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CPAs and Advisors

Covid-19 Accelerates Adoption of Remote Audit, Tax Services

BY FRANK T. ARDITO, CPA
VICE PRESIDENT & DIRECTOR

So far, 2020 has thrown many curve balls at the business community due to the Covid-19 pandemic, not the least of which is the shift to remote service delivery for some companies, including accounting firms like ours.

Where face-to-face meetings and the ability to hand documents back and forth across a table were an unquestioned part of client relationships before Covid, now we meet by videoconference and upload documents to the cloud.

> ***A Marriage of Technology and Social Change***

Remote services have been working their way into client relationships for several years as cloud-based technology has made service delivery faster and more efficient. But the Covid crisis has accelerated the trend, with largely positive results. Clients appreciate the ease and efficiency of remote services, and the array of technology solutions that facilitate remote services is growing rapidly.

Remote services are here to stay for clients who appreciate the convenience, and in the audit space that means preparing for changes in delivery of documentation and communication with your audit team.

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Remote services keep productivity high during crisis

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Remote vs. onsite audit

When a financial statement audit is performed onsite our audit staff visits your office for two to five days to gather data, perform tests of transactions and substantive work, assemble documentation and ask questions when clarification is needed on data and processes. Once this fieldwork is complete, the remaining audit services are performed at our office.

When an audit is performed remotely, the fieldwork phase occurs digitally with financial documentation and related materials exchanged via a secure client portal and secure emails, with audit staff asking questions by email, videoconferencing or phone. Videoconferencing with screen share capability and secure digital signatures are additional technologies that support the remote audit and tax process.

Communication essential

A traditional onsite audit typically starts with a planning meeting at which the clients provide auditors with information they will need for the audit. For remote audits, those questions can be put into an Excel file and uploaded as a questionnaire to the client via a web portal or a secure email, along with testing templates.

Key technologies that enable remote services:

- Secure client portals
- Secure email
- A completely digital workflow
- Digital signatures
- Videoconferencing
- Audit & Tax software

The advance questionnaire is a time saver for both the client and auditors. But it diminishes the amount of personal contact you have with your audit firm, which may impact the level of trust and comfort you should have with professionals who can guide you when problems arise.

That's why we provide a detailed communication plan as part of the remote audit plan. You don't want to trade off communication for expediency.

A good communication plan includes the contact information for everyone on both sides – the client's staff and the audit firm team. It also should include a schedule of regular phone calls or emails for a progress report.

A communication plan also calls for one to two videoconference calls, one at the beginning of the audit and one at the end, to discuss findings and recommendations.

Growth in remote work

Another trend that was already under way but has been accelerated by the Covid crisis is remote work. As we have discovered during the pandemic shutdown, the remote service delivery model complements the work-from-home trend very well.

Professionals who now work from home fulltime cannot come into the office just to host the visiting audit staff during fieldwork, so remote audit services provide the solution.

However, for those who come in a couple days a week and prefer some onsite fieldwork, G.T. Reilly has developed a hybrid model whereby we limit onsite work to one or two days per engagement, provided the client adheres to strict Covid-19 safety guidelines. This model is for those who might have issues getting us certain information electronically. The balance of our fieldwork is done remotely.

A related trend that is now emerging — corporate downsizing in the post-Covid era — may accelerate remote service delivery as a model for the future. Commercial real estate trends around the country — including in Boston — indicate that companies will downsize their physical space as many employees opt to work from home permanently. This will mean fewer "spare" offices and conference rooms available to host external auditors.

Embracing change

All these trends point to the likelihood that remote delivery of audit, tax and consulting services is here to stay long after Covid is gone. The challenge both for auditors and clients is to maintain the close working relationships and sense of trust that are facilitated by in-person contact.

Ultimately, the shift toward remote services for audit, tax and consulting projects may come down to your organization's ability to adapt to change. For now, remote service delivery is required as the Covid crisis continues. But in the future remote services of all kinds — not just accounting, audit and tax — will likely be the norm. ◆

Questions surround tax and accounting issues for PPP loans

BY CHARLES R. KENNEDY, CPA, MBA
VICE PRESIDENT & DIRECTOR OF TAX SERVICES

Businesses and nonprofits that received Paycheck Protection Program (PPP) loans to help them stay in business through the Covid-19 pandemic should be looking ahead to applying for loan forgiveness over the next several months.

It also will be time to prepare for tax season and multiple questions about accounting and tax issues surrounding the PPP loans that have yet to be resolved by the IRS.

The fact that PPP loans, authorized by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted last March, are forgivable creates questions about the accounting treatment of the funds on recipients' books, as well as treatment under the Internal Revenue Code. Further complicating the questions is that some businesses and most nonprofits operate on a fiscal year basis, rather than calendar year. That means the loan proceeds may have been received in one fiscal year and will be forgiven in a different fiscal year.

