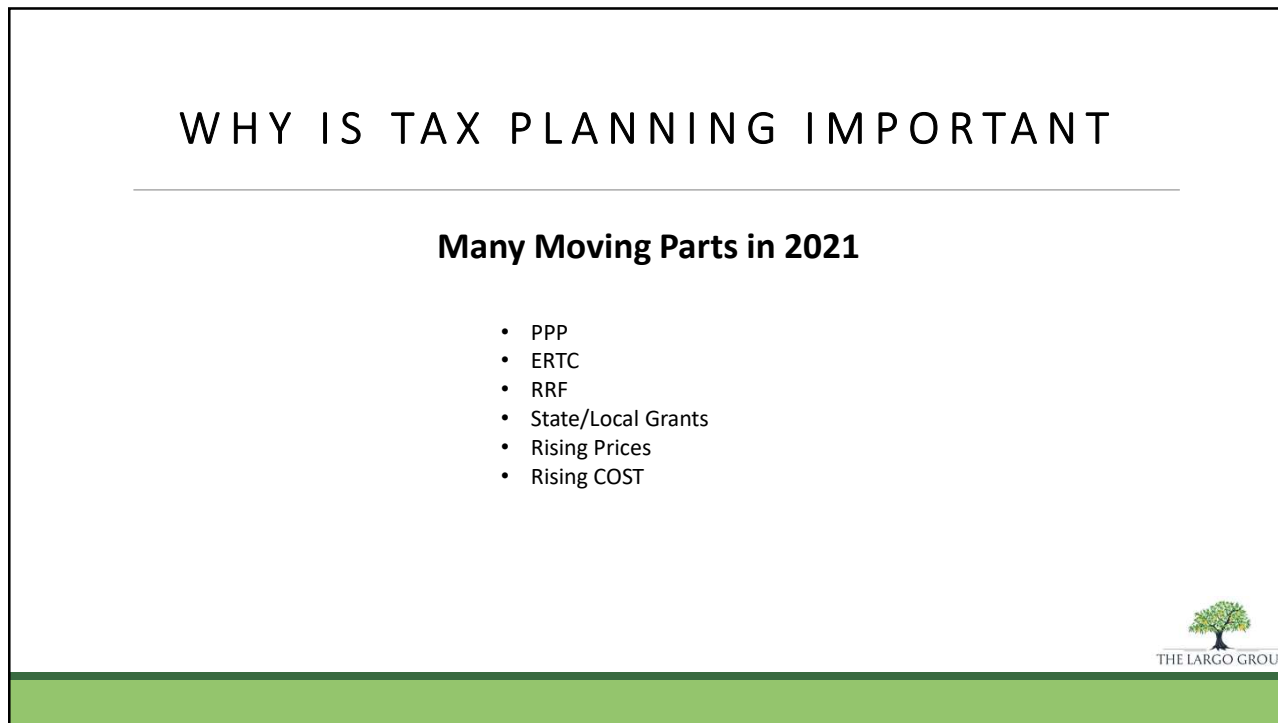


1



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## 4 Parts to Start Building Your Tax Plan


Total taxable BUSINESS income for the year

Income from various sources

- Business income
- W-2 income
- Investment incomes
- Government assistance (taxable and non-taxable)

Deductions

Tax status (married/ single/ head of household)




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## 1. Total Business Income

ERTC is taxable in the year of the **filing**

**Example:** →  
\$50,000 is the **total filed** for 2021, not checks received

	2021
Sales	\$100,000.00
COGS	\$50,000.00
Labor	\$30,000.00
Operating Expenses	\$10,000.00
Operating Income	\$10,000.00
Other Income:	
PPP	\$25,000.00
ERTC	\$50,000.00
<b>Net Income</b>	<b>\$85,000.00</b>
<b>Taxable Income</b>	<b>\$60,000.00</b>




4

	2021	2020
Sales	\$100,000.00	\$45,000.00
COGS	\$50,000.00	\$25,000.00
Labor	\$30,000.00	\$30,000.00
Operating Expenses	\$10,000.00	\$10,000.00
Operating Income	\$10,000.00	\$20,000.00
Other Income:		
ERTC	\$50,000.00	\$45,000.00
<b>Taxable Income</b>	\$60,000.00	\$25,000.00
Projected Tax Liability:	\$15,000.00	\$6,250.00
Effective Rate	25%	25%
Tax savings:		\$5,000.00


## Making the Most of ERTC Rules

- Because business operated at a LOSS in 2020, \$20,000 of ERTC credits are tax savings, as taxable income WITH \$45,000 in taxes is only \$25,000, the rest reduces the loss.
- If all were picked up in 2021, the full amount would be taxable since business operated at a profit!




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## RRF



- **Funds received from the RRF are not treated as taxable income**, and expenditures paid with these funds are tax deductible. In the NIPAs, RRF payments to businesses for eligible expenses are classified as subsidies and are recorded on an accrual basis based on when the funds are used by the business for expenses.
- Will want to allocate funds to months used for allowable business expenses.
- \$1,000,000 Received in RRF – **have until MARCH 11, 2023 to use funds**



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# PPP



On January 6, 2021, the IRS officially reversed its position on deductions to conform with this change in law via Rev. Rul. 2021-2. Section 276 also provides that forgiven PPP loan **amounts are treated as tax exempt income** for purposes of Sections 705 and 1366 of the Internal Revenue Code (the Code)



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# Preparing for 2021 Tax Season

## 2021 Checklist

- Confirm sales agree with sales tax filings
- Review January 22' expenses
  - If **accrual** based make sure there are no additional expenses to include in 2021
- Review rent and other opp. Costs
  - Are there any **deferred** amounts that need repaid? → book as expense
- ERTC
  - What are total amounts filed by **quarter** (2020 & 2021)
  - What has been **received**?

