

# THE POWER OF BEING UNDERSTOOD



# RELIEF FOR COVID-19



April 23, 2020

# Agenda

- 2019 Federal and State Filing Update
- Changes Impacting Individuals, Investors and Business Owners
- Liquidity

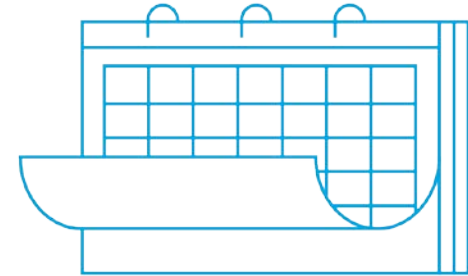


# 2019 FEDERAL AND STATE FILING UPDATE

# Federal tax filing update

- [Notice 2020-18](#)

- Individual (Form 1040), Trust (Form 1041), and C Corporation (Form 1120) due date for filing and paying tax is **July 15, 2020**.
- First quarter estimated taxes originally due April 15 are now also due **July 15, 2020**.
- [IRS FAQs](#)
- [RSM's IRS FAQ Tax Alert](#)



- [Notice 2020-20](#)

- Gift and Generation-Skipping Transfer Tax Returns (Form 709) due date for filing and paying tax is **July 15, 2020**.

# State tax filing update

- Almost all states have provided income tax filing and/or payment relief for corporations and individuals, either as a result of federal conformity or because of state-specific guidance
- Similar filing and/or payment relief exists for fiduciaries and pass-through entities in some states, but guidance is in flux
- Filing and payment relief is not limited to income tax, in more limited instances relief is available for sales tax and property tax
- Filing deadline resources:
  - [State conformity to federal COVID-19 extensions](#)
  - [State and local sales tax extensions and relief due to COVID-19](#)
  - [AICPA: State Tax Filing Guidance for Coronavirus Pandemic](#)

# CHANGES IMPACTING INDIVIDUALS, INVESTORS AND BUSINESS OWNERS

# INDIVIDUALS - Recovery rebates

- Rebates payable to eligible individuals
  - U.S. residents only
  - Not eligible to be claimed as dependent of another taxpayer
  - Must have a social security number
- \$1,200 per eligible individual (\$2,400 joint) and \$500 per dependent
- **Rebate amount phases out** as adjusted gross income exceeds:
  - \$150,000 joint filers (fully phased out at \$198,000)
  - \$112,500 head of household (fully phased out at \$146,500)
  - \$75,000 single (fully phased out at \$99,000)
- Rebates distributed to eligible individuals based on 2019 tax return, 2018 tax return, or 2019 SSA 1099 statements



# INDIVIDUALS – Special use of retirement funds: Distributions up to \$100,000

- **No 10% early distribution penalty** for distributions up to \$100,000 from retirement accounts for “Coronavirus-related” purposes in 2020
- Distribution may be **repaid to the plan within three years** (rather than 60 days), or the inclusion in income is taxed ratably over three-year period (if elected)
- “Coronavirus-related distribution” made to an individual:
  - diagnosed with COVID-19, including a spouse or dependent; OR
  - experiences adverse financial consequences as a result of quarantine, furlough, lay off, reduced work hours, or lack of child care due to COVID-19, closing or reduced hours of operations for business owned/operated, or other factors determined by the Treasury Department

# INDIVIDUALS - Special use of retirement funds: Plan loans and waiver of RMDs

- Qualified individuals may **borrow up to \$100,000** from qualified retirement plans within 180 days of enactment date of CARES Act (prior loan limit was \$50,000)
  - This does not apply to IRAs
- Definition of qualified individuals tied to “Coronavirus-related distribution”
- Loan **repayments**, normally spread over five years, are delayed up to one additional year. **UP TO SIX YEARS**
- **Temporary waiver of required minimum distributions** for 2020 from defined contribution plans and IRAs

# INDIVIDUALS AND TRUSTS - Net operating loss

- The same changes in NOL deductions described for businesses apply to individuals, estates and trusts
- The prior 80% of taxable income limitation for losses incurred in 2018, 2019, and 2020 is eliminated for 2018 – 2020 tax years
- **NOLs** for 2018, 2019 and 2020 **may be carried back five years** to generate refunds
- The taxpayer may waive the carryback period and instead carry the losses forward
- **Recall top income tax rates were 39.6%** in 2013 – 2017

