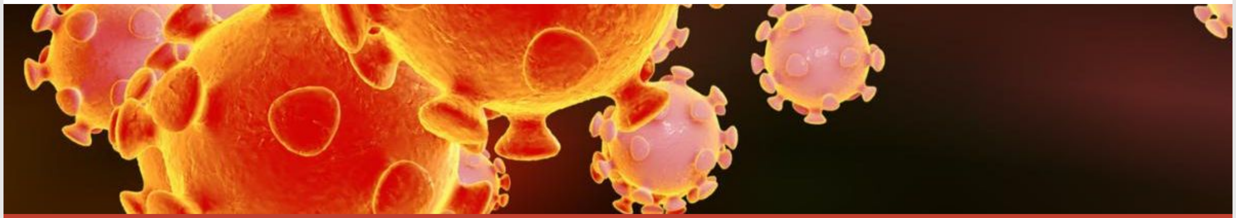

NLA Member Guidance - CARES Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law by President Trump on March 27, 2020.

The CARES Act – also known as the $2 Trillion Coronavirus Stimulus Package – unleashed a $350 billion paycheck protection program (PPP) aimed at helping U.S. small businesses, which have faced devastating losses in the wake of the coronavirus pandemic. The CARES Act also provides numerous other significant tax provisions for both businesses and individuals, as well as significant financial provisions affecting small businesses.

The key highlights are listed below.

Paycheck Protection Loans

Businesses with fewer than 500 employees, including sole proprietors and those with self-employment income, are eligible to apply for a forgivable loan that is fully guaranteed by the federal government through December 31, 2020 and 85% guaranteed after that date. The maximum term of the loan is 10 years with a maximum rate of 4%. All payments on the loan are deferred for a minimum of 6 months and a maximum of 12 months. There are no fees to the borrower for this loan.

Eligible businesses can apply for a loan that is up to 2.5 times their average monthly payroll for the rolling 12 months ending on the date that the loan was made. The maximum amount of the loan is $10 million.

To learn more about the Paycheck Protection Program, please click here.

The amount to be considered when computing average monthly payroll excludes certain items and includes others.

Payroll does not include the following:

- Payroll taxes.
- Wages to any individual that are in excess of $100,000.
- Wages that are reimbursed under the Families First Coronavirus Relief Act (FFCRA).
- Wages paid to individuals who are not residents of the United States.

Payroll does include the following:

- Wages, commissions, salaries to employees or independent contractors.
- Payment for vacation or sick leave.
- Health insurance costs.
- Payment or retirement benefits.

Most importantly, the loan taken under this provision will be forgiven to the extent that it is used to pay certain expenses in the 8-week period immediately following the date of the loan. The loan forgiveness related to this loan is tax-free.

The following expenses are eligible for loan forgiveness:

- Payroll costs (the same costs as included above);
- Rent;
- Mortgage Interest;
- And Certain Utility Payments

The amount of loan forgiveness is limited by any reduction in workforce or reduction in pay for employees making less than $100,000. The percentage of reduction is based on the average

FTEs per month from 2/15/20 to 6/30/20 as compared to the average FTEs per month in the same period for 2019 or the average FTEs per month from 1/1/2020-2/29/2020. This percentage reduction does not apply if the employer eliminates the reduction in FTEs by June 30, 2020.

Employee Retention Credit

An employee retention credit is available to employers with less than 500 employees who retain employees during a period of shutdown. It is also available to employers with less than 100 employees during a period when the business sees a drop in gross receipts of greater than 50% over the same period in the prior year. **This credit is not available to any employer who utilizes the paycheck protection loan described above.**

Credit is available for up to 50% of the qualified wages paid to each employee during the quarter. The total credit is limited to $10,000 per employee and wages considered under the Families First Coronavirus Relief Act (FFCRA) do not qualify for this provision.

Please consult with your tax adviser or accountant for more information on the Employee Retention Credit and how it might apply to your business.

Delay of Payment of Employer Payroll Tax and Self-Employment Tax

A business or a self-employed taxpayer can defer paying the employer share of Social Security tax that would otherwise be due from the date the bill is signed until December 31, 2020. The deferred amount would be paid 50% on December 31, 2021 and 50% on December 31, 2022. For a self-employed taxpayer the "employer" share of the social security tax is half of the total self-employment tax related to social security.

This deferral is allowed for taxpayers using payroll credits under the FFCRA however, it is **not available to any employer who utilizes the paycheck protection loan described above.**

Please consult with your tax adviser or accountant for more information on the Delay of Payment of Employer Payroll Tax and how it might apply to your business.

Emergency Disaster Loans

Economic Injury Disaster Loans have been expanded to include sole proprietors and ESOPs. These loans were previously only available to businesses with fewer than 500 employees. The bill also expands this program to include that loans up to $200,000 will not require a personal guarantee. A business may take a loan under this provision between January 31, 2020 and the date on which a paycheck protection loan is available. This loan is to be used for reasons other than payroll costs.

Additionally, a new emergency grant is set up to allow anyone who has applied for the loan to receive an advance of up to $10,000. The advance is not required to be repaid, even if the borrower's request for the loan is denied.

To apply for a COVID-19 Economic Injury Disaster Loan, click here.

Qualified Improvement Property

The Tax Cut & Jobs Act (TCJA) included a provision eliminating the category for "qualified improvement property", qualifying for a 15-year asset life and eligible for 100% bonus depreciation. This was a drafting error in that bill. The CARES act fixes the drafting error and restores the 15-year qualified improvement property life. This change is retroactive to 2018 and allows taxpayers to amend their 2018 or 2019 returns to take advantage of the provision.

This issue has been a major priority for the National Lumber & Building Material Dealers Association (NLBMDA). The Association thanks its members for their support of this issue and congratulates NLBMDA on this victory.

Business Interest Expense Limitation

Under TCJA a provision was added to limit business interest to 30% of adjusted taxable income for certain taxpayers, beginning in 2018. The CARES Act increases that limit to 50% for tax years 2019 and 2020.

Changes to Net Operating Loss Rules

The CARES act reinstates the ability to carry back the taxpayer's net operating loss (NOL) for losses from 2018, 2019, and 2020. These losses can be carried back 5 years. Additionally, losses carried to 2019 and 2020 will be permitted to offset 100% of taxable income.

The information provided in this email is provided as guidance and assistance to NLA's members. NLA recommends that all members consult with their tax preparer and/or accountant for further information and clarification on any of the above information.

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