

CARES Act

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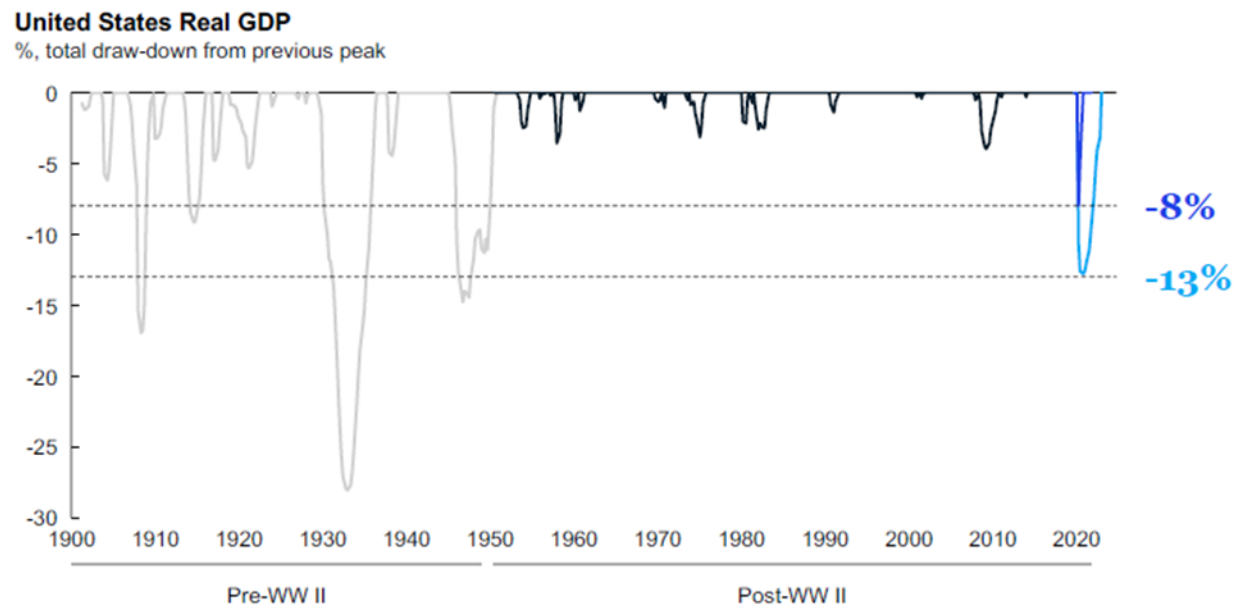
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ACCOUNTANTS

COVID-19 Potential Effects on US Economy



McKinsey & Company: COVID-19: Briefing materials

<https://www.mckinsey.com/~/media/mckinsey/business%20functions/risk/our%20insights/covid%2019%20implications%20for%20business/covid%2019%20march%2030/covid-19-facts-and-insights-april-3.ashx>

