Small Business Association of Michigan

CARES Act Package

Sarah Jennings, CPA, CFE, CAE
sjennings@manercpa.com

Matt Latham, CPA
mlatham@manercpa.com

Dennis Theis, CPA, CVGA
dtheis@manercpa.com
CARES Act - Coronavirus Aid, Relief and Economic Security Act

Title I
Keeping American Workers Paid and Employed Act

Title II
Assistance for American Workers, Families and Businesses
Assistance for American Workers and Families

• Recovery Rebates and Individual Incentives
• Business Provisions
• Employee Retention Credit
• Employer Payroll Tax Deferral
CARES Act - Individual

• Individual Tax Relief
  • $1,200 Rebate ($2,400 if MFJ Return)
  • $500 credit for each child (follows child tax credit)
• AGI Limits
  • Look at 2019 AGI or 2018 AGI if you have not filed
• Refundable 2020 credit
CARES Act - Individual

• Retirement Funds
  • Waiver of 10% penalty on early withdraw (up to 100k) for COVID-19 related distributions
    • Diagnosed
    • Adverse financial consequences because of quarantine, business closure, or gov’t mandated shutdown
    • Waives the required minimum distribution rules for certain plans & IRAs

• Tax Deadlines
  • April 15th is now July 15th (Fed & Michigan)
  • Extensions in July (will need to pay)
CARES Act - Individual

• Tax Deadlines
  • April 15th is now July 15th (Fed & Michigan)
  • May extend in July (will need to pay in July)
• Estimates
  • 1st Quarter Due 7/15 (Fed & MI)
  • 2nd Quarter Due 6/15 (Fed & MI)

• Charitable Contributions
  • For AGI (above the line) deduction - $300
  • Must use standard deduction
CARES Act - Business

• Net Operating Losses
  • TCJA limited NOLs to 80% of taxable income in future years
    • Losses occurred in 2018 or later (tax year)
    • Could not carryback
  
• CARES Act
  • For 2018 – 2020 tax years – no limit on NOL deductions in those years
  • Can carryback loss 5 years
  • Note – any 2018 - 2020 losses that carry to your 2021 tax year (or later) will be limited by the 80% rule again
  • Does not impact any NOLs from pre-2018
CARES Act - Business

- Losses
  - S Corp, Partnership, SM LLC (Schedule C/E/F)
    - TCJA – Losses limited to 500,000 (MFJ)
    - CARES – No more limitation (2018-2020 losses)
    - If your 1040 has a NOL – can carryback
  
- C Corp – CIT return does not allow carrybacks
  - 1040s – Michigan will need to clarify
CARES Act - Businesses

• Carryback Impacts
  • Will impact other deductions
  • Look at ownership – did it change?
• Positives
  • Higher rates before the TCJA
    • C Corps were at 35% (now 21%)
    • Individuals as high as 39.6% (now 37%)
  • Fully deductible
  • Can Recoup taxes you didn’t have access to under the TCJA
CARES Act - Business

• Corporate AMT
  • TCJA – AMT Credits Limited
  • CARES Act – refundable (ends in 2021)

• Business Interest Expense Limits
  • Increase from 30% to 50% for 2019 & 2020
  • Can elect on 2020 return to apply 2019 Adjusted Taxable Income
CARES Act - Business

• Qualified Improvement Property
  • Pre-TCJA – 15 year (Bonus Eligible)
  • TCJA – Tax glitch – 39 year property (No Bonus)
  • CARES – Fixes the glitch (effective 9-28-17)
    • 15 year property
    • Bonus Eligible Again
    • How to fix
      • IRS may issue guidance
      • Amend 2017 & 2018
      • File 3115 (Change of Accounting Method) in 2019 to create a negative adjustment to taxable income – which you can take immediately
CARES Act - Business

- IRS/Treasury still needs to provide some guidance
- Amended Returns can take time to process
- If you have filed in 2019 – you can refile before the due date of your return (extensions)
Employee Retention Credit

• Refundable PR tax credit equal to 50% of qualified wages during a calendar quarter

• Applies to the first $10,000 compensation per employee

• Applies to ER share of Social Security payroll tax obligations, excess credit is refundable to the employer

• Cannot receive Small Business Interruption Loan and EE Retention Credit
Employee Retention Credit

• Qualified Wages (salary and qualified health plan exp)
  
  • **Over 100 FTE** in 2019 – wages paid to employees that are not providing services due to the COVID-19 circumstances
  
  • **100 or Fewer FTE** in 2019 – all wages qualify during the period, as long as the business continues in operations following

• Wages taken into account under Families First Act NOT included
• Includes wages paid after 3/12/2020 and before 1/1/2021
Employee Retention Credit

• All Companies, including those with over 500 employees
• Eligibility:
  • In business during 2020
  • Decline in business because of COVID-19
    • Required by government to shut down or suspend operations OR
    • Experienced significant decline in receipts
      • Any calendar quarter is 50% lower in gross receipts than same quarter in the prior year AND
      • Gross receipts recover to 80% of gross receipts of same quarter in the prior year in the first calendar quarter thereafter
Employer Payroll Tax Deferral

- Applies to ER Social Security AND Self Employment Tax
- ER portion of Social Security on wages paid in 2020 can be delayed
  - 50% not due until December 31, 2021
  - 50% not due until December 31, 2022

- CANNOT receive a CARES Act loan or debt forgiveness AND receive a payroll tax deferral
Keeping American Workers Paid...

