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MOSSADAMS

CFMA Puget Sound Chapter Tax Update & Cybersecurity Threats

Phil Knudson
Jeff Krippaehne
January 13, 2020



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Agenda

President Elect Joe Biden's Tax Plan

Consolidated Appropriations Act, 2021 (12/27/20)

- PPP Loan Revisions and Round 2
- Paid Sick and Family Leave Credit Extension
- Employee Retention Credit
- Miscellaneous Business Provisions
- Miscellaneous Individual Tax Provisions

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Business – *Not Inclusive*

	CURRENT LAW	JOE BIDEN
CORPORATE TAX RATE	21%	<ul style="list-style-type: none"> • 28% corporate tax rate. • For corporations reporting more than \$100 million of annual book income, enact a 15% "minimum tax" on book profits, reduced by any foreign taxes paid or loss carryovers allowed.
QUALIFIED BUSINESS INCOME (QBI) DEDUCTION	Taxpayers other than C corporations are allowed a 20% deduction of QBI from pass-through entities or qualified real estate investment trust (REIT) income, with some limitations. Set to expire December 31, 2025.	Phase out the deduction for taxpayers earning more than \$400,000.
ACCELERATED BONUS DEPRECIATION	100% bonus for eligible property through 2022 with phase out starting in 2023.	No specific plan announced, but generally supports reversing 2017 TCJA provisions that benefit corporations.

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Business – *Not Inclusive* (continued)

	CURRENT LAW	JOE BIDEN
COMMUNITY DEVELOPMENT	New markets tax credit (NMTC) is available for taxpayers who hold a qualified equity investment in low-income communities. The NMTC limitation for 2020 is \$5 billion. No allocation for after 2020.	Expand and make the NMTC program permanent.
FOSSIL FUELS AND RENEWABLE ENERGY	Several deductions exist for businesses that invest in fossil fuels, including a deduction for intangible drilling costs paid or incurred by operators of oil and gas wells and a deduction for the depletion of minerals and oil and gas extraction.	<ul style="list-style-type: none"> End fossil fuel subsidies. Reinstate or expand various tax credits designed to reduce carbon emissions, such as deductions for emissions-reducing investments in residential and commercial buildings, the solar investment tax credit, and credits for the purchase of electric vehicles.
REAL ESTATE	<ul style="list-style-type: none"> Taxes on gains of real property are deferred if the property exchanged is "like-kind." Owners of certain residential property occupied by low-income tenants may claim a tax credit that's a percentage of the qualified basis of the property over a 10-year period. 	<ul style="list-style-type: none"> Remove like-kind exchange deferral. Expand the low-income housing tax credit. Create \$15,000 tax credit for first-time home buyers. Create renter's tax credit to help low-income families.

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Individuals – *Not Inclusive*

	CURRENT LAW	JOE BIDEN
INDIVIDUAL TAX RATE	Top rate is 37%, expiring after 2025.	Raise top marginal tax rate to pre-TCJA rate of 39.6% for income over \$400,000.
CAPITAL GAIN RATE	Top rate is 20%. Additionally, 3.8% net investment income tax (NIIT) for income over \$200,000 (single) and \$250,000 (married filing jointly).	Remove preferential rate for capital gains and qualified dividends for taxpayers with income over \$1 million by taxing them at ordinary rates. Would retain 3.8% NIIT.
DEDUCTIONS	Standard deduction for married filing jointly is \$24,800, expiring after 2025. Itemized deduction for state and local taxes is capped at \$10,000. TCJA suspended the personal exemption and most itemized deductions through 2025.	Would limit itemized deductions at 28% of value for taxpayers in a marginal tax bracket that exceeds 28% and restore overall itemized deduction limitation, also known as the Pease limitation. Generally supports eliminating the cap on the state and local tax deduction.
ESTATE TAXES	For 2020, estate and gift tax exemption is \$11.58 million. This is scheduled to revert to a pre-TCJA indexed amount of \$5 million (indexed for inflation) after 2025. Transfers of appreciated property at death get a stepped-up basis.	<ul style="list-style-type: none"> Eliminate step-up basis on assets inherited at death. Indicated preference to reduce the estate and gift exemption and increase the tax rate.

