

The General Ledger

A Quarterly Update for Clients and Friends of Robins, Eskew, Smith & Jordan

SUMMER 2022

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Georgia's SALT Cap Workaround – What You Need to Know

The Tax Cut and Jobs Act of 2017 (TCJA) significantly decreased the number of taxpayers claiming itemized deductions, thus reducing the related tax savings. One of the primary reasons for these results was that the legislation limited the deduction for state and local income taxes or sales taxes, plus property taxes to a maximum of \$10,000. In May 2021, Georgia Gov. Brian Kemp signed House Bill 149, Georgia's SALT Parity Act. The legislation, which went into effect on January 1, 2022, allows passthrough entities to circumvent the TCJA \$10,000 cap on the state and local tax deduction. Georgia is one of numerous states that has passed a workaround to this limitation.

WHO IS ELIGIBLE?

Most state income tax codes allocate business income from passthrough entities (S-corporations, partnerships and LLCs) onto an owner's individual income tax return. However, with HB 149, qualified passthrough entities may elect to be subject to Georgia income tax on their business income before the income passes to the owners. Qualified passthrough entities include S-corporations and partnerships that are 100% directly owned and controlled by individuals, meaning entities with corporate shareholders or partners are not eligible for this provision.

HOW THE CAP WORKS

Under the new legislation, qualified passthrough entities are allowed to make an irrevocable election each year to pay the tax owed on an entity's earned income at the current entity level rate of 5.75%. Much like a corporate income tax, an entity-level tax is a direct tax liability on the passthrough entity before the income passes to the owners, i.e., shareholders or partners. Thus, the business pays a 5.75% state tax rate on taxable income for the year and can then deduct the state taxes paid on the federal income tax return with no limit.

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Georgia's SALT Cap Workaround – What You Need to Know

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Georgia's legislation requires that the election be made annually by the due date of the corporate or partnership return, including extensions. It is important to remember that the decision is irrevocable once made and is binding on all owners. Consequently, the shareholders or partners of an electing passthrough entity do not recognize their respective share of the Georgia income taxed at the entity level. An owner's Georgia K-1 would reflect no income allocable to the state, thus circumventing the TJCA SALT cap on eligible taxpayers by reclassifying individual earnings as business earnings. The deduction does not result in an income tax credit for the individual owner – it simply reduces the amount of income on which the owner is taxed.

SAMPLE ILLUSTRATION: NO ELECTION VS. ELECTION

	NO ELECTION	GA PTE ELECTION
Federal Adjusted Gross Income (All Flow-thru)	500,000	500,000
Less: GA tax deduction (5.75% on FTI)	-	(28,750)
Federal Adjusted Gross Income	500,000	471,250
	NO ELECTION	GA PTE ELECTION
Federal Adjusted Gross Income	500,000	471,250
Less: Standard Deduction MFJ	(25,900)	(25,900)
Federal Taxable Income	474,100	445,350
Federal Tax	113,441	103,379
Federal AGI	500,000	471,250
Less: Income taxed at PTE level by Georgia	-	(471,250)
Georgia AGI	500,000	-
Less: Standard Deduction/Exemption MFJ	(10,800)	
Georgia Taxable Income	489,200	
Georgia Tax Rate	5.75%	5.75%
Georgia Tax	28,129	-
	NO ELECTION	GA PTE ELECTION
Georgia PTE Tax	-	28,750
Federal Tax	113,441	103,379
Georgia Individual Tax	28,129	-
Total Federal and Georgia Tax	141,570	132,129
Estimated Tax Savings with GA PTE Election	-	9,441

IMPORTANT TAX PLANNING CONSIDERATIONS

As with any new tax law, determining whether it makes sense for your business to elect to pay the tax at the passthrough entity level requires planning in advance. In some cases, paying the tax may not benefit all owners, particularly any owners who are not Georgia residents. If you want to learn more about the Georgia SALT Cap workaround, the tax professionals at RESJ are here to help.

FIRM NEWS

Congratulations



NATALIE GREINER

Congratulations to Natalie Greiner on recently passing the CPA exam! Natalie joined the firm in 2020 and is a staff auditor in the Duluth office. She is a graduate of Bob Jones University.

New Hire



LINDA LINDSAY

Linda Lindsay recently joined the firm's Duluth office where she works in outsourced accounting, primarily handling bookkeeping for clients. Linda's previous experience includes working in both the banking and nonprofit sectors. In addition, she worked as an accounting manager for a mid-sized church. Linda graduated with an undergraduate degree in journalism from the University of Georgia and received an associate degree in accounting from Gwinnett Technical College.