April 3, 2020

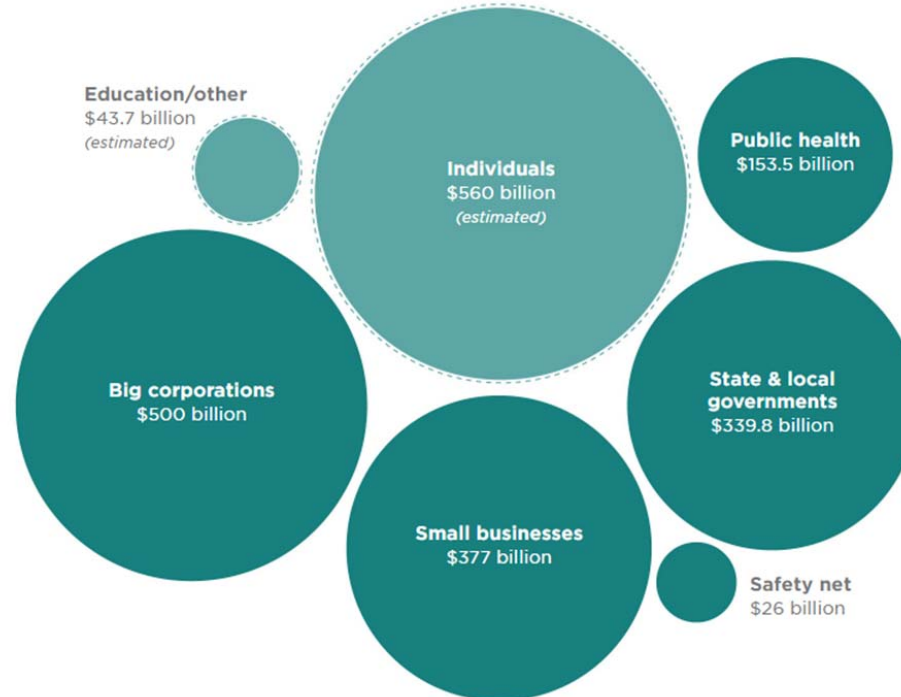
Federal Government Response

- March 3, 2020** **Federal Reserve cuts its interest rate to 1.25%** (with a target range of 1% to 1.25%).
- March 6, 2020** **Coronavirus Preparedness and Response Supplemental Appropriations Act.**
Provided **\$8.3 billion** in emergency funding to respond to coronavirus outbreak. \$6.7 billion was for domestic response principally for research and development of vaccines, therapeutics, and diagnostic tests, including \$950 million for states and \$1.6 was international response.
- March 13, 2020** President Trump declared a **national emergency**.
Freed up **\$50 billion** in funding for state and local Governments to use in fighting the pandemic.
- March 15, 2020** **Federal Reserve cuts its benchmark interest rates to .25%** (with a target range of 0% to .25%)
In addition, launched a new round of Quantitative Easing. The QE program will entail **\$700 billion** worth of asset purchases entailing Treasuries and mortgage-backed securities. Also, cut reserve requirements for thousands of banks to zero.
- March 18, 2020** **Families First Coronavirus Response Act. \$3.471 billion.**
Principally providing funds for SARS-COV-2 testing costs, food programs for children and seniors, employment relief and payroll tax credits.
- March 27, 2020** **Coronavirus Aid, Relief, and Economic Security Act (CARES Act). \$2.2 trillion.**
Multi-faceted bill providing funds to aid specific industries affected, different loans to different size companies and non-profits, cash payments to individuals, hospitals, state and local governments and various tax incentives to businesses and individuals.

\$2,000,000,000,000 Break Down

How The \$2 Trillion Breaks Down

The CARES Act provides relief to several groups impacted by the coronavirus pandemic.



Presenters – Business



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Presenters – Loans



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Presenters - Individuals & Retirement



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AMT Credit

- ❖ Per the TCJA, corporate AMT was repealed. Any remaining AMT Credits became refundable on an incremental basis for the 2018-2020 tax years.
- ❖ Per the CARES Act, the schedule was accelerated and c-corporation taxpayers can claim the credit in full in 2018 through 2020.
- ❖ Taxpayers with this situation may use the quick refund procedure via form 1139 to claim the credit.
- ❖ This allows the taxpayer to get the refund within 90 days of filing.

Business Interest Expense Limitation

- ❖ For Businesses subject to the Interest Expense Limitation under Section 163(j), the limitation is increased from 30% of Adjusted Taxable Income (ATI) to 50%
- ❖ This is effective for 2019 and 2020.
- ❖ Due to the expected downturn in 2020, Businesses can elect to use their 2019 ATI to calculate their limitation for the 2020 tax year.
- ❖ For Partnerships, the 50% exclusion does not apply for the 2019 tax year. However, the following benefits are offered instead:
 - ❖ 50% of the excess business expense will be treated as business interest without limitations for tax years 2020 and onwards
 - ❖ The remaining 50% will be subjected to the same 163(j) limitation rules and put into a silo which can be reduced over time or increase the partnership basis upon the sale or disposal of the partnership interest.
 - ❖ This is only for 2019, for 2020 partnerships will have the same 50% ATI limitation as all other entities.

Net Operating Losses

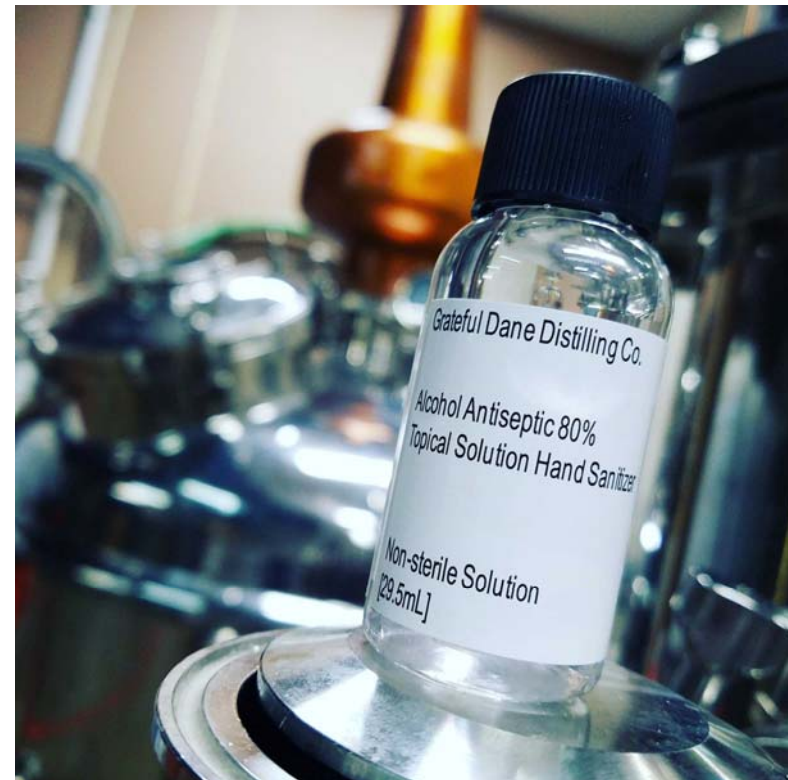
- ❖ Previously taxpayers could only carryforward losses and apply it against 80% of taxable income for the year.
- ❖ The CARES Act suspends the 80% limitation for the 2018-2020 tax years.
- ❖ NOLs in those years can be carried back for up to 5 years.
- ❖ This provision applies to both corporate and non-corporate taxpayers

Classification of Qualified Improvement Property

- ❖ The Act provides a technical amendment to the treatment of Qualified Improvement Property (QIP)
- ❖ This is effective for all property placed in service after December 31, 2017
- ❖ QIP depreciable life has gone from 39 year life to 15 year life, making this eligible for bonus depreciation.
- ❖ Taxpayers with significant QIP may want to amend their 2018 returns in order to claim a refund.

