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## **Online Advisor – April 2021**

### **Upcoming dates:**

#### **April 15**

- First quarter 2021 estimated tax payments are due

#### **May 17**

- Individual income tax returns for 2020 are due

Welcome to the craziness that is the 2020 tax filing season!

Because the IRS is still playing catch-up from last year, in addition to new tax laws passed in the middle of this year's tax filing season, the April 15 individual tax return deadline was moved to May 17. Read about how these new tax laws affect both your 2020 and 2021 tax returns.

Also read about extended tax breaks for businesses, along with creative ways to do something nice and unexpected for someone else.

Please call if you would like to discuss how this information could impact your situation. If you know someone who can benefit from this newsletter, feel free to send it to them.

## **ALERT! Late Tax Legislation Creating Havoc**

### **Individual tax return deadline moved to May 17**

Congress' recent move to retroactively make a portion of 2020 unemployment income tax-free is creating havoc during this year's tax filing season. Here is what you need to know.

#### **Background**

Unemployment compensation was received by millions of Americans during 2020 because of the pandemic. While unemployment income was necessary for many who lost a job, it's also normally classified as taxable income to be reported on your tax return. Recently-passed legislation now makes the first \$10,200 of 2020 unemployment compensation tax-free on your tax return.

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## The problem

The new legislation which contains this tax break didn't become law until March of 2021, a full three months after the end of the tax year and after millions of Americans had already filed their 2020 tax return!

## Understanding your situation

- **If you've already filed your 2020 tax return:** Wait for further instructions. The IRS is trying to figure out a way to automatically apply this tax break for taxpayers who have already filed their 2020 tax return. This will avoid the need to file an amended tax return. There is no need to call at this time as the IRS has not provided further guidance.
- **If you HAVE NOT filed your 2020 tax return:** The IRS has issued guidance on how to report this tax break on your 2020 tax return if you have not already filed. You will be notified once your tax return has been prepared.
- **Tax deadline moved to May 17.** Because of all this havoc, the April 15 deadline for individual tax returns is now May 17. This extension applies only to Form 1040s. First quarter estimated tax payments for the 2021 tax year are still due by April 15.

Be assured you will be informed once the IRS issues further instruction on how to claim your tax break. In the meantime, enjoy the extra tax savings you'll get sometime in the near future!

## New Tax Breaks Benefit Millions

### What you need to know

The recently-passed American Rescue Plan Act contains several tax breaks for you and your family. Here are the major provisions of the bill that could mean more money in your pocket during the 2021 tax year.

#### Child tax credit (CTC)

- The CTC for 2021 increases from \$2,000 to \$3,000 for kids ages 6 to 17 and \$3,600 for kids ages 5 and under.
- To receive the full tax credit your adjusted gross income must be under \$75,000 (Single); \$150,000 (Joint); or \$112,500 (Head of Household).



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- If your income is above the aforementioned thresholds, you can still receive \$2,000 per child if your income is less than \$200,000 (Single, Head of Household); or \$400,000 (Joint).
- You can receive up to 50% of your 2021 child tax credit in 6 monthly payments starting July 2021. The IRS is warning, however, that this July start date may be delayed because a computer system still has to be built to handle these monthly payments.

**Child and dependent care credit (DCC)**

If you and your spouse work and have children in daycare, or have an adult that you care for, you may be eligible for a larger tax credit in 2021.

- You can now spend up to \$8,000 in dependent care expenses for one qualifying dependent and get a 50% tax credit. This results in a maximum credit of \$4,000 (up from \$1,050).
- If you have more than one qualifying dependent, you can spend up to \$16,000 in dependent care expenses and get a 50% credit. This results in a maximum credit of \$8,000 (up from \$2,100).
- To receive the full tax credit, your adjusted gross income must not exceed \$125,000.
- Dependents can include people of all ages, not just kids, as long as they meet the dependent qualifications.

**Earned income tax credit**

- If you're a household with no kids, the maximum earned income tax credit increases from \$543 to \$1,502.
- More taxpayers qualify for the credit. The lower age limit for receiving the credit decreases from age 25 to age 19. The upper limit of 65 for receiving the credit is eliminated. There is no upper age limit for 2021.
- You may use either your 2019 income or your 2021 income when calculating your credit to obtain the maximum credit.

**Stimulus checks**

- A third round of stimulus payments in the amount of \$1,400 is being sent to qualified taxpayers.



