



# Making Sense of the Opportunities in the CARES Act

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# Presenter

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# MCM CPAs & Advisors

## + What We Do:

- + MCM is a large regional CPA and advisory firm employing more than 350, including more than 160 CPAs. We serve both privately and publicly held businesses, non-profit organizations, small businesses and individuals

## + Mission: We exist to help both our clients and team succeed.

### Core Values



**People Matter** - We genuinely care about our people, personally and professionally, and ensure relevance in their work.



**Leaders Inspire** - We inspire each other to sustain our vision and advance our mission as a firm.



**Excellence Rules** - We are committed to superb client service, high quality expertise and significant client relationships.



# Overview

# CARES Act Overview

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- +Phase 3 COVID-19 relief bill
- +Trump's signed on Friday March 27
- +\$2.2 trillion in economic relief



# SBA Paycheck Protection Loan Program

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- + Fully guaranteed by the Federal Government
- + Maximum maturity of ten years and interest rate not to exceed 4%
- + Small businesses (fewer than 500 employees) can access lesser of 2.5 times the average monthly payroll costs and up to \$10 million
- + Proceeds can cover payroll, mortgage payments, rent, utilities, and other debt service requirements
- + Portion of the loan eligible to be forgiven on a tax-free basis to the extent of certain payments made by the borrower during the eight-week period beginning on the date of the loan
- + The amount forgiven is reduced if the employer reduces its workforce or reduces salaries and wages paid to an employee during the covered period.

# ESF Program for Larger Employers

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- + For larger businesses, the bill establishes an Economic Stabilization Fund (“ESF”) of \$500 billion to provide direct loans, loan guarantees, and other investments to eligible businesses who have incurred losses as a result of the COVID-19 crisis and the operations of the business are deemed to be in jeopardy
- + \$46 billion of the ESF is targeted for airlines and other businesses crucial to national security, while the remaining \$454 billion is dedicated to support Federal Reserve lending facilities



# Health Care Provisions

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- + The bill provides \$140 billion in emergency funding to Health and Human Services (HHS), including \$100 billion requested by hospitals and health care providers for COVID-19 related expenses and losses
- + \$1.32 billion in supplemental funding to community health centers (CHCs) for the epidemic and extends funding for CHCs and a handful of other Medicare and Medicaid programs through November 30





# Notable Additional Relief Measures

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- + Expanded unemployment insurance
- + Tax breaks for businesses and individuals
- + Direct payments to individuals referred to as “2020 Recovery Rebates”



# SBA 7A Program

Small Business Administration 7A

“Paycheck Protection Loans”

updated with March 31, 2020 SBA Guidance

# Who is Eligible?

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- + Small businesses – generally defined as less than 500 employees
- + Sole proprietors, independent contractors, self-employed individuals (as defined in Congress's last COVID-19 bill, the Families First ACT)
- + Nonprofit organizations – 501(c)3 only
- + Veteran's organizations
- + Hospitality and Dining Industries Special Eligibility Rule: Hospitality and dining businesses are eligible to receive a loan if the business has more than one physical location, employs less than 500 employees per location, and is assigned to the "accommodation and food services" sector (Sector 72) under the North American Industry Classification System (NAICS).



# How much can be borrowed?

+ You can borrow the lesser of:

- + The average monthly “payroll costs” for the 1-year period ending on the date the loan was made (an alternative calculation is available for seasonal employers) multiplied by 2.5;
- + Plus the outstanding amount of a loan made under the SBA’s Economic Injury Disaster Loan Program between January 31, 2020 and the date on which such loan may be refinanced as part of this new program;

or

+ \$10 million.



# What are the requirements for use of funds?

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- + The loan is needed to continue operations during the COVID-19 emergency;
- + Funds will be used to retain workers and maintain payroll or make mortgage, lease, and utility payments;
- + The applicant does not have any other application pending under this program for the same purpose; and
- + From February 15, 2020 until December 31, 2020, the applicant has not received duplicative amounts under this program.

# What is included in Payroll Costs?

- + Wages, commissions, salary, or similar compensation to an employee,
- + Compensation of a sole proprietor or independent contractor that is self employment income,
- + Payment of a cash tip or equivalent,
- + Payment for vacation, parental, family, medical or sick leave,
- + Allowance for dismissal or separation,
- + Payment for group health care benefits, including premiums,
- + Payment of any retirement benefits, and
- + Payment of state or local tax assessed on the compensation of employees.

# What is not included in Payroll Costs?

- + The compensation of any individual employee or self employed individual in excess of an annual amount of \$100,000,
- + Payroll taxes, now defined as payroll withholdings
- + Any compensation of an employee whose principal place of residence is outside the U.S., or
- + Any qualified sick leave or family medical leave for which a credit is allowed under the new Coronavirus Relief Act passed last week.