Employee Retention Tax Credit – You Still Have Time to Apply

The Employee Retention Tax Credit (ERTC), which became law in March 2020 when Congress passed the Coronavirus Aid, Relief and Economic Security Act (CARES), is a refundable employment tax credit to help businesses with the cost of keeping staff employed during the pandemic. Under the ERTC, small to mid-sized businesses are eligible to receive up to 50% of qualifying wages paid between March 13, 2020 and September 30, 2021. This includes employers receiving a Paycheck Protection Program (PPP) loan. Although this tax credit ended on October 21, 2021, eligible businesses can still file claims for the remainder of 2022.



ELIGIBILITY REQUIREMENTS

To qualify, a business or tax-exempt organization must meet at least one of the following criteria in the calendar quarter it wants to use the credit:

- The business experienced a full or partial shutdown due to a government order
- The business had a significant decline in gross receipts

FOR THE 2020 TAX YEAR

The business must have had a 50% or greater drop in gross receipts for the quarter compared to the same quarter in 2019. The business also

must have 100 or fewer fulltime employees, excluding owners.

FOR THE 2021 TAX YEAR

The business must have had a 20% or greater drop in gross receipts for the quarter compared to the same quarter in 2019. The business also must have between one and 500 fulltime W-2 employees, excluding owners.

If either of the above conditions are met, your business is eligible for the ERTC for that particular quarter. For 2020, the credit can potentially be up to \$5,000 per employee; for 2021, the credit can potentially be up to

\$14,000 per employee. The same wages that were used to achieve PPP loan forgiveness cannot be used to apply for the ERC.

DEADLINE TO APPLY

Despite the fall 2021 expiration, you can still take advantage of the employee retention tax credits if your business is eligible. To apply, you need to file an amended Form 941-X for a previous quarter in which your business was eligible for the payroll tax credit but did not claim it. The ERTC does not offset taxes but instead is a two-part credit. The non-refundable portion of the credit reduces an employer's portion of Social Security or Medicare Tax. The refundable portion of the credit allows for a direct refund to the business.

If your business needs assistance claiming your ERTC, contact the tax team at RESJ for help.

Georgia Legislature Passes Historic Income Tax Cut for Individuals

During the 2022 legislative session, Georgia lawmakers passed House Bill 1437 that removes the state's six individual income tax brackets and introduces a single flat tax. The new legislation brings the top rate of 5.75% down to a single rate of 4.99% in 2029. The drop in the tax rate will happen in phases beginning in 2024.

TAX RATES FOR YEARS 2024-2029

2024	5.49%
2025	5.39%
2026	5.29%
2027	5.19%
2028	5.09%
2029	4.99%

Elimination of Standard Deduction and Marriage Penalty

The bill eliminates the standard deduction for all taxpayers while increasing the personal exemption. For single filers, the exemption will increase from \$2,700 to \$12,000. For married filing jointly, the exemption will be phased in with the elimination of the state's marriage penalty by 2030. The dependent exemption remains at \$3,000.

PHASED-IN EXEMPTION AMOUNTS FOR MARRIED FILING JOINTLY

2024	\$18,500
2026	\$20,000
2028	\$22,000
2030	\$24,000

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A Few Caveats

The legislation went into effect on April 26, 2022, when Gov. Brian Kemp signed the Act; however, these changes are not applicable until January 1, 2024. Several disclaimers were built in with the state having to reach certain projections before the next phase-in occurs, with the tax cut being delayed for one year if the projections are not met:

- Georgia tax collections do not increase by at least 3% above the governor's revised revenue estimates for the present fiscal year.
- Actual revenue is not higher than each of the previous five years.
- The state experiences a severe revenue shortfall that causes reserves to fall below the amount of revenue lost from the tax cuts.

For more information on how the cuts could affect your individual taxes, contact us and a member of our tax team will be glad to assist you.



Summer Interns Get Hands-on Experience

Each year, RESJ welcomes several accounting students to participate in our internship program. This summer, we welcomed three interns and each gained some real-world experience before heading back to school for the fall semester. Joining us over the summer were:

Lydia Morrell, a rising senior at Bob Jones University, was in the Duluth office where she had the opportunity to work with the tax, audit and bookkeeping teams. Her favorite area was audit as she enjoyed going out into the field meeting clients and learning about their businesses. Lydia said, "Everyone really made this summer's experience much better than I could have thought."

Aaron Duong is also a student at Bob Jones University. He interned with our McDonough office and had hands-on experience working with the tax department where he helped prepare tax returns. Through his brief experience, he learned there are a lot more companies that use the cash basis of accounting than he thought.

Caden Wilson is a student at Georgia College & State University and was located in the Fayetteville office where he focused on accounting work. He was tasked with keeping monthly financials for clients and learned how to maintain their bookkeeping and bank reconciliations. Caden said, "I really enjoyed working with the people in the Fayetteville office. Everyone was incredibly nice and patient with me as I went through the process of learning what I was tasked with doing during this internship!"