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- The payment phases out for income over \$75,000 for single taxpayers, \$112,500 for head of household taxpayers and \$150,000 for married couples.

#### **Action to take**

- **Look for updates on the advance payments for the child tax credit.** The IRS is sorting out how to get half of your child tax credit to you in 2021. Stay tuned for updates as to whether the payments will begin in July or if they will be delayed. You may also opt out of this early payment, but will need to wait for instructions on how to do so.
- **Consider increasing dependent care expenses.** Look ahead to the rest of 2021 and consider if you should increase your dependent care expenses to take advantage of the significant increase in this credit. If you increase your dependent care expenses in 2021, remember you won't be able to include the same amount of expenses when calculating your credit in 2022, as this tax credit increase is currently for 2021 only.
- **Conduct a tax forecast.** With the dramatic increase in these credits, you may want to estimate next year's tax bill. It may make sense to adjust your withholdings to account for a lower tax obligation.
- **Be conservative when forecasting your earned income tax credit.** It is uncertain how the expanded earned income tax credit will impact those over 65 when you have no children. For example, are Social Security benefits considered earned income when calculating the earned income tax credit? Does the larger standard deduction for those over 65 affect the earned income tax credit calculation? Until clarification is issued by the IRS, you may wish to be conservative about the credit amount you'll receive.

## **The Gift of Grace**

After living under the weight of the pandemic for more than a year and listening every day to the bad news around us, why not look for ways to change the conversation by doing something nice and unexpected for someone else.

Here are some creative ideas:

- **Pay it forward.** The next time you are in a drive-through line to pick up food, pay the bill for the car behind you. This unexpected act of kindness is sure to bring a smile.



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- **Become a tutor.** Many students find virtual classrooms to be challenging and could use some extra help. And you don't need to be an expert! Even with students re-entering the classroom, your local school may be in need of assistance.
- **Look to your neighborhood.** Every neighborhood has someone who could use help. From single parents to seniors, simple everyday chores could be a real chore for them. It might mean mowing the grass or offering to go shopping to pick up items for them while you are out. And if you're up for it, consider offering free babysitting services for an hour or two so parents can take a well-deserved break.
- **Make an elderly friend.** Call a local nursing home or assisted care facility and ask if they have a friendship program that connects you with a resident that could use a pen pal. Get your kids to create a card with a picture to go with a short letter they write themselves. When it's appropriate after the pandemic, consider regular, in-person visits to say hi to your new pen pals.
- **Do a good deed daily.** This is a great way to create the habit of undertaking daily, random acts of kindness. By doing a good deed every day, your vision will change and you'll see more opportunities to help. Opening a door, picking up trash or helping a single parent who is juggling different tasks are all great examples of this.
- **Bring back forgiveness.** When someone makes a mistake, provide an environment to accept an apology and leave room to genuinely forgive. Continue to be a role model in displaying the act of forgiveness.

Giving the gift of grace is not only rewarding for you, but is also contagious to everyone around you.

## **Businesses Get More Time to Apply For PPP Loans**

### **Legislation provides other business relief provisions**

Here's what you need to know about the Paycheck Protection Program (PPP) loans and other business relief provisions of the recently-passed American Rescue Plan Act.

**PPP loan application deadline extended.** The deadline to apply for PPP loans is now May 31, 2021.

**Sick leave extended.** If your business provides sick leave for COVID-related reasons, you might get reimbursed for the sick pay through a tax credit.

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- Businesses which voluntarily provide sick leave through September 30, 2021 qualify for the credit. There are limits for each employee. However, for employees who took 10 days of sick leave in 2020 using this same provision, they can take another 10 days beginning April 1, 2021.
- Refundable tax credits are available through September 30, 2021.
- Covered reasons to get the tax credit now include sick leave taken to get COVID testing and vaccination, and to recover from the vaccination.
- These benefits are also extended to self-employed workers.

#### **Family Medical Leave Act Provisions extended.**

- Additional coverage is now available through September 30, 2021.
- Qualified wages for this provision move to \$12,000 (up from \$10,000) however the credit was not increased.
- The Family Medical Leave Act also applies to the self-employed.

#### **Big increase in Employee Retention Credit.**

- Businesses can get up to a \$28,000 tax credit per employee in 2021, up from a \$5,000 maximum credit in 2020. This credit can be claimed through Dec. 31, 2021.

There are many more provisions in the close to \$2 trillion dollar spending package, including money given to states. As everyone digests this new 500-plus page piece of legislation, more clarifications will be forthcoming from the IRS and other sources.