# What are the terms of the these loans?

- + The loans will have a maximum maturity of 10 years and an interest rate not to exceed 4%. Per SBA maturity is 2 years and interest is set at .5%.
- + Proceeds may be used to cover payroll, mortgage interest payments, rent, utilities, and any other debt service interest requirements.
- + The standard fees imposed under Section 7 of the Small Business Act are waived, and no personal guarantee is required by the business owner.





# Other Questions

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- + Is it possible to defer payments under the loan?
  - + An additional provision in the CARES Act provides for possible deferment of repayment of the loans for a period of at least six months, but not to exceed a year.
- + How do the Loan Forgiveness Provisions of Paycheck Protection Loans work?
  - + A separate section of the CARES Act calls for a portion of the aforementioned paycheck protection loans to be forgiven on a tax-free basis.
- + Who Qualifies for Loan Forgiveness?
  - + To seek forgiveness, a borrower must submit to the lender an application that includes documentation verifying the number of employees and pay rates, and cancelled checks showing mortgage, rent, or utility payments for the 8 week period starting with the date of the loan.



## Other Questions cont.

### + How much can be forgiven?

- + The amount to be forgiven is the sum of the following payments made by the borrower during the 8-week period beginning on the date of the loan (see reductions/limitations in next slides):
  - + Payroll costs (as defined in the Payroll Costs section above)
  - + Mortgage interest
  - + Rent for leases in effect prior to February 15, 2020
  - + Certain utility payments

Per the SBA, due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.

## Other Questions cont.

- + By what amount can the forgiveness be potentially reduced?
  - + There is a provision that reduces the amount that may be forgiven if the employer either:
    - + Reduces its workforce during the 8-week covered period when compared to other prescribed periods in either 2019 or 2020, or
    - + Reduces the salary or wages paid to an employee who had earned less than \$100,000 in annualized salary by more than 25% during the covered period.
  - + This reduction can be avoided, however, if the employer rehires or increases the employee's pay within an allotted time period.
- + Do I have to include in income the amount of forgiveness?
  - + Forgiveness amounts that would otherwise be includible in gross income, for federal income tax purposes, are excluded.

## How do I apply?

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- + These SBA loans are typically applied for thru an SBA lender. The SBA is currently working thru details to allow more lenders to be able to provide these loans. Check with your existing financial institution or reach out to us and we can assist connecting you with an SBA lender.
- + Items needed to apply: The SBA **has created a new form 2483 Payroll Protection Program Application Form** which includes **eligibility and certification** of the borrower.
- + **The banks will be requiring documentation to support the numbers on the form. Each bank may require slightly different documentation.**



# Other Application Questions

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- + When can I apply?
  - + April 3, 2020 – small businesses and sole proprietorships can apply
  - + April 10, 2020 – independent contractors and self-employed individuals can apply for and receive loans
  
- + You will need to provide to your lender:
  - + Completed application with amounts and information regarding ownership
  - + Required documentation
  - + Certification of your compliance with 7 key factors
  
- + When do I request loan forgiveness?
  - + You will submit a request to your lender after the 8 week period
  - + You will need to submit documentation that verifies your FTE's, pay rates, and eligible mortgage, lease and utility payments



# Paycheck Protection Program Form



## Paycheck Protection Program Application Form

OMB Control No.: 3245-  
Expiration Date: 06/30/2020

<input type="checkbox"/> Non-Profit <input type="checkbox"/> Vet Org <input type="checkbox"/> Tribal <input type="checkbox"/> Ind. Cont. <input type="checkbox"/> Self Employed		DBA or Tradename if applicable	
Business Legal Name			
Business Primary Address		Business TIN (EIN,SSN)	Business Phone
			( ) -
		Primary Contact	Email Address

Average Monthly Payroll:	\$	X 2.5 equals Loan Amount:	\$	Number of Jobs:	
Purpose of the loan (select more than one):					
<input type="checkbox"/> Payroll <input type="checkbox"/> Rent / Mortgage Interest <input type="checkbox"/> Utilities <input type="checkbox"/> Other (explain):					

### Applicant Ownership

List all owners of Applicant with greater than 20% ownership stakes. Attach a separate sheet if necessary.

Owner Name	Title	Ownership %	TIN (EIN,SSN)	Address



# How Will Banks Respond?

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# Case Study



# Case Study #1: Sally's Beauty Shop

## + DETAILS

- + Sally's Beauty Shop applies for a paycheck protection loan on May 1, 2020.
- + The business had \$1.2 million in payroll costs for the period May 1, 2019 through May 1, 2020, for a monthly average of \$100,000.

## + Eligibility

- + Sally's Beauty Shop is entitled to a Paycheck Protection Loan —assuming it's made before December 31, 2020 — equal to the LESSER OF:
  - + \$250,000 (\$100,000 in average payroll costs \* 2.5), or
  - + \$10 million.

