Welcome to our Webinar

- Copies of this presentation and other resources can be found at https://ceriniandassociates.com/coronavirus-updates/

- Our presentation is based on all information and is current as of March 30, 2020. Any key changes that have occurred may not be reflected in this presentation.

- The information provided is based on our interpretation of the CARES Act after reviewing the law and consulting with other sources.

- This webinar & information is for educational purposes only and cannot be used to contest any IRS, SBA or other penalties or assessments. We make no guarantees regarding your eligibility for these programs or any related benefits.

- We will make every effort to answer questions at the end of the webinar, time permitting.

- Thank you for your attendance!
Navigating Key Provisions in the CARES Act for Businesses & Nonprofits

March 31, 2020
2:15 - 3:45 pm
About the Speaker

- Tax Director at Cerini and Associates, LLP
- 10+ year experience
- Industry expertise includes Healthcare, Financial Services, Technology, Professional Services, State and Local Taxation, & International Taxation
- Contact Information: emcwilliams@cerinicpa.com
CARES Act

- Passed on by Senate late on March 25th and signed into law on March 27th
- 2 Trillion Dollar Economic Stimulus package.
- Key Provisions include Individual Tax changes, Business & Employer Tax changes and expansion of SBA Loans for eligible businesses.
- Law is passed, but there are virtually no regulations or other guidance currently available as to the application and execution of the law.
SBA LOAN EXPANSION
SBA Loan Program Expansions - Disclaimers and Notes

- While the program loans are 100% Federally guaranteed to banks, there is no guarantee that you or your business will be able to get one of these loans.

- We are currently working without guidelines, precedent or regulations on these loans and are interpreting based on the law only. These guidelines or regulations may be different than our interpretations.

- As the situation is rapidly changing, we are updating our guidance and presentations as new information becomes available. This presentation was prepared on the most updated information as of March 30, 2020.

- While the loans do have a forgiveness provision, we cannot guarantee all your spending will be covered or that you will get any forgiveness. We are advising clients to look at this as a 10-year loan with 4% interest as much as a grant.
SBA Loan Program Expansions

- CARES Act expanded SBA 7(a) Loan programs for new “Payroll Protection Program” Loans.

- The Act also expanded SBA Express Loan limits, but given their underwriting, this is unlikely to be impactful.

- The Act also made key changes to Economic Injury Disaster Loans (which are different than the Payroll Protection Program loans).
Payroll Protection Program Loans

- $354,000,000 was allocated to fund this program.
- The loans are 100% Federally guaranteed.
- The loans include a forgiveness feature, dependent on certain spending and staffing patterns.
- Secretary Mnuchin stated on Fox Business news he anticipated to have guidelines on the program out by Monday and to be making these loans as soon as Friday April 3, 2020.
## Payroll Protection Program Loans

### Eligible Borrowers of the Payroll Protection Loan Program

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business with less than 500 employees</td>
<td></td>
</tr>
<tr>
<td>Business with more than 500 employees, but less than published SBA Size Standard</td>
<td></td>
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<tr>
<td>501(c)(3) Organizations with less than 500 employees</td>
<td></td>
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<tr>
<td>Sole-proprietors and independent contractors</td>
<td></td>
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</tbody>
</table>

### Permitted Uses of Payroll Protection Loan Program Proceeds

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll Costs</td>
<td></td>
</tr>
<tr>
<td>Interest (but not principal) of mortgage obligations</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td></td>
</tr>
<tr>
<td>Payments for Utilities (Electric, Gas, Water, Telephone, Internet)</td>
<td></td>
</tr>
<tr>
<td>Interest (but not principal) on prior debt obligations</td>
<td></td>
</tr>
</tbody>
</table>

### Terms of the Loan Program

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans will be made between now and June 30, 2020</td>
<td></td>
</tr>
<tr>
<td>Loans will have a forgiveness feature for certain spending</td>
<td></td>
</tr>
<tr>
<td>Any amount not forgiven will have a maximum term of 10 years and a rate to not exceed 4%</td>
<td></td>
</tr>
<tr>
<td>Loans are 100% Federally guaranteed and nonrecourse to owners or board members (except in the event of nonpermitted uses.)</td>
<td></td>
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</tbody>
</table>
Payroll Protection Loans - Loan Conditions to Apply

