# COVID-19

# Tax Compliance and the CARES Act
# Planning in the Time of Coronavirus

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# COVID-19

The Covid-19 pandemic is an unprecedented crisis. That, coupled with the rapidly changing landscape of legislative and industry responses – and the sheer volume of information emerging almost hourly – can be a recipe for confusion and anxiety. This presentation will endeavor to provide clarity regarding the tax changes and implications as well as guidance regarding the various economic relief measures available for businesses and individuals.

# FEDERAL & CALIFORNIA


# UPDATES

# ✓ Federal & California Tax Updates

- Federal and California income tax filing due date automatically extended from April 15, 2020, to July 15, 2020.
- Taxpayers can also defer federal and California income tax payments due on April 15, 2020, to July 15, 2020, without penalties and interest, regardless of the amount owed.
- This deferment applies to all taxpayers, including individuals, trusts and estates, corporations and other non-corporate tax filers as well as those who pay self-employment tax.
- IRS will temporarily accept scanned digital signatures
- IRS temporarily allowing workers to send and receive documents by email
- Sales Tax
  - 2020 Q1 sales tax not due until July 31st
    - Extension is automatic unless you have a tax liability of $1M or more.
  - 12-month interest-free payment plan available if you owe <$50k
- Property tax payments still due April 10th – cannot extend deadline but may waive penalties & interest
  - Taxpayers must request waiver
- Economic Impact Payments

# The **Family First Coronavirus Response Act** (FFCRA)

- ✓ EPSLA
- ✓ FMLA+

# ✓ The Families First Coronavirus Response Act (FFCRA)

**The Families First Coronavirus Response Act (FFCRA) went into effect on April 1, 2020, and had two key provision for employers, which expire on December 31, 2020**

**To help employers pay for the EPSLA and expanded FMLA:**

- **Employers may claim a credit against their federal payroll taxes up to the amount paid to full and part time workers.**
- **If the payments to employees exceed the payroll taxes, the employer will receive a refund.**
- **Qualified sick and family leave wages for which a payroll credit is allowed under the FFCRA cannot be counted as wages for the Paycheck Protection Loans.**

# ✓ Emergency Paid Sick Leave Act (EPSLA)

**The Emergency Paid Sick Leave Act (EPSLA), provides for up to 80 hours ($5,110 per employee maximum) of paid sick leave to private and public sector employees due to specific coronavirus related situations.**

**The bill identified six instances where the EPSLA applies .**

# ✓ Extended Family Paid Medical Leave Act (FMLA+)

**An expansion of the Family Medical Leave Act (designated FMLA+), provides up to 10 weeks (capped at $10,000 total) paid leave to care for a child or children because their care facility/school is closed.**

# ✓ Expanded Economic Injury Disaster Loan Program

# ✓ Expanded Economic Injury Disaster Loan Program

- These loans are available between January 31, 2020 and December 31, 2020.
- Apply for these loans directly through the SBA at www.SBA.gov/disaster.
- Businesses are also eligible for a one-time grant of up to $10,000 (must request at the time of application).
- More businesses will qualify under the new rules; approval requirements have been relaxed and payments can be deferred.
- EIDLs obtained after January 31, 2020 may be refinanced with proceeds of a PPL.
  - The maximum available PPL is increased by the amount of the EIDL and becomes subject to all the benefits and conditions of the PPL.
- Terms
  - Loans up to $2M limit,  30-year max term
  - Interest rate is 3.75% for small businesses
- Funds can be used to offset economic losses caused by the COVID-19 pandemic
- Approval time is 30-45 days
- No fees or prepayment penalties
- Not forgivable


The Paycheck Protection Program.

# Paycheck Protection Program (PPP)

## The Basics

- **Paycheck Protection Loans (PPLs) used to provide working capital to cover primarily payroll and other operating expenses, and refinance certain EIDLs**
- **Bank of America was the first major bank to begin processing loans on April 3rd.**
  - **B of A received 85,000 loan applications totaling $22.2 billion on Day 1.**
- **Amount – up to the lesser of A) $10 million and (b) 2.5 times the average monthly payroll plus (c) any EIDL Loan made between January 31, 2020 and April 3, 2020.**
  - **Work with your payroll provider to determine your 'average monthly payroll costs.'**
- **Businesses can apply for both a PPL and an EIDL providing the proceeds are not used for the same purpose.**
- **The EIDL $10,000 advance is excluded from the refi amount**
- **If a qualified EIDL loan was used to for payroll costs, your PPL must be used to refi those same costs.**

# Paycheck Protection Program (PPP)

## The Terms

- Interest rate is 1%
- Loan term is 2 years
- Payments for the remaining loan amount after forgiveness will be deferred for 6 months.
    - Interest will accrue during that 6-month period.
- Use the loan proceeds for payroll costs,  mortgage interest payments, rent, and utilities
    - In calculating payroll, the amount of salary paid to employees should be capped at $100,000 per employee.
- At least 75% of the proceeds must be used for payroll costs.

