

2021 Income Tax Update & Employee Retention Credits

December 7, 2021



Welcome and Introduction

About Wegner CPAs

Headquartered in Madison, WI, Wegner CPAs brings a unique perspective to the practice of accounting and business consulting. The firm specializes in family-owned businesses, and provides a complete range of accounting, audit, tax, and consulting services across the lifecycle of the organization.



Welcome and Introduction

Today's Agenda

- I. Federal tax update – Build Back Better and Infrastructure bills in Congress
- II. Other tax updates and tax planning items
- III. Employee Retention Credit (ERC) – availability and information for 2020 and 2021 years

Income Tax Quotes

“The hardest thing to understand in the world is the income tax.”

Albert Einstein

“The income tax has made liars out of more Americans than golf.”

Will Rogers

“We’ll try to cooperate fully with the IRS, because, as citizens, we feel a strong patriotic duty not to go to jail.”

Dave Barry

“It’s like the wild west out there!”

Wegner CPAs client, November 2021

A Trip Down Memory Lane

The first Form 1040

- 1913
- 4 pages long
- 1% to 6% graduated rates
- Personal Income Tax Division of IRS established (30 employees)
- In 1915, several Congressmen complained that the form is too complicated

TO BE FILLED IN BY COLLECTOR. Form 1040. TO BE FILLED IN BY INTERNAL REVENUE BUREAU.

INCOME TAX. File No. _____

List No. _____ THE PENALTY FOR FAILURE TO HAVE THIS RETURN IN THE HANDS OF THE COLLECTOR OF INTERNAL REVENUE ON OR BEFORE MARCH 1 IS \$20 TO \$1,000, (SEE INSTRUCTIONS ON PAGE 4.) Assessment List _____

District of _____ Page _____ Line _____

Date received _____

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME OF INDIVIDUALS.
(As provided by Act of Congress, approved October 3, 1913.)

RETURN OF NET INCOME RECEIVED OR ACCRUED DURING THE YEAR ENDED DECEMBER 31, 1913.
(FOR THE YEAR 1913, FROM MARCH 1, TO DECEMBER 31.)

Filed by (or for) _____ of _____
(Full name of individual.) (Street and No.)

in the City, Town, or Post Office of _____ State of _____
(Fill in page 2 and 3 before making entries below.)

1. GROSS INCOME (see page 2, line 12) \$ _____

2. GENERAL DEDUCTIONS (see page 3, line 7) \$ _____

3. NET INCOME \$ _____

Deductions and exemptions allowed in computing income subject to the normal tax of 1 per cent.

4. Dividends and net earnings received or accrued, of corporations, etc., subject to like tax. (See page 2, line 11) \$ _____

5. Amount of income on which the normal tax has been deducted and withheld at the source. (See page 2, line 9, column A)..... \$ _____

6. Specific exemption of \$3,000 or \$4,000, as the case may be. (See Instructions 3 and 19) \$ _____

Total deductions and exemptions. (Items 4, 5, and 6) \$ _____

7. TAXABLE INCOME on which the normal tax of 1 per cent is to be calculated. (See Instruction 3). \$ _____

8. When the net income shown above on line 3 exceeds \$20,000, the additional tax thereon must be calculated as per schedule below:

	INCOME	TAX.
1 per cent on amount over \$20,000 and not exceeding \$50,000....	\$ _____	\$ _____
2 " " 50,000 " " 75,000....	\$ _____	\$ _____
3 " " 75,000 " " 100,000....	\$ _____	\$ _____
4 " " 100,000 " " 250,000....	\$ _____	\$ _____
5 " " 250,000 " " 500,000....	\$ _____	\$ _____
6 " " 500,000	\$ _____	\$ _____

Total additional or super tax \$ _____

Total normal tax (1 per cent of amount entered on line 7)..... \$ _____

Total tax liability..... \$ _____

A Trip Down Memory Lane

The Revenue Act of 1913 and the 16th Amendment to the U.S. Constitution (combined) were approximately 27 pages in length.

The current Internal Revenue Code is a little over 4,000 pages.

The Build Back Better Act is approximately 2,100 pages.

A Trip Down Memory Lane

In 1913, Federal Government revenue for the entire year was approximately \$28 million.

In 2021, the Federal Government *spends* \$28 million every two to three minutes. (*about \$700 million will be spent during the duration of this webinar...*)





Federal Tax Update – Build Back Better and Infrastructure bills

What's Happening in Washington?

Two major pieces of recent legislation:

- 1. Infrastructure bill** (\$1.2 Trillion, signed into law November 15, 2021) - *Roads, bridges, broadband, airports, electric grid, etc.*
- 2. Build Back Better Act *** (\$2.2 Trillion, passed by House on November 19, 2021, currently in the Senate) – *social and climate spending; family aid; tax credits and tax increases; SALT tax relief*

* Also referred to as the “Reconciliation Bill”



How Much is a Trillion Dollars?

One Billion = a thousand million

One Trillion = a thousand billion (or one million million)

A million seconds = about 11.5 days

A Billion seconds = about 32 years

A Trillion seconds = about 32,000 years

Build Back Better - Reminder and Warning!!