Excise Tax Exemption

- ❖ Distilled Spirits used in the production of hand sanitizer in methods approved by FDA guidelines are temporarily exempt from excise tax.
- ❖ This exemption is effective for the calendar year of 2020



Charitable Contributions

- ❖ The Corporate Charitable Contribution limit has been temporarily increased from 10% to 25% of taxable income for the 2020 tax year.
- ❖ These contributions must be made to a public charity or foundation. Donor advised funds do not qualify.



Payroll Tax Changes

- ❖ Employee Sick Leave Credit (FFRCA, Phase II)
- ❖ Expanded FMLA Credit (FFRCA, Phase II)
- ❖ Employee Retention Credit (CARES, Phase III)
- ❖ Employer Payroll Tax Deferral (CARES, Phase III)

Employee Sick Leave Credit

- ❖ The Families First Coronavirus Response Act (Phase II) mandates that employers with fewer than 500 employees provide paid sick and family leave for workers. To lessen the burden, several payroll tax credits were established.
- ❖ Employees who are unable to come in due to contracting the Coronavirus or quarantined as a result of it are to get full pay for 10 days, up to \$511 per day for a maximum of \$5,110 per employee. A corresponding payroll tax credit with the same maximums was created to offset the burden.
- ❖ Employees who are caring for someone or on leave due to an HHS-specified condition are to get 2/3rds pay for 10 days, up to \$200 per day for a maximum of \$2,000 per employee. A corresponding payroll tax credit with the same maximums was created to offset the burden.

Expanded FMLA Credit

- ❖ The new law also expands the existing Family and Medical Leave Act (FMLA) to cover a leave of absence to care for a minor child due to school closure or lack of childcare.
- ❖ Workers will receive 2/3rds of their regular pay up to \$200 per day and for 50 days and a maximum of \$10k per employee. A corresponding payroll tax credit with the same maximums was created to offset the burden.
- ❖ This benefit does not kick in until after two weeks. It is presumed that the employee has taken sick leave prior to taking the FMLA leave.

Credits for Self-Employed

- ❖ Both the sick leave and expanded FMLA credit are available to the self-employed.
- ❖ The person's average daily self-employment income for the year is used instead of wages.
- ❖ For those sick or quarantined, the daily credit is the lesser of 1) \$511 per day or 2) 100% of the person's average daily self-employment income for the year.
- ❖ For those caring for someone, out with an HHS related condition or taking FMLA leave, the daily credit is the lesser of 1) \$200 per day or 2) 2/3rds of the person's average daily self-employment income for the year.

Employee Retention Credit

- ❖ Section 2301 of HR 748
- ❖ Fully refundable payroll tax credit available to business that:
 - ❖ Were forced to fully or partially suspend operations due to orders from an appropriate government authority due to COVID-19, or
 - ❖ Experienced a drop in receipts
 - ❖ Beginning with Q1 2020, gross receipts for the quarter are less than 50% of gross receipts for the same calendar quarter of the prior year
- ❖ End date:
 - ❖ Qualified based on closing: December 31, 2020
 - ❖ Qualified based on gross receipts: the calendar quarter for which gross receipts are greater than 80% of gross receipts for the same calendar quarter in the prior year
- ❖ Applies to wages paid between March 13, 2020 and December 31, 2020

Employee Retention Credit

- ❖ Credit amount: 50% of qualified wages
- ❖ Qualified wages
 - ❖ Determined by number of employees
 - ❖ If > 100 employees, count wages paid to those employees NOT working
 - ❖ If 100 or less employees, count all wages, whether working or not
 - ❖ Related employers must aggregate their employees
- ❖ Total wages taken into account for a single employee for the entire applicable period is \$10,000
- ❖ Wages
 - ❖ Include: qualified health plan expenses paid by the employer, provided excluded from the employee's income
 - ❖ Exclude: wages used to determine the family leave credit and the sick leave credit

Employee Retention Credit

- ❖ Credit is applied against the employer's share of Social Security tax (6.2%)
- ❖ Applied *after* the application of the family leave credit and the sick leave credit
- ❖ Payroll expenses (for tax purposes) must be reduced by the amount of the credit claimed. 280c

Employee Retention Credit

- ❖ Example:
 - ❖ Lofgren's Lumber (LL), which employs 5 people, is instructed to shut down by order of the Governor as a result of COVID-19. The company continues to pay its employees. After considering the wages used in calculating the family leave credit and the sick leave credit, and factoring in the employees' allocable share of employer-paid group health care plan, the company has \$20,000 of qualifying wages.
 - ❖ LL is eligible for a \$10,000 credit to be used against the employer portion of Social Security tax
 - ❖ LL's Social Security tax liability, after reductions for the family leave credit and the sick leave credit, is:
 - ❖ \$12,000 – LL will reduce use the \$10,000 employee retention credit to reduce its SS tax liability to \$2,000, which may be deferred.
 - ❖ \$8,000 – LL will reduce its SS tax liability to \$0 and receive a \$2,000 refund

Payroll Tax Deferral

- ❖ After reducing payroll taxes for sick leave, family leave, and employee retention credits, employers can defer the remaining payroll tax liability (Social Security only) through December 31, 2020
- ❖ The deferred payroll tax is due:
 - ❖ 50% by December 31, 2021, and
 - ❖ 50% by December 31, 2022
- ❖ A business may not have a PPP loan that is forgiven if it defers payroll taxes
 - ❖ The business can still have a PPP loan, it will just need to be repaid.

