Important CARES Act Information

We recognize that this is a challenging time for individuals and businesses, both large and small, and want to provide you with information that may help guide you through this difficult time. The federal government has put into place the ***CARES Act (Coronavirus Aid, Relief, and Economic Security Act)***. Because this act is lengthy, we have provided a summary of the highlights below with various links which provide more information. As always, we are here to answer your questions and help you through the basic calculations in considering your best option.

Our Zulch Tax Team assessment of determining which business incentive is right for you:

It is important to note that you are only allowed to take advantage of one business incentive. Therefore, it is important to choose the one that is best for you based on your situation, your needs, and your qualifications. The Paycheck Protection Program loan and Employee Retention Tax Credit have the potential to offer an employer the most money. The PPP loan is based on 2.5 times your average monthly payroll in 2019 while the Employee Retention Tax Credit is based on wages paid to each employee from March 12, 2020 through Dec 31, 2020 and is capped at a credit of $5,000 for $10,000 in wages paid per employee. If you had high payroll in 2019, then Paycheck Protection Program loan may be right for you depending on the other requirements. If you did not have high payroll in 2019 and/or you have many employees earning $10,000 or less per quarter in 2020 then the Employee Retention Tax Credit may be your better option. If neither of these options makes sense for you, then you should consider the Economic Injury Disaster Loan which can provide an employer with a $10,000 grant which does not have to be repaid. The last option to consider is the deferment of paying the employer's portion of social security taxes until 2021 or 2022. We do not see that as a great option as it only provides a delay in payment of taxes, and will cause expenses to be higher in future years when you may have to pay both the payroll taxes due at that time in addition to these deferred taxes. Please read below for more details on the incentives and other options that may be beneficial to you.

Individual Stimulus Relief:

Individuals with a Social Security Number and who are not dependents of someone else may receive $1,200 (single filers and heads of household) or $2,400 (joint filers), with an additional rebate of $500 per qualifying child (younger than age 17), if they have adjusted gross income (AGI) under $75,000 (single), $150,000 (joint), or $112,500 (heads of household) using 2019 tax return information. (The IRS will use 2018 tax return information if the taxpayer has not yet filed for 2019.) The rebate phases out at $50 for every $1,000 of income earned above those thresholds. You do not need to apply for this relief. It will be sent to you automatically if you filed a 2018 and/or 2019 tax return.

Please note: The Treasury will be developing a web-based portal for individuals to provide their banking information to the IRS online. Taxpayers will be able to receive payments faster as opposed to waiting for checks in the mail. We will send an updated link for this portal once it becomes available.

Use this calculator to determine your rebate using your AGI, number of dependents, and filing status: https://cares-act-calculator.netlify.com

Paycheck Protection Program (PPP) Loans:

The Paycheck Protection Program is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. This program is for any small business with less than 500 employees (including sole proprietorships, independent contractors and self-employed persons), private non-profit organization or 501(c)(19) veterans organizations affected by coronavirus/COVID-19. Small businesses in the hospitality and food industry with more than one location could also be eligible at the store and location level if the store employs less than 500 workers. This means each store location could be eligible.

SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll (75% must have been used for payroll), rent, mortgage interest, or utilities. Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.

Details: You may apply for this loan starting **April 3rd**, and will be available through June 30, 2020. Loan payments will also be deferred for six months. No collateral or personal guarantees are required. Neither the government nor lenders will charge small businesses any fees. This loan has a maturity of 2 years and an interest rate of .5%. Go to your local bank or credit union to ask if they are participating in this program. The maximum loan amount available under the Paycheck Protection Program is generally the lesser of $10 million or 2½ times the average monthly payroll costs incurred during the one-year period before the date the loan is made.

