

Dear Jordan,

As part of Mr. Vento's commitment to helping you and your dental practice succeed, I am providing you with the ***August Dental Practice Management Strategy***. Our goal is to help you better manage your dental practice and to identify tax and financial planning strategies you may want to consider implementing. We will also continue to provide information and updates on the SBA's Paycheck Protection Program separately.

August Dental Practice Management Strategy

Assisting Employees with Section 139 Expenses

When President Trump declared the coronavirus a national disaster under the Robert T. Stafford Disaster Relief and Emergency Assistance Act on March 13th, Internal Revenue Code Section 139 became effective.

This little known code section was created in response to the terrorist attacks on September 11, 2001 and effectively states that any payment received by an individual (from their employer) as a qualified disaster relief payment shall not be treated as income to that individual.

A qualified disaster relief payment means any amount paid to or for the benefit of an individual to reimburse or pay reasonable and necessary personal, family, living or funeral expenses incurred as a result of a qualified disaster.

These payments are tax-free to the employees, but fully tax deductible to the employer. The reason this is significant is because an employer is not allowed to provide a "gift" to an employee without adding this to the taxable wages of an employee.

The below is a list of qualifying payments from an employer to an employee under this code section as a result of the coronavirus pandemic:

1. Any out of pocket medical expenses related to COVID-19 that are not covered by insurance.
2. The cost of any over-the counter medication or hand sanitizers as well as face masks and coverings that were provided due to COVID-19.
3. Funeral costs of an employee or a family member of an employee who passed away due to COVID-19.
4. The cost of allowing an employee to work from home throughout the pandemic. This could include the cost of purchasing an employee a computer, paying their cell phone bill, as well as utility costs or any cost of supplies that were needed to be purchased for their home.

5. Child care or tutoring costs for a family member of an employee that was unable to attend school throughout the pandemic. This would include any babysitting costs incurred due to an employee being required to attend work and their child's school being closed due to the virus.

If you choose to provide any of these reimbursements to your staff, you should be sure to keep accurate documentation and records surrounding the deduction. You should also draft up a written program that specifies which employees are eligible (although there is no formal nondiscrimination testing required), includes requirements on the maximum amount that could be reimbursed by each employee, describes how each employee will be paid, sets a beginning and end date for the program, and indicates that the employer has discretion on administering the program.

Please also note, that an owner-employee or self-employed person is prohibited from taking a tax deduction to the extent that the payments were excludable from their gross income. This essentially means that if you are providing this benefit to yourself, you will not receive a tax deduction for that portion of these payments.

Please feel free to reach out to us if you have any additional questions surrounding this code section or if it is something you would like to implement in your practice.

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The advice we provide in this letter represents our best judgement and should not be used by your for the purpose of avoiding penalties that may be imposed on you under Section 6662 (d) of the Internal Revenue Code. Our advice is as of the date of this letter and is limited to the conclusions we have included in this letter. These conclusions are based on the information you provided to us as stated below. Our conclusions would be different if any of the information is incomplete or inaccurate. In rendering our advice, we rely on the tax law, regulations and case law. These laws and regulations may change and any such changes could affect the validity of our conclusions. We will not update our advice for subsequent changes to the tax law, regulations or case law.