

# THE KT ADDITION

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Friends for Life.

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## 3508EZ PPP FORGIVENESS APPLICATION – READING BETWEEN THE LINES

AUSTIN EICHACKER, CPA, MANAGER

On June 16, 2020, the SBA released the new simplified 3508EZ Forgiveness Application. The EZ application is a short three pages as compared to the five-page full application. To qualify for the EZ application the employer must attest:

The Borrower did not reduce annual salaries, or hourly wages, of any employee by more than 25 percent during the Covered Period, when compared to the period between January 1, 2020 and March 31, 2020 (not including employees who earned more than \$100,000 during 2019).

AND

The Borrower did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period. The Borrower can ignore reductions that arose from an inability to rehire individuals who were employees on February 15, 2020 if the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020. Also, the Borrower may ignore reductions in an employee's hours if the Borrower offered to restore employment and the employee refused.

On the surface, the EZ application looks very straight forward. It simply asks for payroll and non-payroll



Austin Eichacker  
CPA, Manager

costs. Caution, while this seems easy enough, there are areas of which the Borrower needs to be aware.

Owner Compensation Recap  
(based on 24-week election):

C Corporation (C Corp) Owners – Compensation is limited to 2.5 months based on 2019 cash compensation; total wages are capped at \$20,833. Also, state and local taxes, employer contributions for health insurance, and employer contributions for retirement plans (capped at 2.5 months of 2019 amounts) are considered allowable costs.

S Corporation (S Corp) Owners – S Corp owners are treated the same as C Corp owners; however, employer contributions for owner health insurance are not allowable costs.

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(3508EZ PPP Forgiveness Application – Reading Between the Lines continued on page 2)

*(3508EZ PPP Forgiveness Application – Reading Between the Lines continued from page 1)*

Self-Employed Schedule C (Sole Proprietor) or Schedule F (Agricultural Sole Proprietor) filers – Compensation is limited to 2.5 months of the 2019 net profit as reported on IRS Form 1040, Schedule C line 31 or Schedule F line 34. State and local tax payments, employer paid health insurance and retirement contributions are not eligible costs. Also, the business is required to submit the 2019 IRS Form 1040, Schedule C or F, if it was not submitted with the initial application.

Partnerships – Compensation is limited to 2.5 months based on 2019 net earnings from self-employment, which is calculated using the 2019 IRS Form 1065, Schedule K-1 box 14a (reduced by box 12, section 179 expense deduction, unreimbursed partnership expenses deducted on their IRS Form 1040 Schedule SE, and depletion on oil and gas properties) multiplied by 0.9235. Compensation must be paid during the coverage period. Separate payments for health insurance, retirement, or state and local taxes are not eligible for additional loan forgiveness. 2019 IRS Form 1065 K-1s are required at the time of the forgiveness application if not submitted during the initial application.

LLC Owners - LLC owners must follow the instructions that apply to how their business was organized for tax filing purposes for tax year 2019, or if a new business, the expected tax filing situation for 2020.

#### Non-owner Compensation

For all non-owner employees, cash compensation is limited to either \$15,385 if the 8-week coverage period is elected, or \$46,154 if the 24-week coverage period is elected. There are no limits on state and local taxes, employer paid retirement plan contributions or health insurance contributions that were paid during the covered period.

#### Full-time Equivalent (FTE) Employee Head Counts

To qualify for the EZ application the Borrower must not have reduced the number of employees or the average paid hours of employees during the covered period as compared to the comparative period. Because of this requirement, the FTE reduction calculation becomes very important. It is interesting that there is no specific area to include the calculated FTE employee counts on the EZ); however, there is still a requirement to calculate whether FTE employees had been reduced. Also, the application line requesting number of employees at time of loan application/forgiveness application should be total employees, not FTE employees.

