



COVID 19 Issues and Topics

The information below provides a summary of the topics and changes we believe are most relevant to our clients. Information provided is accurate as of March 30, 2020.

Tax Filings Deadlines & Payments

- IRS and CA tax filing and payment deadlines have been automatically extended to July 15th.
- No extension form or payment is required until July 15th.
- If additional time is required then an extension will need to be filed by July 15th.
- IRS and CA 2020 Q1 estimated tax payment deadline has been extended to July 15th.
- IRA, HSA, MSA contributions deadlines have also been extended to July 15th.
- If you are expecting a refund, we recommend that you file your Federal and California income tax returns as soon as possible.
- IRS link to questions and answers about tax filing deadlines, payments, etc.
- <https://www.irs.gov/newsroom/filing-and-payment-deadlines-questions-and-answers>

2020 Recovery Rebate for Individual Taxpayers

- The rebate amount is \$1,200 per adult and \$500 per qualifying child. Please see the link for qualifications of a qualifying child <https://www.irs.gov/newsroom/ten-facts-about-the-child-tax-credit>
- The rebate will phase out at \$75,000 for single filers, \$112,500 for heads of household, and \$150,000 for joint taxpayers at a rate of 5% per dollar of qualified income. The rebate will completely phase out at \$99,000 for single taxpayers with no children, \$136,500 for heads of households with no children, and \$198,000 for joint taxpayers with no children. Add \$10,000 per child to the total AGI phase-out amount.
- Your adjusted gross income will be determined through your tax return filings. If you already filed a 2019 tax return they will use this return to determine your eligibility. If you have not filed a 2019 tax return your 2018 tax return will be used to determine eligibility. If you do not file a tax return because you receive either social security or you are a railroad retirement recipient the credit will automatically be advanced based on information from your 2019 social security or railroad retirement benefit statement.
- Here is a link to a calculator the Washington Post has online you can use to calculate your rebate amount. You will need either your 2019 return or your 2018 return to input your AGI.
 - <https://www.washingtonpost.com/graphics/business/coronavirus-stimulus-check-calculator/>
- Payments will be directly deposited into your bank account per your 2018 or 2019 tax return. If you did not provide direct deposit information on your tax return you will receive a check in the mail.
- No timeline has officially been released regarding when payments will go out.
- These payments are nontaxable and are structured as a refundable tax credit advanced to households in 2020.



Federal SBA Loan Programs

- Currently there are two Federal SBA loan programs for COVID 19 (Economic Injury Disaster Loan & Paycheck Protection Program).
- **Economic Injury Disaster Loan (EIDL)**
 - Businesses with 500 or fewer employees are eligible including:
 - Sole proprietorships, with or without employees
 - Independent contractors
 - Cooperatives and employee owned businesses
 - Tribal small businesses
 - Applications can be submitted through the SBA website - <https://www.sba.gov/page/disaster-loan-applications#section-header-0>
 - An applicant will need to Submit SBA Form 5 along with all required documents listed on the SBA website.
 - The applicant will need to demonstrate economic injury via loss in revenue - including anticipation of future loss - through cancellation of contracts, events, conferences, and travel restrictions.
 - Post submission you will be notified of your submission and you will undergo a credit check. The SBA has stated they will attempt to be more flexible with credit ratings.
 - If you feel your qualification is in doubt, you should still proceed with an application and be open to all programs. Submitting an application does not force you to accept the funds/terms if approved.
 - SBA will request your most recently filed tax return. You can proceed with an application even if the 2019 tax return has not been filed.
 - SBA is currently backlogged with applications. Process may take several weeks or months unfortunately.
 - Traditionally, EIDLs require collateral for loans over \$25,000. As a result of COVID-19, the SBA is moving to acquire general security interest in assets and won't use real estate to secure the loan even if it's available in order to expedite the process.
 - Application deadline is December 16, 2020.
 - Terms are determined on a case-by-case basis but general guidelines are as follows -
 - Up to \$2 million per qualifying business
 - Fixed interest rate of 3.75% for small businesses and 2.75% for non-profit entities
 - Up to 30 year term depending on each business
 - No early repayment penalties
 - One year deferment of payments
 - No fees associated with the application
 - Loan is not meant to replace lost profits. The amount of the loan is based upon capital needs.
 - Determination of funding amounts and document requirements vary by industry.
 - Churches and cannabis related businesses are not eligible.



