

Certified Public Accountants

**Gatto McFerson**

March 21, 2021

Dear Friends and Colleagues,

Washington, DC and the Internal Revenue Service have been busy. The American Rescue Plan Act of 2021 (ARP), was signed into law, the IRS moved the tax deadline for individuals, and there have been more developments with the Paycheck Protection Program (PPP). Below are some items we feel you should know about.

#### New Individual Tax Deadline

The IRS announced that it is postponing the filing and payment deadline for all individual tax returns to Monday, May 17, 2021.

The postponement applies only to individual taxpayers. It does not apply to any other type of federal tax filings – C Corporation or Fiduciary returns, for instance.

No late payment interest or penalties will accrue for those choosing to use the deadline postponement of May 17, 2021.

If taxpayers wish to request an automatic extension to October 15, 2021, they may still do so, but any taxes owed would be due May 17, 2021.

The postponement does not apply to 2021 estimated income tax payments, which are still due April 15, 2021.

California will conform to the IRS filing and payment extension date of May 17, 2021. California will also require estimated tax payments for 2021 to be paid by April 15, 2021.

The reason for the delay is twofold. One, the IRS has a backlog of almost 6.7 million 2019 tax returns that still need to be processed. And two, the IRS is struggling to digest the tax changes made by ARP, while it also processes the new round of economic stimulus payments that are now being delivered.

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### E-Filing and Direct Deposits Recommended

According to the IRS, tax returns that are paper filed, and/or refunds using paper checks will take much longer to process this year. Filing electronically and opting to receive refunds via direct deposit will significantly decrease the processing time.

### New Round of Stimulus Payments

ARP creates another round of economic stimulus payments for qualifying taxpayers. Individuals may be eligible for up to \$1,400, while married-filing-joint taxpayers may be eligible for up to \$2,800. Those with qualifying dependents may be eligible for up to \$1,400 each.

Of course, there are income limitations to these stimulus payments. For single taxpayers, the payment will begin to phase out at \$75,000 of Adjusted Gross Income (AGI), and will be eliminated at \$80,000. For married-filing-joint taxpayers, the payments will begin to phase out at an AGI of \$150,000, and will be eliminated at \$160,000.

This latest round of stimulus payments will use 2019 tax return numbers to determine eligibility, unless a 2020 tax return has already been filed.

### Unemployment Compensation Taxability

If a taxpayer's AGI is less than \$150,000, up to \$10,200 of unemployment compensation may be excluded from gross income. Married couples can exclude \$10,200 per spouse. Amounts over \$10,200 for each individual are still taxable. If AGI is over \$150,000, no exclusion is allowed.

### PPP Second Draw Application Deadline Extension

It appears that the application deadline for the 2<sup>nd</sup> PPP loans will be extended until May 31, 2021. The bill was passed by the U.S. House of Representatives, and is also expected to clear the Senate.

The bill extends the filing deadline for PPP loans by 60 days and gives an additional 30 days to the SBA to process the applications received by May 31.

California PPP Deductibility

For Federal taxes purposes, Paycheck Protection Program (PPP) loans, when forgiven, will not be taxable. The expenses those funds were spent on will be deductible, so it is the best of both worlds.

For California tax purposes, however, these issues remain murky. The forgiven PPP loan will not be taxable, but there are questions regarding the deductibility of the PPP funds spent on payroll and other business expenses.

AB 80 is the California legislation that is supposed to address all of this, but as of mid-week, the Governor’s office announced that AB 80 had been put on hold. AB 80, as initially drafted, would provide at least partial conformity (up to possibly \$150,000) to the federal provision allowing PPP borrowers to deduct expenses paid with forgiven loan amounts.

The state is awaiting additional guidance from the U.S. Treasury Department to see if AB 80 can be enacted.

Assuming the bill passes as written, **California will only allow companies to deduct up to \$150,000 in expenses covered by the PPP loan.**

All businesses that took out loans of \$150,000 or less will be able to maximize their deduction for state purposes. Those companies that took out higher loans will only be allowed a \$150,000 deduction, with the difference being treated as taxable for California purposes.

**Example 1 – PPP Loans under \$150,000**

	<u>Federal</u>	<u>California</u>
Loan Amount	\$ 125,000	\$ 125,000
Deductions Allowed	<u>(125,000)</u>	<u>(125,000)</u>
Taxable Amount	<u>\$ -0-</u>	<u>\$ -0-</u>

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**Example 2 – PPP Loans over \$150,000**

	<u>Federal</u>	<u>California</u>
Loan Amount	\$ 450,000	\$ 450,000
Deductions Allowed	<u>(450,000)</u>	<u>(150,000)</u>
<b>Taxable Amount</b>	<b><u>\$ -0-</u></b>	<b><u>\$ 300,000</u></b>

Deadline to Apply for Forgiveness

There has been some confusion as to when the deadline is to submit the PPP Forgiveness Application. As long as the borrower submits its loan forgiveness application within 10 months of the completion of the Covered Period, the borrower will not be required to make any principal or interest payments to the SBA. So, as an example, if your Covered Period ended August 31, 2020, then your deadline is June 30, 2021. If the loan is fully forgiven, the borrower will not be responsible for any payments. If only a portion of the loan is forgiven, or if the forgiveness application is denied, any remaining balance due on the loan must be repaid by the borrower on or before the maturity date of the loan.

Should you have any questions about the above, please feel free to contact our office at any time.

Sincerely,



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