

THE CURCHIN GROUP

Newsletter

Winter 2020

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New Jersey Pass-Through Business Alternative Income Tax Act

By Peter Pfister, CPA and Tax Partner

Legislation was passed on January 13, 2020 establishing a business alternative income tax (BAIT).

How Does It Work

Starting in 2020, pass-through entities may elect to pay a BAIT. Paying the tax is an annual election. The tax is based on each member's share of distributive proceeds. Distributive proceeds mean "net income, dividends, royalties, interest, rents, guaranteed payments and gains of a pass-through entity derived or connected with sources within New Jersey."

Individuals, estates and trusts receive a credit against their gross income tax equal to the member's tax on the share of distributive proceeds paid by the pass-through entity.

Qualifying Entities

Pass-through entities allowed to elect:

- Partnerships
- Federal S corporations that have made the New Jersey S corporation election
- Limited Liability Companies (LLC)

Single member LLCs and sole-proprietorships do not qualify to make the election.

Making the Election

The election is made **each year** by all owners of the pass-through entity or by an officer/member who is designated under the entity's organizational documents with authority to make the election for all members. The election is made on or before the original due date of the entity's return. When it becomes available Form PTE-100 must be used to file the election and pay the tax. Form PTE-200-T will be used to apply for a six-month extension of time to file Form PTE-100. All tax is due by the due date of the entity return (calendar years March 15th). Extension requests will be granted as long as the entity has 80% of its current year tax paid. There is no extension of time to pay the tax. It is presumed at this

time that if 80% of the tax is not paid by the due date, the extension would be denied and additional penalties and interest would apply to late payments.

An election can be revoked. It can only be revoked prior to the due date of the entity's return. An election cannot be retroactive.

An election would not be needed in the year the entity reports a net loss.

Fiscal year entities make the election for their taxable years beginning after January 1, 2020.

Estimated Payments

Estimated payments must be made electronically on a quarterly basis. Payment dates are the same as other calendar year estimated payment due dates; April 15, June 15, September 15 and January 15 of the following year. For 2020 only, no estimated tax penalty will be assessed. This means that for 2020 only, an entity can delay its payment until March 15, 2021 without penalty. In 2021, the entity would begin making estimated payments when due. There were and has been issues with the state website for making payments. The payment site is currently active.

Tax Rates

The tax is imposed at the following rates:

- | | |
|------------------------------|--------|
| • Up to \$250,000 | 5.675% |
| • \$250,001 to \$1,000,000 | 6.52% |
| • \$1,000,000 to \$5,000,000 | 9.12% |
| • Over \$5,000,000 | 10.9% |

The tax is calculated on every member's share including corporations, estates, trusts and non-profit entities.

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**Article continuation: New Jersey
Pass-Through Business Alternative
Income Tax Act**

By Peter Pfister, CPA and Tax Partner

Other Items

As of this writing all forms to be used are not yet available.

Corporations will receive a credit against their tax and surtax but not against the annual minimum tax assessment. Any excess credit can be carried forward up to 20 years.

If an election is timely revoked all estimated payments will be refunded by filing the Revocation and Claim for Refund form.

Estimated payments made for the business alternative income tax cannot be transferred against any other New Jersey tax.

An exempt organization can claim a refund for the tax paid by the pass-through entity.

Non-residents included are still obligated to file a New Jersey non-resident return if they meet the Gross Income Threshold.

Most important is the tax was created in order to obtain a Federal deduction for the NJ income tax on the pass-through entity income.

“... main item of discussion has been the timing ...”

UPDATE

One main item of discussion has been the timing of when an entity is entitled to the deduction for any tax payment.

According to IRS Notice 2020-75, Section 3 (2) “If a partnership or an S Corporation makes a Specified Income Tax Payment during a taxable year, the partnership or S Corporation is allowed a deduction for the Specified Income Tax Payment in computing taxable income for the taxable year in which the payment is made.”

Based on this information, clients considering electing and paying the BAIT tax for the 2020 tax year should make the election and make any payments by December 31, 2020 in order to get the IRS deduction in tax year 2020. Payments in 2021 related to the 2020 tax year are a deduction in 2021, however, the payments are reported as “credits” (in the same form as an estimated payment) on the 2020 NJ individual returns.

Please contact our office for more information.

2021 Economic Outlook for the Construction Industry: 6 Key Points

The Curchin Group's construction accounting team recently attended a live webcast led by renowned economist Anirban Basu. The December 11 presentation, titled, "Return of the Economist: Emerging from COVID-19 Economic Update," took both a look back and a look forward, providing many positive takeaways for architecture, engineering and construction (AEC) firms.

1. Spared the Brunt

From November 2019 through November 2020, unemployment numbers in the construction industry were better than in other sectors. While the industry lost 179,000 jobs nationally, it was in the lowest percentile for job losses compared to others. The leisure and hospitality industry, as we all would guess and lament, was hit the hardest, with over 3.3 million job losses during the same period.

2. Importance of the Pipeline

Construction business owners are constantly working to secure new business for the quarters and years ahead. In 2020, those efforts proved pivotal. Backlogs of projects reduced idle capacity and bolstered employment. Meanwhile, the industry's standing as "essential" helped to keep contractors working on those projects, even during some of the strictest lockdowns.