To calculate the reduction in FTE's you may need to perform multiple calculations for the various comparative periods. The possible comparative periods include January 1, 2020 through February 28, 2020, and February 15, 2019 through June 30, 2019. Or if you are a seasonal employer, the SBA allows the use of whichever comparative period during 2019 yields the greatest

forgiveness for the Borrower. In addition, there are two different methods you can use to calculate your company's FTE figures. One method is calculating part time employees based on their average hours worked compared to a 40-hour employee. The second method is to calculate each part-time employee equal to a ½ employee. For these reasons, the business could be required to run several FTE calculations to ensure maximum forgiveness.

Borrowers should make sure to read the instructions to either the 3508EZ or full 3508 applications before completing. Also, continue to pay attention to upcoming legislation and KT updates as we learn more regarding the final rules and regulations for the forgiveness application.

For questions or assistance with the forgiveness application, please reach out to Austin Eichacker at [Austin@ktllp.com](mailto:Austin@ktllp.com).

**Due to the COVID pandemic we are not hosting our annual open houses in October. We look forward to 2021 as we will be celebrating 85 years in business. Thank you for your business and being a part of the KT family.**

## TAX PLANNING WITH RMDs, QCDs, AND CVDs

CARRIE CHRISTENSEN, CPA, MANAGER

### RMDs

Recent tax law waived required minimum distributions (RMDs) from IRAs and other qualified plans for 2020. This is an advantage for taxpayers who do not need the funds as the money can continue to grow tax deferred. If you decide to forgo your RMD for 2020 and typically have federal income tax withheld from your RMD to cover your tax liability, you may need to consider other options in order to avoid an estimated tax penalty. Other options for timely submitting your federal income tax to the IRS include paying quarterly estimated taxes, increasing withholding from wages if still working, or increasing withholding from Social Security or pension payments if not working.

### QCDs

One question that has arisen with the waiver of RMDs for 2020, is whether or not qualified charitable distributions (QCDs) are still allowed for 2020. Good news – the answer is yes! As a reminder, QCDs are direct transfers of funds from IRAs to qualified charities. The IRA distributions are not taxable and no charitable write-offs can be claimed. Taxpayers must be age 70 ½ to be eligible and are limited to \$100K annually per person. Even though RMDs are suspended for 2020, QCDs remain a valuable tax savings tool for 2020. Benefits of QCDs include:

- Double dipping – You get the benefit of taking the standard deduction while also canceling out the income from the IRA distributions. This is especially beneficial with the doubling of the standard deduction by the Tax Cuts and Jobs Act, as many taxpayers are no longer able to itemize.
- Savings on Medicare premiums – Medicare premiums are calculated based on your adjusted gross income (AGI), and since QCDs are not included in your AGI, they can help to keep the cost of your Medicare premiums down.
- Reducing tax on Social Security benefits – Your AGI is a factor in determining the taxability of your Social Security benefits, and since QCDs do not add to your AGI, they can help keep the taxable portion of your Social Security benefits down.
- Eliminating the net investment income tax (NIIT) – The NIIT is a 3.8% tax on investment income which applies to taxpayers with modified AGI greater than \$200K for single taxpayers and \$250K for joint filers. Utilizing a QCD may keep your modified AGI below these thresholds and thus eliminate any NIIT.



Carrie Christensen  
CPA, Manager

- Reducing future RMD amounts – QCDs reduce the balance in your IRA which is used to calculate future RMD amounts.

### CVDs

In addition, the CARES Act created a unique opportunity for taxpayers to borrow funds from their IRAs tax-free during 2020. Taxpayers qualifying for the coronavirus related distributions (CVDs) can withdraw up to \$100K from their IRAs and have up to three years to re-contribute the distributions and avoid income tax. Furthermore, the 10% early withdrawal penalty for taxpayers under age 59 ½ does not apply to CVDs -- even if not re-contributed over the three years. In order to qualify for a CVD, you must meet one of the following tests:

(Tax Planning with RMDs, QCDs, and CVDs continued on page 4)



(Tax Planning with RMDs, QCDs, and CVDs continued from page 3)