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COVID-Related Tax Relief

Families First Coronavirus Response Act	CARES Act	Consolidated Appropriations Act, 2021
<ul style="list-style-type: none"> • <i>March 2020</i> • Paid sick leave and family leave credits 	<ul style="list-style-type: none"> • <i>March 2020</i> • PPP, NOL carryback, employee retention credit, and more 	<ul style="list-style-type: none"> • <i>December 2020</i> • Expansion, extension, and clarification of select CARES Act provisions • Tax extenders

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Paycheck Protection Program (PPP)

The Act provides that expenses forgiven under the PPP may be deducted against taxable income

- Overrides prior IRS guidance for deductibility of expenses
- Tax basis and other attributes of the borrower's assets are not reduced as a result of the loan forgiveness

Clarifies that forgiveness of certain CARES Act loans, emergency Economic Injury Disaster Loan grants, and certain loan repayment assistance is excluded from taxable income

- Also aligns with the deductibility of expenses for PPP loans

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Paycheck Protection Program (PPP) – Round 2

PPP will reopen and become available through March 31, 2021.

For borrowers who have not yet received forgiveness- 4 new types of expenses are eligible non-payroll uses of PPP funds and eligible for up to 40% of total forgiveness:

- CERTAIN OPERATING COSTS (SOFTWARE, CLOUD COMPUTING)
- PUBLIC DISTURBANCE RELATED PROPERTY DAMAGE NOT COVERED BY INSURANCE
- COVERED SUPPLIER COSTS
- COVERED WORKER PROTECTION COSTS

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Paycheck Protection Program (PPP) – Round 2

- Borrowers can choose any covered period beginning on the date a borrow receives the loan and ending on the date selected by the borrower during the 8-24 weeks after loan origination.
- Streamlined forgiveness for borrowers with loans under \$150K

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Paycheck Protection Program (PPP) – Round 2

A second draw of forgivable PPP loans of not more than \$2M will be available for those that have fully extinguished their round one proceeds.

- Must have fewer than 300 employees
- Must have 25% drop in gross receipts during a quarter in 2020 relative to the same quarter in 2019
- Usage of proceeds will follow the same protocol as Round 1 loans
- Loans will be equal to the lesser of 2.5 times the average monthly payroll costs for the one-year period before the loan is made or calendar year 2019, or \$2M
- No longer be reduced by EIDL Grant Received

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State Tax Conformity?

States may not permit deductibility of PPP-funded expenses – ***Need to be prepared***

Need to consider how the state conforms to the Internal Revenue Code and any state-specific guidance



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Families First Coronavirus Response Act (FFCRA)

Paid Sick and Family Leave credits were extended from December 31, 2020, to March 31, 2021.

- Covered employers ***may voluntarily*** provide this leave to eligible employees through March 31st.
- Reminder - Applies to private employers with up to 499 employees
- CAA does not restart the clock on FFCRA leave – therefore, employers cannot claim the tax credit for providing additional leave to employees who already exhausted their FFCRA leave entitlements in 2020

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Employee Retention Tax Credit (ERTC)

The Act clarifies, expands, and extends the employee retention tax credit (ERTC) enacted by the CARES Act

- Six-month extension to the ERTC, allowing qualified employers to claim the credit through June 30, 2021
- Enhancements for qualifying employers beginning January 1, 2021, not retroactive to 2020
- New employers not in existence for all or part of 2019 may claim the credit