## + Application

- + in the first 8 weeks after the business borrows the \$250,000
  - + the business pays \$200,000 in payroll costs, mortgage interest, and utility payments.
- + Sally's Beauty Shop is eligible to have \$200,000 of the \$250,000 loan forgiven.
  - + The forgiveness will not create taxable income.
- + In addition, because of the deferment rules in the CARES Act, any payments due on the remaining \$50,000 will not be due for six months.

# FAQs

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- + Q: Does payroll include independent contractors which we report on a Form 1099?
  - + A: Depends on who you ask; guidance will be forthcoming.
  
- + Q: Do we exclude or include employees who make in excess of \$100,000?
  - + A: You include up to \$100,000 but exclude anything over that.
  
- + Q: If you layoff 2 people out of 10 total, do you have a 20% reduction in the loan forgiveness?
  - + A: Yes, this part of the rule is based on FTE's.
  
- + Q: Does having someone refuse to work during this period make a difference in the forgiveness rules?
  - + A: No, there is nothing in the law that gives an exception for the reason for the termination.
  
- + Q: Does the 25% pay reduction rule apply to each employee individually or is it an overall calculation?
  - + A: It is per employee and applies only to employees making less than \$100,000.



# Final Thoughts

# How much can be forgiven?

- + The amount to be forgiven is the sum of the following payments made by the borrower during the 8-week period beginning on the date of the loan (see reductions/limitations below):
  - + Payroll costs including gross pay and most benefits excluding payroll taxes; gross pay in excess of \$100,000 annualized is excluded.
  - + Mortgage interest
  - + Rent
  - + Certain utility payments
- + Note new SBA limit of no less than 75% of forgiven amount be related to payroll costs.

# What can the forgiveness be reduced by?

- + There is a provision that reduces the amount that may be forgiven if the employer either:
  - + Reduces its workforce during the 8-week covered period when compared to other periods in either 2019 or 2020, or
  - + Reduces the salary or wages paid to an employee who had earned less than \$100,000 in annualized salary by more than 25% during the covered period.
- + This reduction can be avoided, however, if the employer rehires or increases the employee's pay within an allotted time period.

## Other Insights

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- + If you qualify as a small business, there is a real incentive to start the process of applying for this SBA 7A Loan. Funds are limited by the law so do not delay.
- + Taking this route first will also put you in direct contact with your own banker who can expedite this process on your behalf.
- + MCM's role in this process will be to assist you in efficiently providing the information that you need and giving you expert guidance in how much to request to maximize your benefits under the government programs.

# Planning Opportunities and Pitfalls

- + Deciding when to make the loan effective
- + Coordinating planning around the other law provisions recently passed including:
  - + Family and medical leave, payroll credits and deferrals, etc.
- + Planning for employee terminations, furloughs, rehires, compensation reductions, etc
- + Determining the exact amounts included in payroll costs
- + Determining who is the filing entity if multiple commonly owned companies are involved
- + Determining how to avoid the Loan Forgiveness Reductions



# Awaiting Guidance from SBA Lenders – Stay Tuned



# Significant Open Unanswered Questions

- + Treatment of 1099 Subcontractors or Service Providers – **not included**
- + Treatment of Payroll Withholdings – **no reduction prescribed**
- + Treatment of Partners – **included as other self employed**
- + Common Paymaster Rules related to Inclusion and Filing Responsibility
- + Treatment of Temporary Employees under a Third Party Contract Arrangement
- + Treatment of terminated employees under the PPP Loans reduction of pay provision and how to mitigate it
- + Treatment of 501(c)6 and 7 Organizations in Combination with existing 501(C)3 organizations



# MCM's Recommendations for Pro-Forma Calculations

# Considerations:

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- + Law and calculations are complex
- + Various inter-relationships between provisions of the laws only recently passed
- + Myriad options for employment decisions that should not be taken lightly
- + Application process should be coordinated with your planned certification 8 weeks later
- + Hurried drafting of bills leaves many items subject to professional judgement

This decision may be one of the most important financial decisions you make during 2020.

# Professional Guidance: Here and Now

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- + MCM's professionals are prepared to take the time necessary right now to address your specific situation
- + Template is ready to go to efficiently produce "what-if" scenarios for your business or organization
- + Multi-disciplined professionals can address confusing overlap of financing, tax and employment related issues

Contact us for a call or meeting (virtual preferred of course) to get your process started

# Business Tax

# Deferral of Employer Payroll Tax Payments

- + Employers and self-employed individuals can defer payment of the 6.2% employer share of Social Security taxes on employee wages otherwise required to be remitted after the date of the enactment.
- + Half of the deferred amount would be required to be paid by the end of 2021 and the rest by the end of 2022.



