

Tennessee Association of Realtors

Meet Chris



- Over 30 years in the financial business
- IRS agent for 16 years/Enrolled to Practice before the IRS
- Frequent speaker on financial planning, wealth building, residential property ownership, and tax strategies for the real estate and financial industries
- CRS Certified Instructor/Certified Financial Planner
- Licensed Illinois Real Estate Broker

<http://www.chrisbirdseminars.com/>

Tax Extension Date Deadline is Coming

- October 15, 2020 for 2019 forms 1040
 - File by this date, even if you do not have the money to pay the IRS
 - IRS will work with you if you have a balance due
- Most of us filed by the extended regular due date, which was July 15, 2020-due to COVID-19

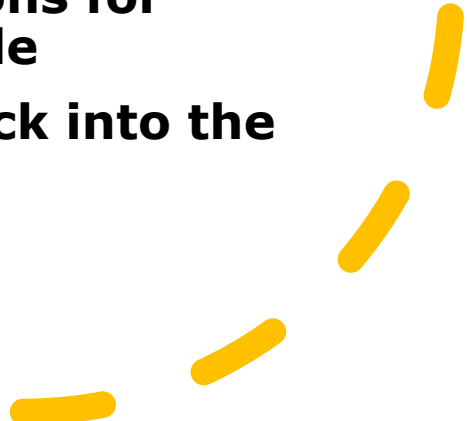
**Put yourself into one of three
income baskets for 2020/2021...**

and then

**Consider the following, and talk
to your accountant and financial
advisor**



**Your
business or
wages have
suffered a
major
downturn –
take
advantage
of:**


- **Graduated Individual Tax Rates**
 - **Take IRA or Pension Distributions**
 - **Defer deductions/take slower depreciation/put off purchases**
 - **Convert IRA to ROTH IRA**
 - **Take advantage of zero capital gains tax rates**
 - **No need to plan for Qualified Business Income Deduction/IRC 179, or Bonus Depreciation**
 - **Take advantage of changes in tax law with respect to NOL carryback rules and relearn the complicated calculations of absorbing the NOL carryback in prior years**
 - **Defer retirement plan contributions for yourself and employees if possible**
 - **Put refunded 529 Plans funds back into the 529 plan via a rollover**
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Your business or wages have suffered a major downturn

- **Use a Qualified Health Savings Account (HSA) Funding Distribution (QHFD) to fund a Health Savings Account**
- **Take a real good look at withholding or estimated tax payments with the idea of either reducing or eliminating 3rd and 4th quarter ES payments and or withholding at the job**
- **Make sure your tax preparer is familiar with the EITC, as you may now qualify where in previous years you made too much income and did not qualify**
- **If you have taken out a PPP loan, get prepared for the PPP Forgiveness process, but I am fairly sure that none of the PPP loan will have to be repaid**



**2020 has
been
consistent
with prior
years, in
other
words, no
significant
difference**


- **Business as usual, take a look at withholdings from your job and or estimated taxes**
 - **Tax liability should remain much the same as in 2019, nothing significant has changed in the tax laws**
 - **Consider conversion of some amount of tax deferred retirement amounts into ROTH IRA, based on betting that tax rates will be higher in future years**
 - **Use IRC 179 and Bonus Depreciation to reduce marginal tax rates**
 - **Employing family members, especially minors, in your business**
 - **Establish and contribute to and Health savings Account**
 - **If you have taken out a PPP loan, get prepared for the PPP Forgiveness process, but I am fairly sure that none of the PPP loan will have to be repaid**
 - **If you have purchased rental real estate recently, consider having a COST SEGREGATION STUDY done-significant tax savings**
 - **If you have sold either stocks, mutual funds, or real estate resulting in significant taxes, consider investing in a QUALIFIED OPPORTUNITY FUND (QOF)-significant current tax savings**
- 

Your business or wages have increased significantly in 2020

- **Maximize contributions to retirement plans**
- **Consider conversion of some amount of tax deferred retirement amounts into ROTH IRA, based on betting that tax rates will be higher in future years.**
- **Sell inherited property with stepped up basis**
- **Gifting to heirs**
- **Employing family members, especially minors, in your business**
- **Use the like-kind IRC 1031 exchange while they still are allowed???**
- **Use IRC 179 and Bonus Depreciation to reduce marginal tax rates**
- **Consider establishing and contributing to a CRT**



