Beyond THE NUMBER$...

CPA HARTMAN, BLITCH & GARTSIDE
CERTIFIED PUBLIC ACCOUNTANTS

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More Bragging Writes: *Cory Keeps Things Running*

Hartman, Blitch & Gartside CPAs is a team effort, so periodically we'll introduce you to some of the people who 'make it happen.' In this issue of ***Beyond the Number$***, we're happy to honor staff accountant Cory Rossmiller.

After graduating from the University of North Florida in 2019, Cory began his journey with Hartman Blitch & Gartside CPAs in March 2020. Cory's responsible for a variety of accounting tasks, ranging from bookkeeping to payroll, and he's currently pursuing his CPA license.

Prior to joining the HBG team, Cory gained experience in retail and pharmacy accounts receivable. In addition, while he knows the maintenance required for your financials, he actually knows his way under the hood of your car.

Before his accounting life, Cory served as a Ford Motor Co. technician with more than 10 years' experience. One of his proudest moments was earning the prestigious Ford Master Technician certification.

In his personal life, Cory aptly describes himself as well traveled. He grew up in a military family and lived in two foreign countries and seven different states. Cory truly loves experiencing other cultures and meeting new people.

Any pet peeves or secret talents we wouldn't notice around the office? Identifying the annoyances were easy: "Don't get on the interstate at 30 mph, and if you're going to watch videos or talk on your phone, wear headphones; nobody wants to hear that," he says.

An unseen talent, at least to his work family, occurs in the kitchen. Cory's an accomplished cook—which his wife likely appreciates!

Thank you, Cory, for all you to do serve our clients and continue the HBG legacy. We're glad you shine so bright in our HBG family.

Big Changes Loom
with Biden's Proposed Tax Plan

President Biden's recently unveiled tax overhaul takes aim at some long-standing tax-deferring strategies on various investments. Several rules will get stricter guidelines or won't exist at all if his plan passes as proposed.

The president is trying to modify tax laws to raise money for his infrastructure and social program plans, and a triple-threat of changes looms for taxpayers who are investors…or who inherit investments.

Real Estate Tax Deferral Tool to be Eliminated

The president's plan would eliminate a tax-deferring tool, known as a 1031 exchange, which has existed since 1924. It enables a real estate investor to defer capital gains on a real estate transaction if, within six months of the sale, the proceeds are used to purchase a new real estate investment of equal or greater value.

Under the president's proposal, taxpayers will no longer be able to defer their capital gains taxes on real estate profits of more than $500,000.

Regulations on 1031s have actually been getting squeezed for years. 1031 exchanges were once a way investors could defer capital gains taxes on real estate and other real investments, such as art or equipment.

But since the Tax Cut & Jobs Act of 2017, the regulations changed, and today, only real estate qualifies.

In addition to real estate owners, farmers who frequently try to upgrade to more fertile land, and commercial real estate companies would be affected, as would residential real estate sales of non-primary residences.

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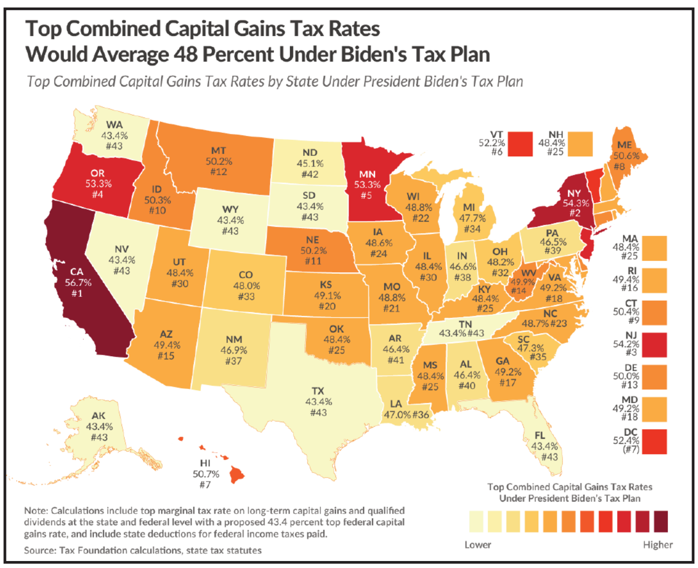
The president says he's closing a loophole wealthy investors use to avoid paying taxes, while real estate investors say the 1031 exchanges spur economic growth and expansion by reinvesting proceeds into new, bigger projects…and the taxes eventually get paid when the last invested-in property sells.

A congressional committee estimates $41 billion in capital gains taxes would be deferred between 2020-2024 as the law stands now.

Capital Gains taxes to Increase

Another portion of the triple-threat is the long-term capital gains tax itself. Capital gains taxes are levied on profits from the sale of investments, such as real estate, stocks or collectibles. Short-term capital gains, derived from assets held one year or less, are taxed as ordinary income, while long-term capital gains (for assets held longer than a year) are usually taxed at a lower rate than the income tax rate.



https://taxfoundation.org/biden-capital-gains-tax-rates/

The president wants to change the capital gains tax rate for those taxpayers with incomes greater than $1 million. Currently, the highest capital gains tax rate stands at 20%, with the potential for additional investment and payroll taxes of another 3.8%, for a top rate of 23.8%.

In the president's proposal, the total tax raises to 43.4%. The Administration estimates the rate change will affect only 500,000 taxpayers based on data from 2020. But the plan doesn't factor in inflation and that 500,000 could rise to millions of American investors in the next decade.