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ERTC Eligibility & Changes

2020 Qualification Guidelines March 13–December 31	2021 Qualification Guidelines January 1–June 30
Who is Eligible Employers whose business was fully or partially suspended due to emergency orders from an appropriate government authority that limited commerce, travel, or group meetings Employers who had at least a 50% reduction in gross receipts for the current calendar quarter as compared to the same calendar quarter in 2019	Employers whose business was fully or partially suspended due to emergency orders from an appropriate government authority that limited commerce, travel, or group meetings. Employers who had at least a 20% reduction in gross receipts for the current calendar quarter as compared to the same calendar quarter in 2019
Employee Threshold for Determining Qualified Wages For employers with under 100 full-time employees, measured as average employment in 2019, the credit applies to wages paid to all employees For employers with more than 100 full-time employees, the credit only applies to wages paid to employees during the time they weren't providing services	For employers with under 500 full-time employees, measured by the number of reported employees on the most recently filed quarterly IRS Form 941, the credit applies to wages paid to all employees For employers with more than 500 full-time employees, the credit only applies to wages paid to employees during the time they weren't providing services.
Calculating the Credit The credit is equal to 50% of wages paid to an employee after March 12, 2020, in each qualifying calendar quarter, up to a total of \$10,000 for all quarters, per employee. The credit may be worth up to \$5,000 per eligible employee Qualified wages, for purposes of this program, include qualified health plan expenses incurred by the employer	The credit is equal to 70% of wages paid to an employee after December 31, 2020, in each qualifying calendar quarter, up to a total of \$10,000 per quarter, per employee. The credit may be worth up to \$14,000 per eligible employee Qualified wages, for purposes of this program, include qualified health plan expenses incurred by the employer

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PPP Recipients Now Eligible for ERTC

Under the CARES Act, any business who received a PPP loan was automatically ineligible for the ERTC

The Act retroactively waives the restriction to allow PPP loan recipients to also claim the ERTC on eligible wages back to March 13, 2020



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Claiming The Credit

The credit is claimed on an employer's original Form 941

- The Form 720 is not required, but may be used to claim the credit for a current quarter's qualified wages in advance of filing the current quarter's 941

Employers who did not claim the ERTC on their original Form 941 may amend using the Form 941-X

Statute of limitations for filing the Form 941-X is 3 years from the date the original return was file or 2 years from the date the taxes were paid

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No Double Benefits

The same wages cannot be used to calculate any of the following employment tax credits:

- Work Opportunity Tax Credit
- Paid Sick & Family Leave Credit
- Paid Family & Medical Leave Credit
- Disaster Employee Retention Credit

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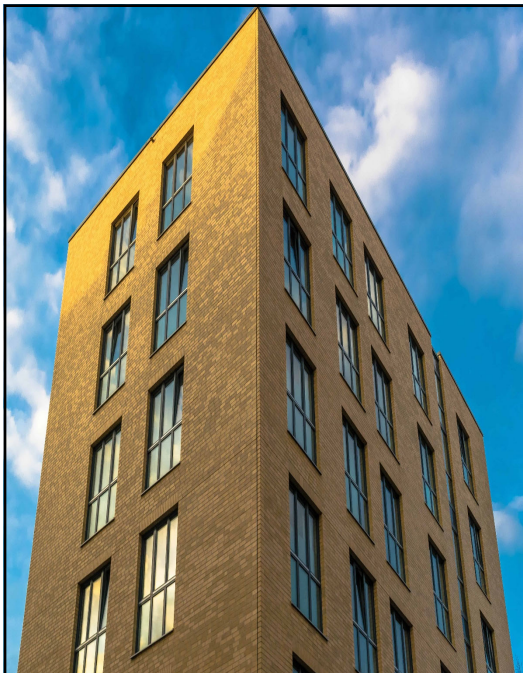
Additional COVID-related Tax Relief – Not Inclusive

- Business meals provided by a restaurant are 100% deductible if paid or incurred in 2021 or 2022
- Depreciation of pre-2018 residential rental property over 30-year period for taxpayers that made Section 163(j) real property elections
- Employee portion of deferred payroll taxes due December 31, 2021 (was April 30, 2021) (relates to payroll taxes deferred under August 2020 Executive Order)

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Section 179D Deduction – Made permanent

Section 179D energy efficient commercial building deduction, with some prospective modifications



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Tax Provisions Extended Through 2025 – Not Inclusive

- Work opportunity tax credit (WOTC)
- New markets tax credit
- Employer tax credit for paid family and medical leave enacted as part of Families First Coronavirus Response Act
- Exclusion for certain employer payments of student loans enacted as part of CARES Act
- Employer tax credit for paid family and medical leave enacted as part of TCJA

