Client News

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Uh, oh, ERC

The "vast majority" of pandemic relief Employee Retention Credits (ERC) are likely to be improper, the IRS said in a report in late June.

Intended to help businesses retain employees during pandemic-era shutdowns, the credit rapidly became an opening for fraud. Part of the reason, according to IRS, is that the complexity of qualifying let scammers target small businesses, applying for them for a fee, even if they weren't eligible.

About 10% to 20% of the 1 million claims show "clear signs of being erroneous" and tens of thousands of those will be denied in coming weeks, the IRS said. Another 60% to 70% show an "unacceptable risk" of being improper and will be further evaluated.

It's not just you

If you have a restaurant, you know that your profitability has been squeezed between rising food costs and menu price increases that don't keep up.

Restaurants in Mexico are feeling the pinch, too. They are grappling with a 400% increase in a staple: cilantro.

Most of the country's cilantro is grown in the state of Puebla, which has suffered long drought and excessive heat ... plus crop-damaging hail.

Restaurant owners report putting less of the herb in tacos and other dishes. Some are even substituting parsley or lettuce.

Make it mega?

The Mega Backdoor Roth approach is a way for people whose income is too high (over $161K) to be able to contribute to a Roth IRA.

The typical approach is to convert money from a 401(k) to a Roth, where it can grow tax free. Conversions are not limited to $7,000/$8,000 like contributions are and can be for any amount (even millions of dollars).

With a traditional 401(k), contributions (payroll withholding) reduces taxable salary. Because the worker got a tax break putting money into the 401(k), taking money out (including conversions to a Roth) is taxable income.

In 2024, an employee can contribute up to $23,000 to a 401(k), $30,500 for someone age 50 or older. A high income earner can stuff $30,500 into the 401(k) and then convert that contribution into their personal IRA, bypassing the lower IRA contribution limit.

The catch is converting from a traditional (tax deferred) 401(k) to a Roth IRA creates taxable income. The way around that issue is to make nondeductible contributions to a Roth 401(k) if the company has one. Then, conversions from Roth 401(k) to personal Roth IRA don't result in more taxable income, regardless of the amount transferred.

Contributions to either a 401(k) or an IRA have to be based on earned income, not investment income (capital gains) or passive income (rent).

This approach is legal but has caught flak recently. Some Silicon Valley entrepreneurs bought in their Roth 401(k)s their startups' stock when it was cheap. A decade or so later when the company has gone public, that stock is now worth a thousand times what it was bought for. Using mega backdoor Roth conversions, these entrepreneurs now have multi-billion-dollar Roth IRA accounts where withdrawals will never be taxed.