Inherited Gains Affected

The final change in the investor's tax increase trifecta involves inherited assets. Known as the 'step up and basis benefit,' it refers to assets passed on to heirs, and it's been in the tax code for 100 years.

The heirs' basis—or original price of the asset—"steps up" to its current market value vs. its original price at purchase. The current value is likely significantly higher than the original purchase price, and as the law stands today, the heir pays no capital gains tax on the difference.

The heirs' basis resets to today's current price, making any future capital gain, and the associated tax, at a future sale much less than it would have been. The president's proposal takes the untaxed gain held at death of the original investor and taxes the inheritor at 40%, but with a $1 million exemption and an additional $250,000 for a home.

Economists estimate more than $40 billion a year will be paid by Americans if the plan passes. But small businesses and family farms, usually comprised of illiquid assets, could be hit hard with significant taxes and no ready source of funds to pay them. The proposal addresses this situation by including a 15-year time-period to pay off the new capital gains taxes.

When the Time Comes, We Can Help

We routinely work with our clients' financial advisors to mitigate tax law changes. As these developments unfold, we'll be prepared to provide better information. The tax plan will involve much more than discussed here, and we'll continue to monitor its progression to advise you accordingly.

COVID CREDITS & DEDUCTIONS

Useful updates to save you money

100% Deduction for Business Meals

The IRS recently released its guidance on the 100% deduction of business meals provided by restaurants from Jan. 1, 2021 to Dec. 31, 2022.

This deduction of business meals is usually limited to 50%, but current law makes it 100% for the next two years.

The guidance defines what counts as a "restaurant," which is important as the 100% deduction can come only from a business "preparing food and beverages to customer order for immediate on-premises or off-premises consumption."

The 50% deduction will still apply to the purchase of food and beverage from any non-restaurant.

Additionally, the IRS provides what an employer cannot treat as a restaurant:

- Any eating facility located on the business premises of the employer.
- Any employer-operated eating facility, even if it has been contracted to operate independently.

Employee Retention Tax Credit: *A Powerful Tool*

An employer may qualify for the Employee Retention Tax Credit if the business experienced a "significant" decline in gross receipts due to the pandemic.

For 2021, the law states a "significant decline" means gross receipts must show a decline of more than 20% when compared to the same quarter during 2019 *(2020 if the business didn't yet exist in 2019).*

The Max Credit

The Consolidated Appropriations Act increased the credit for 2021 to 70% of up to $10,000 of qualified employee wages. This means the maximum credit per employee is $7,000.

Qualified Wages

Qualified wages depend on the size of the employer. For large employers, the qualified wages are defined as wages paid to employees for the time they weren't providing service due to the suspension of business.

For small employers, qualified wages are those paid to any employee during any period in the calendar quarter where the business suffered a significant decline in gross receipts. This credit also applies to wages paid to employees who still provide services to the employer during that time.

The Consolidated Appropriations Act increased the threshold of employees for this credit, to make the distinction between large and small business from 100 employees to 500.

Advanced Payment of the Employee Retention Credit

Employers claim the retention credit on the applicable payroll tax return (Form 941). Employers can also access this credit prior to filing their employment tax returns.

Doing this reduces employment tax deposits in anticipation of the credit.

If the reduction of tax deposits isn't enough to cover the entire credit, employers can apply for an advanced payment of the credit. The new law limits the advanced payment to 70% of the average quarterly wages paid in 2019.

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Mark Your Calendars!

UPCOMING TAX DEADLINES:

June 15, 2021:

- ☐ 2nd Quarter Estimated Tax Payment Due

September 15, 2021:

- ☐ 3rd Quarter Estimated Payment Due
- ☐ S-Corp. and Partnership Income Tax Returns Due

October 15, 2021:

- ☐ Individual Income Tax Return Due

CPA HARTMAN, BLITCH & GARTSIDE
CERTIFIED PUBLIC ACCOUNTANTS

JACKSONVILLE
6817 Southpoint Pkwy., Ste. 2303
Jacksonville, FL 32216

BEACHES
427 3rd St. N.
Jacksonville Beach, FL 32250

904.396.9802 | hbg@HBGcpa.com | www.HBGcpa.com

Minding Your Business...

COVID CREDITS & DEDUCTIONS

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Paid Leave Tax Credit for Receiving COVID-19 Vaccine

The American Rescue Plan Act of 2021 (ARP) allows eligible employers to claim refundable tax credits, reimbursing them for the cost of providing sick and family leave to their employees who were vaccinated.

Employers are entitled to tax credits for paid leave for employees who received COVID vaccinations. This includes leave taken to get the vaccine, or cases where employees are recovering from injury, disability, or condition related to receiving treatment.

Eligible Employers

Any business with fewer than 500 employees, those who are self-employed, and select government agencies are eligible to claim the available credits.

The Amount of Credit and How it's Calculated

The tax credits are based the employer's share of Medicare tax. Employers are entitled to a payment of the full amount of the paid leave credit if it exceeds the employer's share of their Medicare tax.

Claiming the Credit

Eligible employers may claim credits for providing sick and family paid leave to employees for tax year 2020 through September 30, 2021. Employers file for the credit using Form 941.

Businesses may also request advanced payments of the credit by filing Form 7200 (Advance Payment of Employer Credits Due to COVID-19), where employers will account for the amounts received as an advance when they file their 941 for the correct quarter.

Self-employed individuals may claim comparable credit on their individual income tax return.