Updates

- ❖ First and Second Quarter 2020 Estimated Tax payments are now due 7/15/20.
- ❖ Most returns due on or after 4/1/20 and before 7/15/20, originally or pursuant to an extension, as well as any related tax payments are postponed to 7/15/20. This includes: individual, corporation, partnership, trust, estate, gift, private foundation and exempt organization business income tax returns.
- ❖ Filing an initial extension by 7/15/20 will push the due date to the normal extended due dates, principally 9/15/20 or 10/15/20.
- ❖ Payroll retention tax credit will have potential claw back/recapture if and when the recipient receives PPP funds. The Treasury is working on initial guidance.
- ❖ PPP borrowers who had previously made the employer payroll tax deferral can claim the deferral until they receive a formal decision that the loan is forgiven.
- ❖ The Federal Reserve alongside the Treasury has announced a \$2.3 trillion lending plan. Additional details are currently pending.

Loans



Presenters – Loans



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Loans

- ❖ Disclaimer: The following section is presented to inform business owners of potential relief opportunities in the face of the COVID-19 pandemic. Please note that we are CPAs, with a focus on tax advisory services. We are not lenders, HR consultants, or attorneys. None of the content included here is considered formal advice.
- ❖ Terminology
 - ❖ 7(a) = Traditional 7(a) SBA loans
 - ❖ 7(a)(36) = Payment Protection Program Loans, or “PPP”
 - ❖ 7(b)(2) = “Disaster Loans”
- ❖ References are to the corresponding codes in the Small Business Act

Paycheck Protection Program

- ❖ SBA Loan Section 7(a)(36)
- ❖ \$349 billion allocated to the program
 - ❖ Initial worries the program was oversubscribed and run out of funding
 - ❖ The President and Treasury have indicated they would request additional funding if this amount is depleted early
- ❖ Designed to allow employers affected by COVID-19 to, primarily, continue paying their employees during initial shutdown phase of the Coronavirus pandemic
- ❖ Who is this loan for?
 - ❖ Eligible small businesses and nonprofits affected by the shutdown
- ❖ What can the proceeds be used for?
 - ❖ The loan proceeds can be used to cover payroll costs, rent/mortgage interest, and utilities
- ❖ Is a portion of this loan forgivable?
 - ❖ Yes, to the extent the loan is used for the above costs, it is forgivable as well as the interest on the loan
- ❖ No personal guarantees are required
- ❖ No prepayment penalty; no guaranteed fees; no yearly fees
- ❖ Loans are 100% guaranteed by the SBA through December 31, 2020. Thereafter, 85% for loans less than \$150,000 and 75% for loans over \$150,000

Paycheck Protection Program

This program is essentially divided into 2 distinct pieces

1. Getting the loan

- ❖ Determine if you qualify
- ❖ Calculating the amount of loan you qualify for
- ❖ Filling out the appropriate bank/SBA application
- ❖ Caveat here – this is an SBA loan you are applying for. Due to the fast tracking by the government to get the money in the borrowers hands as quickly as possible, the onus is going to be on the borrower to make sure they are qualified and have complied with the rules the banks have been given a free pass to rely on your information

2. Using the proceeds of the loan (Loan forgiveness)

- ❖ 8 week period for paying qualifying expenses
 - ❖ Borrower needs to prove the money was spent on qualifying expenses
 - ❖ Separate bank account
 - ❖ Clean accounting
- ❖ Amounts not forgiven will be 2 year loan with 1% interest rate
 - ❖ Payments deferred for 6 months and up to 1 year
 - ❖ Interest accrues during this deferral period

Paycheck Protection Program

❖ Do you Qualify

- ❖ Are you a small business with less than 500 employees or qualify as a small business under the Small Business Act
- ❖ Are you a 501 (c)(3) nonprofit organization
- ❖ Are a 501 (c)(19) tax exempt veterans organization
- ❖ Were you in operation on February 15, 2020 and had employees you paid wages and payroll taxes
- ❖ Individual who operates under a sole proprietorship
- ❖ Individual who is an independent contractor
- ❖ Self-employed individual
- ❖ Your business is located in the US

Paycheck Protection Program

- ❖ You are ineligible for a PPP loan if:
 - ❖ You are engaged in any activity that is illegal under federal, state and local laws (no cannabis businesses)
 - ❖ You are a household employer
 - ❖ You employ nannies, housekeepers, etc.
 - ❖ An owner of 20% or more of the business is incarcerated, on probation, parole, presently subject to indictment, arraignment or other means by which formal criminal charges can be brought or has been convicted of a felony within the last 5 years
 - ❖ If any business owned by you or controlled by you or any of your owners has ever obtained a direct or guaranteed loan from the SBA or any other federal agency that is currently delinquent or has defaulted within the last 7 years and caused a loss to the government

Paycheck Protection Program

- ❖ Who counts as an Employee
 - ❖ Full-time and part-time employees are included in the count
 - ❖ Includes employees from a temp agency, PEO, or other leased employee operation
- ❖ Determine the number of Employees
 - ❖ Take the average number of employees per pay period of all pay periods for the preceding 12 calendar months, or however many months you've been in business if less than 12 months
 - ❖ Affiliated groups must be considered with respect to the 500 employee limit

Paycheck Protection Program

- ❖ Since the amount of funding is limited and you can only have one of these loans, the strategy is to apply for the maximum amount

Paycheck Protection Program

❖ How much can I get?