# INDIVIDUALS-NOLs and losses

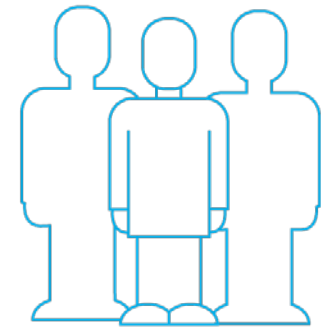
- The TCJA limited business losses in a year to \$250,000 for single filers, \$500,000 for joint filers
  - Excess becomes part of the NOL carryover calculation
- The Act defers (retroactively) the effective date of this provision to tax years beginning ***after Dec. 31, 2020***
- Change allows for the following:
  - Full utilization of 2018 – 2020 business losses
  - Carryback of business losses to the extent they create an NOL in 2018 – 2020

# INDIVIDUALS: Charitable deduction changes for 2020

- The **charitable deduction limit for individuals has been suspended** for 2020 (formerly 50% / 60% of adjusted gross income limit) for qualified charitable contributions (QCC) when itemizing deductions
- Individuals not itemizing deductions on Schedule A are allowed to deduct up to \$300 of QCC
- QCC deduction is first reduced by gifts subject to 30% / 20% AGI limitations
- QCC are those made to:
  - **Public charities** (excludes donor advised funds and non-operating private foundations)
  - In the form of **cash** during 2020

# BUSINESSES-Employee retention credit

- Payroll tax credit equal to **50% of the qualified wages**
  - Eligible employers with 100 or fewer employees – may count all employee wages in calculation
  - Eligible employers with more than 100 employees – count just employee wages paid for time when employee is not providing service
- To the extent employer pays more in qualified wages than can be paid for by reducing employer social security tax (6.2%) employer may be able to apply for additional refund
- Credit period is for wages paid after March 12, 2020 and before Jan. 1, 2021



# BUSINESSES-Employee retention credit

- Credit available to any employer carrying on a trade or business in calendar year 2020 that:
  - was partially or fully suspended due to orders from an ‘appropriate government authority’ limiting commerce, travel, or group meetings due to COVID-19; OR
  - experienced a 50% or greater reduction in gross receipts for a quarter as compared to the same quarter in 2019
  - Continues for subsequent quarters until gross receipts hit 80% for a quarter as compared to the same quarter in 2019
- Credit is also available to tax-exempt organizations under section 501(c) and exempt from tax under section 501(a)
- Credit is not available to certain governmental employers
- An **employer is not eligible if it is taking a small business interruption loan**

# BUSINESSES-Employer payroll taxes

- Delay of payment of employer social security (6.2%) payroll taxes
  - Deferral March 27, 2020 – Dec. 31, 2020
  - Payable ½ Dec. 31, 2021 and ½ Dec. 31, 2022
- Not available if employer receives PPP or certain other loans and the loan is forgiven





# Excise tax items

- Exception from excise tax for alcohol used to produce hand sanitizer
- Suspension of certain aviation excise taxes

# CORPORATIONS-Five-year of NOL carryback

- **NOL carrybacks** for losses arising in a taxable year beginning after Dec. 31, 2017, and before Jan. 1, 2021 to each of the **prior five taxable years**
  - **Corporate rate was 35%** for most of the carryback period
  - Individual rate was 39.6%
- Consider taxable years and impact of changes to a corporation's tax year-end or short-years resulting from M&A transactions
- Technical correction for fiscal-year filers for FYE beginning prior to December 31, 2017
- Who will receive the refund?
  - If the corporation carrying back losses was a member of a prior consolidated group in a carryback year the refund will go to the common parent of the prior consolidated group

# CORPORATIONS-Carrybacks and short tax-years

- Five tax-years may not be five calendar years
- Example:
  - Assume that Corporation X was a stand-alone calendar year C corporation acquired June 30, 2018 by Corporation P
  - Corporation P is strictly a holding company and the two corporations elected to file a consolidated return
  - In 2019, the P-X group has a loss, all attributable to X, that it wishes to carry back
- The loss is carried back to the years ending:
  - Dec. 31, 2018 (P-X consolidated return)
  - June 30, 2018 (X stand-alone return)
  - Dec. 31, 2017 (X stand-alone return)
  - Dec. 31, 2016 (X stand-alone return)
  - Dec. 31, 2015 (X stand-alone return)