## **Cross-Training: Essential for Small Business Survival**

Have you considered cross-training your employees to ensure more than one person knows all key functions? Cross-training can be a win-win situation for you and your employees. Large companies often use it to prepare managers for future promotions. But in small companies, it can be the difference between success and failure.

#### **Why companies cross-train**



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Cross-training provides greater flexibility in scheduling, especially when dealing with unexpected workload and staffing issues. It also helps employees develop expertise in other areas and increases their awareness of the company's roles and functions, helping them better understand where they fit into the big picture.

For employees, some of the biggest advantages of cross-training include:

- Learning new skills
- Working more efficiently and effectively with other departments
- Feeling more invested in the company
- Enjoying growth opportunities

### **Create your cross-training plan**

How you implement cross-training will depend on the size and nature of your business. Consider prioritizing the departments that need and/or want cross-training the most. These departments may be understaffed or have many new employees. Look for important functions that are currently dependent on a single person's knowledge. These areas should be a focus of your cross-training program.

If you're considering cross-training your team, here are a few tips to help you prepare:

- **Document your key processes.** You cannot cross-train if you don't know the process. These written processes will turn into training documents as you implement your program.
- **Communicate to your team.** It's essential to get everyone involved before you start a cross-training program. Help your team understand why the company is cross-training employees. Reasons may be to prepare for organizational growth or new industry standards, to cover functions when someone is impacted by the pandemic, or to adjust to a changing structure around roles and responsibilities. Then continue to communicate with your team throughout the program with status updates and team meetings about progress and next steps.
- **Present cross-training as an opportunity.** Your employees may be more resistant to cross-training if it feels like it's an obligation or a threat to their roles. You can help them feel motivated by highlighting the benefits, like developing different skill sets and having a better understanding of how their contributions positively impact the business.

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- **Start with a small pilot program.** Test the waters with a select group of employees to get a better understanding of what works and what needs to be tweaked. You can then expand the program later as you gain insight and experience.
- **Determine cross-training hours.** Figure out how much time can be dedicated to cross-training for each team to still run efficiently. This may include setting aside a few hours each day, or setting aside full days for a certain period of time to focus on cross-training. If your business is seasonal, ramp up cross-training during your low seasonal period.
- **Listen to feedback.** You may learn that some employees have already started cross-training on their own. You can use this kind of valuable feedback to fine-tune your official cross-training program.

Keep in mind that some employees may resist having to train others, and productivity may suffer in the short-term. But remember the cost of not cross-training. If you lose a key employee and no one else knows how to do their tasks, your business may have trouble finding a replacement.

## Don't Overlook Renters Insurance

Do you rent an apartment or condo? If so, do you have renters insurance to protect your belongings and to cover you against liability claims?

A surprising number of renters don't bother with insurance. Some assume they're covered by their landlord's policy. Wrong! Usually that covers only damage to the building and liability claims against the landlord. Others say their belongings aren't worth enough to justify the cost. But add up how much it would cost you to replace everything you might lose in a fire and you'll be surprised. In most cases, the cost of insurance is a small price to pay for the protection you'll receive.

### Typical protection

Renters insurance, sometimes called a tenant policy, typically protects against three things:

1. Loss or damage to your personal belongings from fire, theft, etc.
2. Liability claims from someone injured in your apartment
3. The cost of temporary living expenses if your apartment is made uninhabitable by some catastrophe





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When you buy renters insurance, you'll have to decide the amount and type of coverage. Your agent can help you estimate the value of your belongings. You can either choose "actual cash value" coverage or "replacement value coverage."

The first pays you the estimated value of items at the time of loss, based on their age and condition. The second pays the cost of replacing items with equivalent new items, up to the maximum value of coverage. The second method will pay you more, but obviously the premium will be higher. Try to identify anything of special value, such as expensive jewelry or electronic equipment. You may need a policy rider to cover the full amount of these items.

#### **A few tips**

**Bundle for discounts.** You may receive a discount if you buy your renters insurance and car insurance from the same company.

**Save with roommates.** If you have a long-term roommate, ask if you can take out a joint policy instead of two separate ones.

**Know when and where kids are covered.** If you have children living away at college, check whether they're covered under your homeowners policy. Once they leave college, though, they'll need their own insurance.

**Take inventory.** Create a thorough inventory of your belongings, recording the model and serial number of any equipment and take plenty of photos. This could be invaluable to support your claim if you ever have a loss.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

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