#### **COVID-19 Update**

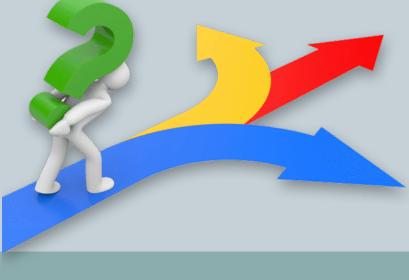
ROBERT CORDASCO, CPA MARCH 31, 2020

#### WWW.CORDASCOCPA.COM



#### Introduction

- Liquidity through new debt programs
- Savings through new business tax provisions
- Leveraging new personal tax provisions
- Funding leave under FFCRA
- Strategies for moving forward





#### **NEW DEBT PROGRAMS**



#### **Paycheck Protection Program**

#### • Eligibility

- No more than 500 employees
- Includes franchisees, sole proprietors, self employed & NFP
- o Covered period February 15, 2020 to June 30, 2020

#### Maximum Loan

- 2.5 times of average total monthly "payroll costs" incurred for one year before loan
  - × Plus the amount of eligible EIDL refinancing
  - × Special rules for seasonal employers and not in business for a year
- Limit is \$10 million



#### • "Payroll Costs"

• Salary, wages, commissions or similar compensation

- **×** Believe this includes payments reported on 1099-MISC
- × Payments to PEOs and staffing agencies?
- Cash tips or equivalent
- o Allowance for dismissal or separation
- o Group health care benefits, including insurance premiums
- Retirement benefits
- State and local tax assessed on compensation



#### • "Payroll Costs" Excludes

- Compensation in excess of \$100,000 per employee
- Federal taxes
- Employees whose principal place of residence outside the US
- Qualified sick leave or family leave wages for which a credit is allowed under FFCRA





#### • Allowable Uses of Funds

- Salary, wages, commissions or similar compensation
- Payroll costs
- Group health insurance benefits and premiums
- Interest on mortgage obligations
- o Rent
- o Utilities
- o Interest on debt incurred before February 15, 2020



#### • Loan Provisions

- Loans made by SBA-approved lenders
- Interest rate not to exceed 4% per annum
- Term not to exceed 10 years
- No collateral requirement
- No personal guarantees or recourse to borrower
  - × Do not add to basis for S Corporations
- No prepayment penalties
- SBA to pay lender fees
- Payments deferred 6 to 12 months
- Not eligible for Employee Retention Tax Credit



#### • Loan Forgiveness

- The amount spent in 8 weeks after loan origination date for:
  - × "Payroll Costs"
  - × Interest on any mortgage incurred prior to February 15, 2020
  - Rent on any lease in force prior to February 15, 2020
    Other lease obligations (i.e. cam, triple net, etc.)?
  - Vtilities for which service began before February 15, 2020
     Internet costs?
- Amount forgiven is NOT considered taxable income
- Tied to maintaining employee count and pay
- Must apply to lender with supporting documentation
- Forgiveness can not exceed 100% of loan



#### Economic Injury Disaster Loan Program

- Processed directly through the SBA
- Small business in declared disaster area to cover economic injury from the disaster (i.e. loss of revenue)
- Maximum Loan of \$2 million, 3.75% up to 30 years
- Personal guarantee for loans over \$200k
- Use of funds for existing fixed debt, payroll, accounts payable and expenses of operations
- May request advance of \$10k paid in 3 days
- Can use with other programs as long as different costs being paid (no "double dipping")



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Economic Injury Disaster Loan



Lender Directly through the SBA SBA 7a approved lenders Maximum Loan Size \$2 million 2.5x payroll Term Length Up to 30 years Up to 10 years Annual Interest 3.75% 4% **First Payment Due** After 1 year After 6 months **Use of Funds** Any operating expenses Only rent, payroll, utilities Collateral May require lien on assets Not required Personal Guarantee Required for loans over \$200k Not required **Approval Time** 2 - 3 weeks Unknown Loan Forgiveness Not offered Up to 100% **Grant Amount** Not Offered \$10,000



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### **NEW BUSINESS TAX PROVISIONS** CORDASCO & COMPANY P.C. Certified Public Accountants

#### Employee Retention Payroll Tax Credit

- Refundable payroll credit for 50% of wagesEligibility
  - Operations were fully or partially suspended due to COVID-19 or
  - Gross receipts declined by more than 50% when compared to same quarter in prior year
    - × Gross receipts is regained at 80%
- All wages if under 100 FTEs and "qualified wages" if over 100
- Credit capped at \$10k compensation per employee including health benefits
- Effective for wages from March 13, 2020 through December 31, 2020
- Not available if you get a PPP loan



#### Delay in Payroll Taxes

- Defer payment of employer share (6.2%) of SS tax for 2020
- 50% due December 31, 2021 and 50% on December 31, 2022
- Effective on date of enactment March 27, 2020





#### Net Operating Losses

NOL Generated     Eligible for     Eligible for				
in Tax Years	Carryback	Carryforward	Taxable Income	
Beginning on or before December 31, 2017	Two tax years	20 tax years	100% of taxable income	
Beginning after December 31, 2017 and beginning before January 1, 2021	Five tax years	Indefinite	100% of taxable income (prior to 2021) 80% of taxable income (after 2020)	
Beginning on or after January 1, 2021	Generally, no carryback	Indefinite	80% of taxable income	

\*\*\*Applicable to corporations and individuals/flow throughs



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#### **Qualified Improvement Property**