# CORPORATIONS-Other NOL-related considerations

- Under the Act, a **taxpayer may not utilize the NOL carrybacks to offset section 965 income**
- GILTI income in the current tax year or prior tax years reduces the benefit of a taxpayer's current NOL or NOL carryback
- Also, note that the carryback of NOLs can impact credits and deductions the corporation had previously claimed
  - For example, section 199 domestic production activities deduction (DPAD) is limited to taxable income, so an NOL carryback could reduce the DPAD deduction previously claimed
- Taxpayers should look to opportunities in 2019 and 2020 to increase NOLs to maximize carry backs (i.e. accounting method changes)

# CORPORATIONS: Charitable deduction changes for 2020

- **Increases the limitation** for the deduction for **food inventory** from any trade or business **to 25% from 15%** of taxable income (applies to individuals also donating food inventory from trade or business)
- **Increases the limitation** for the deduction of “qualified charitable contributions” **from 10% to 25%** of the corporation’s taxable income
- Nonqualified charitable contribution gifts made will reduce the 25% taxable income limit



# BUSINESSES-Exclusion from income for employer payments of student loans

- For **employer student loan payments** made after the date of enactment of the CARES Act and before Jan. 1, 2021, the **employee is not subject to income taxation on payments** up to \$5,250
  - The payment plan must meet the requirements of IRC section 127
- The exclusion from income for all employer educational assistance payments (including student loan payments) is capped at \$5,250 per year
  - Employees cannot take deductions for interest amounts so forgiven

# LIQUIDITY

# Coronavirus Aid, Relief and Economic Security (CARES) Act

- Increases access to loans for small and middle market businesses
- Three programs
  - Small Business Administration (SBA) Economic Injury and Disaster Loan Program (EIDL)
  - Paycheck Protection Program (PPP) third-party loans with SBA guarantees **(Funds may already been exhausted for the PPP program)**
  - Main Street Lending Program loans for small and mid-sized businesses





# SBA EIDL Program

- Eligibility
  - Businesses **unable to meet existing financial obligations** as a result of COVID-19 crisis
  - Most manufacturing companies with 500 or fewer employees and most non-manufacturing businesses with average annual receipts under \$7.5 million (exceptions by industry)
- Amount
  - **Up to \$2 million** for working capital and ordinary expenditures (actual amount tied to economic injury from COVID-19)
- Rate
  - **3.75%** for small businesses and 2.75% for nonprofit
  - Loans are **not forgivable**
- How to apply
  - Apply online directly with the SBA  
<https://www.sba.gov/disaster-assistance/coronavirus-covid-19>

# Paycheck Protection Program (PPP)

- Eligibility
  - **500 employees or less** (including affiliates\*)
  - Meets applicable employee size standards based on NAICS (including affiliates\*)
  - 500 employees or less by location in accommodation and food service industry (NAICS 72x) or for any business acting as a franchise that is assigned a franchise identifier code by SBA
  - **Sole proprietors, independent contractors and other self-employed individuals**, including “gig economy” workers
  - Charitable tax-exempt organizations (including religious organizations), described in section 501(c)(3) of the Internal Revenue Code, and veterans organizations, described in section 501(c)(19), are eligible to participate in the program. However, other tax-exempt organizations (e.g., those described in sections 501(c)(4), (5), and (6)) are not eligible to participate.
- Amount
  - **2.5 times a borrower’s monthly payroll costs** for U.S. employees (cash compensation of any employee above \$100,000 must be subtracted) or \$10 million, whichever is smaller
- Rate
  - **1% for 2 years**
  - Payments of both **principal and interest will be deferred for six months following** the date of loan disbursement; however, interest will accrue during that period
  - Loans are **forgivable** provided certain criteria are met (see slide 37)
- How to apply
  - Applicants must **submit SBA Form 2483** with payroll documentation to a participating lender