❖ Calculation is:

❖ Lesser of:

❖ Sum of:

- ❖ Average monthly qualified payroll costs for the previous 12 months multiplied by 2.5, plus
- ❖ Any outstanding disaster loans (7(b)(2)) made after Jan 31, 2020 and refinanced into a 7(a) loan, and reduce by any advance you received from a disaster loan

❖ \$10 million

❖ Average payroll costs will be based on a lookback period of a year.

❖ Most people will probably use the 2019 calendar year but can use the last 12 months 4/30/19 – 3/31/20

❖ If the applicant was not in business from February 15, 2019 to June 30, 2019 they can use the period from January 1, 2020 to February 29, 2020 to calculate their average

❖ For seasonal employers they can use an average monthly payroll for the period February 15, 2019 to June 30, 2019 or March 1, 2019 to June 30, 2019

Paycheck Protection Program

- ❖ Payroll Costs – Included
- ❖ Cash Compensation
 - ❖ Wages, commission, salary
 - ❖ Cash tips
 - ❖ Vacation, parental, family, medical or sick leave
 - ❖ Severance pay
- ❖ Combined cash-compensation amounts for any employee, not to exceed \$100,000
- ❖ For self-employed taxpayers, net earnings from S/E up to \$100,000
- ❖ Non-cash Compensation
 - ❖ Retirement benefits
 - ❖ Group health care benefit including insurance premiums
 - ❖ State or local tax on comp to employees

Paycheck Protection Program

- ❖ Payroll Costs - **Excluded**
 - ❖ Compensation over \$100,000 for any given employee
 - ❖ Employer portion of federal Payroll taxes
 - ❖ Compensation for an employee whose resides principally outside the US
 - ❖ Qualified sick leave and family emergency leave wages for which a credit is allowed under the Families First Coronavirus Response Act
 - ❖ Payments to independent contractors
 - ❖ Early on it was believed that payments reported on 1099s would count as wages. Treasury has since provided guidance on this, stating that independent contractors could qualify in their own right for this loan, so letting businesses include this payment would be double counting.

Paycheck Protection Program

	(See w-2s)	(CALC)				B+C+D+E
	A	B	C	D	E	F
	<u>1/1/19 - 12/31/19</u>					
<u>Name</u>	<u>wages</u>	<u>Amounts < \$100K</u>	<u>Health Insurance</u>	<u>HSA</u>	<u>Retirement</u>	<u>Total</u>
Bob	250,000	100,000	-		22,000	122,000
Dennis	90,000	90,000	15,058	6,000	19,000	130,058
Ray	45,000	45,000	8,000	3,000	1,250	57,250
	385,000	235,000				309,308
					Average	25,776
						x 2.5
					Maximum loan	64,439

Paycheck Protection Program

- ❖ Borrower certifications made on the PPP application (non-exhaustive)
 - ❖ “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”
 - ❖ “The funds will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments, and utility payments.
 - ❖ “Any loan received by the Applicant under Section 7(b)(2) of the Small Business Act between January 31, 2020 and April 3, 2020 was for a purposes other than [the expenses allowable under the PPP].”
 - ❖ Caveat – this is an SBA loan. Make sure you meet the qualifications and fill out the paperwork correctly

Paycheck Protection Program

Part 2 of this program – Using the proceeds
and loan forgiveness

Paycheck Protection Program

- ❖ Acceptable use of funds
 - ❖ Payroll costs (previously defined)
 - ❖ Payroll compensation
 - ❖ Group health care benefits
 - ❖ Other allowed benefits
 - ❖ State payroll taxes
 - ❖ Interest on any mortgage obligation incurred before February 15, 2020
 - ❖ Rent
 - ❖ Utilities
 - ❖ Other costs? – potentially as further guidance is issued

Paycheck Protection Program

- ❖ Loan forgiveness feature
 - ❖ Once you have received your loan there begins an 8 week forgiveness period
 - ❖ If the PPP loan is used for its intended purpose, during this 8 week period the payroll costs, rent/mortgage interest, and utilities will be forgiven
 - ❖ No cancellation of indebtedness income for the amount forgiven
 - ❖ Borrower must apply for loan forgiveness and be able to substantiate that the loan proceeds were used for the purposes listed above, and certify the correctness of the information and the uses of the funds
 - ❖ This is where the importance of clean accounting and good record keeping will come in.
 - ❖ We don't know exactly what the banks will need from the borrower to substantiate
 - ❖ Separate Bank account if available
 - ❖ Clean check registers with clear descriptions

Paycheck Protection Program

- ❖ This program is all about keeping employees
- ❖ Forgiveness is reduced if the borrower:
 - ❖ Reduced headcount during the 8-week period
 - ❖ Need to maintain Employee Equivalent at 75% of previous level
 - ❖ Cuts salary during the 8-week period
 - ❖ Wages for employees need to be at least 75% of what they were on 2/15
- ❖ For the loan total you received
 - ❖ At least 75% of the loan proceeds must be spent on salary
 - ❖ Remaining 25% can be spent on other qualified expenses
 - ❖ Rent, utilities, health insurance, interest
- ❖ Forgiveness can be restored if employees are rehired and/or pay is restored to pre-February 15, 2020 level by June 30, 2020

