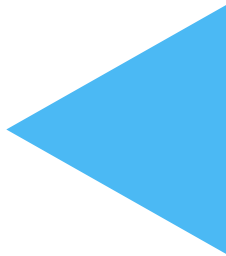


# CARES Act

Business Impact Summary

3.28.20



## Topics

- + SBA Loan Program
- + Payroll Tax
- + Business Tax
- + Individual Benefits



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# From C&A

The uncertainty that we face today in the present economic environment is unprecedented. Small business owners are forced to thoroughly review the sustainability of their operations in the midst of the global COVID-19 pandemic.

On March 27, 2020, President Trump signed the CARES Act bill into law. This relief package comes in a much needed time. This summary focuses on the impact on business owners and their employee base. It is recommended business owners combine this information with an assessment of their current financial and operational situation and build a plan for the immediate future.

We are here to help,

-Team C&A



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# Loans to Support Employment

## Eligibility

Businesses under 500 employees that have been negatively impacted by the coronavirus pandemic.

## Terms

- Suspends SBA requirements that the company does not have an alternate source for funding.
- No recourse, unless used for an unpermitted purpose.
- Interest will not exceed 4%
- Term not to exceed 10 years
- Repayment deferred for six months to one year.
- Receipt of Economic Injury Disaster Loan does not prohibit receipt of a loan.

## Permitted Use

May only be used for payroll (excludes payroll taxes), commissions, employer group health, interest on mortgage obligations (not principal- can be real or personal property), rent, utilities (electricity, gas, water, transportation, telephone, or internet access) and interest on other debt incurred prior to 2/15/20. Restrictions on employees with compensation over \$100k in wages.

## Certification

SBA requires a signed certification that the uncertainty of current economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient and the borrower acknowledging that funds will be used for a permitted use.





# Loan Amount & Forgiveness

## Loan Amount

The eligible loan amount equals the average monthly payroll costs multiplied by 2.5x, not to exceed \$10Million.

The average is based on the last trailing twelve months

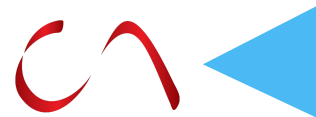
If not in business during that timeframe, January 1st - February 29th

Restrictions on employees with salaries over \$100,000.

## Loan Forgiveness

- Loans are eligible for forgiveness to the extent used to cover:
- Gross payroll (including commissions) capped at \$100,000 per employee (annualized)
- Employer group health
- Interest on mortgage and personal property obligations
- Rent
- Utilities - including, electricity, gas, water, transportation, telephone, or internet access

The forgiveness period is for **8-Weeks**, beginning after loan origination from now until June 30, 2020.

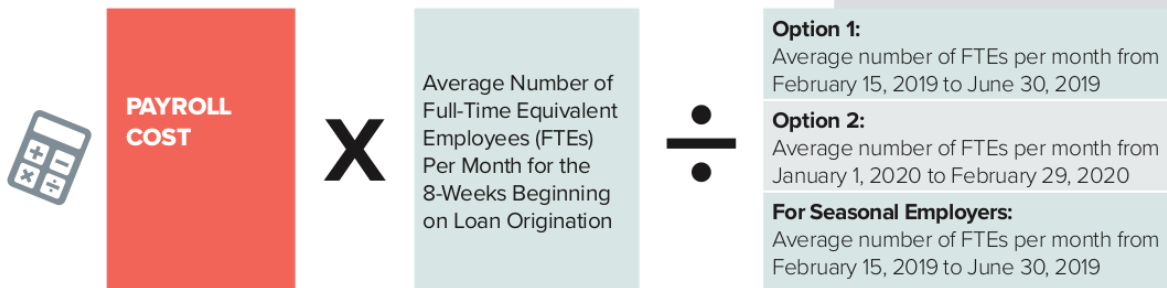


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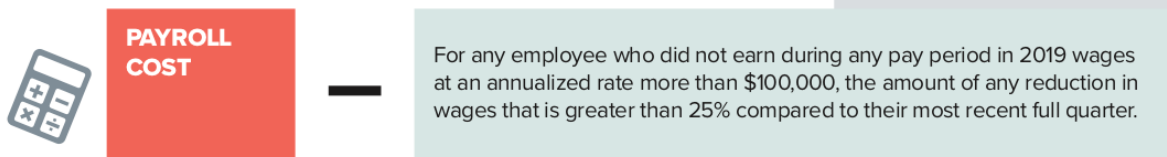
# Loan Forgiveness Reduction

For the 8-week forgiveness period, the loan forgiveness amount will be reduced if there is a reduction in the workforce or a reduction in wage and salary levels by more than 25%.