- Applicants may also call the SBA's customer service center at (800) 659-2955 or email disastercustomerservice@sba.gov for more information.
- As part of the recently signed CARES Act the government also added an Emergency Economic Injury Grant.
- **Emergency Economic Injury Grant**
 - Provides an emergency advance of up to \$10,000 to small businesses and private non-profits harmed by COVID-19 within 3 days of applying for an SBA EIDL.
 - To access the advance, you first apply for an EIDL and then request the advance.
 - The advance does not need to be repaid under any circumstances, and may be used to keep employees on payroll, to pay for sick leave, meet increased production costs due to supply chain disruptions, or pay business obligations, including debts, rents, and mortgage payments
 - <https://www.sba.gov/page/disaster-loan-applications#section-header-0>.
- **Paycheck Protection Program (PPP)**
 - The program would provide cash-flow assistance through 100 percent federally guaranteed loans to businesses who maintain their payroll during this emergency.
 - If employers maintain their payroll, the loans would be forgiven. The loan forgiveness will be for up to 8 weeks of payroll based on employee retention and salary levels through June 30, 2020.
 - No collateral or personal guarantees are required
 - Maximum loan amount is \$10 million. Loans will be administered and distributed through qualified SBA 7(a) lenders (most banks are qualified SBA 7(a) lenders).
 - The amount of the loan will be determined as follows -
 - If you were in business February 15, 2019 – June 30, 2019: Your max loan is equal to 250 percent of your average monthly payroll costs during that time period. If your business employs seasonal workers, you can opt to choose March 1, 2019 as your time period start date.
 - If you were not in business between February 15, 2019 – June 30, 2019: Your max loan is equal to 250 percent of your average monthly payroll costs between January 1, 2020 and February 29, 2020.
 - Eligible payroll costs include -
 - Compensation (salary, wage, commission, or similar compensation, payment of cash tip or equivalent)
 - Payment for vacation, parental, family, medical, or sick leave
 - Allowance for dismissal or separation
 - Payment required for the provisions of group health care benefits, including insurance premiums
 - Payment of any retirement benefit
 - Payment of State or local tax assessed on the compensation of employees
 - Non eligible payroll costs are -
 - Employee/owner compensation over \$100,000



- Taxes imposed or withheld under chapters 21, 22, and 24 of the IRS code
- Compensation of employees whose principal place of residence is outside of the U.S.
- Qualified sick and family leave for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act.
- The maximum term is 2 years, the interest rate is 1 percent, zero loan fees, zero prepayment fee (SBA will establish application fees caps for lenders that charge).
- No application fees can be charged to businesses by banks or agents.
- Six month deferral with maximum deferrals for any amounts not forgiven.
- Loan Forgiveness Information
 - Forgiveness on a covered loan is equal to the sum of the following payroll costs incurred during the covered 8 week period compared to the previous year/time period, proportionate to maintaining employees & wages (excluding compensation over \$100,000)
 - Payroll costs plus any payment of interest on any covered mortgage obligation (not including any prepayment or payment of principal on a covered mortgage obligation) plus any payment on any covered rent obligation plus any covered utility payment.
 - You must apply through your lender for forgiveness on your loan. The application will require documentation on the number of employees, payroll rates, lease obligations, utilities, etc.
- Amount of loan forgiveness is reduced to the extent employees are laid off or salaries are reduced by more than 25%.
- Borrowers who rehire employees previously laid off will not be penalized for having reduced payroll at the beginning of the period.
- The forgiven amount of the loan will not be considered taxable income.
- Each entity is limited to one PPP loan. Each loan will be registered under an EIN at SBA to prevent multiple loans to the same entity.
- You can apply for an EIDL and PPP loan. You can choose to have your EIDL loan rolled into your PPP loan if desired.
- However, you cannot use your PPP loan for the same purpose as your other SBA loan(s)
- PPP loans are available through June 30, 2020.
- Document requested
 - Payroll filings – Form 941 / DE9 / DE9C – (2019 Q1 – Q4)
 - Health insurance invoices/proof of payment for 2019
 - Employer retirement plan contributions for 2019
 - 2017 & 2018 business tax returns (possibly)
 - 2019 financials (possibly)
- **Subsidy for Certain Loan Payments**
 - The bill also provides benefits to those with loans under Section 7(a) of the Small Business Act other than the new paycheck protection loans, in the form of a government subsidy whereby the SBA will pay six months of principal, interest and fees on qualifying loans.



- Contact your existing 7(a) lender in regards to information about this program.
- **State and City Loan Programs**
 - There are emergency microloan programs available through the City of LA and City of San Francisco. Applications can be found online. Amount of loan varies from \$5,000 - \$25,000.

Unemployment Compensation

- The following is a short summary of unemployment insurance benefits. In regards to this area we believe it would be more appropriate for you to speak with an attorney and/or human resources specialist for specific information on this topic.
- Temporary unemployment benefits for those who do not traditionally receive it (i.e., self-employed, independent contractors, etc.)
- Payments to states to reimburse nonprofits, government agencies, and Indian tribes for half the costs they incur through the end of 2020 to pay unemployment benefits.
- An additional \$600 per week payment to each unemployment recipient for up to 4 months.
- Funding to pay the cost of the first week of unemployment for states that choose to pay recipients as soon as they become unemployed instead of the 1-week waiting period.
- An additional 13 weeks of unemployment benefits through the end of 2020 to help those who remain unemployed after state unemployment benefits are no longer available.
- Funding to support "short-term compensation" programs, in which employers reduce employee hours instead of layoffs; states may reimburse employers 100% of the costs incurred and employees may receive a prorated unemployment benefits from the state.

