THE CONTRACTOR'S

EDGE

The Hoffman Group Newsletter

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THE HOFFMAN GROUP

Certified Public Accountants & Consultants

The American Rescue Plan Act: Business Tax Provisions

Here are some of the business related tax provisions included in the ARPA.

March 11th, the President signed the $1.9 trillion American Rescue Plan Act into law. Here are some of the tax changes included in the bill:

Employee Retention Credit

The employee retention credit is extended from June 30 until December 31, 2021. The American Rescue Plan Act continues the ERC rate of credit at 70% for this extended period of time. Thus, employers can receive up to $28,000 per employee for 2021.

Businesses that began operating after February 15, 2020 are now eligible to claim the Employee Retention Credit if their gross receipts for the prior 3 years do not exceed $1 million.

Employer-Provided Dependent Care Assistance

In general, an eligible employee's gross income doesn't include amounts paid or incurred by an employer for dependent care assistance provided to the employee under a qualified dependent care assistance program (DCAP).

Previously, the amount that could be excluded from an employee's gross income under a DCAP during a tax year wasn't more than $5,000 ($2,500 for married individuals filing separately), subject to certain limitations. However, any contribution made by an employer to a DCAP can't exceed the employee's earned income or, if married, the lesser of employee's or spouse's earned income.

Under the ARPA, for 2021 only, the exclusion for employer-provided dependent care assistance is increased from $5,000 to $10,500 (from $2,500 to $5,250 for married individuals filing separately).

This provision is effective for tax years beginning after December 31, 2020.

Earned Income Credit

For 2021, the minimum eligibility age to claim the earned income credit is 19 years old (18 in some situations). The bill also increases the credit and phase-out percentages, allows separated spouses to use the credit in certain situations, and modifies the disqualified investment income test.

Family and Sick Leave Credits

The American Rescue Plan Act extends the credits for sick and family leave (initially introduced in the Families First Coronavirus Response Act) to September 30th, 2021. The cap on paid family leave is increased to $12,000.

Consider a Heavy SUV for Your Next Business Vehicle

If you're thinking about buying a vehicle this spring, consider this tax-saving option.

Are you considering buying or replacing a vehicle that you'll use in your business? If you choose a heavy sport utility vehicle (SUV), you may be able to benefit from lucrative tax rules for those vehicles.

Bonus Depreciation

Under current law, 100% first-year bonus depreciation is available for qualified new and used property that's acquired and placed in service in a calendar year. New and pre-owned heavy SUVs, pickups and vans acquired and put to business use in 2021 are eligible for 100% first-year bonus depreciation. The only requirement is that you must use the vehicle more than 50% for business. If your business usage is between 51% and 99%, you can deduct that percentage of the cost in the first year the vehicle is placed in service. This generous tax break is available for qualifying vehicles that are acquired and placed in service through December 31, 2022.

The 100% first-year bonus depreciation write-off will reduce your federal income tax bill and self-employment tax bill, if applicable. You might get a state tax income deduction, too.

Weight Requirement

This option is available only if the manufacturer's gross vehicle weight rating (GVWR) is above 6,000 pounds. You can verify a vehicle's GVWR by looking at the manufacturer's label, usually found on the inside edge of the driver's side door where the door hinges meet the frame.

Note: These tax benefits are subject to adjustment for non-business use. And if business use of an SUV doesn't exceed 50% of total use, the SUV

won't be eligible for the expensing election, and would have to be depreciated on a straight-line method over a six-tax-year period.

Detailed, contemporaneous expense records are essential — in case the IRS questions your heavy vehicle's claimed business-use percentage.

That means you'll need to keep track of the miles you're driving for business purposes, compared to the vehicle's total mileage for the year. Recordkeeping is much simpler today, now that there are apps and mobile technology you can use. Or simply keep a small calendar or mileage log in your car and record details as business trips occur.

If you're considering buying an eligible vehicle, doing so and placing it in service before the end of this tax year could deliver a big write-off on your 2021 tax return. Before signing a sales contract, consult with us to help evaluate the right tax moves for your business.

Work Opportunity Tax Credit Extended

The WOTC has been extended through December 31, 2025. Here's how employers can benefit if they're hiring.

Are you a business owner thinking about hiring? Be aware that a recent law extended a credit for hiring individuals from one or more targeted groups. Employers can qualify for a tax credit known as the Work Opportunity Tax Credit (WOTC) that's worth as much as $2,400 for each eligible employee ($4,800, $5,600 and $9,600 for certain veterans and $9,000 for "long-term family assistance recipients"). The credit is generally limited to eligible employees who began work for the employer before January 1, 2026.

Generally, an employer is eligible for the credit only for qualified wages paid to members of a targeted group.

