

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 15<sup>th</sup> is now July 15<sup>th</sup> (Fed & Michigan)
  - Extensions in July (will need to pay)

# CARES Act - Individual

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

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

# 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

			Average Monthly
Initial Loan		<i>from calculation above</i>	595,312.50
Payroll cost			341,875.00
Earnings from self-employment (if applicable)			60,000.00
Rent			60,000.00
Utilities			21,000.00
Interest on covered mortgages			7,500.00
	Subtotal - Tentative Forgiveness		490,375.00
<b>LESS: Required reduction in Loan Forgiveness</b>			
Number of Employees Reduction:			
Monthly Average FTE		50	
<i>For 8 weeks following loan origination</i>			
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		
% 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)
	Subtotal - Tentative Forgiveness		420,795.45
	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](mailto:sjennings@manercpa.com)

Matt Latham – [mlatham@manercpa.com](mailto:mlatham@manercpa.com)

Dennis Theis – [dtheis@manercpa.com](mailto:dtheis@manercpa.com)

Maner Costerisan CARES Act Q&A –  
Wednesday, 4/1 at 3pm

[www.ManerSolutions.com/Events/](http://www.ManerSolutions.com/Events/)