

TAX PLANNING & PREPARATION GUIDE

PA Tax Update: Good News for Taxpayers in \$912M Pandemic Relief Bill

On Friday, Feb. 5, Pennsylvania Governor Tom Wolf signed PA Act 1 of 2021, a \$912 million pandemic relief bill approved unanimously by the PA House and Senate. Most of the \$912 million allocated in the bill is federal aid included in the Consolidated Appropriations Act, 2021, signed into law on December 27.

Importantly for PA individual taxpayers, in addition to providing aid for hard-hit hospitality businesses, private schools and people struggling to pay rent and/or utility

bills, the Act includes a provision to clear up any uncertainty regarding whether federal pandemic aid, including Paycheck Protection Program (PPP) loans and direct federal payments to taxpayers, are taxable income for Pennsylvania personal income tax purposes.

Favorable PA personal income tax treatment of PPP loan forgiveness and deductions

The Act states that PPP loans used to pay qualified business expenses during the COVID-19 pandemic that are subsequently forgiven by the lender are not taxable income for Pennsylvania personal income tax purposes. Additionally, it also states for PA personal income tax purposes, no deduction may be disallowed for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a covered loan. This results

in Pennsylvanians having the same tax treatment for PA state tax purposes as they do for federal tax purposes.

For corporate net income tax, Pennsylvania taxable income is based upon federal taxable income. Pennsylvania law does not include an add back to or deduction from federal taxable income for forgiveness of a Paycheck Protection Plan loan.

Federal stimulus checks NOT taxable for PA personal income tax purposes

The bill also states the stimulus checks (aka economic impact payments) distributed by the federal government are not subject to Pennsylvania personal income tax. Those payments are considered a rebate that is non-taxable in Pennsylvania. Act 1 of 2021 specifically states these payments are not taxable under Pennsylvania's Tax Reform Code.

SUMMARY OF PA TAX TREATMENT OF ADDITIONAL FEDERAL CARES ACT PROVISIONS

Not Taxable for PA Income Tax Purposes:

- **Federal Stimulus Check (aka Economic Impact Payments (EIP)):** The stimulus checks, otherwise known as economic impact payments, distributed by the federal government are not subject to Pennsylvania personal income tax. The payments are considered a rebate that is non-taxable in Pennsylvania. Additionally, Act 1 of 2021 (SB 109) that was signed by into law by the Governor specifically states the payments are not taxable under Pennsylvania's Tax Reform Code.

- **Grants from Localities:** Grants that businesses received from their localities due to COVID-19, that were not from the EIDL program, are not subject to PA income tax.

- **1099-C Cancellation of Debt:** The IRS has clarified that lenders should not file Forms 1099-C to report the amounts of qualifying forgiveness of loans covered by the Paycheck Protection Program. These forms are also not required to be filed with the PA Department of Revenue.



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Herbein + Company, Inc. is proud to welcome Jeanette M. Hassis as a Senior Manager in our Pottstown office.

Jeanette M. Hassis, CPA has enjoyed serving closely-held businesses, their owners and high net-worth families for over 25 years. She has extensive Federal, state and local tax experience with corporations, partnerships, individuals, non-profits, private foundations, estate and trusts, including multi-state and tiered structures. Throughout her career, Jeanette has been instrumental in assisting clients at every stage of their business and personal life with timely tax, succession and estate planning and compliance. Her client industries of focus include real estate construction and development, manufacturing, wholesalers, and professional services such as attorneys, doctors, insurance agents and financial advisors.

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• Economic Injury Disaster Loans

(EIDL): The Economic Injury Disaster Loan (EIDL) program provides for an "advance" of up to \$10,000 within 3 days of the loan application even before the loan is approved. Section 1110(e)(5) of the CARES Act provides that the EIDL "advance" does not have to be repaid (even if the loan is subsequently denied). Because the "advance" never has to be repaid (i.e., there are no conditions that have to be met to have the advance on the loan forgiven or discharged), the department will treat the "advance" as a grant which is not subject to tax.

