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# Tax & Business letter

FALL 2020

## Don't rush your PPP loan forgiveness application

**T**he Small Business Administration (SBA) has begun accepting forgiveness applications for Paycheck Protection Program (PPP) loans.

While you may want to put behind you the forgiveness application process, here are some reasons to consider delaying your application submission:

► **More changes are on the way.** As of presstime, Congress is currently debating another COVID-19 relief package which could include more changes for the PPP program. During congressional testimony, U.S. Treasury Secretary Steven Mnuchin said Congress should consider blanket forgiveness for smaller loans.

► **Forgiveness deadline is still months away.** Forgiveness applications are due no later than ten months after the end of the loan's covered period. Depending on when you received your PPP loan, your loan forgiveness deadline could range from February to August 2021.

► **Be thorough with documentation.** Take the time to make sure you have all appropriate documentation before submitting your forgiveness application. Some documentation is not required to be filed, but must be retained by the business.

When you are ready to complete your forgiveness application, here's what you

need to know:

- **Download application form.** There are two loan forgiveness forms. The full form (Form 3508) and a simplified version called Form 3508EZ. Review both forms before deciding which one to use.
- **Stay in touch with your lender.** Only your lender can submit your forgiveness application to the SBA. Stay in contact with your lending institution about when and how to complete the loan forgiveness application. ♦



### PAYCHECK PROTECTION PROGRAM LOAN STATISTICS

LOAN SIZE	LOAN COUNT	DOLLARS LOANED	PERCENTAGE
< \$100K	4,133,422	\$109 billion	21%
\$100K to 1M	868,229	\$234 billion	45%
> \$1M	81,934	\$178 billion	34%
<b>TOTAL</b>	<b>5,083,585</b>	<b>\$521 billion</b>	<b>100%</b>



# IRSTAX NOTES

## Didn't file your return by July 15? File now to avoid a penalty.

For those who missed the July 15 tax deadline and didn't request an extension, the IRS reminds you to file electronically as soon as possible to reduce potential penalties. If a refund is due, there is no penalty for filing after the July 15 (but before the October 15) deadline.

## Use this website to check on tax refund status

The best way to check on the status of a tax refund is visiting [irs.gov/refunds](https://irs.gov/refunds) and clicking on "Check My Refund Status." There is still a delay in processing paper returns because of limited staffing at the IRS, so if you're expecting a refund and paper filed your 2019 return, you may need to wait longer than normal to receive your refund.

## IRS interest rates decrease in the third quarter

Interest rates for the third quarter in 2020 will decrease compared to last quarter. These rates are: 3% for overpayments (2% for corporations); 0.5% for the portion of a corporate overpayment over \$10,000; 3% for underpayments and 5% for large corporation underpayments.

## IRS issues guidance on interest expense deduction

The IRS recently issued final regulations on business interest expense deductions. The deduction is generally limited to the sum of the taxpayer's business interest income and 30 percent of the taxpayer's adjusted taxable income. The limitation does not apply to businesses whose gross receipts are \$26 million or less. ♦



## File amended tax returns to take advantage of retroactive business provisions

Several new laws provide pandemic relief for businesses this year. While several sections of these laws receive the lion's share of attention, such as the Paycheck Protection Program, you may not have heard about three other less-talked-about sections that you can apply retroactively.

► **Net Operating Losses.** When your company's tax deductions exceed taxable income, the result is a net operating loss (NOL). Such losses are increasingly more frequent this year because of the pandemic. Prior to 2020, businesses were not allowed to carry back NOLs to previous years to reduce their taxable income. Companies could only carry forward those losses to future taxable years. You can now carry back NOLs incurred from 2018 through 2020 for up to five years to offset income.

*What you need to do.* Consider amending prior years' tax returns if you had taxable income during those years that can be offset by an NOL.

► **Qualified Improvement Property.** Certain business assets known as qualified improvement property (QIP)

can now be immediately depreciated upon being placed in service. QIP is defined by the IRS as any improvement made to an interior portion of a building that is nonresidential real property. This tax benefit will last for at least three more years before being scheduled to phase out.

*What you need to do.* Look through your fixed asset detail and determine if you have any QIP that would qualify for 100% expensing. Then calculate whether you would benefit from filing an amended tax return to claim the 100% deduction in the year the asset was placed in service or if it would be more advantageous to depreciate QIP over 15 years.

► **Excess business losses.** The rule disallowing business losses exceeding \$250,000 (\$500,000 for married filing jointly couples) for business owners and partners on their individual tax returns is suspended for tax years 2018 through 2020.

*What you need to do.* If you incurred excess business losses in 2018 and/or 2019, consider amending your tax return for either or both of these years to remove the excess loss limitation. ♦

# Phishing, other scams target small businesses

If your business uses PayPal, you're a tempting target for tech-savvy crooks. Here are five common cyber scams facing your small business, including one involving PayPal.