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Tax Relief for Individuals

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“Recovery Rebates”

Additional \$600 tax credit (paid in advance) for each qualifying individual (\$1,200 for married couples)

- Additional \$600 tax credit for each dependent child (generally, those under age 17)
- Payment will be made based upon 2019 filing information
- Represents an advance on a tax credit that will be reconciled on the 2020 tax filing

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Credit Phase Out

The credit is phased out by 5% for every dollar over AGI threshold

- Single - \$75,000
- Married Filing Jointly - \$150,000
- Head of Household - \$112,500

Examples:

Taxpayer	# of Children	Credit Phased-out if AGI Exceeds:
Single Taxpayer	0	\$99,000
Single Taxpayer	1	\$109,000
MFJ Taxpayer	0	\$198,000
MFJ Taxpayer	2	\$218,000
HOH Taxpayer	1	\$146,500
HOH Taxpayer	2	\$156,500

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Additional Tax Relief

Expanded charitable contributions deduction extended through 2021 for:

- \$300 above the line deduction for non-itemizers (for 2021, married filing jointly may take up to \$600)
- Increased deduction limitation of 100% of AGI for cash contributions

For 2020 tax year, taxpayers may use 2019 income to determine eligibility for the child tax credit and earned income tax credit

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Additional Tax Relief

- Personal protective equipment (PPE) used for the prevention of the spread of COVID-19 is an eligible expense for purposes of the educator expense deduction (up to \$250), retroactive to March 12, 2020
- Health and dependent care flexible spending accounts unused balances at the end of 2020 may be rolled into 2021 (and from 2021 to 2022), rather than lost under “use-it-or-lose-it” rule

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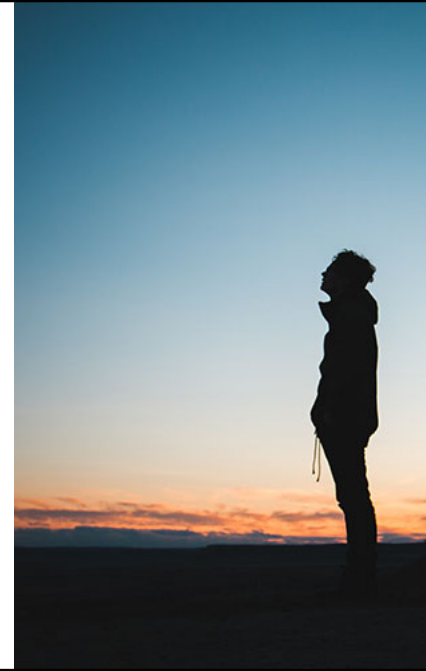
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Tax Extenders — *Not inclusive*

Provisions made permanent:

- Reduction in medical expense deduction floor, from 10% to 7.5% of AGI
- Repeal of qualified tuition deduction and increased income limitation for lifetime learning credit

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Tax Extenders

Exclusion from gross income for a discharge of qualified principal residence indebtedness, though amount maximum excluded is reduced from \$2 million to \$750,000 (through 2025)

Extension and phaseout of energy credit (through 2023)

Treatment of mortgage insurance premiums as qualified residence interest (through 2021)

Credit for health insurance costs of eligible individuals (through 2021)

2-wheeled plug-in electric vehicle credit (through 2021)

Energy efficient homes credit (through 2021)

Extension of residential energy-efficient property credit and inclusion of biomass fuel property expenditures (through 2023, with credit reduction after 2022)

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State & Local Tax

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Seattle Payroll Tax

- Applies to businesses with Seattle annual payroll expense of at least \$7M.
- Compensation includes: Salary, Wages, Bonuses, Commissions, Equity Compensation, Severance Payments.
- For owners of a pass-through entity, compensation includes guaranteed payments for services rendered, or work performed, and net distributions.
- Compensation doesn't include payments to a pass-through entity owner that aren't earned for services rendered, including return of capital, investment income, or other income from passive activities.