The following slides summarize legislation that has NOT been signed into law as of the date of this webinar (12/7/21)!

Final version of the Build Back Better Act, if and/or when signed into law, could differ significantly.

Build Back Better Act - Background

- First proposed spring 2021
- Started out at \$3.5 Trillion; now down to \$2.2 Trillion
- Passed House 11/15/21 by a 220-213 vote
- No Republican support; Democrats debating amongst themselves
- Needs to be passed by Reconciliation procedure in Senate
- Currently held up in the Senate by:
 - Joe Manchin, d-WV
 - Kyrsten Sinema, d-AZ
 - Elizabeth MacDonough, Senate Parliamentarian

Build Back Better Act - Background

What is NOT in the BBB Act passed by House on 11/15/21:

REMOVED → Corporate income tax rate increase (currently 21%) – earlier proposals had new graduated rates of 18% to 26.5%

REMOVED → Individual top rate increase – earlier proposals had increase from 37% to 39.6%

REMOVED → Capital Gains rate increase – earlier proposals had top rate increase from 20% to 25%

Build Back Better Act - Background

What is NOT in the BBB Act passed by House on 11/15/21:

- Changes to the Estate and Lifetime Gifting limits – earlier proposals had reduced this limit from \$11.7 million in 2021 to \$5 million
- Changes to Qualified Business Income (QBI) deduction – earlier proposals had the QBI deduction being limited for higher income taxpayers

REMOVED

REMOVED

Build Back Better Act – Business Provisions

- Corporate Alternative Minimum Tax (AMT) – but only for corporations with over \$1 Billion in revenue for prior three years
- 1% excise tax on corporate stock repurchases – but only for corporations whose stock is traded on an established securities market
- Several other corporation and international provisions (but not likely to affect closely held family businesses)

Build Back Better – Individual Provisions

- Income tax surcharge of 5% on income > \$10 million (\$5 million if married filing separately) beginning in 2022
- An additional 3% surcharge on income > \$25 million (\$12.5 million if married filing separately) beginning in 2022
- Expand the scope of taxpayers subject to the 3.8% Net Investment Income Tax (NIIT) in 2022
 - Owners of S-Corporations and Partnerships who materially participate in the business were currently exempt from this tax; under Build Back Better, there will no longer be this exemption for taxpayers with income over \$400,000 (single), or \$500,000 (married filing jointly) **

****This will dramatically affect owners of S-Corporations, potentially making the top rate for their business income 40.8% in 2022 vs. 37% in 2021.**

Build Back Better – Individual Provisions

- Limits retirement account contributions and requires higher Required Minimum Distributions for individuals with over \$10 million plan balances
- “Back door Roth” contributions eliminated effective January 1, 2022
- Roth conversions prohibited for taxpayers with modified adjusted gross income over \$400,000 (single) or \$450,000 (married filing jointly)
- Cryptocurrency now subject to “wash sale” rules (i.e. you can’t deduct a loss if you buy the same asset within 30 days)

Build Back Better – Individual Provisions

- Extends the monthly payment of child tax credit through 2022, and permanently makes the credit fully refundable
 - \$3,600 per qualifying child < age 6
 - \$3,000 per qualifying child > age 6
- Enhanced Earned Income Credit extended for one more year in 2022
- Health care premium assistance credit – enhanced credit availability extended through 2025

Build Back Better – Individual Provisions

- Increases credit up to \$12,500 for new qualified plug-in vehicles, and up to \$4,000 for pre-owned; subject to taxpayer income limits and vehicle price limits
- Establishes a tax credit of up to \$900 for the purchase of an electric bicycle; subject to taxpayer income limits and bicycle price limits
- Extends and credit for residential energy efficiency property (e.g. solar, wind, geothermal) through the end of 2031, and retains the full 30% credit through that timeframe

Build Back Better – Individual Provisions

- Increases the SALT (State and Local Tax) itemized deduction limit from \$10,000 to \$80,000 through 2030. This change would apply immediately for tax year 2021.
- Observation: The Senate has expressed interest in putting income limits on this SALT deduction so that it doesn't disproportionately benefit the wealthy...stay tuned!

Other General Tax Updates



Other Tax Planning Info for 2021

- Sec 179 expensing for 2021 tax year =
\$1,050,000 limit (max purchases \$2,620,000)
 - Sec 179 allowed for both Fed and Wisconsin
- 100% “Bonus” depreciation still available in 2021
 - No maximum limit
 - Bonus depreciation is NOT allowed for Wisconsin

Other Tax Planning Info for 2021

- Retirement plan contributions are a great way to reduce business taxable income and reward employees.
 - 401(k), SEP, SIMPLE, etc.
- Consider Wisconsin entity level election for S-Corporations and Partnerships

Other Tax Info for 2021

- 2021 business standard mileage rate = 56 cents per mile (was 57.5 cents per mile in 2020)
- 2021 and 2022 IRA contribution limit = \$6,000 (plus \$1,000 catch up if over age 50)
- 2021 401(k) deferral limit = \$19,500 (plus \$6,500 catch up if over age 50)
 - In 2022 the 401(k) limit rises to \$20,500 (plus \$6,500 catch up if over age 50)