- Paycheck Protection Program Loans
- Loan Forgiveness
- Entrepreneurial Development
- State Trade Expansion
- Emergency EIDL Grants
- Subsidy for Loan Payments
Paycheck Protection Program

• **Loans** to companies to keep their workforce employed

• Calculation Includes:
  • Compensation to employees
  • Payments to independent contractors

• Calculation Does not include:
  • Compensation of employee in excess of $100,000
  • Compensation for non US residents
  • Qualified sick and family leave under Families First Coronavirus Response Act
  • Federal tax
### Payroll Protection Program

<table>
<thead>
<tr>
<th>Payroll Costs:</th>
<th>Last 12 Months</th>
<th>Average Monthly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, wage, commissions, ...</td>
<td>2,000,000.00</td>
<td>166,666.67</td>
</tr>
<tr>
<td>Cash tips</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>PTO</td>
<td>50,000.00</td>
<td>4,166.67</td>
</tr>
<tr>
<td>Health care benefits</td>
<td>400,000.00</td>
<td>33,333.33</td>
</tr>
<tr>
<td>Retirement</td>
<td>100,000.00</td>
<td>8,333.33</td>
</tr>
<tr>
<td>State/Local PR taxes</td>
<td>7,500.00</td>
<td>625.00</td>
</tr>
<tr>
<td>Independent contractors (max $100,000 in 1 yr)</td>
<td>300,000.00</td>
<td>25,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>238,125.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a) 595,312.50</td>
</tr>
<tr>
<td>Maximum Loan - lesser of $10 million or (a)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Paycheck Protection Program

• Eligibility
  • Employers with 500 or fewer employees
  • Self Employed individuals, sole proprietors, independent contractors
  • 501(c)3 organizations
  • In business as of February 15, 2020
Paycheck Protection Program

• Fund Use
  • Payroll costs
  • Group health care
  • Interest on mortgage incurred prior to covered period
  • Interest on other debt incurred prior to covered period
  • Utilities – including electricity, gas, water, phone, internet
  • Rent
Loan Forgiveness

• Amounts forgiven are canceled indebtedness by the lender within 90 days of amount determination

• Includes
  • Payroll
  • Interest on covered mortgage
  • Rent
  • Utilities
## Loan Forgiveness

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Average Monthly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Loan</td>
<td>from calculation above</td>
<td>595,312.50</td>
</tr>
<tr>
<td>Payroll cost</td>
<td>341,875.00</td>
<td></td>
</tr>
<tr>
<td>Earnings from self-employment (if applicable)</td>
<td>60,000.00</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>60,000.00</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>21,000.00</td>
<td></td>
</tr>
<tr>
<td>Interest on covered mortgages</td>
<td>7,500.00</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal - Tentative Forgiveness</strong></td>
<td><strong>490,375.00</strong></td>
<td><strong>490,375.00</strong></td>
</tr>
</tbody>
</table>

### LESS: Required reduction in Loan Forgiveness

#### Number of Employees Reduction:

- **Monthly Average FTE**: 50

  \[ For \text{ 8 weeks following loan origination} \]

#### Lesser of (borrower's choice):

- **Monthly Average FTE: 2/15/19-6/30/19**: 59
- **Monthly Average FTE: 1/1/20-2/29/20**: 55

  \[ \% \text{ Reduction in Loan Forgiveness} = 9.09\% \ (44,579.55) \]

#### Compensation Reduction:

- **Individual EE Compensation Reduction in Excess of 25% Compared to the most Recent Full Q before Loan Origination**: (25,000.00)

  \[ \text{Subtotal - Tentative Forgiveness} = 420,795.45 \]

  \[ \text{Balance of Loan not Forgiven} = 174,517.05 \]
Portion of Loan Not Forgiven

- Interest rate not to exceed 4%
- What is not forgiven shall have maturity max of 10 years from date of application of forgiveness
- Deferral of principal, interest and fees for not less than 6 months, not more than 1 year
Emergency EIDL Grants

• $10 billion in funding

• Expanded eligibility because of economic losses related to COVID-19

• Eligibility:
  • Business or cooperative with not more than 500 EE
  • Sole proprietorship and independent contractors

• Emergency grant advance of $10,000

• Advance funds provided within 3 days
Entrepreneurial Assistance

• $265 million through SBDC and Women’s Business Centers

• To provide education, training and advisory services
Small Business Debt Relief

- $17 billion in funding

- Requires SBA to pay all principal, interest and fees on covered SBA loan products
  - Those in existence before the CARES Act and those made for the 6 months following

- Period of 6 months
Questions?

Sarah Jennings – sjennings@manercpa.com
Matt Latham – mlatham@manercpa.com
Dennis Theis – dtheis@manercpa.com

Maner Costerisan CARES Act Q&A –
Wednesday, 4/1 at 3pm
www.ManerSolutions.com/Events/