	2021
Sales	\$100,000.00
COGS	\$50,000.00
Labor	\$30,000.00
Operating Expenses	\$10,000.00
Operating Income	\$10,000.00
<b>Other Income:</b>	
ERTC	\$50,000.00
<b>Taxable Income</b>	<b>\$60,000.00</b>
<b>Projected Tax Liability:</b>	<b>\$15,000.00</b>
<b>Effective Rate</b>	<b>25%</b>



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# The BIG Question


HOW DO I RECORD ERTC IN MY ACCOUNTING RECORDS?


---





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ERTC Summary  
by Year- 2020 &  
2021

- 


Confirm ALL amounts received in 2020 & 2021
- 

Have all eligible quarters been filed?
- 

What is expected time-frame for receiving checks?
- 

IRS has been receiving calls

Is it worth calling to confirm?



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## IRS Tax Treatment by Year

	2020		2021 REFUND	2021 Payroll deduction	TOTAL 2021
Q2 2020	\$24,500.00	Q1 2021	\$4,500.00	\$31,560.00	
Q3 2020	\$15,500.00	Q2 2021	\$6,500.00	\$41,225.00	
Q4 2020	\$17,500.00	Q3 2021	\$15,000.00	\$15,445.00	
	<b>\$57,500.00</b>		\$26,000.00	\$88,230.00	<b>\$114,230.00</b>

Will need to amend 2020 tax filing for this amount

Will need to include this amount as a reduction in payroll in 2021



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## Tax Reporting for ERTC in 2020 & 2021

Per IRS Guidance

- Wages are **reduced** by ERTC credits
- Reporting ERTC in 2020 is **required** even if cash basis, as the expense disallowance occurs in the year of the expense (**2020**) even if the refund is received at a **later date**

	2021	REVISED WITH ERTC
Sales	\$1,000,000.00	\$1,000,000.00
COGS	\$250,000.00	\$250,000.00
Labor	\$410,000.00	<b>\$295,770.00</b>
Operating Expenses	\$245,000.00	\$245,000.00
Operating Income	\$95,000.00	\$209,230.00
Other Income:		
ERTC	\$114,230.00	
<b>Taxable Income</b>	\$209,230.00	\$209,230.00
Projected Tax Liability:		
	\$52,307.50	<b>\$52,307.50</b>
<b>Effective Rate</b>	25%	25%



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## Assessing 2020 & 2021 Cash Flow to Prepare for 2022

- Review all cash receipts and expenses in 2021
  - What other things happened this year?
  - What is annual debt service?
    - Monthly debt payment x 12
  - What improvements did you make to the business?
  - What is ending cash balance
    - 12/31/2021

	2021
Beginning Cash:	\$107,368.00
Net Income:	\$209,230.00
Depreciation AJE	\$15,000.00
AP	-\$609.00
Renovations	-\$43,323.00
Long term debt payments	-\$114,000.00
<b>Operating Cash:</b>	<b>\$66,298.00</b>
Ending Cash	\$173,666.00
<b>CY Change in cash</b>	<b>\$66,298.00</b>



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## Creating a Cash Flow Plan for 2022

	2021	2022
Beginning Cash:	\$107,368.00	\$173,666.00
Net Income:	\$209,230.00	<b>\$95,000.00</b>
Depreciation AJE	\$15,000.00	\$15,000.00
AP	-\$609.00	
Renovations	-\$43,323.00	
Long term debt payments	-\$114,000.00	-\$114,000.00
<b>Operating Cash:</b>	<b>\$66,298.00</b>	<b>-\$4,000.00</b>
Ending Cash	\$173,666.00	\$169,666.00
<b>CY Change in cash</b>	<b>\$66,298.00</b>	<b>-\$4,000.00</b>

▪ ERTC in 2021 = **\$114,230**

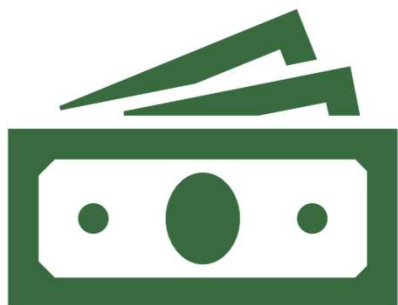
▪ Operating income **\$95,000**

▪ Free cash flow = **-\$4,000**

▪ After debt service



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# Tax Planning

A CASH FLOW APPROACH



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## Extra Cash- Retirement Planning

01

Increase wages to \$142,800 – MAX social security cap. If within 5 years of retirement, this may increase benefit received when retired? *Would increase tax liability but may be worth it if concerned about social security contributions in prior years.*

02

Make pre-tax retirement contribution through SEP IRA. Can contribute up to \$58,000 to SEP IRA which would generate a savings of \$14,500 in taxes.

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## All Comes Back to CASH FLOW

Business Cash as of  
2/20/2022: \$173,600

Taxable Business Income:  
\$209,230

Projected Tax Liability:  
\$52,307

Free Cash: \$121,298

Biggest Lesson of COVID for  
business owners: IRS  
ASSUMES ALL business  
income is YOUR income.

Would it make sense to take  
a distribution in 2022?

If S Corp or Partnership –  
DISTRIBUTION is NOT  
taxable! OWNER IS TAXED  
ON NET TAXABLE INCOME  
OF BUSINESS, whether cash  
received or NOT!



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## Free Tax Seminar

Tax Planning 101 course

- Focused on helping you build your tax plan for 2021 and beyond

Visit [www.TheLargoGroup.com/academy](http://www.TheLargoGroup.com/academy)

Feeling Lost?

- Register for a free one-on-one 30-minute session to walk through your tax picture in 2021

Visit [www.TheLargoGroup.com](http://www.TheLargoGroup.com)



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