Your business or wages have increased significantly in 2020

- **Gift appreciated stock**
 - **If old enough, consider Qualified Charitable Distributions**
 - **Purchase Municipal Bonds**
 - **Donate to a Donor Advised Fund**
 - **Establish and contribute to and Health Savings Account**
 - **If you have taken out a PPP loan, get prepared for the PPP Forgiveness process, but I am fairly sure that none of the PPP loan will have to be repaid**
 - **If you have purchased rental real estate recently, consider having a COST SEGREGATION STUDY done-significant tax savings**
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Tax Changes 2020

- Many of you, like Kay and I, no longer can itemize our federal tax deductions, in fact, only about 10% of 1040's filed after 2017 still itemize.
- However, new law, front page deduction of \$300 in charitable deductions for those who cannot itemize
- Higher contribution deduction limits for those who can itemize and are heavy donors
- There was a proposal in DC this year to make Meals and Entertainment Expenses 100% deductible to give restaurants a boost but this has gone nowhere at this date

Tax Changes 2020

- 30% solar energy tax credit drops to 26% in 2020, 22% in 2021
- 1099-Misc for I/C's has been changed to a 1099-NEC
- **Access to up to \$100,000 on pre-age 59 1/2 from retirement plans if needed. No penalty if reason is COVID related. No 10% penalty, and taxes are paid equally over 3 years, and the individual can elect to repay the amount over 3 years so as not to pay the tax**
- IRS even more concerned about Virtual Currency-question now appears on first page of form 1040

Tax Changes 2020

- Huge break for owners of COMMERCIAL REAL ESTATE properties
 - Congress, retroactive to 2018, reclassified Qualified Improvement Property as having a 15 year depreciable life instead of 39 years, paving the way for 100% first year write-off under the Bonus Depreciation rules. AMENDED RETURNS and the resulting refunds may be in order.
- IRS has ruled in Notice 2020-32 that expenses paid with forgiven PPP loans will not be deductible---WE WILL SEE!!!!!! This was not the intent of Congress





SECURE ACT 12/20/2019

- Contributions to IRA now allowed after 70 ½
- Required minimum distribution date extended to 72
- Distributions of all retirement plans funds to inheriting beneficiaries must now be paid out over no more than 10 years. (This eliminates the stretch) Exceptions apply
- IRC 529 plans, up to \$10,000 lifetime per student may be used to pay off student loans
- The first three points are really changing FP strategies regarding ROTH IRA contributions and IRA conversions to ROTH IRA's.

Travel and Meals

- Business trip expenses while away from home are deductible. These would include:
 - Transportation
 - Hotel and lodging
 - Meal costs (50%)
 - Tips and baggage charges
 - Taxis and or bus fares
 - Telephone
 - Cleaning and laundry

- The key to remember is that prior to 2018, we discussed whether a given expenditure might be considered business promotion/advertising (100%) deductible, or entertainment, (50%) deductible.
- Now the question is framed in light of the new law, where the point now is that promotion/advertising is still 100% deductible, but meals are still 50% deductible and entertainment is - 0- deductible.

Tax Strategies

- **Key Points**

- Before 2018, a LUXURY CAR was a car that cost over \$16,000
- Starting in 2018, Congress raised this ridiculously low number to \$47,120
- The Heavy SUV and Pickup trucks are not subject to these dollar limits

- In 2020 the rate dropped to 57.5 cents per mile. In addition to the standard cents per mile allowance, you can deduct the business parking, tolls, AND the business percentage of the vehicle interest expense on the loan, if applicable.

OR

Actual Costs

- Examples of actual expenses are licenses, taxes, car washes, repairs, insurance, interest, oil and lube, fuel costs, depreciation etc.



Automobile/SUV/Pickup Trucks Depreciation-Good for 2019/2020/2021

- \$10,100 maximum if purchased and used 100% (Automobile)
- \$18,100 maximum if purchased = bonus and used 100% (Automobile)
- Much larger deduction if SUV with GVWR over 6,000 pounds
- Even larger deduction if full-sized P/U Truck with a bed length of 6 feet or larger

Still as good if not slightly better than in previous years.