<table>
<thead>
<tr>
<th>Conditions for Eligibility For Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The borrower was in business as of February 15, 2020</td>
</tr>
<tr>
<td>2. The borrower had employees they paid salaries or contractors they paid for services.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factors that will NOT be considered for the loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The borrower sought or has access to “credit elsewhere”</td>
</tr>
<tr>
<td>2. A personal guarantee from borrowers. The loan is nonrecourse.</td>
</tr>
<tr>
<td>3. No collateral will be required.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Good Faith Certifications Required from Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The uncertainty of the current economic conditions makes the loan necessary to maintain and support ongoing operations.</td>
</tr>
<tr>
<td>2. The borrower will only use the proceeds of the loan for permitted expenses, such as payroll &amp; occupancy costs.</td>
</tr>
<tr>
<td>3. The borrower does not have an application pending for a loan elsewhere for the same purposes.</td>
</tr>
<tr>
<td>4. From Feb 15, 2020 to December 31, 2020 the borrower has not received or will not receive a loan for the same purposes.</td>
</tr>
</tbody>
</table>
Payroll Protection Loans - Maximum Loan Amount

The maximum allowable amount of the loan will be 2.5 times average monthly payroll costs or $10,000,000.

\[
\text{Average Monthly Eligible Payroll Costs} \times 2.5
\]

OR

$10,000,000
Payroll Protection Loans - Payroll Costs

<table>
<thead>
<tr>
<th>Allowable Payroll Costs</th>
<th>Nonallowable Payroll Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation paid to employees, including Salaries, wage, commission, other comp Cash tips or equivalent Vacation, family or medical leave Severance pay Group health benefits Retirement benefits State and Local Tax assessed on Payroll Payments to independent contractors*</td>
<td>- Employer payroll taxes, other than state and local taxes. - Compensation for any employee that is not located in the United States - Wages where a credit under other programs (FFCRA) is granted. - Compensation of employee in excess of $100,000.00.**</td>
</tr>
</tbody>
</table>

*we cannot definitively say payments to contractors are included, our current interpretation is that these costs are eligible. As more detail becomes available we will update.

**there is still uncertainty as to the mechanics of this. The law states it is prorated over the loan period, so the possibility exists that prior paid compensation may be eligible. Our interpretation is also that the exclusion is only for compensation in excess of $100,000; the portion of compensation below this is eligible.
Payroll Protection Loan - Application Status & Documentation

- As of today, there is no application yet available nor are these loans available to be originated.

- The loans will be originated by existing SBA Lenders. The anticipation is that borrowers will be able use their existing relationship bank to get this loan.

<table>
<thead>
<tr>
<th>Recommended Documents</th>
<th>Tier 1 (Most Important)</th>
<th>Tier 2 (Less Important)</th>
<th>Tier 3 (Least Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Monthly Payroll Amount</td>
<td>Jan 2019 - March 2020 Payroll Registers</td>
<td>Jan 2019 - March 2020 Group Health Invoices</td>
<td>Year to Date Financials</td>
</tr>
<tr>
<td>Key business information</td>
<td>Last 2 years tax returns</td>
<td>Last 2 years tax returns</td>
<td>Last 2 years tax returns for any</td>
</tr>
<tr>
<td>2019 W-2</td>
<td>Employee and contractor census</td>
<td>Form 4506-T</td>
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<tr>
<td>2019 1099-Misc</td>
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<tr>
<td>2019 Forms 941 and NYS-45</td>
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Payroll Protection Program - Loan Forgiveness

Forgiveness eligible spending

- For amounts spent in the first 8 weeks after origination on the following
  - Payroll costs (as defined prior)
  - Interest on mortgage obligation incurred prior to February 15, 2020
  - Rent on a lease agreement in place prior to February 15, 2020
  - Payments on utilities

Forgiveness ineligible spending

- For amounts spent in the first 8 weeks after origination on the following
  - Payroll costs in excess of 100,000 per employee, prorated.
  - Interest on other debt obligations
  This is an allowable use but not allowed for forgiveness purposes.

Any amount forgiven will not be considered taxable income to the company or generate UBIT
Payroll Protection Program - Loan Forgiveness Reductions

- Forgiveness Eligible Spending
- FTE Reduction Ratio
- Payroll Reduction above 25%

FTE Reduction Ratio:
- Average Monthly FTE per month Loan Period
  Average FTE per month in base period

Loan Period - February 15, 2020 - June 30, 2020
Base Period - Either February 15, 2019 - June 30, 2019
or January 1 - February 29, 2020

Payroll Reduction:
- Any payroll reduction of more than 25% (and only the amount above that) for any employee whose compensation is less than $100,000.