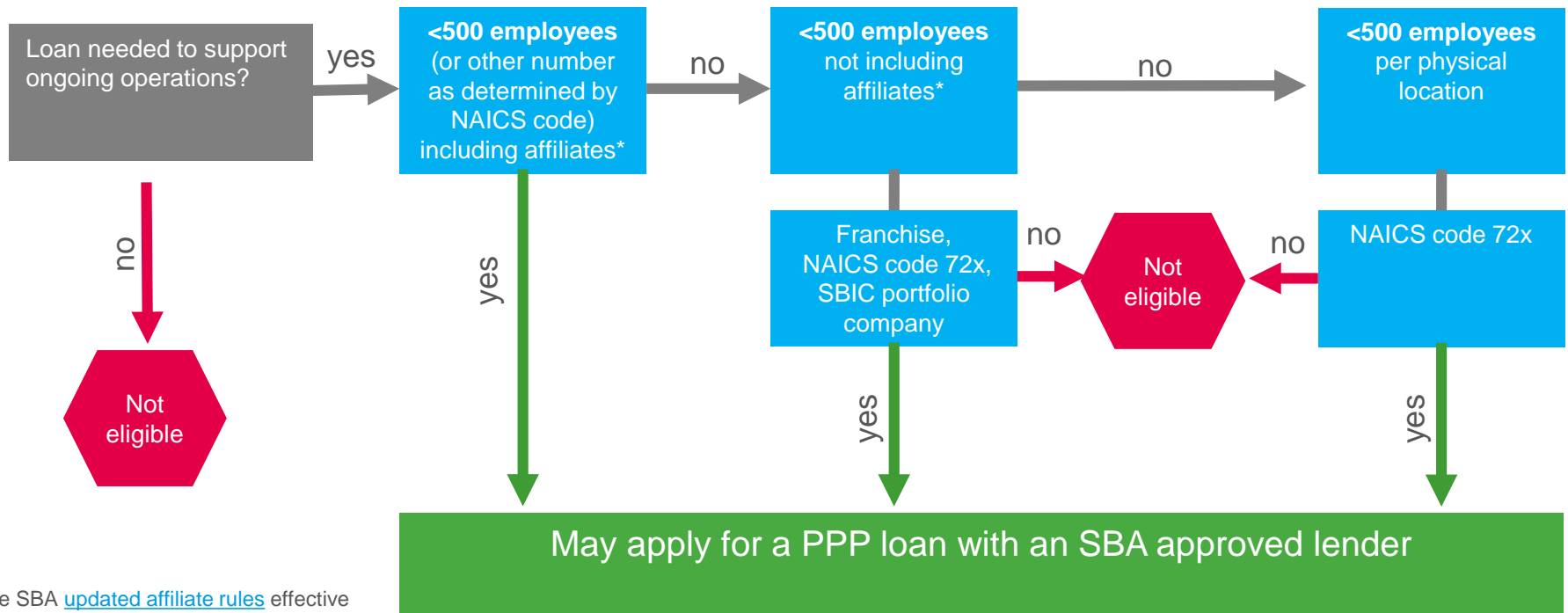
**This program may already ran out of funds.  
Congress is discussing the possibility of additional  
funding under the same or a different program.**

# Can a PPP loan be forgiven?

- Under certain conditions
  - **Funds must be used in an eight-week period** following loan origination for the following (with respect to the items below, no more than 25% of the loan forgiveness may be attributed to non-payroll costs)
    - Payroll costs (cash compensation of any employee above \$100,000 must be subtracted)
    - Interest payments made on any mortgage incurred prior to February 15, 2020
    - Payment of any lease in force prior to February 15, 2020
    - Payment on any utility for which service began before February 15, 2020
  - Existing **employees are retained** at or near current salary levels
    - Employee cuts or wage reductions will reduce forgiven amounts
    - Employers are allowed to rehire employees previously let go before the application without penalty
  - Proceeds from any advance up to \$10,000 on an EIDL loan will be deducted from the loan forgiveness amount\*\*\*

**This program may already ran out of funds.  
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funding under the same or a different program.**

# Can I apply for a PPP loan?



\*The SBA [updated affiliate rules](#) effective April 3, 2020.

Note that lenders will make ultimate determinations about eligibility

**This program may already ran out of funds. Congress is discussing the possibility of additional funding under the same or a different program.**

# PPP Additional Resources

- <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
- <https://www.aicpa.org/interestareas/privatecompaniespracticesection/qualityservicesdelivery/sba-paycheck-protection-program-resources-for-cpas.html>

This program may already ran out of funds.  
Congress is discussing the possibility of additional funding under the same or a different program.

# Main Street Lending Program (eligibility and terms)

- Eligibility
  - Up to 10,000 employees
  - Up to **\$2.5 billion in 2019 annual revenues**
  - Created or organized in the United States with significant operations in and a majority of employees in the United States
- Rate
  - **Four-year loans** at an adjustable rate of SOFR + **250-400 basis points**
  - Amortization of principal and interest is deferred for one year
  - Prepayment is permitted without penalty
  - **Loans are not forgivable**
- How to apply
  - Borrowers should contact their lender directly

# Main Street Lending Program (amounts available)

- New loans

(after 4/8/2020)

- Minimum \$1 million
- Maximum \$25 million
- Not to exceed 4x 2019 EBTIDA when added to existing outstanding and committed but undrawn debt