These Groups Are:

1. Qualified members of families receiving assistance under the Temporary Assistance for Needy Families (TANF) program
2. Qualified veterans
3. Qualified ex-felons
4. Designated community residents
5. Vocational rehabilitation referrals
6. Qualified summer youth employees
7. Qualified members of families in the Supplemental Nutritional Assistance Program (SNAP)
8. Qualified Supplemental Security Income recipients
9. Long-term family assistance recipients
10. Long-term unemployed individuals

You Must Meet Certain Requirements

There are a number of requirements to qualify for the credit. For example, for each employee, there's also a minimum requirement that the employee must have completed at least 120 hours of service for the employer. Also, the credit isn't available for certain employees who are related to or who previously worked for the employer.

There are different rules and credit amounts for certain employees. The maximum credit available for the first-year wages is $2,400 for each employee, $4,000 for long-term family assistance recipients, and $4,800, $5,600 or $9,600 for certain veterans. Additionally, for long-term family assistance recipients, there's a 50% credit for up to $10,000 of second-year wages, resulting in a total maximum credit, over two years, of $9,000.

For summer youth employees, the wages must be paid for services performed during any 90-day period between May 1 and September 15. The maximum WOTC credit available for summer youth employees is $1,200 per employee.

There are additional rules and requirements. In some

Making Sense of Your Statement of Cash Flows

It's not always clear how to classify transactions on your company's statement of cash flows. Here's how to get it right.

The statement of cash flows essentially tells you about cash entering and leaving a business. It's arguably the most misunderstood and under appreciated part of a company's annual report. After all, a business that reports positive net income on its income statements sometimes doesn't have enough cash in the bank to pay its bills. Reviewing the statement of cash flows can provide significant insight into a company's financial health and long-term viability.

Under Generally Accepted Accounting Principles

(GAAP), the statement of cash flows is typically organized into three sections:

1. Cash flows from operations

This section focuses on cash flows from selling products and services. It customarily starts with accrual-basis net income. Then it's adjusted for items related to normal business operations, such as:

- Gains or losses on asset sales
- Depreciation and amortization
- Income taxes
- Net changes in working capital accounts (such as accounts receivable, inventory, prepaid assets, accrued expenses and payables)

The end result is cash-basis net income. Companies that report several successive years of negative operating cash flows may be better off closing than continuing to incur losses.

2. Cash flows from investing activities

If a company buys or sells property, equipment or marketable securities, the transaction generally shows up here. This section reveals whether a company is reinvesting in its future operations — or divesting assets for emergency funds.

3. Cash flows from financing activities

This section shows cash flows from raising, borrowing and repaying capital. It highlights the company's ability to obtain cash from lenders and investors, including:

- New loan proceeds
- Principal repayments
- Dividends paid
- Issuances of securities or bonds
- Additional capital contributions by owners

Capital leases and noncash transactions are reported in a separate schedule at the bottom of the statement of cash flows or in a narrative footnote disclosure. For example, if a borrower purchases equipment directly using loan proceeds, the transaction would typically appear at the bottom of the statement, rather than as a cash outflow from investing activities and an inflow from financing activities.

In addition, U.S. companies that enter into foreign currency transactions customarily report the effect of exchange rate changes as a separate item in the reconciliation of beginning and ending balances of cash and cash equivalents.

For More Information

The statement of cash flows provides valuable insight about your company's financial health. But it may not always be clear how to classify transactions. We can help you get it right.

Maximum EIDL Loan Amount Raised

The SBA is raising the maximum amount businesses can borrow under the COVID-19 Economic Injury Disaster Loans (EIDL) program to $500,000.

The SBA is raising the maximum amount nonprofits and small businesses can borrow under the COVID-19 Economic Injury Disaster Loans (EIDL) program.

Currently, the maximum loan amount is $150,000 for six months of economic injury. Beginning the week of April 6th, the maximum COVID-19 EIDL loan amount will be $500,000 for up to 24 months of economic injury.

On April 6th, existing EIDL borrowers may request a loan increase. COVID-19 EIDL loans processing when the new maximum limit goes into effect will be automatically considered for the new higher limit.

We're awaiting updated instructions from the SBA on how to request a loan increase through their website.

About EIDL Loans

Economic Injury Disaster Loans are intended to help businesses cover operating expenses and meet financial obligations that could have otherwise been met had the disaster not occurred. Loan proceeds can be used as working capital and to cover normal operating expenses, such as utilities, rent, fixed debt payments, and the continuation of health care benefits.

EIDL loans have a 30-year maturity at 3.75% fixed interest for businesses and 2.75% fixed interest for nonprofits, with no pre-payment penalties or fees.

The SBA deferred EIDL payments until 2022, though interest will accrue during this period.

Contact Us for Assistance

If you need assistance or have any questions or concerns, we're happy to help. Please call 443-320-4101 or email info@hoffmancpas.com to speak with a member of our firm.

For additional resources, please visit HoffmanCPAS.com.

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The Prosperous Life brings you a powerful collaboration between The Hoffman Group and The Prosperity Consulting Group, a wealth management company. Each episode features a 10 to 15-minute interview with our knowledgeable team members about ***tax-efficient investing strategies, saving for their future, optimizing their business structure, minimizing taxes, investment fees,*** and more.

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