

The CARES Act: Taking Action

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The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides many benefits and potential benefits to small businesses, as Congress works to keep people employed and small businesses operating. Simply put, this is the largest stimulus package in U.S. history. Click [HERE](#) for our summary of the full Act on our Resource Page.

Here are some highlights of the CARES Act that should get immediate attention:

Small Business Loan Programs:

- **Paycheck Protection Program Loans** - For businesses with fewer than 500 employees, including sole proprietors and nonprofits, the CARES Act provides almost \$350 billion in Small Business Act (SBA) loans from April 2, 2020 through June 30, 2020 on a first come first serve basis. These Paycheck Protection Loans (PPL) can be used to provide working capital to cover payroll and other operating expenses up to \$10M. However, they are designed primarily to cover payroll. If 75% of the loan proceeds are used for payroll, then certain payroll, rent or mortgage, and utilities expenses may be forgiven, tax free, and the payments on the remaining balance can be deferred 6 months. Click [HERE](#) for more details.
- **Expanded SBA's Disaster Loan Program** - These loans are available between January 31, 2020-December 31, 2020. Businesses are also eligible for a one-time grant of up to \$10,000. More businesses will qualify under the new rules, as approval requirements have been relaxed and payments can be deferred.
- **Federal Reserve Action** – Note that the Federal Reserve moved to backstop all credit markets, including PPLs. A key component is the assistance in loan renewal and an exception from trouble debt classification for certain loans. You need to utilize the Fed's measures in working with your banks to address your current financing and any new debt or renewals.

Payroll Tax Credit and Deferral:

- **Employee Retention Credits** - The CARES Act includes a one-year credit against an employer's 6.2% share of Social Security payroll taxes for any employer who is forced to suspend or close operations due to COVID-19, as long as the employer continues to pay employees during the shut-down. Businesses that remain(ed) 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.
- **Payroll Tax Credits** – The Families First Coronavirus Response Act provides payroll tax credits for the required sick leave paid and the required family leave paid.
- **Deferral of Employer Payroll Taxes** - The CARES Act allows the employer's share of the 6.2% Social Security tax that would otherwise be due from the date the Act passes to December 31, 2020, to be paid half (50%) on December 31, 2021, with the other half (50%) due on December 31, 2022. The same rule applies to a self-employed individual with respect to half (50%) of their self-employment tax.

Opportunities for Review:

- **Utilization of Business Losses** – The Tax Cuts and Jobs Act of 2017 (TCJA) limited business losses available to offset other income at \$250,000 single and \$500,000 married filing joint, with any excess carrying over. The CARES Act suspends this law for 2018, 2019 and 2020. To the

extent that returns were filed for 2018 and 2019 which had limited losses, these returns can be amended to fully apply the losses against other income and potentially claim a refund.

- **Net Operating Losses** – the TCJA eliminated net operating loss (NOLs) carry backs and limited the amount of income that carry forwards could offset in any given year 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.
 1. If you have existing NOLs, or expect business losses this year, we can help you determine how best to apply these NOLs and, if warranted, amend your prior years' returns.
 2. Corporate losses incurred in 2018, 2019 and 2020 can be carried back 5 years, thus, taking advantage of tax years with an effective corporate rate of 35% rather than the current 21%.
- **Qualified Improvement Property** - The CARES Act makes a technical correction to TCJA with respect to qualified improvement property, making it 15-year property instead of 39-year property, which also makes it available for 100% bonus depreciation.
 1. This change is retroactive to January 1, 2018, so if you have QIP property you may be able to amend prior years' returns and reap the benefits of the greater deduction earlier.

Consider This:

- **Estate Planning** – With values down, now is a good time to use gifts as part of your estate planning strategy.
- **Cashflow Planning** – It's important to make projections and monitor your cashflow during these uncertain times.
- **Financial Modeling** – Understanding the implications of the various available courses of action will be critical in weathering the storm. Modeling out the actions and results lets you plan and monitor as you navigate the future.

The CARES Act is the largest stimulus package in U.S. History, and we will be working closely with clients to determine how best to apply the aspects of the Bill to mitigate losses, manage issues, and uncover opportunities. For more information, visit our [COVID-19 Resource Page](#), or contact us at (408) 287-7911 to schedule a phone/Skype/Zoom meeting to begin planning today.