Planning for the 2020 Tax Season
What will your CPA need?

- Financial Statements
  - Profit & Loss
  - Balance Sheet
- Your last bank statement of the year
- Your last loan statement of the year
- Documentation for new machinery, equipment or vehicles purchased during the year
- Copies of previous years tax returns
When to meet with your CPA?

**PROACTIVE**

- Meets with their CPA throughout the year
- Makes a tax plan with their CPA
- Saves money on taxes

**REACTIVE**

- Meets with their CPA during tax season
- Has no choices to change their tax situation
- Ends up paying more on taxes
Why is 2020 Tax Season Different?

- EIDL and PPP Loans
- Grants
- 401K Distributions
EIDL & PPP Loans

- While the loan money is not taxable, IRS Code states that if the loan is forgiven or it is reasonably expected for the loan to be forgiven, the expenses associated with the loan are NOT tax deductible.

- This causes your income to be inflated by the amount of the loan.

- It may cause a higher tax liability for the business or business owner.

- Make sure your CPA has a copy of your loan documents and knows what stage of forgiveness you are in.
Grants

- Most grants are taxable
- If you received a $5,000 grant and you’re effective tax rate is 12% you will have to pay $600 in tax
- Some state grants were tax exempt at the state level but not at the Federal level
- Make sure your CPA has a copy of the grant documents
401K Distributions

- Allowed to take up to $100,000 in distributions
- No 10% penalty – Pays income tax
- 2 Reporting Options
  - All at once in the year of the distribution
  - Ratably over a period of 3 years
- Repayment Options
  - May be repaid at any time over a 3 year period beginning with the year in which it was distributed
  - It can only reduce income up to the amount reported in that year
  - If no amount was reported in that year then prior year returns must be amended
401K Distributions – Reporting Options

2020
$75,000

2020
$25,000

2021
$25,000

2022
$25,000
401K Distributions – Repayment Options

Easy - No major tax implication
401K Distributions – Repayment Options

Reported
- 2020: $75,000

Repayment
- 2020: $0
- 2021: $25,000
- 2022: $50,000

Costly - You will need to do tax planning because prior year returns will need to be amended
Tax Professionals

- **Preparer $**
  - No formal education is required
  - Required to have a PTIN

- **Enrolled Agent (EA) $$**
  - No formal education is required
  - Required to be licensed by the IRS
  - Can represent you with the IRS

- **Certified Public Accountant (CPA) $$$**
  - Required to have at least 150 college credits (Masters)
  - Required to have worked at least 1800 under a senior CPA
  - Required to be licensed by the State
  - Can represent you with the IRS
Thank You

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