The IRS has been slow to release guidance, so there are few answers at this point. Below is a sample of the questions that have arisen to date. We will keep you informed as guidance is released by the IRS.

Timeline	Question	Response	Status
Forgiveness granted in 2020 for a 2020 PPP loan			
	What happens to the expenses funded by the PPP loan?	Those expenses are nondeductible for 2020.	
Forgiveness granted in 2021 for a 2020 PPP loan			
	For a cash basis taxpayer, when are expenses funded by the PPP loan recorded as nondeductible?	Likely those expenses are nondeductible for 2021. Depending on guidance from the IRS, you may have to amend your 2020 tax returns because the IRS may want you to record forgiveness in the year the expenses were incurred.	Waiting for guidance from IRS.
	For an accrual basis taxpayer, when are expenses funded by the PPP loan recorded as nondeductible?	Not known at this time. According to GAAP rules, the loan is still debt unless the loan is forgiven before the year end. If the 2020 PPP loan is forgiven in 2021 the loan will still be recorded as debt. Yet it is still possible the forgiveness and the recording of expenses as nondeductible might occur in 2020.	Waiting for guidance from the IRS.
Tax issues			
	Is there any impact on my Research & Development Tax Credits since those credits are derived from wages?	Some taxpayers could lose R & D credits. In most cases, R & D credits are largely based on the wages paid to those conducting R & D activities. If the wages are not deductible (as they aren't if they were paid with PPP loan proceeds), it is not known yet whether that will reduce R & D credits.	Waiting for guidance from the IRS.
	What happens for fiscal year entities if the expenses forgiven are in two tax years?	It is not yet known how to deduct in the two years the expenses are considered nondeductible. The loan is forgiven all at one time yet the expenses are in two tax years.	Waiting for guidance from the IRS.
	I have a flow-through entity (Partnership or S-corporation). Does this impact my Qualified Business Income deduction?	Regulations on how QBI wages are calculated appear not to be impacted if wages are nondeductible. Rev. Proc. 2019-11 allows for three methods of calculating QBI wages which related to using information on the W-2s and not wages per the tax return.	Waiting for guidance from the IRS.
	Is there any additional guidance on the tax impact of PPP loan forgiveness?	None since Notice 2020-32 issued May 1, 2020.	
	What should I do about my 2020 estimated taxes?	If you believe your income will be roughly even with last year's or higher, we recommend 'safe harbor' estimated tax payments based on your best income projections. If you believe your income will be lower, even with PPP loan forgiveness, contact us for guidance on estimated tax payments.	
	What is the impact for my state tax returns if my PPP loan is forgiven?	Massachusetts is following federal rules, as are many other states. If you file tax returns in several states, contact us for guidance on the specific states you do business in.	

Businesses balk at payroll tax deferral

As an economic relief measure for workers amid the Covid-19 pandemic, President Trump in August issued a memorandum allowing employers to defer the employee portion of Social Security taxes from September 1 through the end of the year.

The payroll tax deferral is limited to workers making less than $104,000 a year. A worker making $50,000 would see approximately $62 extra in his or her weekly paycheck.

The deferral is optional to employers and applies only to the 6.2% employee portion of Social Security taxes, not the employee portion of Medicare taxes.

However, concerns about the impact of the deferral have led many private employers to decide not to participate in the plan.

Devil in the details

Of greatest concern is that this is a tax deferral, not tax forgiveness. Under law, the president may only defer – not forgive – certain taxes for up to one year during a national emergency.

That means any taxes deferred in 2020 would, under rules issued by the U.S. Treasury Department, have to be repaid in the first four months of 2021. In other words, the 2020 payroll taxes would be withheld from workers' paychecks in addition to the 2021 payroll taxes from January through April 2021. Interest and penalties would be assessed against employers for any 2020 payroll taxes not conveyed to the federal government by May 1, 2021.

This would impose a double payroll tax burden on employees during a time when, most experts agree, the U.S. still will be in the grip of the Covid-19 crisis.

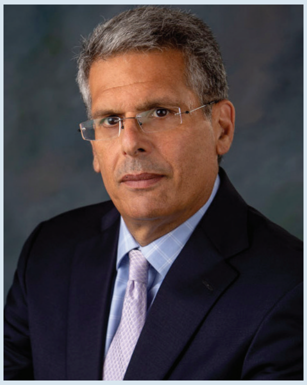
Moreover, employers would have to pay the 2020 payroll taxes to the government even for employees who had since resigned. For example, if Clyde in the shipping department worked through the end of December, then resigned in January, his employer – not Clyde – would still be liable for the payroll taxes that were deferred from his paycheck in 2020.