Reduction based on reduction of number of employees



Reduction based on reduction in salaries



Infographic Credit: US Chamber of Commerce

## INCENTIVE TO REHIRE

Any reduction in the amount of loan forgiveness will be completely avoided if the employer re-hires all employees laid off (going back to February 15, 2020), or increased their previously reduced wages, no later than June 30, 2020. These provisions are designed to provide an incentive to employers to not lay off workers and instead utilize the loan amounts to pay payroll and other expenses.

## PLANNING POINT

**Loan forgiveness amounts are not subject to income taxes.**



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# Other SBA Programs

## **SBA Emergency Economic Injury Disaster Loans**

Businesses with under 500 employees are eligible

No personal guarantees required if below \$200,000

No longer have to show that they cannot obtain credit elsewhere

May be approved based solely on the credit score of applicants

Low document requirements

## **SBA Emergency Grants**

Businesses can apply for grant in conjunction with SBA Loan

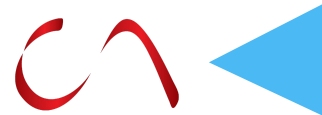
Grants cannot exceed \$10,000

Grant to be paid within 3-days after SBA receives the loan application

Can be used for any allowable purpose including

- Payroll & Employee Benefits
- Paid Sick Leave
- Cost of Materials
- Rent or Mortgage
- Other Obligations that Cannot be met

**Does not have to be repaid, even if SBA Loan is denied**



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# Payroll Tax Credits

## **Employee Retention Credit**

The CARE Act provides a refundable payroll tax credit for 50% of qualified wages + health plan costs, limited to \$10,000 per employee per quarter to qualified businesses. \*

**A Qualified Business** is fully or partially suspended during the calendar quarter due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings (for commercial, social, religious, or other purposes) due to the coronavirus or employers that have gross receipts that are less than 50% of their gross receipts for the same quarter in the prior year are also eligible, until their gross receipts exceed 80%. For employers with more than 100 employees, wages eligible for the credit are wages that the employer pays employees who are not providing services due to the suspension of the business or a drop in gross receipts. For employers with 100 or fewer employees, all wages paid qualify for the credit, except those falling under the FFCRA.

## **Payroll Tax Deferral**

Bill delays payment of 50% of 2020 employer payroll taxes until Dec. 31, 2021; the other 50% will be due Dec. 31, 2022. For self-employment taxes, 50% will not be due until those same dates.

## **Penalties Waived**

The IRS has been instructed to waive the failure to deposit penalties if the failure was in anticipation of a deferral.

\* The text of the CARES Act does not identify the employee portion of Social Security tax imposed by I.R.C. Section 3101(a), the employee portion of Medicare tax imposed by I.R.C. Section 3101(b), and the employer portion of Medicare tax imposed by I.R.C. Section 3111(b) as taxes against which payments of qualified wages may be credited.





# Business Tax Incentives

## **Net Operating Losses**

The bill temporarily repeals the 80% income limitation for net operating loss deductions for years beginning before 2021. For losses arising in 2018, 2019, and 2020, a five-year carryback is allowed (taxpayers can elect to forgo the carryback).

## **Interest limitation**

For tax years beginning in 2019 and 2020, Sec. 163(j) is amended to increase the adjusted taxable income percentage from 30% to 50%. Also, taxpayers can elect to use 2019 income in place of 2020 for the computation.

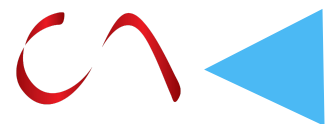
## **Qualified improvement property**

The bill also makes technical corrections regarding qualified improvement property under Sec. 168 by making it 15-year property, allowing for 50%/100% write off. This is a huge consideration point for real estate owners.

## **PLANNING POINT**

Companies should implement a cash focused tax plan, taking advantage of both timing and permanent tax savings.

Strategies outside of the CARES Act include cost segregation, research & development tax credits, inventory policies, account method changes, accelerated depreciation, and balanced compensation planning.







# Individual Benefits

## Recovery Rebates

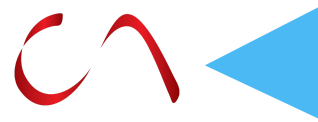
The CARES Act provides for payments to taxpayers, which are being treated as advance refunds of a 2020 tax credit. Under this provision, individuals will receive a tax credit of \$1,200 (\$2,400 for joint filers) plus \$500 for each qualifying child. The credit is gradually phased out for taxpayers with adjusted gross income over \$150,000 (for joint filers), \$112,500 (for heads of household), and \$75,000 for other individuals.

## Unemployment Boost

The Bill provides up to \$600 a week in addition to state unemployment benefits, if out of work for certain designated reasons in the act.

## Retirement Plans

Taxpayers can take up to \$100,000 in coronavirus-related distributions from retirement plans without being subject to the 10% additional tax for early distributions. Eligible distributions can be taken up to Dec. 31, 2020. Coronavirus-related distributions may be repaid within three years. The Bill also allows loans of up to \$100,000 from qualified plans, and repayment can be delayed.



# Contact



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