsin. On the bottom of the form, it directs you where to mail the forms or how to report the new hires online. Also, be sure you give new employees the current federal 2021 W-4 form. To access on the irs website visit: <https://www.irs.gov/pub/irs-pdf/fw4.pdf>.

**STANDARD MILEAGE RATES** - For 2020, the mileage rate was 57.5 cents per mile, it will decrease to 56 cents per mile for 2021.

**SECTION 199A DEDUCTION FOR LANDLORDS** – Please keep in mind if you are taking section 199a deduction for your rental properties you are treated as having a business. Therefore, you must also follow the 1099 reporting requirements. For any vendor you paid \$600 or more to in 2020 for services you will need to issue them a 1099 by January 31<sup>st</sup>. Also, these forms are due to the IRS and state by January 31<sup>st</sup>. If you need help preparing these forms, contact our office.

**HEALTH SAVINGS ACCOUNT (HSA)** - You have until April 15<sup>th</sup> to contribute the maximum to your HSA account. If your health insurance policy is HSA eligible and you have the HSA established by December 31<sup>st</sup>, you can still fund it for the prior year until April 15<sup>th</sup>. This is a great way to lower your taxable income and save in taxes. Be sure to let your preparer know when we receive your documents if you would like to know your options before your tax return is finalized.

**RETIREMENT ACCOUNTS –**

■ **TRADITIONAL AND ROTH IRA.** Keep in mind you have until April 15<sup>th</sup> to contribute to your Traditional or Roth IRA for the prior year. 2020 and 2021 annual contribution limit is \$6,000. Taxpayers who are 50 and over are allowed an additional catch up contribution of \$1,000.

■ **401K PLANS** the maximum deferrals for 401 (k) and similar plan for 2020 and 2021 is \$19,500. Taxpayers over 50 may contribute an additional \$6,500 per year. Employee contributions to 401(k) plans need to be by December 31<sup>st</sup>. If you have a solo 401(k) you have higher contribution limits. Also, the employer portion of the contribution can be made up until April 15<sup>th</sup> (plus extensions).

■ **SEP AND SIMPLE PLANS** the maximum deferral for 2020 and 2021 is \$13,500. Taxpayers over 50 may contribute an additional \$3,000. If you have a SEP IRA, you can contribute 20% of net earnings from self-employment with a maximum contribution of \$57,000 for 2020 and \$58,000 for 2021.

**SECTION 179 EXPENSING ELECTION** – The maximum deduction you may elect to take in 2020 is \$1,040,000.

**BONUS DEPRECIATION** – Bonus depreciation of 100% will remain in effect through 2022.

**SELF EMPLOYMENT TAXES** – Self-employed individuals will pay 12.4% social security tax on the first \$137,700 in profits. The Medicare tax of 1.45% does not have a maximum limit. Self-employed individuals will pay an additional 3.9% Medicare tax on income over \$200,000 for single or \$250,000 for married filing joint.

**ADDITIONAL MEDICARE TAX ON HIGHER INCOMES** - For any employees with wages of more than \$200,000 there is an additional Medicare tax of 0.9%. For each employee once they reach gross wages of \$200,000 you would withhold 2.35% for Medicare tax. The employer is not required to match this 0.9% additional tax, just the regular 1.45%. You need to withhold this higher tax regardless of your employee's filing status or household income.

**BUSINESS MEALS** – Business meals provided by a restaurant will be deducted at 100% for 2021 and 2022 tax years. This is up from 50% for 2020 and prior.

**ENTERTAINMENT EXPENSES** – Just a reminder there is no deduction for an activity considered to be entertainment, amusement or recreation or membership due for a club or organization for pleasure, recreational or social purpose.

**NET OPERATING LOSSES** – For 2020, the net operating loss limit of 80% of taxable income is suspended. There is also a 5-year carryback period for losses before January 1, 2021. For 2021, the 80% limit will be back in effect and the loss can only be carried forward and there is no limit to the number of years to carry forward.

**ACA APPLICABLE LARGE EMPLOYER (ALE) REQUIREMENTS**- Starting in 2015 ALE's (more than 50 full time employees or employee equivalents) needed to provide affordable healthcare coverage that provides minimum essential coverage to their employees. Full time employees are the same as full time equivalents. If you need us to help define whether you fall into this ALE category, please contact our office.

**OUT OF STATE SALES TAX REPORTING REQUIREMENTS** - On June 21<sup>st</sup>, 2018 the US Supreme Court, in South Dakota vs Wayfair, overturned the 50-year-old decision which held that remote sellers could not be compelled to collect sales/use tax in states where they did not have a physical presence. This means if you sell goods or services to customers in other states you could be required to collect and remit sales tax to each of those states the sales occurred. All sellers of taxable goods who sell out of state should check if they are liable under the new laws of the states. It is the business owners' responsibility to research if their goods or services are taxable and follow the reporting requirements regarding all sales. This website has more information regarding the new law and help for businesses: <https://www.streamlinedsalestax.org>.

**SECTION 199A DEDUCTION** – For tax years beginning with 2018 and before 2026 there is a new deduction for noncorporate taxpayers with qualified business income (QBI). In general, the deduction is 20% of a taxpayer's qualified business income that may be subject to limits and reduces taxable income. The deduction reduces the taxpayer's taxable income and not adjusted gross income. The deduction only reduces income tax and does not reduce self-employment taxes. The deduction is not a refundable credit. Other key aspects of the deduction:

- Section 199A defines a qualified trade or business as any trade or business other than a SSTB or the business of performing services as an employee. A SSTB is a specified service trade or business involved in the performance of services, including health, law, consulting, accounting, athletics, financial or brokerage services, investing and investment management and a trade or business where the principal asset is the reputation or skill of one or more of its employees, other than engineering or architecture.
- The deduction is generally 20% of the lesser of the aggregate of all the taxpayer's QBI (determined per business) plus all REIT dividends and qualified PTP income OR the taxpayer's taxable income for the year before considering the deduction and reduced by net long term capital gains.
- There can be limits to the deduction but only when the taxable income for married filing joint is over \$315,000 (\$157,500 for all others) does the specified service trade or business limitation kick in. For businesses who are SSTB's there is a phaseout range as well as W-2 wage and asset calculations that need to be done.
- There is NO deduction if married filing joint income is over \$415,000 (\$157,500 all others).
- For partnerships and S-Corps: The deduction is based on the K-1 that you provide to us.

**All information provided in this tax change memo is as of 1/4/21 and is subject to change.**