Another concern is that, since the repayment period is shorter than the deferral period by two days, an additional payday could possibly fall in the deferral period as compared to the repayment period, making repayment amounts per pay period potentially larger than the deferral amounts per pay period.

Even though the deferral period has already begun, employers may still opt in. If you would like information about how the payroll tax deferral could impact your business and your employees, please contact your G.T. Reilly advisor.

We will keep you informed about any further Covid-19 relief programs to come out of Washington, including the next round of stimulus legislation currently being negotiated in Congress. ◆

G.T. Reilly welcomes James J. DeLuca



G.T. Reilly welcomes **James J. DeLuca, CPA, MST,** who joined the firm in September as Senior Tax Manager.

Jim focuses primarily on the tax planning and strategy needs of middle-market companies and their owners.

Jim received his bachelor's degree from Northeastern University and his Master of Science in Taxation from Bentley College (now Bentley University).

He is a member of the American Institute of Certified Public Accountants and the Massachusetts Society of Certified Public Accountants.

Jim resides in Providence with his family.

Around the Firm

G.T. Reilly welcomes the following new staff members:

- **Matthew T. Berksza**, In-Charge Accountant & Auditor. Matt graduated from the University of Massachusetts, Amherst, in 2018, and received his master's degree from UMass in 2019. He lives in Easton.
- **Nicholas J. Dumont**, Staff Accountant & Auditor. Nicholas graduated from Bridgewater State University in 2018 and received his master's degree from Bridgewater State this year. He lives in Plainville.
- **Eva M. Goodman**, Staff Accountant & Auditor. Eva graduated from Bridgewater State University in May. She lives in Mansfield.
- **Ryan C. Peck, CPA**, Senior Accountant & Auditor. Ryan graduated from Stonehill College in 2018 and received his master's degree from Northeastern University this year. He lives in Raynham. ◆

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Presidential Candidates' Tax Proposals 2020

What They Could Mean for You, Your Family and Your Business

One of the staples of a presidential election year is the release of each candidate's plan for reshaping the nation's tax code, and 2020 is no different – at least in that regard.

While the news media and most voters are more focused on the impact Covid-19 is having on the nation, with less than two months before the November 3 Election Day, we thought it a good time to take a look at the major party candidates' tax plans and provide some insights for how you can prepare for any changes that may be on the horizon.

Vice President Joseph R. Biden Jr.'s Tax Plan

The key points of the Biden tax plan and brief comments on each proposal are outlined below:

Business Taxes

- Corporate income tax rates would increase from 21% to 28%.
- Creates a minimum tax on corporations with book profits of $100 million or higher. The minimum tax would be structured as an alternative minimum tax — corporations would pay the greater of their regular corporate income tax or the 15% minimum tax while still allowing for net operating loss (NOL) and foreign tax credits.
- Doubles the tax rate on Global Intangible Low Tax Income (GILTI) earned by foreign subsidiaries of U.S. firms from 10.5% to 21%.
- Establishes a Manufacturing Communities Tax Credit to reduce the tax liability of businesses that experience workforce layoffs or a major government institution closure.
- Expands the New Markets Tax Credit and makes it permanent.
- Offers tax credits to small business for adopting workplace retirement savings plans.
- Expands several renewable-energy-related tax credits and deductions and ends subsidies for fossil fuels.

Individual Taxes

- The new top marginal rate for individuals would return to 39.6% and the lower rate of 37% put into place with the 2017 Tax Cuts and Jobs Act (TCJA) would no longer be applicable. Under current law, the 37% rate is set to expire in 2026. Biden's plan will restore that rate immediately for individuals making over $400,000.
- The ordinary income tax rate of 39.6% would apply to capital gains and dividends for households earning more than $1 million of income. This tax rate also would apply to qualified dividends. Currently, capital gains and qualified dividends are subject to a maximum 23.8% tax rate at this income level.
- The "Pease Limitation," suspended through 2025 under the TCJA, would be reinstated for taxpayers with incomes above $400,000. The Pease Limitation capped the value of itemized deductions for high-income taxpayers. Designed originally to increase taxes paid by the wealthy without raising tax rates, Pease reduced the deduction taxpayers could take for charitable donations, among other write-offs. The reduction was generally 3 percent of AGI above the applicable threshold. Certain taxpayers were instead limited to 80 percent of the amount of itemized deductions if this 80 percent was less than the AGI-calculated amount.
- The Qualified Business Income (QBI – Sec. 199A) rules created by the TCJA would be phased out for taxpayers with taxable income over $400,000. Currently, the QBI deduction can lower the impact of flow-through entity income from 37% to potentially 29.6%, and there is no income limit in place for this deduction.
- The "step-up in cost basis" would be repealed. Under current law, when one generation inherits assets from another at death, assets owned by the decedent generally are "stepped up" to fair market value (FMV) at the date of death. As a result, when the beneficiaries sell these assets, the gain or loss that is calculated is the fair market value on

the date of sale less the fair market value basis that the asset was "stepped up" to on the date of the decedent's death. The step-up permitted under current law often results in little to no capital gains tax and the unrealized gain on these assets escapes taxation permanently.