Paycheck Protection Program

	For 8 week forgiveness period	
	Wages (75%)	48,329
	Rent	10,000
	Other Qualifying Expenses	8,000
		66,329
	Maximum loan	64,439
	Ending Loan Balance	\$ -

Paycheck Protection Program

Thank you

and

Stay safe

Disaster Loans (7(b)(2))

- ❖ Covered period is January 31, 2020 through December 31, 2020
- ❖ Direct from the SBA
- ❖ Up to \$2 million
- ❖ 30 year term, 3.75% for for-profit; 2.75% for not-for-profit
- ❖ No personal guarantee required if the loan is for \$200,000 or less
- ❖ Collateral may be required
- ❖ Proceeds to be used for working capital or normal business operations

Disaster Loans (7(b)(2))

- ❖ Eligible borrowers:
 - ❖ Businesses with less than 500 employees
 - ❖ Sole proprietorships, independent contractors
 - ❖ 501(c)(3)s
- ❖ May be be refinanced into a PPP Loan
- ❖ A company may have a 7(b)(2) loan and a PPP Loan if the 7(b)(2) loan is used for purposes other than payroll

Emergency Advance

- ❖ \$10,000 advance for a disaster loan applicant
- ❖ Advance can be used to pay sick leave, payroll, rent, mortgage, or other debt
- ❖ If the applicant uses the funds for the purposes above, the \$10,000 is not required to be paid, **even if the loan is denied**
- ❖ Advance limited to \$1,000 per employee?
 - ❖ April 6, 2020 FAQ posted by the Massachusetts District Office of the SBA
 - ❖ “EIDL Loan advances will start to be distributed this week. \$1,000 per employee up to \$10,000 max”
- ❖ If the disaster loan transfers to a PPP loan, the \$10,000 advance reduces the eligible amount of loan forgiveness

Express Bridge Loan (EBL) Pilot Program

- ❖ Exists under the already-established SBA Express Program
- ❖ Effective March 25, 2020, and through March 13, 2021, program eligibility is expanded to include small businesses affected by COVID-19
 - ❖ “Small” = less than industry size standards
- ❖ Max loan is \$25,000
- ❖ Max term is 7 years
- ❖ Streamlined underwriting process
- ❖ No collateral
- ❖ Proceeds must be used to “support the survival and/or reopening of the small business”
- ❖ Can be refinanced into a disaster loan

Express Bridge Loan (EBL) Pilot Program

- ❖ Limitations on eligibility
 - ❖ EBL loans can only be made by SBA Express Lenders
 - ❖ SBA Express Lenders may only make EBL loans to eligible small businesses with which the Lender had an existing bank relationship on or before the date of the applicable disaster

Traditional SBA Loans

- ❖ Can still apply for traditional 7(a) loans
- ❖ Max loan \$5 million
- ❖ Term – tied to use of proceeds
- ❖ Interest Rate – Prime + Margin
 - ❖ Margin = 0% - 2.75%
- ❖ 75%-85% guaranteed by the SBA

Other SBA Loans

- ❖ 504 Loan
 - ❖ Fixed asset acquisitions and construction projects
 - ❖ Up to \$5 million
 - ❖ Terms of 10 and 20 years
 - ❖ Rates correspond to 5- and 10-year US Treasury rates
 - ❖ Project used as collateral
 - ❖ 10% down payment from borrower
- ❖ Microloan
 - ❖ Up to \$50,000
 - ❖ Designated intermediary lenders, each of whom have their own terms and requirements
 - ❖ Cannot be used to pay existing debts or to purchase real estate

SBA Loan Subsidy Payments

- ❖ SBA will pay 6 months of principal, interest and fees on a Section 7(a) loan OTHER THAN a PPP loan
 - ❖ Traditional, 504, Microloan
- ❖ Applicable to existing loans as well as new loans issued prior to September 27, 2020

Other Relief Opportunities

- ❖ Some financial institutions are offering 90 day relief from mortgage payments
 - ❖ Contact your lender to see if they are participating

California Relief Opportunities

- ❖ On 4/2/2020 Governor Newsome announced a series of initiatives to help small businesses in California
- ❖ Small Business Disaster Relief Loan Guarantee Program
 - ❖ \$50 million in loan guarantees for small business that many not be eligible for federal relief
- ❖ Offered by: Small Business Finance Center in partnership with Financial Development Corporations
- ❖ Eligible:
 - ❖ Businesses with < 750 employees that have been negatively impacted
 - ❖ Eligible nonprofits

California Relief Opportunities

- ❖ Guaranteed up to 85% - 95% for up to 7 years
 - ❖ Loan term can be longer than 7 years
- ❖ Interest rates negotiated
- ❖ Loan proceeds to be used for “continuance of business”, including, *but not limited to*:
 - ❖ Rent, payroll, etc.(?)
- ❖ Apply directly with a lender, or contact a participating Financial Development Corporation
- ❖ <https://www.ibank.ca.gov/small-business-finance-center/>