3. Home Building Hot

Home construction has remained strong, thanks to low interest rates and increased home values. The combination of stay-at-home mandates and fear of exposure also created a new sense of appreciation for the single-family home. A leading indicator, the Architecture Billings Index, sees the profession's billable hours climbing and capacity filling, representing a sustained surge of new home building.

4. Eyeing Infrastructure

A major national infrastructure bill seems likely in the first half of 2021. Both political parties have stated the need to spend more on America's ports, highways, bridges, airports and rail facilities. Additionally, infrastructure projects will be seen as symbols of economic recovery and investments in the future, further encouraging increased spending and aggressive construction timelines.

5. Building Muscle

Positive impacts from the pandemic in areas such as e-commerce and telemedicine highlighted the importance of America's manufacturing capacity and the vulnerability that lies in moving manufacturing jobs offshore. Global supply chain disruptions and surging national debt also showed the value in manufacturing domestically.

6. What You Want to Hear

The road to rebuilding the economy was a discouraging topic at the onset of the pandemic, with many experts suggesting it may take years or even decades to reach pre-pandemic prosperity. Now, the tide is turning toward optimism and—with vaccine distribution underway—even excitement.

Basu, who serves as chief economic adviser to the Construction Financial Management Association, has an especially uplifting prediction. "The second half of 2021 will be spectacular in terms of economic growth," he said.

For more information and resources to help guide your AEC firm into the future, [connect with Curchin's construction accounting team](#).

Featured Employee:



CAROL COHEN, EA TAX SUPERVISOR

With over ten years' experience, Carol joined the Curchin Group in 2016 and is currently a tax supervisor. She assists a diverse range of clients from professional and service corporations to individual clients, concentrating on small businesses, closely held companies and family-owned businesses. Carol specializes in income tax planning and preparation as well as management advisory services and bookkeeping and payroll solutions.

Carol became an IRS Enrolled Agent in early 2016 and holds a B.S. in Accounting from CUNY College of Staten Island. She currently sits on the board of the Eastern Monmouth Area Chamber of Commerce Educational Foundation. Carol values the family-like atmosphere at Curchin as well as the close, long-term relationships established with clients as well as fellow staff. She is a proud mom of a rambunctious toddler and a loving wife. In her spare time, she enjoys being with her niece and nephews and attending Broadway productions.

IRS Provides Guidance on a Special Tax Deduction for Cash Donations to Charities in 2020

In the latest post on [A Closer Look](#), Tax Exempt and Government Entities Commissioner Edward Killen reminds taxpayers there's a special deduction for cash donations of up to \$300 to a qualified charity in 2020. This \$300 deduction is designed for taxpayers who take the standard deduction and aren't normally able to deduct their donations.

Before making a donation, use the Tax Exempt Organization Search (TEOS) tool on [IRS.gov/TEOS](https://www.irs.gov/TEOS) to make sure the charitable organization is eligible for tax-deductible donations.

The post also includes several other important reminders for taxpayers and charities, along with information and links to other temporary provisions of the relief provided in the CARES Act.



Firm News

2020 CHARITABLE SPOTLIGHTS

In lieu of this year's Curchin Open, we've digitized the event's core purpose: supporting nonprofits in our community. For those of who aren't aware, we've decided to spotlight some of the charities that have benefitted from past Curchin Open outings— so far we have worked with a number of wonderful organizations to promote their organizations' mission and current needs from the community. Click here to learn more about our efforts and to join us in offering support to those in need.

THE CURCHIN GROUP IS A 2021 SPINNAKER HONOREE

The Eastern Monmouth Area Chamber of Commerce (EMACC) has announced the honorees for their 29th Annual Spinnaker Awards, which honors those businesses and individuals who give of themselves to make life better for everyone in eastern Monmouth County. The Curchin Group is being honored for "Serving Monmouth County for Over 50 Years" and is being celebrated for finding the key to success in remaining a solid business for over 50 years. The awards are being held on April 28, 2021 at Branches Catering in West Long Branch. To learn more, visit emacc.org.

OFFICE UPDATE

Tax Season Update

As we move into 2021 and the 2020 tax filing season, we want to update you on the current meeting protocols and tax preparation practices and procedures we will be using to safeguard you and our staff. Some things will be unchanged, business as usual. Our tax organizers will be mailed to you as usual by mid-January to assist you in gathering your tax information. We will also use a mid-March deadline for information receipt in our office. Information arriving to us after that date may require the filing of an extension. This allows us to complete the returns that arrived earlier in an orderly fashion and refocus on returns received later in a more efficient fashion.

One big change from prior years is that we will **NOT** be hosting in-office client appointments as a result of the on-going Coronavirus pandemic. This precaution is necessary for your safety and ours. We will be available for telephone or video conference meetings at your request. To improve the efficiency of these meetings, we ask that you provide us with your information ahead of the meeting. We have found that this makes the best use of your meeting time. However, calls may be done at any point in the tax return process. **Please call the office to schedule a video or telephone appointment so that we may set aside time specifically for you.**

We are offering several secure options for you to provide your personal tax information to us this year:

1. Drop off to our office using the secure lockbox located outside our office door;
2. Mail to the office via the U.S. postal service, UPS or Federal Express; or
3. E-mail to us via our secure, encrypted Share-File portal system (please e-mail or call us to set this up if you have not already done so).

Please select the option that will work best for you. If you need further assistance regarding getting your information to us, please feel free to contact our administrative staff and they will guide you through the process.