- You are diagnosed with Covid-19
  - Your spouse or dependent is diagnosed with Covid-19
  - You experience adverse financial consequences as a result of being quarantined, furloughed, laid off, or forced to reduce work hours due to Covid-19
  - You are unable to work because of a lack of childcare due to Covid-19 and experience adverse financial consequences as a result
  - You own or operate a business that has closed or had operating hours reduced due to Covid-19 and have experienced adverse financial consequences as a result
  - You have experienced adverse financial consequences due to other Covid-19 related factors to be specified in future IRS guidance
- Utilizing CVDs may benefit taxpayers by providing much needed cash now. CVDs can be

withdrawn from one or several IRAs and the funds don't have to be put back into the same IRA from which they were withdrawn. The three year window for repaying each CVD begins the day after withdrawal. If you choose not to contribute the funds back into your IRA, you have the option to pay the tax entirely in 2020, or you can report the income over three years. Consult your Ketel Thorstenson, LLP tax advisor to discuss your specific tax situation.

## MORE ACCURATE FILING – IRS NOW ACCEPTING ELECTRONICALLY FILED AMENDED RETURNS

*DANIELLE STOVALL, MANAGER*

Over the last 30 years, the ability to e-file returns with the Internal Revenue Service has grown substantially. However, the 1040-X, Amended US Individual Income Tax Return, has always been required to be filed with the Internal Revenue Service (IRS) on paper. On August 17, 2020, the IRS announced that taxpayers can now electronically submit their amended 1040 returns, Form 1040-X, in an exciting major milestone in tax administration.

The IRS receives over 3 million Amended US Individual Income Tax Returns annually which all had to be filed on paper until now. This decision will make it easier, faster, and most importantly more accurate to file and process amended individual returns for everyone; including: taxpayers, tax professionals and the IRS.

The IRS, along with the tax software and tax professional industry, have worked toward this goal for many years. Due to the details required on the Form 1040-X and attachments that are required, it has been a challenge to convert these returns into an electronic process. The Internal Revenue Service Advisory Council (IRSAC) and the Electronic Tax Administration Advisory Committee (ETAAC) along with the Internal Revenue Service IT and business operations teams have worked tirelessly to accomplish this task.

The process is currently only available for tax year 2019 Forms 1040, US Individual Income Tax Returns, and 1040-SR, US Tax Return for Seniors. The IRS is hoping to roll it out to more years as well. The IRS will still accept paper filing of the 1040-X if preferred.



*Danielle Stovall  
Manager*

In addition, the Where's My Amended Return online tool is available to check the status of the amended return. It is located at [irs.gov/filing/wheres-my-amended-return](https://irs.gov/filing/wheres-my-amended-return)

Ketel Thorstenson, LLP is here to help you with all your amended return questions and filings.

## GIVING FEEDBACK DURING A PANDEMIC

AMANDA DOKTER, PHR, SHRM-CP, MANAGER

Providing good consistent feedback is essential for an employee's growth and continued improvement in their career. However, as it turns out, most supervisors don't like to give feedback. It can be difficult to put the right words together to tell someone they aren't meeting our expectations and most of us don't want to hurt their feelings, or worse, have them quit because of the feedback.

Now throw a pandemic into the situation; tensions may already be high, staff are stressed, and worried about all the uncertainty in their lives. But feedback shouldn't be set aside during times like these. Even more consistent feedback will help staff feel they are being communicated with and may help them feel less overwhelmed. Feedback is always important and can provide a sense of normalcy for staff.

Here are a few tips when providing feedback.

- Look for opportunities to provide in the moment feedback. Don't wait until your annual review to address

an issue of not meeting expectations or to let someone know they are doing a great job, do it right away.

- Focus on the behavior not the individual. Don't make assumptions about the staff member and why these behaviors are happening. Have a conversation about the behavior versus lecturing them about what isn't being done correctly.

- Provide specifics. This works for both constructive and positive feedback. If I don't know what I did well, I don't know what to continue. Likewise, if I don't know what I didn't do well, I don't know what to change.

- If you are limiting your in-person interactions with co-workers, don't rely solely on email, pick up the phone or, even better, schedule a virtual meeting. These more personal interactions will help staff feel connected and valued.

- If you have staff working from home, schedule a regular virtual "touch-base" meeting



Amanda Dokter  
PHR, SHRM-CP, Manager

in order to stay connected. During these meetings provide feedback and let the employee know how they are doing.