California Relief Opportunities

- ❖ California Department of Tax and Fee Administration
 - ❖ Filing and payment of taxes with March and April deadlines have been automatically extended to June/July
 - ❖ Returns with less than \$1,000,000 in tax
 - ❖ > \$1,000,000 can apply for extension; case by case
 - ❖ Applies to (not an exhaustive list):
 - ❖ Sales and Use Tax
 - ❖ Alcoholic Beverage Tax
 - ❖ Motor Vehicle Fuel Tax
- ❖ <https://www.cdtfa.ca.gov/services/covid19.htm>
- ❖ <https://www.cdtfa.ca.gov/services/extensions-to-file.htm>

California Relief Opportunities

- ❖ California Department of Tax and Fee Administration
 - ❖ Small business relief payment plans
 - ❖ < \$5 million taxable annual sales
 - ❖ 12-month, interest-free payment plan for up to \$50,000 of sales and use tax liability
 - ❖ Online application is forthcoming
 - ❖ [https://onlineservices.cdtfa.ca.gov/ /](https://onlineservices.cdtfa.ca.gov/)

San Diego Relief Opportunities

- ❖ Small Business Relief Fund
 - ❖ Offered by: City of San Diego
 - ❖ Grants and loans between \$10,000 and \$20,000
 - ❖ \$6.1 million available
 - ❖ 100 employees or less and have a SD City Business Tax Certificate
 - ❖ Applications opened on March 27, 2020 at 5 PM
 - ❖ >6,500 applications received; being reviewed
 - ❖ <https://www.sandiego.gov/economic-development/resources/relief>

Updates

- ❖ First and Second Quarter 2020 Estimated Tax payments are now due 7/15/20.
- ❖ Most returns due on or after 4/1/20 and before 7/15/20, originally or pursuant to an extension, as well as any related tax payments are postponed to 7/15/20. This includes: individual, corporation, partnership, trust, estate, gift, private foundation and exempt organization business income tax returns.
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- ❖ PPP borrowers who had previously made the employer payroll tax deferral can claim the deferral until they receive a formal decision that the loan is forgiven.
- ❖ The Federal Reserve alongside the Treasury has announced a \$2.3 trillion lending plan. Additional details are currently pending.

Individuals



Presenters - Individuals & Retirement



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Deadline (Notice 2020-18 & 2020-20)

- ❖ April 15, 2020 federal tax deadline extended:
 - ❖ Previously – April 15, 2020
 - ❖ Currently – July 15, 2020
- ❖ Includes informational returns and 2020 Q1
- ❖ 2020 Q2 not extended
- ❖ Most states have similar provisions except for Illinois, Maine, Massachusetts, Michigan, Ohio and West Virginia.

Stimulus Check (Sec. 2201)

- ❖ \$1,200 per eligible individual
- ❖ \$500 per dependent under age 17
- ❖ Eligible individual – all individuals except:
 - ❖ Nonresident alien
 - ❖ Dependent of another

Stimulus Check (Sec. 2201)

	<u>Phase Out</u>	
	<u>Begins</u>	<u>Ends</u>
MFJ	\$150,000	\$198,000
HH	\$112,500	\$136,500
Single, MFS, QW	\$75,000	\$99,000

Stimulus Check (Sec. 2201)

- ❖ \$1,200 per eligible individual is phased out, 5% for every \$100 over the initial phase out amount (\$75,000).
- ❖ The amount is fully phased out when the individual's income reaches \$99,000.

Stimulus Check (Sec. 2201)

- ❖ It will not be taxable
- ❖ This is an advance of a 2020 tax credit, but the initial calculation will use the 2018 or 2019 return.
- ❖ When the 2020 return is calculated, if the amount of the credit would have been more, an additional credit will be available.
- ❖ If the credit, once recalculated, is less, the difference should still not be taxable, but there is little additional guidance on how it will be treated.

Charitable Contribution (Sec. 2204, 2205)

- ❖ Cash contributions are now deductible up to 100% of your adjusted gross income.
- ❖ They are no longer subject to 60% AGI limit.
- ❖ This does not change the limit for non-cash contributions.
- ❖ Cash contribution up to \$300 above the line
 - ❖ For taxpayers that do not itemize

Student Loan (Sec. 2206)

- ❖ Repayment of up to \$5,250 for a higher education loan tax free
- ❖ This option is available until the end of the year.
- ❖ It applies to higher educational expense student loans.

Disaster Relief Payments

- ❖ Payments from an employer to employee to reimburse or pay for reasonable and necessary personal, family, living or funeral expenses incurred as a result of a qualified disaster.
- ❖ Payments received will not be included in the taxable income of the employee.
- ❖ The payments cannot be for compensation.
- ❖ The expenses cannot be reimbursed by insurance or otherwise.

Unemployment

- ❖ Unemployment insurance provisions now include an additional \$600 per week payment to each recipient for up to six months.
- ❖ The benefits also extend to self-employed workers and independent contractors and those with limited work history.
- ❖ Unemployment benefits are taxable for federal purposes but not for California purposes.

Health Insurance Issues

- ❖ Reimbursements for medicine through an account-based plan may be made without a prescription.
- ❖ Group health plans and health insurance issuers are required to cover any qualifying coronavirus preventative service.