See any of my slides from previous Tax Talks for further details

Be sure to check the GVWR before buying

- A home office deduction includes a deduction for real estate taxes, insurance, mortgage interest, utility costs, etc. In addition, depreciation is included. The deduction has been considered a red flag for audit
- However, there is a New IRS Safe harbor Home Office deduction for 2013 and later years.

- You must be able to prove that you use the home area designated as your home office exclusively for business and on a regular basis.
- You must meet the “substantial use” test. This test requires that you be able to prove that the home office is used the majority of the time to conduct the management and administrative tasks of running your RE business.

- You must meet the “away from home overnight” test in order for these costs to be deductible. Lavish or extravagant or personal expenses while on vacation are not allowed.
- Only 50% of the cost of meals may be deducted. Receipted bills are required if the expense is \$75 or more.
Entertainment Expenses are now GONE
- Reciprocal meals are not deductible. That is when taxpayers trade off buying lunch for each other.
- Let’s talk about client appreciation events

QUALIFIED BUSINESS INCOME DEDUCTION!

- Provision for small businesses
- Applies to partnerships, S corps, or sole proprietorships
- Also, qualified REIT dividends, cooperative dividends, and publicly traded partnership income
- Service trade issues
- 20% deduction of qualified business income



This is the one of the most significant tax issues that has occurred in the past 31 years!!!

And as of 1/18 and 9/24, 2019, we now know how it applies to real estate rental properties

- While it is nicknamed the PASS THROUGH DEDUCTION, the official title is the QUALIFIED BUSINESS INCOME DEDUCTION.
- The amount of this deduction is 20% of your profits, off the top, and will be claimed on the front page of form 1040, new line 10. The deduction is ONLY a form 1040 deduction, but the income from pass through businesses qualifies.


- **IRC 179 First Year Expensing Deduction and Bonus Depreciation**
 - **Raised to \$1,000,000 in 2018 (and then indexed upwards each year) from \$510,000 in 2017 and is now available for commercial RE roofs, HVAC, Security Systems**
 - **Now for the first time in the history of Tax Code (at least in my career) is allowable for RESIDENTIAL RENTAL REAL ESTATE properties. Examples: appliances, ceiling fans, floor covering, blinds, outside equipment, mowers, snowblowers, trailers to haul, pickup trucks etc.**



Stimulus Payments

- Most received by mid year 2020

BUT...

- Who knows what Congress will do in next several weeks, talks started up again Monday 9/28/20
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Tax Credit / Stimulus Payments

- \$1,200 for single return, \$2,400 for joint returns
- \$500 for each child under age 17
- No lower threshold
- Upper thresholds based on AGI
 - \$75,000 - \$99,000 for single return
 - \$150,000 - \$198,000 for joint return
 - \$112,500 - \$148,500 for head of household return
 - And these amount were based on the filed tax returns for either 2018 or 2019, and served only as an estimate for generating the stimulus payments
- Phaseout increases by \$10,000 per qualifying child

Tax Credit / Stimulus Payments

- Internet myth about having to pay back-there will be a reconciliation on the 2020 form 1040
- On the 2020 form 1040, there will be a line called RECOVERY REBATE, requiring reconciliation of the amount you actually received with the amount you should have received
- If you did not receive as much as you should have received, then you will get the additional amount when you file the 1040.
- On the other hand, if you received earlier more than you should have received, the word on the street is that YOU WILL NOT HAVE TO REPAY

SBA Loan Provisions




U.S. Small Business
Administration

01

ECONOMIC
INJURY
DISASTER
LOANS (EIDL)

02

PAYROLL
PROTECTION
PLAN (PPP)



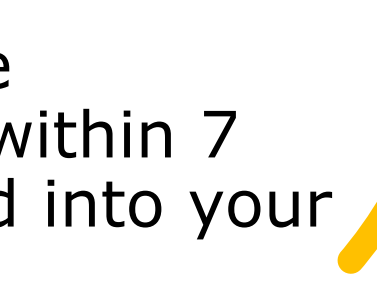
Economic Injury Disaster Loans (EIDL)

