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As tax deadlines approach, Maine CPAs say much remains uncertain

State and federal guidelines concerning treatment of forgiven pandemic relief loans and unemployment income still need clarification, prompting tax preparers to delay filing.

BY GLENN JORDANSTAFF WRITER

Eric Purvis works on taxes from his home in Saco on Tuesday. Purvis is a certified public accountant dealing with the uncertainty surrounding the federal American Rescue Plan and state treatment of pandemic relief loan forgiveness, so tax season is not as smooth as it could be this spring. *Shawn Patrick Ouellette/Staff Photographer*

The folks who prepare taxes professionally are accustomed to dealing with deadlines.

Even for them, however, this tax season has been challenging because of uncertainty surrounding both state and federal policy.

Eric Purvis, a certified public accountant and partner in the Portland office of the national accounting firm Marcum, is holding onto partnership and S corporation tax returns that are due Monday because Maine has yet to clarify its treatment of forgiven Paycheck Protection Program, or PPP, pandemic relief loans for small employers.

“On the federal side, those are tax-free,” Purvis said. “But the state of Maine hasn’t dealt with it yet. It’s been discussed and debated in the Maine Legislature, but nothing has been passed.”

The latest draft of Maine’s supplemental budget, endorsed Thursday by majority-holding Democrats on the Legislature’s Appropriations and Financial Affairs Committee, would fully conform Maine’s tax code with the federal code so more than 28,000 businesses would not pay state taxes on the PPP loans they received, a provision that would cost the state $100 million in tax revenue.

However, Republicans on the committee, who are in favor of tax conformity, still rejected the spending plan because they are also seeking a provision that

would require a two-thirds legislative majority for any decisions regarding how to spend additional aid that is likely to come soon from Congress.

PPP loan treatment is just one issue vexing tax preparers as spring approaches, and with it the traditional April 15 deadline for individual tax returns. At the federal level, there is the American Rescue Plan, a bill that still needs final Congressional approval and the signature of President Biden before becoming law.

Included in the Senate version of that $1.9 trillion legislation is a provision to allow the first $10,200 in unemployment income received in 2020 to be free of taxes for households with incomes below $150,000 per year. So if you filed for unemployment in 2020, it's a good idea to hold off filing your tax return to see whether that provision remains.

According to the Maine Department of Labor, about one-third of the state's jobless aid recipients in 2020 opted not to have their taxes automatically withheld. The default withholding is 10 percent for federal taxes and 5 percent for state taxes.

"We're going to know soon enough if that provision survives and becomes law," Purvis said. "But here's the twist on it: I have no idea what Maine is going to do with that. They're still dealing with the PPP loans."

Purvis also mentioned three new wrinkles that may affect individual filers this spring:

• An educator’s deduction of up to $250 has been around for several years, but it now includes money spent after March 12 on personal protective equipment for classroom use.

• Because the standard deduction is much higher following passage of the Tax Cuts and Jobs Act in 2017, fewer taxpayers are itemizing deductions. There is now a $300 charitable contribution deduction available for those who don’t itemize.

• The age limit for making contributions to an Individual Retirement Account has been eliminated. The limit had been 70 years and 6 months old.

Mike Santo, a senior tax manager in the Augusta office of accounting firm Wipfli and a board member of the Maine Society of CPAs, said he was working fewer hours this tax season than in past years. All of that changed last week, when the IRS issued detailed guidance on March 1 regarding the Employer Retention Tax Credit, or ERC.

The ERC, like the PPP loans for small businesses, was part of the $2.2 trillion federal Coronavirus Aid, Relief and Economic Security (CARES) Act, passed last March. Although the ERC offered substantial benefits (a maximum of $5,000 per employee for qualified wages and health care expenses paid), a company’s gross revenue had to be off by at least half from the prior year’s calendar quarter.

Initially, the programs were mutually exclusive. You could take the PPP route or the ERC route but not both. Most businesses opted for the PPP loan, Santo said, because it was easier and safer.

Nine months later, Congress passed the Consolidated Appropriations Act, which retroactively removed the mutual exclusivity clause. Suddenly, businesses taking out PPP loans were also eligible for an additional tax credit, as long as the same wages weren't counted for both programs.

Santo assumed the credit could be included on next year's tax returns, but the recent IRS notice said otherwise.

"This is a business credit, and business returns are due on March 15," Santo said. "On March 1 they're telling us we need to report it on your 2020 tax returns. So with about two weeks left to the deadline, the IRS kind of dropped this bomb on us."

Santo spent much of last Thursday, Friday and Saturday speaking with clients to inform them of the change. He said it basically put a halt on all returns as he tried to figure out which businesses qualified for the credit but hadn't yet claimed it, which returns needed to be amended, and which clients may want an extension to sort things out.

"It actually wasn't a bad tax season up until last week," Santo said. "Things were coming in and getting right out. It was pretty nice."

Pete Dufour, CEO of the Dufour Tax Group of Portland, said he’s filed for extensions on the majority of business returns he’s preparing. Dufour said he’s hoping for clarity at the state level regarding PPP loan forgiveness.

As for individual returns, he said some taxpayers are better off filing now while others may want to wait. It depends on stimulus checks and eligibility for them.

For example, the initial stimulus checks last spring of $1,200 for individuals and $2,400 for couples were based on income information available to the IRS, either from a 2018 or 2019 tax return. A second rounds of stimulus checks (generally $600 per person) went out in late December and into January.

None of that stimulus money is taxable, but if you didn’t receive what you were due, you should include that amount on your 2020 return to receive a refundable credit.

“Then, in the last round, if they based your stimulus eligibility on prior-year income but then in 2019 it showed you made too much income to qualify for the stimulus, you didn’t have to pay it back,” Dufour said. “You could just keep it.”

Taxpayers eligible for the stimulus based on their 2019 returns who wouldn’t qualify based on higher income received in 2020 may want to wait until the third round of checks, expected to be $1,400 apiece, is approved, likely in the

next few days. Conversely, if 2019 was a high-income year and 2020 dropped below the threshold, file your 2020 return now.

“If it gets into the system and gets processed quickly enough,” Dufour said, “you might qualify for the stimulus.”

Because of all the uncertainty surrounding this tax season, the American Institute of Certified Public Accountants is advocating for extending federal filing and payment deadlines to June 15. Maine’s chapter has joined in that effort, but Dufour, for one, is hopeful the IRS says no.

“They’re supposed to make a decision on that by the end of the week,” he said. “We’re rooting for them not to extend, because we’d like to have a semblance of a summer.”