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Seattle Payroll Tax

- In the first year of compliance, the tax for 2021 will be paid in one annual installment due January 31, 2022.
- The applicable tax rate is on a sliding scale from 0.7% to 2.4%, depending on the person's annual Seattle payroll expense and the level of compensation of the company's employees

EMPLOYEE SALARIES	ANNUAL SEATTLE PAYROLL EXPENSE (ASPE)		
	\$7M ≤ ASPE < \$100M	\$100M ≤ ASPE < \$1B	ASPE ≥ \$1B
≥ \$150K, < \$400K	0.7%	0.7%	1.4%
≥ \$400K	1.7%	1.9%	2.4%

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Washington Capital Gains Tax

- Governor Inslee proposing capital gains tax on sale of stocks, bonds, and other assets
- Tax rate would be 9% to capital gains in excess of \$25K/\$50K for individuals/joint filers
- Only applies to long-term capital gains reported for federal income tax purposes
- Exempt income includes: retirement accounts, homes, farms, and forestry
- Does not apply to C-Corporations

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Considerations



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Navigating the Future

Post-election control by Democrats of House, Senate and Presidency could make tax changes more likely

Consider benefits of new relief provisions but be cautious about restrictions placed with certain options

Cash-flow planning opportunities, immediate and down the line

With retroactive tax provisions, consider broader implications on prior reporting and IRS guidance may be needed for certain items

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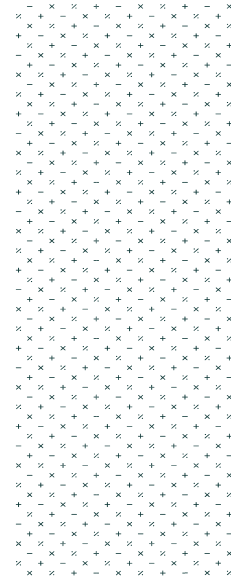
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CFMA Puget Sound Chapter 2021 Cybersecurity Threats

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January 12, 2021



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Agenda

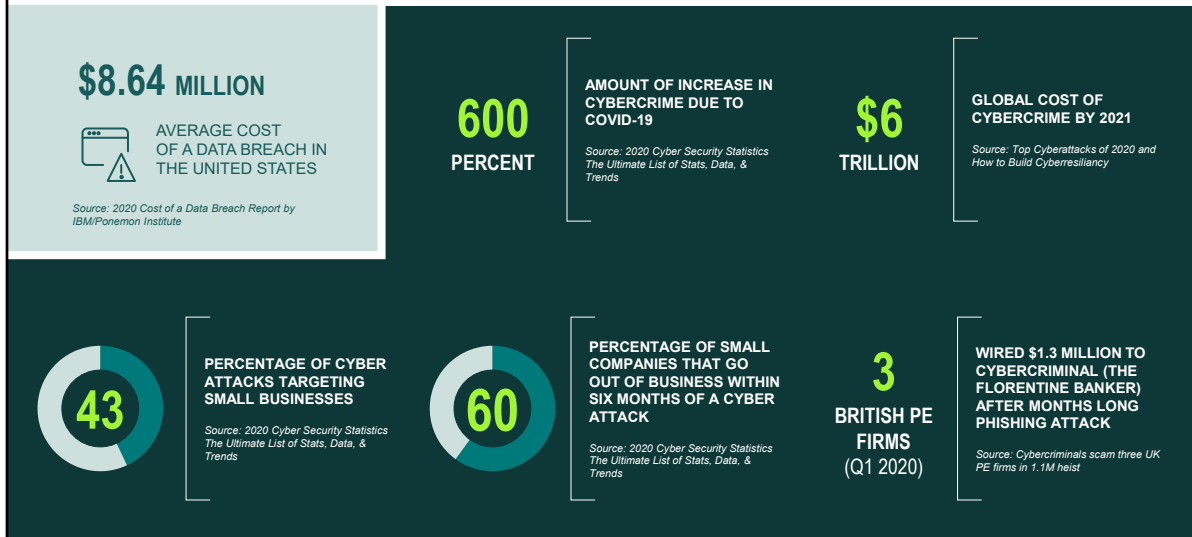
- The State of Cybersecurity
- Cyber Adversaries
- Lifecycle of a Data Breach
- Top Cyber Threats
 - Social Engineering (Phishing)
 - Malware and Ransomware
 - Third-Party Threats
 - Internet of Things
- Summary