- Broadened by the CARES Act for January 31st – December 31st of 2020
 - For businesses with 500 or fewer employees
 - Includes sole proprietors, independent contractors and cooperatives
 - Business must show hardship relating to Coronavirus
 - Up to \$2 million in loans
 - Loan eligibility by credit score or an alternative method showing ability to repay
 - Waive personal guarantee of loans under \$200,000
 - \$1,000-\$10,000 emergency advance (grant)


Economic Injury Disaster Loans (EIDL)

- \$1,000-10,000 emergency advances
- Emergency advance is forgivable
- EIDLs may be used for:
 - Paid sick leave to employees
 - Payroll
 - Rent/mortgage payments
 - Debt obligations due to loss of revenues
 - Increased costs due to supply chain disruptions
- Apply online at the www.SBA.gov

EIDL Loans

- The second part of this program is what I refer to as the “full blown SBA loan” which all applicants for the EIDL advance were then notified about.
 - From what I have seen, these loans ranged from \$16,000-\$150,000, AND THESE ARE REAL LOANS
 - Non-forgivable, amortized over 30 years, 3.75 fixed interest rate, first payment deferred for 12 months, no prepayment penalty
 - The process was simple, online completion of application and within 7 days this money was deposited into your account.
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EIDL Loans

- While I did not take out this loan, I have many clients and contacts who called me and asked if they should take this loan. My advice depended on their financial situation and many took advantage of this government loan offer.
 - The money from this SBA loan must be spent on business expenses only.
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Payroll Protection Plan 7(a) loan

500 or fewer employees

Includes sole proprietors
and independent
contractors


Loan of 250% of the
average salary
expenditures per month
for the year prior to the
loan (up to \$10 million)

- If newer business, can be considered with 2020 receipts


May be used for payroll
(including owner
compensation replacement
and employee
compensation), rent,
mortgage interest, utilities

All or a portion forgivable
if payroll levels are
maintained

60% spent toward payroll.




Paycheck Protection Program Loans (PPP)



- Several key points
 - There is still money available as of the date of this webinar, and my bank indicated this am that last Friday was the busiest day on PPP applications and questions to date
 - Application must be processed by bank and SBA loan number assigned no later than August 8, 2020. Funding of the loan must occur within 10 days of SBA loan approval. We fully expect the PPP loan program to be extended by the pending legislation in Washington
 - **One of the most significant misunderstandings is that many sole proprietors believe that they do not qualify for a PPP loan because they have no payroll. THAT IS ABSOLUTELY FALSE!!!!!!!!!!**

Payroll Protection Plan 7(a) loan

- Based on proposed legislation in Congress, I fully expect that all PPP loans of \$150,000 or less will be totally forgiven, and the borrower will simply have to fill out a one-page document for the PPP lender attesting that the funds were spent appropriately
 - -As of today, talks have restarted this week in DC, so we are hoping
- 



PPP Forgiveness

- The next phase of the PPP loan process will depend on whether Congress can enact another stimulus bill, which could happen BEFORE the election, AFTER the election, or NOT AT ALL.
- As it stands as of the date of this webinar, all PPP loan recipients have to file an application for forgiveness, either form 3508 or 3508EZ, which most of you will need to have help from your accountant to complete. Per my bank as of yesterday, they have not received an application yet that is completed correctly.
- My suggestion-wait several more weeks, give it say 10/20/20 to see what happens in Congress-and if nothing happens on a stimulus bill, talk to your accountant about the application form 3508

Washington Business Journal Article 9/23/20

- The Small Business Administration officially opened its Paycheck Protection Program loan forgiveness portal to lenders on Aug. 10. And of the 5.2 million loans approved under the program, the agency has received only 56,000 forgiveness determinations from lenders so far.
- That number, from a Government Accountability Office report published Monday with data through Sept. 8, shows just how slow the process may be for the SBA and bank lenders to wade through the millions of PPP loans approved before the program expired Aug. 8. Thus far, a little more than 1% of approved loans have resulted in formal forgiveness requests by a lender through the first week of September.

Questions?

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