- Fix "retail glitch" created by TCJA
- Improvement to the interior of a non-residential building that is placed in service after the building's initial placed in service date other than improvements attributable to elevators, escalators, building enlargements or the building's internal structural framework
- Eligible for bonus depreciation if placed in service after 2017



#### **Other Notable Provisions**

- Change to business interest limitation rules
  - For 2019 & 2020 limit changed from 30% to 50% of adjusted taxable income

#### • Change to loss limit rules

• Repeals rules for tax years prior to January 1, 2021



# **NEW INDIVIDUAL TAX PROVISIONS**



#### "Recovery Rebate" Credit

- \$1,200 per person plus \$500 per qualified child
- AGI Limit \$75k (\$150k married or \$112,500 HOH)
- Rebate reduced by \$5 for each \$100 over limit
   \$99k single, \$198k married and \$146,500 HOH
- No action required in theory
- No refund or credit made or allowed after 2020
- No idea how this will actually work



#### **Retirement Changes**

#### • Waiver of early retirement penalty

• Distributions up to \$100k if:

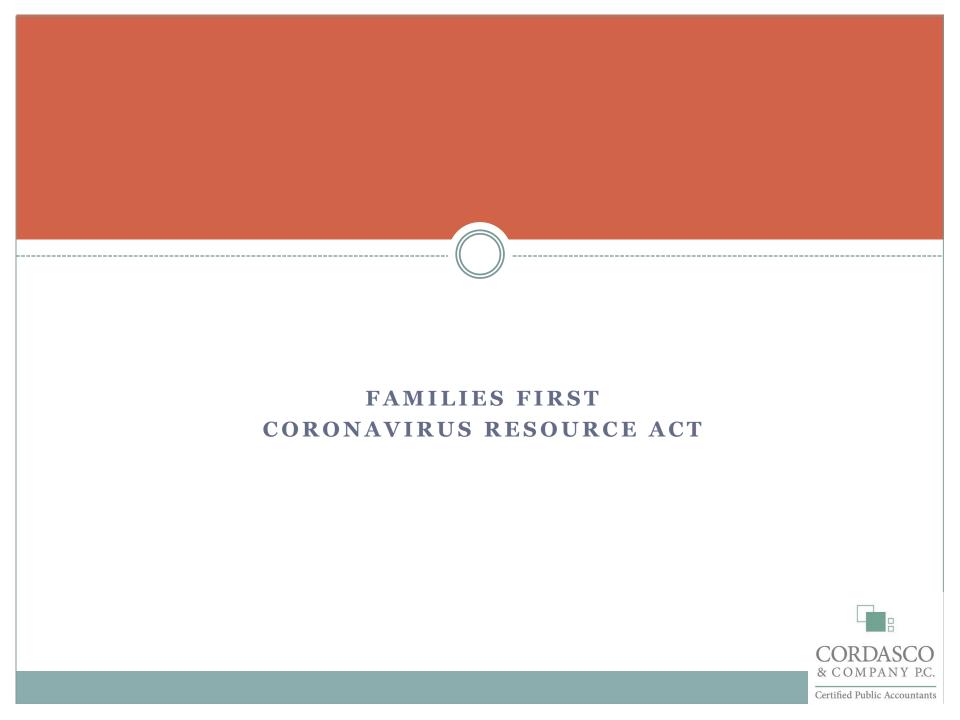
- × Diagnosed with COVID-19 with test approved by CDC
- Spouse or depended diagnosed or
- × Experience adverse financial consequences due to COVID-19
- Distribution is taxed over 3 years
- Have option to repay within 3 years (must amend)
- Qualified loan limit raised from \$50k to \$100k
- Loan payments due enactment and December 31, 2020 are delayed one year (interest accrues)
- MRD not required for 2020



#### **Other Provisions**

- \$300 above the line deduction for charitable contributions for 2020 if you take standard deduction
- Exclusion for student loan repayment from employer
  Up to \$5,250 excluded from compensation
  Employee can not take student loan interest deduction
  Effective from date of enactment to December 31, 2020





#### **Two Week Sick Leave**

- Require employers to provide two weeks (10 days) of paid sick leave for COVID-19-related leave (for a quarantined employee or for the employee to care for a sick person), regardless of how long the employee has been employed.
- Sick leave compensation for a sick employee is capped at \$511 per day, while sick leave compensation for an employee to care for someone else is capped at \$200 per day
- Refundable payroll tax credits equal to 100 percent of the twoweek sick leave wages paid for COVID-19-related leave
  - \$511 per day or 100% of the average daily self-employment income of the individual for sick individuals; and
  - \$200 per day or 67% of the average daily self-employment income of the individual taking care or someone else.



#### 12 Week Family Leave

- Paid family leave for 10 weeks (in addition to the two weeks of sick leave) for employees with minor children who are unable to work due to COVID-19-related school or daycare closure
- Paid leave not less than 2/3 of regular pay up to \$200 per day or \$10k aggregate
- Refundable payroll tax credit, capped at \$200 per employee per day and \$10,000 total, equal to the amount of qualified family leave wages paid
- Credit for wages paid as of April 1, 2020



## \_\_\_\_ **STRATEGIES** 8

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#### Strategies

#### Cash preservation....cash is king

- Utilize expanded unemployment benefits to reduce payroll
- Loan deferment & rent renegotiation
- o Leverage payroll credits
- o Stop 2020 income tax estimates (low interest loan)
- Assess debt options (PPP, EIDL)
- Manage cash tightly
  - × Develop rolling 13 week cash flow projections

#### • Planning

- Pivot if necessary
- Maximize temporary NOL Rules if possible
- Review retirement plan cash out options





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