# Revive & Enhance Net Operating Loss Carryback Refund Claims



- + The provision in the bill would remove the NOL limitations in the TCJA (which limited the deduction to 80% of taxable income and repealed carryback provisions).
- + It will restore and enhance NOL carrybacks so that a loss from 2018, 2019, or 2020 can be carried back five years to obtain a refund of taxes paid in those years, and temporarily removing the taxable income limitation to allow an NOL to fully offset income.



# Elimination of Loss Limitations

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- + A provision in the bill modifies the limitations on business losses applicable to pass-through businesses and sole proprietors, so they can also benefit from the NOL carryback rules above.





# Acceleration of Refunds for AMT Credit Carryovers

- + The TCJA eliminated the corporate alternative minimum tax but allowed corporations to claim a refundable credit of any unused portion through 2021.
- + The bill accelerates the year for which a fully refundable credit can be claimed from 2021 to 2019, and allows corporations to elect to claim the fully refundable credit in 2018.



# Increasing Deductions for Business Interest Expense

- + The business interest limitation under IRC Section 163(j), currently set at 30% of adjusted taxable income, would be set at 50% for 2019 and 2020 for corporations (including S corporations) and individuals.
- + For partnerships the increase to 50% of adjusted taxable income is delayed until taxable years beginning in 2020. A partner receiving an allocation of suspended interest in 2019 is permitted to deduct half of such interest in 2020, with remaining subject to previous carryover regime.



# QIP Technical Correction

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- + The bill addressed the so-called “retail glitch” to clarify that Qualified Improvement Property (“QIP”) is 15 year property under MACRS and eligible for 100% bonus depreciation
- + QIP is defined as any improvement to an interior portion of a building which is nonresidential real property if the improvement is placed in service after the date the building was first placed in service by the taxpayer and is not an enlargement of the building, an elevator or escalator, or part of the internal structure framework of the building



# Employee Retention Credit

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- + Subject to certain eligibility requirements and limitations, a one-year only credit is allowed against the employer's 6.2% share of Social Security payroll taxes for any business that is forced to suspend or close its operations due to COVID-19, but that continues to pay its employees during the shut-down.
- + The credit, which can be claimed on a quarterly basis, is equal to 50% of qualified wages paid but is capped at \$10,000 in aggregate per employee for all quarters.
- + The credit applies to wages paid after March 12, 2020 and before January 1, 2021. This credit is very similar to the paid leave credits granted to employers under the Families First Coronavirus Response Act, but significantly neither the employee nor the employer have to be directly impacted by infection.



# Individual, Retirement & Charitable

# 2020 Recovery Rebates for Individuals

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- + The act provides direct payments of up to \$1,200 for individuals and \$2,400 for married couples, along with an extra \$500 per child.
- + Assistance would start to phase out for individuals earning more than \$75,000 and for couples with more than \$150,000 in income (complete phase-out at \$99,000 single and \$198,000 for couples).
- + In order to be eligible for the rebate, the individual must not be: 1) a nonresident alien, 2) able to be claimed as a dependent on another's tax return, 3) an estate or trust, and 4) must have included a SSN for both the taxpayer, the taxpayer's spouse, and eligible children.

# Penalty Free Early Withdrawals from Retirement Accounts

- + The bill provides special use for use of retirement funds
  - + Early withdrawal penalties waived on coronavirus related distributions to \$100k
  - + Taxation of distributions to be spread over three years
  - + Allow individuals to return distributions to the retirement account over three years, with such redeposits not subject to annual contribution limits.
  - + A coronavirus-related distribution is a distribution during the 2020 calendar year to a individual: (1) who is diagnosed with COVID-19, (2) whose spouse or dependent is diagnosed with COVID-19, or (3) who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors as determined by the Treasury Secretary.

# Increased Deductions for Charitable Contributions

- + A provision in the bill increases the limitations on deductions for charitable contributions by individuals who itemize, as well as corporations. For individuals, the 50-percent of adjusted gross income limitation is suspended for 2020. For corporations, the 10-percent limitation is increased to 25 percent of taxable income for the 2020 tax year. This provision also increases the limitation on deductions for contributions of food inventory from 15 percent to 25 percent for the 2020 tax year.
- + The bill would provide an above-the-line deduction of up to \$300 for charitable contributions made in cash during 2020 for taxpayers that do not itemize deductions. Existing income limits would not apply to the new deduction. The new deduction would not be available for contributions to a donor-advised fund.



Thank You  
for your time!



The banner features the MCM COVID-19 Solutions Group logo on the left, which is a circular graphic with segments for Corporate, Tax, HR, Accounting Services, Banking, Technology, Business Information, and Accounting Information. The text "MCM COVID-19 Solutions Group" is in the center. To the right, the text "MCM COVID-19 Resource Center" is displayed above a yellow box containing the URL "www.mcmcpa.com/covid-19".

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