- Existing term loans

(prior to 4/8/2020)

- Minimum \$1 million
- Maximum \$150 million
- 30% of existing outstanding and committed but undrawn debt
- Not to exceed 6x 2019 EBITDA when added to existing outstanding and committed but undrawn debt

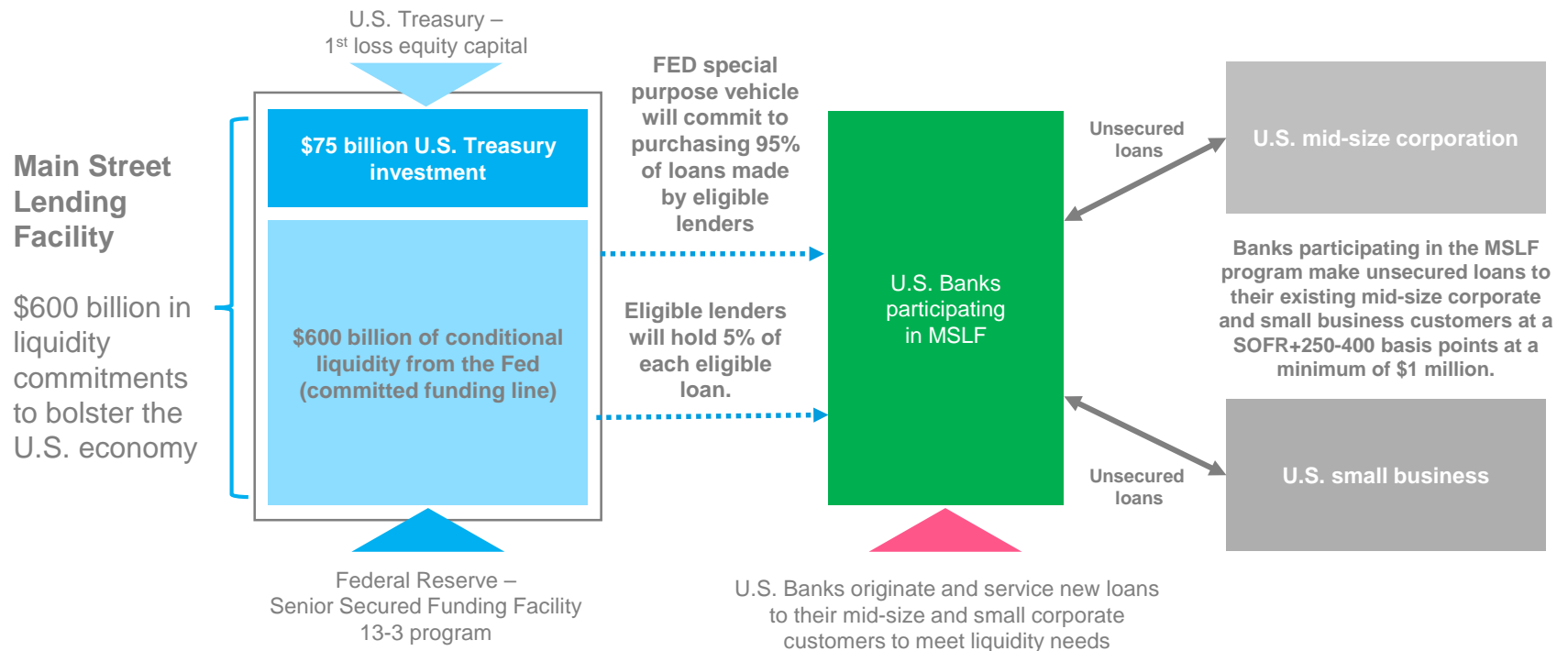
# Borrower attestations for Main Street Lending Program loans

- Borrowers must attest that they require financing due to the exigent circumstances presented by the COVID-19 pandemic, and that, using the proceeds of the loan, they will make reasonable efforts to maintain payroll and retain employees during the term of the loan
- Borrowers must attest that they will not cancel or reduce any existing lines of credit to the Main Street Lending Program lender or any other lender, and that loans obtained through the Main Street Lending Program will not be used to repay or refinance pre-existing loan balances
- Borrowers will need to follow compensation, stock repurchase and capital distribution restrictions outlined in section 4003(c)(3)(A)(ii) of the CARES Act and certify eligibility, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.



# Main Street Lending Program

\$600 Billion lending facility to provide low-cost loans to help small to medium-size enterprises impacted by COVID-19



# QUESTIONS AND ANSWERS

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