Any payroll or workforce reductions between February 15, 2020 - April 26, 2020 that are restored by June 30, 2020 will be disregarded.
Expansion of Other SBA Lending Programs & Other Programs

- SBA Economic Injury Disaster Loans (EIDL or “Idle”) terms have changed
  - Availability of an emergency $10,000 grant within 3 days of application. Grant is not required to be repaid even if denied for EIDL. Any grant reduces any Payroll Protection forgiveness.
  - Waiver of personal guarantee for loans under $200,000
  - Waiver of “credit elsewhere” requirements.
  - Potential faster turn around time.
- An EIDL can be refinanced into a Payroll Protection Program loan, however, borrowers cannot get a loan for the same costs.
- EIDLs have expanded permitted uses, such as for Accounts Payable and suppliers.
- EIDLs can be used to cover Accounts Payable or suppliers, costs that may not be covered by the PPP loans.
- 501(c)(3) organizations generally are not eligible for EIDLs.
Expansion of Other SBA Lending Programs & Other Programs

- SBA Express Loans have been increased to $1,000,000 maximum vs $350,000. As these will still require traditional underwriting, this program has limited utility.
- Current SBA loans will have a 6-month deferral.
- Separate programs have been established for companies with more than 500 employees, however, there is limited to no guidance on these programs in the law.
  - Loans will be for up to 2% interest, 6 month deferral
  - Limitation on dividends and equity transactions
  - Maintain or restore 90% of February 1, 2020 staffing
  - No outsourcing
  - Compensation limits?
  - No guidance on application or when available - expected April 6th
Employee Retention Tax Credit

- Credit against employer portion of Social Security tax.
- Qualified Wages for the credit are capped at $10,000 per employee.
- Credit is 50% of qualified wages, so a credit of $5,000 per employee.
- Any excess credit above employer Social Security is refundable.

Requirements to claim credit

- Must be in a Trade or Business in 2020 (includes all operations 501(c) organizations) AND
- Business is either fully or partially suspended due to government orders limiting operations OR
- Gross receipts are less than 50% than during the same quarter in the prior year. This period continues until gross receipts are greater than 80% of the prior year quarter or December 31, 2020
Employee Retention Tax Credit

- For employers with less than 100 employees, all wages paid are considered qualified wages.
- For employers with more than 100 employees, only wages that are being paid while the employee cannot provide services are qualified wages.
- We do not know precisely what “fully or partially suspended” and “not providing services” mean in this context; we are assuming common English meaning until regulations are released.
- Employers with a PEO relationship are eligible for this credit.
- Wages paid that are qualified are for the period of March 12, 2020 - December 31, 2020.
- Business aggregation (common ownership) rules apply, making all aggregated businesses one employer.
- Employers can opt-out of this credit if desired.
- Any employer that participates in any of the expanded SBA lending (PPP Loans) will not be eligible for this credit.
Delay of Payment of Employer Payroll Taxes

- Temporary liquidity measure allowing deferral of payment of employer payroll taxes (Social Security).
- 50% will be due December 31, 2021 and 50% will be due on December 31, 2022.
- Includes 50% of any Self-employment taxes paid by individuals.
- Will require new forms and regulations that are not yet released.
- Should be for any payroll taxes due between passage of act and December 31, 2020.
- Trust Fund has a held harmless provision.
- Employers with a PEO relationship are eligible for this deferral.
- Any employer that participates in any of the expanded SBA lending (PPP Loans) will not be eligible for this deferral.
Modification of Net Operating Losses and Individual Net Business Losses

- Temporary reversal of TCJA changes that limited Net Operating Loss (NOL) to a carryforward and only against 80% of income.
  - Losses from 2018, 2019 and 2020 can be carried back up to 5 years.
  - Losses carried to 2019 and 2020 can be used to offset 100% of income.
- Temporary reversal of TCJA changes that limited net business losses to $250,000 in any year.
Changes to Business Income Interest Limitation

- Another TCJA Reform that is being temporarily changed.
- For businesses with average annual receipts in excess of $25,000,000, business interest was limited to 30% of, effectively, EBITDA or net business interest income.
- The CARES Act increases this percentage to 50% for 2019 and 2020 and allows for an election to use 2019 income as the base instead of 2020.
Expansion of Tuition Programs to include student loans

- Expands Section 127 Tuition Assistance Program, which allows for up to $5,250 of tuition payments for employees, tax free to the employee.
- Expanded to allow for payments of Student Loans of employees, up to the same limit.
- These payments are for 2020 only.
- All other non-discrimination and other rules of a Section 127 plan still apply.
Technical Correction for Qualified Improvement Property