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The State of Cybersecurity



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Cyber Adversaries and Their Motivation

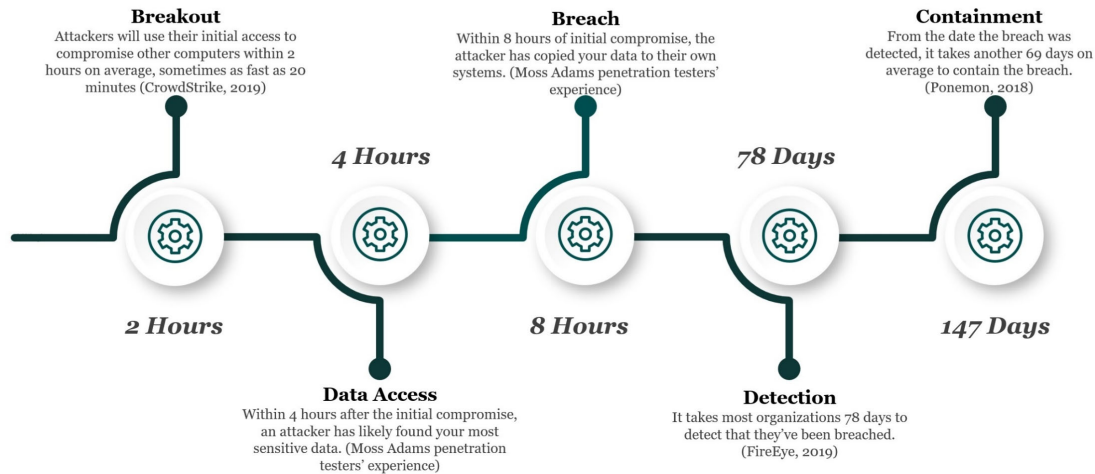
Adversary	Motive
Malicious Insider	Disgruntled, troubled or just greedy insiders. This is a targeted attack motivated by financial gain or grievance.
Inadvertent Insider	Sometimes people just make mistakes or fall victim to common social engineering tactics, such as phishing, vendor spoofing, or pretexting.
Hacker	Opportunistic and typically gets a thrill from gaining access to secured systems. They are looking to prove themselves—and for bragging rights.
Cybercriminal	Financial gain; Crimeware-as-a-service (CaaS).
Cyber Hacktivist	Attacks are targeted and often perpetrated to promote a political agenda or a social change.
Cyber Terrorist	Motivated by a political, religious, or ideological cause. The goal is to intimidate a government, a section of the public, and/or interfere with critical infrastructure.

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Lifecycle of a Data Breach



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Top Cyber Threats

PHISHING

An email that asks for information—login credentials, bank account info, etc.—in the hope of someone innocently responding and providing it. Often a precursor to a ransomware infection.

RANSOMWARE

Hackers gain access to a system using malicious software, then encrypt sensitive data and hold it hostage—along with your ability to conduct business—until a demand is satisfied.

CRYPTOJACKING

The secret use of your computing device to mine cryptocurrency. It doesn't require a download and hackers can sneak a mining agent onto unsuspecting websites and steal cryptocurrency off the site's traffic.

THIRD-PARTIES

Third-party service providers that handle sensitive data on an entities behalf; however, can have poor cybersecurity hygiene.

INTERNET OF THINGS

Includes many different types of devices that perform a single function at low processing power and lack security functions.

FILELESS ATTACKS

Also known as a non-malware, zero-footprint, or macro attack, doesn't need to install malicious software to infect your machine. Instead, it takes advantage of existing vulnerabilities on your machine and uses common system tools to add malicious code into normally safe and trusted processes.