Other Tax Info for 2021

- 2021 Health Savings Account contribution limits
\$3,600 self-only; \$7,200 family
- 2021 Annual individual gifting limit = \$15,000
 - For 2022 it will rise to \$16,000
- For Wisconsin, one tax bracket has been lowered
from 6.27% to 5.3% beginning in 2021



Employee Retention Credit

History of the Employee Retention Credit

- March 2020: CARES Act – ERC from 3/13/20 – 12/31/20
- December 2020: CAA, expanded ERC to Q1, Q2 2021, eligible for PPP loan participants.
- March 2021: ARPA, expanded ERC to Q3, Q4 2021
- November 2021: IIJA , retracted ERC in Q4 2021 (except for recovery start up businesses)

Employee Retention Credit

→ Qualifications

- 1. Gross receipts test (see next slide)
- 2. Operations were fully or partially suspended during any calendar quarter of 2020 or 2021 due to orders from a governmental authority limiting group meetings, commerce, or travel due to COVID-19

Employee Retention Credit

→ Gross Receipts Test

- 2020 Gross receipts for the quarter were less than 50% of the gross receipts for the same calendar quarter in the prior year. You STOP qualifying in 2020 during the quarter that gross receipts are over 80% of the same calendar quarter in 2019.
- 2021 Gross Receipts for the quarter were less than 80% of the gross receipts for the same calendar quarter in the prior quarter in 2019. Note there is also an alternative method in 2021 as well to help businesses qualify. See later example.

Employee Retention Credit

Please enter gross receipts for each quarter of 2019, 2020, and 2021 in the green boxes below.

Exclude receipts on the repayment of loans, collection of sales tax, PPP forgiveness, ERC, or tips collected

	<u>2019 Gross Receipts</u>	<u>2020 Gross Receipts</u>	<u>2021 Gross Receipts</u>	<u>Decline in gross receipts 2020</u>	<u>Decline in gross receipts 2021</u>	<u>2020 Eligible Quarters:</u>	<u>2021 Eligible Quarters</u>
Q1	1,500,000	1,200,000	2,000,000	-20%	33%		Qualifying Quarter based on alt method
Q2	1,000,000	450,000	750,000	-55%	-25%	Qualifying Quarter	Qualifying Quarter
Q3	2,000,000	2,500,000	2,000,000	25%	0%	LAST Qualifying Quarter in 2020	Qualifying Quarter based on alt method
Q4	1,500,000	1,100,000	1,500,000	-27%	0%		
Please provide any questions or notes below:							

Employee Retention Credit

- Gross receipts of the taxable year and generally includes:
- Total sales (net of returns and allowances) and all amounts received for services.
- Income from investments, including interest, dividends, rents, royalties, and annuities, regardless of whether those amounts are derived in the ordinary course of the taxpayer's trade or business.
- Gross receipts are generally not reduced by cost of goods sold. **They are generally reduced by the taxpayer's adjusted basis in certain property used in a trade or business or capital assets sold except for tax exempt organizations.**

Employer Retention Credit

- Qualifying wages (wages + employer health insurance) - 2020:
 - 100 FTEs for 2019
 - Over – only for employees paid while not working
 - Under – all employees
- Qualifying wages (wages + employer health insurance) – 2021:
 - 500 FTEs for 2019
 - Over – only for employees paid while not working
 - Under – all employees

Employee Retention Credit

→ 2020 Credit -

→ Up to \$5,000/employee annually

→ 2021 Credit -

→ Up to \$7,000/employee quarterly

Employee Retention Credit

Frequently asked questions:

1. Where do I claim this credit?
2. How long to get my refund?
3. Does the IRS pay interest?
4. Do owners wages count?
5. Are there rules for ownership in multiple companies?
6. Can Wegner help with this?
7. Is there an alternative quarter selection?
8. Is ERC still around for Q4 2021?
9. Is this program for real?



Tax impacts

- **PPP** – Tax exempt for federal taxes, most states have accepted this practice.
- **SVOG** – Tax exempt for federal taxes.
- **RRF** – Tax exempt for federal taxes.
- **ERC** – Loss of federal wage deduction on income tax filings (businesses). Most states are still allowing the wage deduction.



Resources

COVID-19 Resource Center

<https://www.wegnercpas.com/wegner-resources/covid-19/>

SBA

<https://www.sba.gov/page/covid-19-guidance-resources>

Questions?



Today's Presenters



JOHN FOLSOM, CPA, PARTNER

John is a partner in Wegner CPAs' Tax and Business Services Department. He joined the firm in 2013 with more than 20 years of public accounting experience and is currently head of our Construction and Real Estate niche. John's passion is working with business owners to help them solve problems and be a partner in their success. He strives to provide his clients with value-added recommendations to help them reach their long-term goals.



Dan Bergs, CPA, Senior Manager

Dan Bergs is a senior manager in Wegner CPAs' tax and business services department. Dan has been serving clients as a trusted advisor for over 10 years at Wegner CPAs. He specializes in working with business clients and advising on effective tax planning strategies and succession planning.

Thank You!

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