

2021 Year-End Tax-Guidance for Business Owners

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As we covered in [“Year-End Tax-Planning Tips for 2021 for Individuals,”](#) what you do this year can make a big difference in how much you pay in state and federal tax next year. And perhaps more important if you’re a business owner, it can impact your net worth for decades to come.

Because it stands to reason the more you save on taxes, the more money you have to invest in your businesses and your own future.



Paying attention to tax rules and regulations and how they impact your business finances has become especially important in recent years with the flurry of changes in response to the global pandemic and its economic impact, major shifts in government policies (and spending), business slowdowns and shutdowns, and more.

In this environment of disruption and uncertainty, having a well-thought-out tax plan in place enables you to minimize your obligations while using your tax savings to protect and grow your business and personal wealth.

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Here at SWC, we encourage business owners to schedule a year-end tax planning and financial strategy session with your CPA. And if you are a business client of ours, you already know that we can help you reassess your business taxes and finances, adjust your plan to optimize outcomes, and take any year-end steps that can save the business money and protect and grow your personal net worth.

In the meantime, whether you're a client of ours or you work with another firm, here's a look at some tax issues for business owners to consider as you approach year-end 2021:

New and Changing Tax Provisions

You may recall that many tax provisions were implemented under the American Rescue Plan Act (ARPA) enacted in March 2021 to help individuals and businesses deal with the financial fallout from the COVID-19 pandemic. In [Year-End Tax-Planning Tips for 2021 for Individuals](#), we covered the following provisions and their tax implications:

- Economic impact payments (EIPs)
- Child tax credit
- Charitable contributions deductions
- Required minimum distributions from retirement accounts
- Unemployment compensation
- The tax implications of working remotely (teleworking)
- Rules for paying and getting paid with virtual/cryptocurrencies

In this singlette, we highlight additional new and changing tax provisions, with a focus more on those that apply to businesses and the self-employed.

Employee retention credit (ERC)

The employee retention credit is a refundable payroll tax credit that may be claimed by eligible employers who pay qualified wages to qualifying employees. It encourages businesses to keep employees on their payroll during the pandemic. Changes were made with legislation to allow businesses to qualify for both Paycheck Protection Program (PPP) loans and the ERC.

Work Opportunity Tax Credit

Jointly administered by the Internal Revenue Service (IRS) and the Department of Labor (DOL), the Work Opportunity Tax Credit is available for wages paid to certain individuals who begin work on or before Dec. 31, 2025. Under this program, participating businesses receive a tax credit of between \$2,400 and \$9,600 per new qualifying hire.

If you're a business owner or you manage a business for someone else, the WOTC provides you with the opportunity to grow your workforce at a discount as the economy recovers.

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For details about the WOTC, see read "[Taking Advantage of the Work Opportunity Tax Credit \(WOTC\)](#)" on the SWC blog.

Family and sick leave credits

The American Rescue Plan Act extended family and sick leave credits to Sept. 30, 2021. These credits are meant to compensate employers and the self-employed for COVID-related paid sick and family and medical leave.

Small Business Administration (SBA) loans

Though the Paycheck Protection Program (PPP) ended on May 31, 2021, existing borrowers may be eligible for PPP loan forgiveness. While PPP loan forgiveness is not taxable for federal purposes, there may be state implications. There are also other health pandemic relief measures offered through the Small Business Administration. We can help you take full advantage of these programs and navigate their tax and financial complexities.

Pro Tip: Partnership audit and adjustment rules...New audit and adjustment rules are in effect. Careful planning today will help mitigate any unfavorable consequences on both the entity and the partners themselves. Also, be aware that, even if your business isn't classified as a partnership, you'll want to evaluate the effect these new rules could have if you're invested in a partnership.

Other Notable Tax Changes

If you own or manage a business or are self-employed, you should also be aware of the following provisions:

- **Business meals:** To help alleviate the financial impact of the pandemic on restaurants, the deduction for expenses paid for food or beverages provided by a restaurant has increased from 50 to 100 percent. This provision is effective for expenses incurred after Dec. 31, 2020 and expires at the end of 2022.
- **Property and equipment purchases:** With tax-favorable options available to businesses, many purchases can be completely written off in the year they're placed in service. Plus, there are tax-favorable rules that permit qualified improvement property to qualify for 15-year depreciation and, therefore, also be eligible for 100 percent first-year bonus depreciation.
- **Net operating losses:** If you have significant losses from 2018 to 2020, you may be able to carry those losses back up to five years, which can significantly impact a prior year's tax liability.
- **Accounting method:** More businesses can now use the cash method of accounting. This can be helpful for cashflow purposes and is generally easier to apply than the accrual method of accounting. We can help you determine which

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accounting method would be most beneficial for your business and whether you meet the qualifications for using the cash method of accounting.

- Sales and use tax considerations: States are continuing to make changes to their sales and use tax laws and filing requirements following the U.S. Supreme Court ruling in the case *South Dakota v. Wayfair, Inc.* We can help you determine all tax obligations relevant to your business and minimize your obligation while ensuring compliance.

Keeping Tabs on Potential Legislation

- As Congress debates proposals in President Biden’s “Build Back Better” agenda (BBBA), we continue to monitor for new provisions and evaluate their tax implications for our clients. Here’s what we know thus far:
- Build Back Better delays the Tax Cuts and Jobs Act’s provision requiring that research and development costs be amortized until the 2026 taxable year.
- Solar credits for businesses and rental properties are restructured to provide a minimum credit of 6 percent and a maximum credit of 40 percent of the basis of solar property.

As legislation continues to evolve, and if it passes in the Senate and makes its way to the President’s desk, we are available to meet with you to discuss the likely impact of these changes on you and to optimize your business tax and financial strategy accordingly.

Other Business Matters to Review

Managing a business extends beyond adjusting to changes in tax provisions. As a business owner, business manager, or self-employed individual, your year-end review should also cover the following areas:

- **Retirement plans:** Take a look at the many retirement savings options to make sure that you are taking advantage of tax deductions as well as providing opportunities for owners and employees to save for retirement.
- **Disaster recovery:** Do you have a disaster recovery plan in place for your business and, if so, have you updated it recently? We can help you review your plan, especially as it relates to its finances and financial records.
- **Fraud prevention:** Our firm takes data security seriously, and your business should as well. Fraudsters continue to fine tune their techniques, and tax identity theft remains a significant concern. We can help your business prevent and recover from fraud and avoid falling victim to tax identity fraud.

Beware if you:

- Receive a notice or letter from the IRS regarding a tax return, tax bill or income that doesn’t apply to you

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- Get an unsolicited email or another form of communication asking for confidential information such as payroll or employee data
- Receive a robocall insisting you must call back and settle your tax bill

Be Proactive

As 2021 ends, you have numerous challenges and opportunities to consider. Strategies are always available to help you overcome challenges and capitalize on opportunities, such as deferral or acceleration of income, prepayment or deferral of expenses, growing and diversifying your workforce, etc.

Whether it's fine-tuning your business model, getting answers to your tax and financial planning questions, or working toward a business succession plan, we're here for you. Please contact our office today to set up your year-end review. As always, planning can help you minimize your tax bill while protecting and building your wealth.

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