



Consolidated Appropriations Act of 2021 (aka "COVID Stimulus 2.0") What Physicians & Dentists Need to Know

After nearly 6 months of anticipation, Congress passed a second round of COVID stimulus on December 21, 2020 which President Trump signed into law on December 27, 2020.

Below we will lay out the high-level provisions of the newest stimulus that may impact physicians & dentists. A few provisions may affect the employed physician, but the most impact among physicians will be for those private practice and solo practice doctors, especially those who secured PPP loans during 2020.

Highlights for the Individual Physician

Stimulus Checks

A new round of "stimulus checks" will be sent out as a result of this legislation. Each qualifying individual can receive up to \$600. Based on looking through all the mechanics of how this works, a family of 4-5 will be phased out completely if they make over \$200k of income (based on your 2019 tax return). So just like the first round of checks in the spring, most every physician household will eclipse the income threshold and will not receive a stimulus check.

Since this is based on 2019, if you finished residency or fellowship in 2019 and your total income for the year fell below the phase out for your family size, you may receive a stimulus check. They will not ask for that back when you file your 2020 taxes and report that you actually made over the limit to have received the check, so you'll get a little bonus from the government if that's your situation!

Flex Spending Rollovers

With so many summer camps cancelled, many physician families are finding themselves in the position where they were not able to spend all of their FSA funds during 2020. Section 214 of the Taxpayer Certainty & Disaster Relief Act of 2021 allows employers to let employees rollover any unused 2020 balances for Medical FSAs or Dependent Care FSAs into 2021. It also allows funds left over in 2021 to be rolled to 2022. The Act also allows FSA plans to allow participants to change their contribution levels during the year (normally an election made during open enrollment is "set" for the year). **Note that it is up to each individual employer whether they want to make these provisions available to their employees, so you will have to inquire with your HR to see how your plan is accommodating.**

Meals & Entertainment Deduction

This one may apply to any physician with some 1099 income (side hustle, expert witness, pharmaceutical consulting, etc). Currently, only 50% of what you spend on business meals and entertainment is tax-deductible. For 2021 and 2022, these expenses will be 100% deductible! So as you support the restaurant industry in its recovery, Uncle Sam will give you an extra break on that.

Charitable Giving Deduction

For those physicians who do not itemize tax deductions (namely those who do not have a mortgage), you will have the opportunity to deduct up to \$300 if single and \$600 if married of charitable contributions. For those



who itemize, you are again in 2021 allowed to give away up to 100% of your income and deduct it (normally this is limited to 60%). This must be to a charity directly, not to a Donor Advised Fund.

Deferred Payroll Taxes Can be Paid Throughout 2021

President Trump signed an executive order in August 2020 that allowed employees to defer their portion of Social Security tax from September 1 – December 31 to temporarily increase their take home pay. They would then have to pay that back by April 30, 2021. Most employers did not take advantage of this opportunity (it was logistically challenging to implement), but all of our military and VA physicians saw this payroll tax deferral happen automatically. These physicians will now have this deferred tax broken up through all 26 pay periods of 2021 rather than front loaded into the first three months as originally planned.

Exclusion for Employer Payment of Student Loans

If you receive funds from your employer to make student loan payments, or if they pay your loan servicer directly, up to \$5,250/year can be excluded from income (aka received tax-free!) through 2025.

What WAS NOT Included

You will notice that there is no mention here of further student loan payment relief or waiver of RMDs for 2021. Both were major parts of the initial COVID stimulus, but were not extended with this second round. As far as we know now, RMDs will need to be taken as required in 2021, and federal student loan forbearance will end on January 31, 2021.

Highlights for the Practice Owner

Enhancements to the Paycheck Protection Program (PPP)

Expenses Paid with PPP Funds ARE Tax Deductible

This is BIG news and welcome relief for medical & dental practice owners! The initial stimulus provisions specifically stated that PPP funds would not be taxable when forgiven, however, you were not allowed to take a tax deduction for expenses paid for with PPP funds (which would have been tax deductible if not for the PPP!) This new Act fixes this issue by stating that you can take deductions for any otherwise deductible expenses. So these funds are now truly tax free.

For practice owners in the 37% tax bracket, every \$100k in PPP funds that are forgiven is now essentially \$37k less of taxes owed! We advise speaking with your accountant ASAP before making your January quarterly payment as your payment amount may need adjusted!

More Funds Available

For those who did not initially apply for a PPP loan but now find they need one, financing will be available to apply now. You can qualify for a loan amount up to 2.5X your average monthly payroll of the last year, and you can use the proceeds for payroll (a minimum of 60% of funds must be used on payroll), utilities, rent, and mortgage payments. You do have to attest that uncertainty due to COVID-19 necessitates these loan proceeds.

For those who received a loan under the original PPP program but find themselves needing additional funds, there is a "second round" option now. This does have more stringent requirements than the first round. To



qualify, you must have received and spent your initial PPP loan. Your practice must have experienced a drop in revenue of more than 25% in any quarter in 2020 as compared to the same quarter in 2019. If you meet these requirements, you may be eligible to receive a loan up to 2.5X your average monthly payroll cost (up to \$2 million).

Additional Expenses Qualify for Forgiveness

For both original PPP funds that have not been used yet, or for round two funds, they have added new categories of forgivable expenses. Remember, you can only spend 40% of your forgivable PPP funds on non-payroll expenses.

- Covered Operations Expenditures- Software and services for payroll, operations, sales/billing or accounting
- Covered Property Damage Costs- expenses related to property damage or looting due to public disturbances not covered by insurance
- Covered Supplier Costs- Payment to a supplier for goods based on a contract/order prior to covered period of your PPP loan
- Covered Worker Protection Expenditures- Operating or capital expenses related to complying with OSHA, CDC or Dept. of Health & Human Services. (think PPE, office updates, etc.)

Flexibility of "Covered Period"

The covered period of a PPP loan is the period of time during which your expenses can be used in the calculation of how much of your PPP loan is forgivable. Originally the CARES Act said this was 8 weeks, but further legislation in June extended this to 24 weeks. Now, any PPP borrowers get to choose whether they want an 8 week or 24 week covered period.

We recommend talking this decision through with your financial and legal advisors as it relates to timing of furloughing, firing, or rehiring employees. It could have a direct impact on tax credits you receive so professional guidance is of utmost importance here!

Employee Retention Credit

The initial stimulus package authorized this credit for 2020, and this new stimulus extends eligibility through the first half of 2021 and expands the deduction available! You can now take the credit on wages up to \$10k/quarter per employee and the credit rate is increased to 70%. This means you can get a refundable payroll tax credit of up to \$7k per quarter per employee! The 2021 credit is available to you if you had a 20% reduction in quarterly revenues (and your choice whether you compare to same quarter last year or the immediately preceding quarter).

Because every physician's tax situation is different, you will need to speak with your advisor and accountant to discuss what actions may be prudent for you.

Need an advisor with physician expertise on your team?

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(877) 669-1126 | hello@vestiaadvisors.com | www.vestiaadvisors.com

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