- **Confirm this transaction.** One of your employees receives an email allegedly from PayPal. It claims that funds have been transferred to your business account and asks for your confirmation. When you click the confirm button, you are directed to a fake PayPal website. After entering the business username and password, the crook gains access to your company's PayPal account.
- **Log on here.** A fraudster sends fake emails and uses phony websites to deliver malicious software, including programs that monitor keystrokes when you log on to websites. When you access online bank accounts, crooks steal IDs and passwords to make unauthorized withdrawals.
- **Pay my company.** A fraudster slips a phony invoice into your regular monthly bills. Maybe you're charged for advertising that never ran, office supplies you didn't order or memberships to non-existent trade organizations. Once you've paid the invoice, the crook and his bogus company disappear.
- **We're cutting off service.** An employee receives a call from your internet provider. The caller claims a bill is overdue and unless payment is made immediately, service will be cut off. Since your company relies heavily on maintaining a business website for online ordering, your employee panics and agrees to pay the bill by company credit card over the phone.

**“Review supplier lists for out-of-date information and require proper documentation before paying any bill.”**



## How to protect your business

- **Exercise healthy skepticism.** Train employees and managers to be wary of any email that asks for confidential information, even if it seems to come from a reputable vendor or internal source.
- **Beware of fake documents.** Use accounting software that lists vendor names and addresses to flag potentially fraudulent invoices. Periodically review supplier lists for out-of-date or questionable information and require proper supporting documentation before paying any bill.
- **Never pay under pressure.** Internet providers and utility companies will send several written notices before shutting off service. If you're concerned that a bill hasn't been paid, use the phone number from a recent bill to contact the provider directly to confirm whether or not there is a balance due. ♦

## CASHFLOW CORNER

### Avoid a supply chain surprise

*Does your business have a plan for a supply chain disruption or inventory shortage?*

Getting product for your business is often a challenge. This is made more complex with the ongoing pandemic. Here are some tips for improving and diversifying your supply chain.

- 1 **Examine current suppliers' risk.** First identify your key suppliers (often called Tier 1 suppliers). These suppliers are key to the solvency of your operation. Your remaining suppliers are Tier 2 suppliers. Next, determine key Tier 1 suppliers' ability to meet your supply requirements. Are they able to shift production and order fulfillment to other locations? Have conversations with them to establish good relationships. Ask how important your business is to them. Are you a Tier 1 customer of theirs? If so, discuss what steps need to be in place to handle supply chain disruptions. Then understand if there are materials that your supplier needs to fill your orders.
- 2 **Consider other sources of supply.** If possible in your industry, increase the number of your key material suppliers. Consider identifying and developing domestic sources. Be willing to share your business with multiple suppliers. But be sincere, as asking for pricing information but never ordering can quickly sour your relationship.
- 3 **Update inventory policy.** Many businesses implement just-in-time inventory practices. This move, however, leaves many businesses without adequate inventory buffers to deal with the supply chain disruptions seen in this year's pandemic. Your policy should discuss how to continue keeping costs minimal across your supply chain while changing the reorder points and order lead times.
- 4 **Examine transportation logistics.** Port congestion, a decrease in air freight capacity and truck driver shortages can all disrupt your supply chain. Find out if there are alternative means of transportation to deliver your supplies if this happens to you. While the cost of alternative transportation may be significant, paying this added cost may be worth it if it means fulfilling an important customer order. ♦

## Ideas to keep a constant flow of customers

**H**aving loyal, repeat customers makes it tempting to hit the brakes on marketing when a business's capacity gets full. But what about during a pandemic when a large percentage of your customer base disappears? Here are four suggestions for keeping your sales funnel full in good times and not-so-good times.

■ **Invest in online marketing.** If potential customers are forced to stay home, they'll likely spend more time watching television and surfing the web. That change provides an opportunity for your business. If you don't already have an active blog for your business, consider a content marketing campaign to help generate new leads for your sales funnel. Consider offering a free or low-cost webinar that showcases your expertise, products and personality. But be careful, these advertising mediums want you to focus on things like cost per impression. You want to focus on what sales it actually provides your company.

■ **Ramp up referrals.** Take steps to ensure that existing customers are helping your business with word-of-mouth advertising. While most businesses let word-of-mouth advertising happen organically, you could gently nudge your existing customers with

a request that referrals are greatly appreciated. To help your customers feel more comfortable sending you referrals, consider asking if they're happy with the service you're providing or if there's anything that could be improved. Explain that you're putting together a referral program and are trying to gather feedback from existing customers.

■ **Upselling is more important than ever.** Attracting new customers during a recession or pandemic is challenging if not impossible. If this is the situation your business is in, the best course of action may be to generate more revenue from your most reliable income source - existing customers. If you don't have additional products or services to offer, be a consultant for your customers by asking what problems they are trying to solve, then help solve those problems.

■ **Never stop marketing.** Find an advertising medium for your business and stick with it. It might be tempting to divert marketing dollars to other activities, but you never know when the next slowdown or recession will occur. It's always better to try and solve the problem of too much business than not enough and be struggling with cash flow. ♦



### September 15

- Filing deadline for 2019 calendar-year S corporation and partnership tax returns on extension.
- 3rd quarter installment of 2020 estimated income tax is due for individuals, calendar-year corporations and calendar-year trusts & estates.

### October 15

- Filing deadline for 2019 individual and calendar-year C corporation tax returns on extension.

### During November

- Estimate your 2021 income tax liability and review your options for minimizing your 2020 taxes. Call to schedule a tax planning review.

*NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.*

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**We appreciate your business.** Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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