• Payments received from the Provider

Relief Fund: The federal government has allocated \$175 billion in payments to be distributed through the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID-19 pandemic. The PRF distributes payments to healthcare providers to cover healthcare-related expenses or lost revenue due to COVID-19. The payments are nontaxable as grants for PIT Purposes. This also includes Health Resources and Service Administration claims and reimbursements for uninsured patients.

Taxable for PA Income Tax Purposes:

• **Student Loan Debt:** The CARES Act provides that certain student loan repayments made by an employer up to \$5,250 will not be subject to Federal Income Tax. However, these repayments are considered taxable for PIT purposes. The amount of the student loan debt repayment made by the employer on behalf of an employee should be included as compensation on the employee's PA-40 return.

• Coronavirus Related Distributions

from Retirement Accounts: Coronavirus-related distributions on retirement accounts allow taxpayers to spread their federal income tax burden on the distribution over three years. If the amount is paid back within three years, taxpayers may request a refund of federal taxes paid on the withdrawal. Pennsylvania does not follow the federal provision on this. If the withdrawal meets the age or years of service requirement, then it is not subject to PA income tax. Otherwise, early distributions from retirement accounts are subject to tax to the extent that they were not already subject to tax at the time the money was contributed to the account. In the event someone takes an early distribution from a retirement plan that would be subject to tax and subsequently pays it back, the department would not refund tax paid on that amount. Any reinvestment would be considered basis and wouldn't be taxable upon later distribution.

• Other COVID Disaster Relief Payments:

COVID-19 disaster relief payments set up by employers or charities to be paid to employees do not constitute compensation for federal income tax purposes under IRC 139(a). The department does not follow IRC § 139. The taxability of these payments would be dependent on the nature of the payments and would have to be reviewed on a case by case basis.

For more information or questions, please contact a member of the Herbein tax team, or email us at info@herbein.com.



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Utilizing a Bookkeeper vs. a Full Time Office Employee



Behind Exciting Long-Term Business Growth is a Boring Bookkeeper...

By Beth Breslow, Breslow's Bookkeeping Business



The end of the year is a busy time for many reasons. Holidays, travel plans, and family visits consume most of our days starting in November through January 1. But as a small business owner, there is even more you have to handle at the end of the year.

Right now is the time of year when your business really needs your attention, especially in regards to accounting. Doing so not only helps you close out the current year on a high note, but it also sets you up for starting off the next year on the right foot.

Is your business on par with the following accounting tasks?

Monthly bank, credit card and loan reconciliations — For the year-end, it is important to make sure what you show on your financial statements matches up with your bank and credit card accounts and your year-end statements.

Reconcile your accounts receivable and accounts payable — There is a tendency to forget to collect on your invoices if you do not use invoicing software. Without a good collection system like Quickbooks, you may be missing out on money you are owed.

Gather and Organize Your Receipts — It is important to gather and organize your business-related receipts. A shoebox full of receipts is the last thing your CPA wants to see. There are many apps available to download, which will simplify this.

Check Payroll — A few common areas to watch out if you're worried about

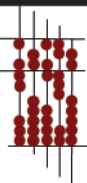
end of year accounting are withholding taxes for fringe benefits, deferred compensation, and end of year bonuses.

Collect W-9s — Did you use vendors this year? If so, you will have to collect W-9 forms for some of them. The W-9 form can be used as a paper trail for the IRS to track your expenses.

For every vendor that you have spent \$600 or more for services, you are required by law to issue and complete a 1099 form. The 1099 must be filled out and sent to the IRS by January 31st.

Take Physical Inventory — For some of you, there is no need to take physical inventory. For others, getting an accurate account of your inventory is important. You will want to match it with your end of year balance sheet. It will also be helpful for your bookkeeper, especially to know how much you have spent on inventory throughout the year and its current value.

If the above-mentioned tasks are a foreign language to you, or if you know that there is not enough time in the day to tackle this checklist, call Breslow's Bookkeeping Business at 215.272.5217 today; email: bethbreslow@gmail.com; and visit www.breslowbookkeeping.com.



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