- The estate tax exemption would be lowered from the current $11.58 million to $5 million per individual. Taxable estates would be subject to a progressive structure with rates of 45% ($3.5 million to $10 million), 50% ($10 million to $50 million), 55% ($50 million to $1 billion) and 77% (over $1 billion). The IRS has stated gifts made under current law would not be "rolled back" if the exemption amount is lowered.
- Payroll taxes of 12.4% would apply to wages more than $400,000. Under current law, the taxable maximum is $137,700 in 2020. This is intended to raise revenue and close the Social Security solvency gap. The proposal appears to create a "donut hole" in the Social Security payroll tax, where wages between $137,700 and $400,000 would not be taxed.

In addition to the measures above, the Biden tax plan includes the following:

- Raises the child tax credit to $8,000 for one child and $1,600 for two or more children for taxpayers with income up to $125,000 per year. The credit phases out for income between $125,000 and $400,000 per year.
- Expands the Earned Income Tax Credit to workers older than 65 who do not have a qualifying child.
- Enacts a $5,000 tax credit for family caregivers of people who have certain physical and cognitive needs.
- Enacts a refundable, advanceable tax credit of up to $15,000 for first-time homebuyers.
- Enacts a renter's tax credit, designed to reduce rent and utility costs to 30 percent of income for low-income individuals and families who make too much money to qualify for a Section 8 voucher.

President Donald J. Trump's Tax Plan

President Trump's tax proposals for this election year are brief and, in some cases, not detailed. It is fair to say that his major tax priorities already were enacted as part of the Tax Cuts and Jobs Act of 2017. The few tax priorities he has discussed during the 2020 campaign focus mainly on extending or modifying provisions of the TCJA and reducing or eliminating payroll taxes that fund the Social Security system.

Following is a summary of the tax proposals Trump has discussed. It should be noted that the Trump campaign does not have a formal tax platform or proposal. The measures listed here have been discussed by the president in media interviews and in other settings.

Business Taxes

- Create a "made in America" tax credit.
- Establish tax credits for companies that bring jobs back to the U.S. from China.
- Allow businesses in essential industries to deduct 100% of certain expenses if they bring their manufacturing back to the U.S.
- Expand the Qualified Opportunity Zones created by the TCJA.

Individual Taxes

- Trump has discussed modifying the TCJA's individual tax rates with a 10% middle-class tax cut, which reportedly could include lowering the 22% marginal tax rate to 15%. For 2020, the 22% marginal tax rate applies to income over $40,125 for individuals and $80,250 for married couples filing jointly.
- Extend or make permanent the individual rates enacted by the TCJA that are scheduled to expire after 2025. Many provisions of the TCJA are scheduled to expire after 2025, and conventional wisdom holds that the more popular provisions – such as lower individual tax rates – will likely be extended by Congress.
- Extend the higher standard deduction and other deductions enacted by the TCJA that are scheduled to expire after 2025.
- Extend the current $2,000 child tax credit beyond the TCJA expiration date of 2026.
- Extend the higher estate and gift tax exemptions enacted by the TCJA that are scheduled to expire after 2025.
- Require a dependent to have a Social Security number to be eligible to be claimed for the $500 other dependent credit. Additionally, the Trump proposal would require a taxpayer to have a Social Security number to claim either the child tax credit or the $500 other dependent credit.
- Trump has discussed several changes to the treatment of capital gains taxation, including 1) indexing capital gains for inflation; 2) reducing the capital gains tax rate, and 3) enacting a capital gains tax holiday that eliminates capital gains taxes for an as yet undefined period of time. Under current law, the top tax rate for capital gains and qualified dividends is 20% for income over $441,450 for individuals and $496,600 for married couples filing jointly.
- The Trump tax proposal would enact a new Education Freedom Scholarship Tax Credit, which would provide up to $5 billion worth of income tax credits annually for individual and corporate donations to state-identified not-for-profit scholarship-granting organizations.
- Though there is no specific proposal along these lines, Trump has discussed payroll tax cuts for both employers and workers, most recently as a relief measure during the Covid-19 crisis, but also as a permanent policy once the pandemic ends.

The details of both major candidates' tax proposal are subject to change.

Regardless of who is elected president, the success of these tax proposals will depend in large part on the results of this year's Congressional elections. We will keep you informed of any further tax proposals that may emerge in the coming weeks. ◆