- A drafting error in the 2017 TCJA unintentionally omitted a key area, assigning a 15-year class life to Qualified Improvement Property (QIP)

- QIP Includes
  - Interior improvements of nonresidential property
    - No enlargement of building
    - Changes to internal structural framework
    - Enumerated building systems (Fire, HVAC, elevators)

- CARES Act assigns this 15-year life as if it were always in the code

- Many of these could be Section 179 expensed, but taxpayers above Section 179 threshold or without business income may not have been able to take advantage.
Other Business and Employer Tax Relief Related to COVID-19

- The first act passed had expanded FMLA and paid sick leave, funded by payroll tax credits, for employers with less than 500 employees.

- The FMLA leave is for 12 weeks of job protected leave, at 2/3rd of pay for up to $200 per day. The FMLA is used for assistance in family care with a COVID-19 diagnosis or because a child is unable to attend school and the employee is unable to telework.

- Paid Sick Leave is for up to 80 hours (14 days) at regular rate of pay up to $511 per day if there is a direct COVID-19 diagnosis or similar. There is also paid sick leave for a child school closure or to assist in care of a COVID-19 at the same rate as FMLA above.

- These credits are refundable if above any payroll taxes required to be deposited.

- The program is for wages and leave after April 1, 2020.

- As of now, deadlines other than the April 15th are unchanged. There is no published relief for any 3/15 related deadline failures and no change in the 5/15 deadline for 990s.
INDIVIDUAL INCOME TAX CHANGES

- Major program for individual taxpayers.
- Credit of $1,200 per person, so up to $2,400 for a married filed joint return.
- Additional credit of $500 per child under 17.
- Dependents over 17 (College students, elderly parents) do not qualify.
- Payments will be based on the following
  - 2019 Tax Return, if filed
  - 2018 Tax Return
  - 1099-SSA
- The credit and payment are subject to a phase out
- Payments expected within 3 weeks

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Phaseout Begins</th>
<th>Phaseout Ends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>75,000</td>
<td>99,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td>112,500</td>
<td>148,500</td>
</tr>
<tr>
<td>Married</td>
<td>150,000</td>
<td>198,000</td>
</tr>
</tbody>
</table>

Phaseout is based on Adjusted Gross Income (AGI)
Individual Income Tax Provisions - 2020
Recovery Rebate

Phaseout is calculated as $5 for every $100 of income above threshold.

Phaseout includes additional payments for children, so those with more children will have a higher phaseout.

Proposed Relief Rebate in the CARES Act

Proposed Individual Economic Relief Rebate By Filing Status

- Phaseout is calculated as $5 for every $100 of income above threshold.
- Phaseout includes additional payments for children, so those with more children will have a higher phaseout.

Source: "Coronavirus Aid, Relief, and Economic Security Act"
Individual Income Tax Provisions - 2020
Recovery Rebate

- The payment coming is only an advance on the 2020 credit.
- Credit will be reconciled when filing 2020 returns.
- Any underpayment of the credit (2020 income declined, new children) will generate a refundable credit.
- Any overpayment of the credit will NOT need to be repaid. The credit will be reduced, but not below zero, and any overpayment will be deemed a clerical error.
Individual Income Tax Provisions - Other CARES Act changes

- Special Rules for 401k and other retirement distributions
  - Draw up to $100,000 from accounts without 10% penalty
  - Tax due spread over 3 years
  - Able to repay within 3 years and no tax due

- Temporary Waiver of Required Minimum Distributions.

- New (2020 only) $300 “above-the-line” charitable deduction for taxpayers who do not itemize.

- Increase in AGI limits of charitable contribution deductions.
Other COVID-19 Related Individual Tax Relief

- Filing and payment deadline for individual income tax, estate and gift tax returns has been pushed back to July 15, 2020. Includes both Federal (Notice 2020-18) and New York State (executive order 202.12, released March 28th). Most states are expected to follow the delay.

- 2nd Quarter estimated payments still due on original timeline.

- We are still advising to complete, but not file if balances due, as many client returns as we can right now.

- Time period for making IRA contributions has also been extended.

- IRS Collections, levies and existing installment agreements are suspended between April 1 and July 15, 2020.

- No new field, office or correspondence examinations will be started. Most call centers (including Tax Pros line) have limited service and IRS agents will be teleworking.
Questions?

Thank you for your attendance. If you have any questions or comments or potentially need assistance with these programs, please feel free to reach out to us.