- Remember to have some compassion. Your employees are trying to navigate the new way of doing things and may need a little more assistance or time to get things right. This doesn't mean you need to throw your expectations out the window; instead let the employee know what your expectations are and then help them figure out the best way to achieve it.

### GOT QUESTIONS ON THE NEW PAYROLL TAX LAWS?

Are you wondering...

- Should you defer your employee's social security tax?
- Need help calculating FFCRA and CARES Act credits?
- How do you take those FFCRA and CARES Act credits?
- Do you need to amend to take credits for 2nd quarter?

**KTLLP has answers! Call us today.**



**Join the  
conversation  
online.**

## KT News

### Congratulations to our GREAT TEAM.

#### — PROMOTIONS —



**Sarah Davis, CPA**  
Senior Manager,  
Accounting Services  
Department



**Joei Tieman, CPA**  
Manager,  
Tax Department



**Kendra Finnell**  
Senior Associate,  
Tax Department



**Brendan Walker**  
Senior Associate,  
Audit Department



**Elijah Houchens**  
Senior Associate,  
Audit Department



**Bethany Roscamp**  
Senior Associate,  
Audit Department

#### — AWARDS —



Congrats to our own Wes Hanson on his award from the South Dakota CPA Society! He received one of the highest cumulative scores on the four sections of the Uniform CPA Examination.

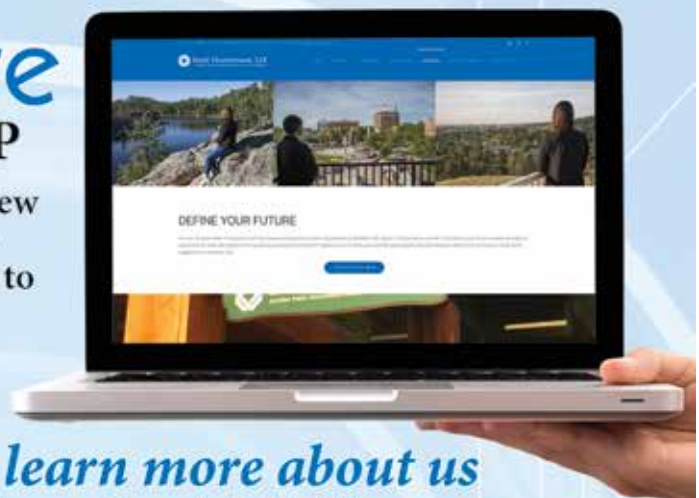
(Pictured with KTLLP Partner and CFO Steve Schacht)

## Define **YOUR** Future at Ketel Thorstenson, LLP

We are currently looking to grow by adding new and experienced staff who are dedicated to providing the best public accounting services to our clients and communities.

### Currently looking for:

- Bookkeepers
- Payroll Specialists
- Tax Preparers
- Interns
- Auditors



*To learn more about us  
and apply visit [ktllp.com](http://ktllp.com)*



## KT News

We can't do what we do without the help of a GREAT TEAM.

### — NEW HIRES —



*Hannah Sheffield  
Associate,  
Audit Department*



*Chris Jansen  
Associate,  
Audit Department*



*Breanna Regier  
Associate,  
Audit Department*



*Tina Whipple  
Administrative  
Assistant*



*Deb Bisgaard  
Associate,  
Tax Department*



*Alex Hempe  
Associate,  
Tax Department*



*Jake Titus, CPA  
Associate,  
Audit Department*

### — LICENSED CPA IN SD —



*Jesse Jangula, CPA  
Associate,  
Tax Department*



*Nick Michael, CPA  
Associate,  
Audit Department*



*Jake Titus, CPA  
Associate,  
Audit Department*

### — PASSED EXAMS —

*CPA Exam*

*EA Exam*



*Brendan Walker  
Senior Associate,  
Audit Department*



*Shannon Fischer  
Associate  
Tax Department*

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*The partners of  
Ketel Thorstenson, LLP*



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conversation  
online.**



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