Retirement



Definition

❖ ***Coronavirus-related distribution:***

1. Distribution Jan 1 – Dec 31, 2020, and
2. To a ***qualified individual***:
 - a) Taxpayer, spouse or dependent diagnosed with SARS-CoV-2 or COVID-19, or
 - b) “who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury”

Early Distribution (Sec 2202a)

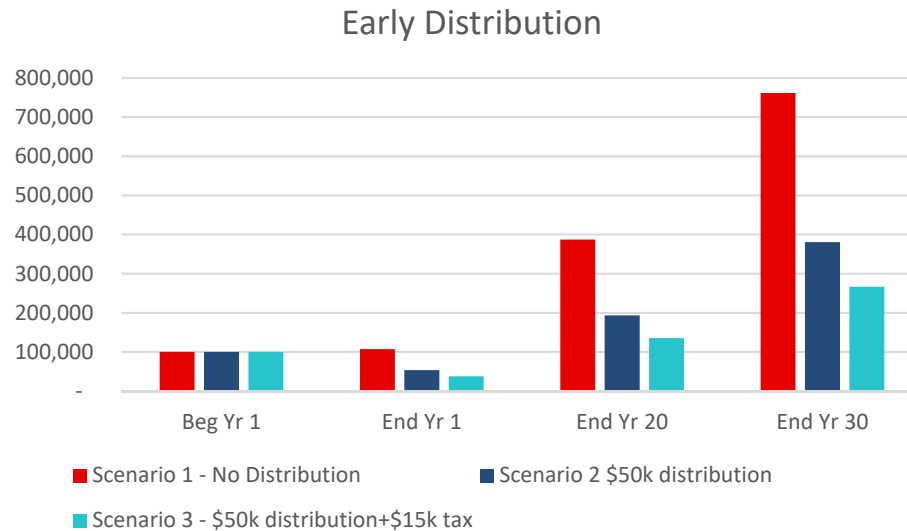
- ❖ No early distribution penalty, up to \$100,000, if “coronavirus-related distribution”
- ❖ CA conforms

Early Distribution (Sec 2202a)

- ❖ Distribution included in taxable income ratably over three years (2020, 2021, and 2022).
 - ❖ Could elect to recognize in 2020
- ❖ Three year to recontribute
 - ❖ Increases contribution limitation
 - ❖ Avoid income recognition
- ❖ Meets RMD requirements

Early Distribution (Sec 2202a)

❖ Should you? Assume 7% ROI



Loans (Sec 2202b)

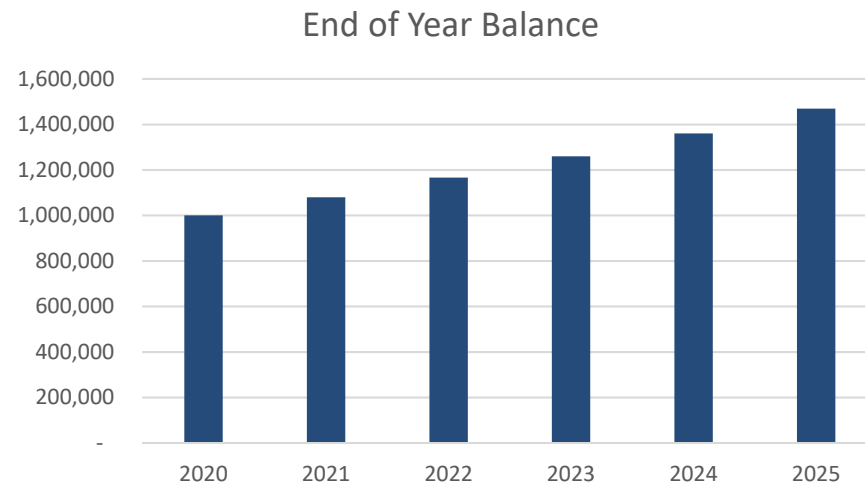
- ❖ For “qualified individuals”
 - ❖ Loan increase:
 - ❖ Previous – 50%, capped at \$50k, five year repayment
 - ❖ Current – 100%, capped at \$100k, six year repayment
 - ❖ Applies for loans between March 27th – Sept 23rd
 - ❖ Loan payments between March 27th and Dec 31st delayed by one year
 - ❖ No change:
 - ❖ Not available for IRAs
 - ❖ Subject to plan limitations (could be amended)

RMD (Sec 2203)

- ❖ Required minimum distribution (RMD) not required in 2020 for “qualified individuals”
 - ❖ What if already took RMD?

RMD (Sec 2203)

❖ 5-year stretch essentially converted to 6-year stretch.



Deadline

- ❖ 2019 contribution deadline extended:
 - ❖ Previously – April 15, 2020
 - ❖ Currently – July 15, 2020

Retirement Planning

- ❖ Saver's Credit
 - ❖ Nonrefundable Tax Credit
 - ❖ Up to 50% of contribution
 - ❖ Capped at following 2020 AGI: \$65,000 MFJ, \$48,750 HH, \$32,500 others

Retirement Planning

- ❖ Roth Conversion
 - ❖ Less Income?
 - ❖ Business
 - ❖ No RMD Requirement
 - ❖ Less Value?

Retirement Planning

❖ Maximize stimulus check?

	2019	2020
Social Security	25,000	25,000
Interest & Dividends	40,000	40,000
Pension	35,000	0
Adjusted Gross Income	100,000	65,000
Receive \$1,200 Tax Credit?	NO	YES

Individuals - Other Planning Opportunities



Other Individual Tax Planning Opportunities

- ❖ Harvesting capital losses
- ❖ Reduce estimated tax
- ❖ Revise Dependent Care FSA contribution?
- ❖ File 2019 tax return?

Final Thoughts



Thank You



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Thank You

CARES Act

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