# Paycheck Protection Program (PPP)

## Eligibility

- Who is eligible – business with fewer than 500 employees, or those larger than that which meet applicable size standards for the industry(ies) as prescribed by the SBA
  - includes sole proprietorships, independent contractors, and other self-employed people
  - Includes 501(c)(3) and 501(c)(19) nonprofit organizations and tribal business concerns
  - Affiliate rule – counts employees for all affiliated (power to control) companies
    - Sole proprietorships, independent contractors and eligible self-employed individuals (no revenue requirement)

# Paycheck Protection Program (PPP)

## Loan Forgiveness

- Indebtedness will be forgiven, up to the principal amount of the loan, for payments made during the 8-week period after issuance of the loan for payroll, utilities, rent  and mortgage interest.
  - Forgiveness of the non-payroll costs is limited to 25%.
  - i.e., the Feds expect 75% of these funds will be used to maintain company employment levels and payroll costs
  - More details on loan forgiveness to be released.

# Paycheck Protection Program (PPP)

## Lenders

- All existing SBA-certified lenders will be given delegated authority to speedily process PPP loans.
- The Treasury Secretary has authority to approve new lenders to make loans under the 7(a) program.
- Contact your bank or lending institution to determine their eligibility and begin the application process.

# EMPLOYEE RETENTION CREDITS

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# ✓ Employee Retention Credits

- The CARES Act includes a 1-year credit against the 6.2% employer portion of Social Security payroll taxes for any employer forced to suspend or close operations due to COVID-19, provided the employer continues to pay employees during the shutdown.
- Businesses that remain open, but for which gross receipts during any quarter in 2020 were less than 50% of what they were for the same quarter in 2019 will be entitled to a credit each quarter until sales reach 80% compared to the prior year's quarter.
- Limitations on taking the Employee Retention Credit include the following:
  - The amount of qualified wages for each employee may not exceed $10,000 in total.
  - The credit is equal to 50% of qualified wages, so a maximum credit of $5,000 per employee.
  - The credit is refundable if it exceeds the employer's payroll tax liability.
  - Any wages used to calculate the new payroll tax credit for the expanded Family Medical Leave Act or the Emergency Paid Sick Leave Act, which were part of the recently enacted Families First Coronavirus Relief Act, may not be considered for the employee retention credit.
  - The employee retention credit will not be available to employers who take out a Payroll Protection Loan.

# ✓ Employee Retention Credits

- UPDATE – Early response to this credit was that employers would have to wait to file payroll tax returns to get credit.
  - LAW AMENDED
    - All credits outlined here will offset not only the employer’s share of SS taxes on payroll tax returns, but also federal income tax withholding and the full amount of the employer’s share of payroll taxes, and
    - Employer will receive an immediate benefit equal to the anticipated credits by reducing the amount of the required payroll tax deposit by the computed credit

# NET OPERATING LOSSES (NOL)

# ✓ Net Operating Losses

- The Tax Cuts and Jobs Act of 2017 (TCJA) eliminated the ability for taxpayers to carry back net operating losses (NOLs) and limited carry forwards to 80% of taxable income.
- The CARES Act allows 2018, 2019, and 2020 NOLs to be carried back up to 5 years.
- Alternatively, taxpayers may carry the NOLs forward to 2019 and 2020 without the 80% income limitation.

# QUALIFIED IMPROVEMENT PROPERTY

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# ✓ Qualified Improvement Property

- The CARES Act makes technical corrections to the TCJA with respect to qualified improvement property, making it 15-year property instead of 39-year property

- This makes it available for 100% bonus depreciation.

- The change is retroactive to January 1, 2018, so taxpayers may be able to file amended returns to claim a refund.

# Changes to the Interest Expense Deduction Limitation Rules

# ✓ Business Interest Expense Deduction Increased

- The TCJA limited business interest expense deductions to 30% of 'adjusted taxable income,' and allowed any excess to be carried forward to subsequent tax years.
  - The CARES Act increased that limit to 50% of adjusted taxable income for 2019 and 2020.
- To help 'even out' business income in 2019 with probable business losses in 2020, businesses can use 2019 income to calculate their 2020 interest expense deduction, generating an NOL and taking advantage of the less restrictive NOL rules under the CARES Act.
- Rules are different for partnerships.
  - Limitations are at the partner level.


ANY
QUESTIONS
???

# THANK YOU

**TAKE CARE**

**& BE SAFE**


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