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FINANCIALLY SURVIVING
A DOWNTURN

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JIM LEONARD WALKS THE WALK

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[savvy finance]



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Financially Surviving A **DOWNTURN**

While the current economic distress we're facing is due to an unprecedented chain of events, there are lessons from past downturns that can be applied as well as new opportunities — from tax credits to forgivable loans — that you can consider. You can start by taking the following three steps.

Don't make panicked decisions.

Times may be bleak now, but this, too, shall pass. The IRS has waived the additional 10-percent tax on early distributions from IRAs and 401(k)'s for coronavirus-related distributions through the end of the year, which can be helpful. But just because the option is available, that doesn't mean it's right for your situation.

Pulling money out of retirement accounts or other investments as a knee-jerk response can turn a temporary pocketbook crunch into a long-term personal finance crisis. You worked hard to set that money aside, and you'll still need it eventually. Plus, there can be a right and a wrong way to take out and pay back the money — choosing the wrong path for you could result in penalties and steep income taxes.

Keep money in your pocket.

You may be the type of person who doesn't like to take a handout. That's commendable. But there are excellent financial relief measures in place right now designed to help you without tapping into valuable reserves like your retirement account or investments. Consider the ones that make sense for both your personal and your business situations.

If you're a small business owner, for instance, there are loan advances, bridge loans, debt relief, and paycheck protection programs still available through the CARES Act that can help with business continuity — many come with potential debt forgiveness.

Don't let the fear of receiving help cause you to take a bigger personal or business hit than is needed. This sudden downturn caused by the coronavirus pandemic will have economic repercussions for quite some time, and you never know when that next life-preserver will be thrown your way.

Deduct your losses.

The CARES Act includes additional tweaks to the tax code that deserve attention. For instance, business owners should pay careful attention to a modification in how Net Operating Losses (NOLs) are to be handled this year. If you run a business that is a corporation, for instance, you may be forced to carry back losses to prior years. This means that even if your losses this year are greater than your profits, you may still incur income tax.

Additional tax changes for business owners — like those relating to qualified improvement property expenses — can affect previous years, too. Be sure to review tax returns from 2018 and 2019 to claim any additional deductions you may be owed.

A temporary above-the-line deduction allowance and limitation modification for charitable contributions may also help you offset losses this year. This charitable contribution deduction has been tricky to obtain the past couple of years. And, as usual, the decision to either accelerate or carry over capital losses from one year to the next can make a big difference. Thankfully, there's still time to make that decision for 2019.

Now is the time to rely on the tax professionals and financial advisors in your life to help guide you through these many rule changes and to help you decide a course of action that meets your needs, both now and in the future. ▼