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Social Engineering

“Amateurs hack systems, professionals hack people.” – Unknown

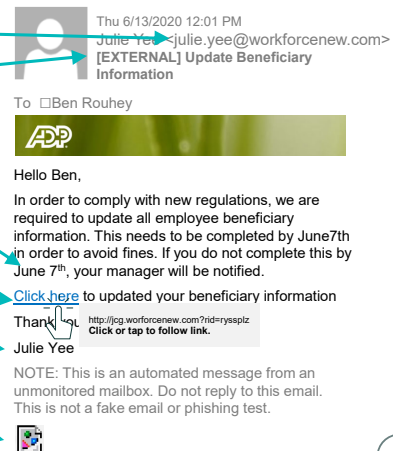
Definition: The art of manipulating people into performing actions or divulging confidential information.

- Techniques include:
 - Email phishing (spearphishing, BEC attacks)
 - Phone-based attacks (vishing)
 - Walk-in attempts
 - SMS or text message-based attacks (smishing)
 - Exploiting social media platforms
- Preys on the natural inclination to trust and help others
- The most common and most consistently successful type of attack

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Breakdown of a Phishing Email

- Unfamiliar email address from an unusual domain
- The subject line shows [EXTERNAL] indicating the email came from outside the company
- The email tries to establish a timeline and a threat to create the perception of urgency and importance



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Email Phishing Threat Prevention

- Do NOT click on links, download files, or open attachments in email from unknown senders
- Beware of links in email that ask for personal information
- Communicate personal information only via phone or secure website (HTTPS)
- Check with IT if unsure whether the email is legitimate
- Conduct employee security awareness training regularly
- Test employees' alertness through quarterly phishing attack testing

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Malware and Ransomware

Definition: Malicious software, spyware, or computer viruses that are used to gain sensitive information, prevent access to valuable data, or disrupt operations.

- Adware
- Rootkits
- Virus
- Spyware
- Trojan Horse
- "Petya/Not Petya," "WannaCry," "CryptoLocker," etc.

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Malware/Ransomware Threat Prevention

TECHNICAL CONTROLS

- Anti-virus
- Regular backups of data and **test them!**
- Network segmentation
- Regular software patching
- Use multi-factor authentication for remote access

USER CONTROLS

- Be very careful of opening unsolicited attachments
- Disable Microsoft Office macros (especially those downloaded from the Internet)
- Save or copy your data to the shared network drive

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Third-Party Threats

Definition: Any authorized third-party service provider that handles data on behalf of an entity yet has poor cybersecurity hygiene resulting in a high-risk environment for sensitive data.

- Cloud-based services: email, online storage, monitoring services, data centers
- Example breach: Target's HVAC service provider
- Threat Prevention - Due Diligence: SOC audits or other attestation of controls reports, state required adherence to specific data security requirements in agreements, "right to audit" clauses in agreements
- Know when third-party service provider will notify you of a breach. Does their incident response and breach notification plan align with yours?

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Internet of Things (IoT)

Definition: Purpose-built, internet capable devices that provide limited functionality and management but can be abused or leveraged for malicious purposes.

- Examples: conference room cameras, appliances, activity trackers, “smart” devices
- Usually meant for and only has capacity for a single purpose
- Low capability can mean low security
- Poor practices by device manufacturers
- DYN and the Mirai BotNet: distributed denial of service

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Internet of Things Threat Prevention

- Never connect devices at work without authorization
- Segment IoT devices from the rest of the network (e.g., use Guest wireless)
- Change default settings
- Turn off unused features
- Update IoT devices whenever possible
- Turn IoT devices off when not in use

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Summary

- Cybersecurity is a shared responsibility
- Attacks are constantly evolving
- No target is too small
- Breaches are extremely expensive and mostly preventable
- Train your workforce to recognize and deter attacks
- Stay informed – SANS Institute newsletter

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Questions? Contact us.

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SAVE THE DATE---UPCOMING CHAPTER EVENTS

February 9: Government/Legislation Construction Update
March 9: Economic Update
April 13: HR Update and Supported Employment
May 11: C-Suite Panel

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