Families First Coronavirus Response Act

- Similar to unemployment compensation we recommend discussing this topic with an attorney and/or human resources specialist.
- This act extends paid sick leave to employees all over the country affected by the pandemic for up to 80 hours.
- Employers with fewer than 500 employees and government employers must provide paid sick leave to employees who are forced to stay home due to illness, quarantining, or caring for a family member because of COVID-19, or to care for a son or daughter if the school or place of care is closed due to COVID-19
- Compensates non-governmental employers for the required paid leave with refundable credits against the employer's portion of the Old-Age, Survivors, and Disability Insurance (OASDI) payroll tax.
- For an employee who is unable to work because of a COVID-19 quarantine or self-quarantine, or who has COVID-19 symptoms and is seeking a medical diagnosis, eligible employers may receive a refundable sick leave credit for sick leave at the employee's regular rate of pay, up to \$511 per day and \$5,110 in total, for a total of 10 days.



- For an employee who is caring for someone with COVID-19, or is caring for a child because the child's school or child care facility is closed, or the child care provider is unavailable, due to the COVID-19, eligible employers may claim a credit for two-thirds of the employee's regular rate of pay, up to \$200 per day and \$2,000 in total, for up to 10 days.
- For an employee who is unable to work because of a need to care for a child whose school or child care facility is closed, or whose child care provider is unavailable, due to the COVID-19, eligible employers may receive a refundable family care (child care) leave credit. This credit is equal to two-thirds of the employee's regular pay, up to \$200 per day and \$10,000 in total. Up to 10 weeks of qualifying leave can be counted towards the child care leave credit.

CARES Act Tax Law Changes

- **Employee Retention Credit**
 - Payroll tax credit of 50% of wages paid by employers to employees during the COVID-19 crisis (i.e., March 13, 2020 through end of 2020)
 - Credit only available to employers whose: a) business operations have been suspended (fully or partially) due to the crisis; or b) gross receipts have declined by more than 50% compared to last year's quarter.
 - If 100 or fewer full-time employees, all wages qualify regardless of reasons stated above.
 - Maximum credit of \$5,000 per employee (based on maximum qualified wages of \$10,000 per employee, including health benefits)
 - If you've taken an SBA loan, the employee retention credit will not be available to you – this credit provides an alternative to the SBA loan program.
- **Payroll Tax Deferral**
 - Deferral of employer's share of 6.2% Social Security tax (includes self-employed individuals); deferred tax must be paid over 2 years (half by end of 2021 and remainder by end of 2022).
 - If you've taken an SBA loan, the employee retention credit will not be available to you – this credit provides an alternative to the SBA loan program.
- **Charitable Contributions**
 - Above-the-line deduction of up to \$300 of cash contributions to charities (regardless of whether contributor itemizes).
 - Increased limitations on charitable deductions for individuals (who itemize) and corporations.
 - For individuals, 50%-of-AGI limitation for cash contributions to a public charity is suspended for 2020.
 - For corporations, 10% limitation is increased to 25% of taxable income.
 - Limitation on deductions for contributions of food inventory increased from 15% to 25% for 2020.
- **Student Loans**
 - Employees may exclude from gross income the amount of student loan repayment assistance received from employers, up to \$5,250 annually, through the end of 2020.
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- **Net Operating Loss ("NOL") Modifications**
 - NOLs arising in 2018, 2019 or 2020 tax years may be carried back 5 years.
 - Temporary removal of 80% taxable income limitation for NOL deductions taken in 2018, 2019 and 2020.
 - Can amend prior year returns if needed.
- **Retirement Accounts**
 - Waives 10% early withdrawal penalty for distributions of up to \$100,000 from qualified retirement accounts for certain corona-virus related purposes made on or after January 1, 2020; income on distributions taxed over 3 years.
 - Greater flexibility for loans from certain retirement plans for coronavirus-related relief.
 - Temporary waiver of required minimum distribution ("RMD") rules for 2020 for certain retirement plans and accounts.
- **Additional Provisions**
 - The exclusion from tax of any forgiven small business loans, mortgage obligations, or other loan obligations forgiven by the lender during the applicable period.
 - A safe harbor from the definition of a high deductible health plan permitting telehealth services to be included, even though such services do not carry a deductible.
 - The inclusion of over-the-counter menstrual products as qualified medical expenses for purposes of distributions from health savings accounts and health flexible spending arrangements.
 - Pension funding relief for failures to meet contribution requirements to defined contribution plans during 2020.
 - Allowing certain charitable employers whose primary exempt purpose is providing services to mothers and children to use small employer charity pension plan rules.