Here is a sample of the application that you will be required to complete for the loan: https://www.sba.gov/document/sba-form--paycheck-protection-program-ppp-sample-application-form

Employee Retention Tax Credit:

This refundable credit is designed to encourage businesses to keep employees on their payroll. The maximum amount of this credit is based on payment of qualified wages (including qualified health plan expenses) to each employee for all calendar quarters of

$10,000 which means that the maximum credit for qualified wages paid to any employee is $5,000. Wages paid after March 12, 2020, and before Jan. 1, 2021, are eligible for the credit. The credit is available to all employers regardless of size, including tax-exempt organizations. However, a business *cannot* claim this credit if they take small business loans or other CARES credits.

Qualifying employers must fall into one of two categories: (These measures are calculated each calendar quarter)

- The employer's business is fully or partially suspended by government order due to COVID-19 during the calendar quarter.
- The employer's gross receipts are below 50% of the comparable quarter in 2019. Once the employer's gross receipts go above 80% of a comparable quarter in 2019, they no longer qualify after the end of that quarter.

Eligible employers will report their total qualified wages and the related health insurance costs for each quarter on their quarterly employment tax returns or Form 941 beginning with the second quarter. If the employer's employment tax deposits are not sufficient to cover the credit, the employer may receive an advance payment from the IRS by submitting *Form 7200, Advance Payment of Employer Credits Due to COVID-19. For more information: https://www.irs.gov/forms-pubs/about-form-7200*

Please note: Employers can be immediately reimbursed for the credit by reducing their required deposits of payroll taxes that have been withheld from employees' wages by the amount of the credit.

Economic Injury Disaster Loans (EIDL) & Emergency Economic Injury Grants:

These grants provide an emergency advance of up to $10,000 to small businesses and private non-profits harmed by COVID-19 within three days of applying for an SBA Economic Injury Disaster Loan (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 circumstance, 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, rent and mortgage payments. The Emergency Economic Injury Grants are available January 31, 2020 - December 31, 2020.

To apply for an EIDL online, please visit https://covid19relief.sba.gov/#/

Deferment of Paying Payroll Tax:

This act will allow employers (and self-employed individuals) to defer paying their portion of the social security payroll tax (6.2 percent) otherwise due. Half of the deferred amount of payroll taxes from 2020 will be due December 31, 2021, with the remaining half due December 31, 2022. This is not available to any employer who has taken another one of the CARES credits or small business loans.

Retirement Plans:

The 10 percent early withdrawal penalty is waived on retirement account distributions for taxpayers facing virus-related challenges. Withdrawn amounts are taxable over three years, but taxpayers can recontribute the withdrawn funds into their retirement accounts for three years without affecting retirement account caps. Eligible retirement accounts include individual retirement accounts (IRAs), 401Ks and other qualified trusts, certain deferred compensation plans, and qualified annuities. The bill also waives required minimum distribution rules for certain retirement plans in calendar year 2020. If you already took your RMD for 2020, you may be able to return it to your retirement account without penalty before 60 days. The contribution into your retirement plan has also been extended to July 15th.

Charitable Contributions:

The legislation includes a $300 partial above-the-line charitable contribution deduction for the 2020 tax year. This allows an individual to claim a deduction for a charitable contribution, even if the individual does not itemize deductions. Also, the law expands the limit on charitable contributions for itemizers.

Expanded Unemployment Insurance:

Additional Unemployment Insurance ("UI") assistance to workers impacted by COVID-19 has been signed into law. This included the following:

- Pandemic Unemployment Assistance - Extended eligibility for individuals who have traditionally been ineligible for UI benefits (e.g., self-employed workers, independent contractors)
- Pandemic Unemployment Compensation - An additional $600 per week, on top of regular benefits, to all UI recipients
- Pandemic Emergency Unemployment Compensation - An additional 13 weeks of UI benefits, beyond the regular 26 weeks already provided, for a total of 39 weeks of coverage

For more information: https://coronavirus.health.ny.gov/system/files/documents/2020/04/dol_unemploymentinsurancefaq_032720_0.pdf

Please note: ***Unemployment income is taxable!*** Any money you receive from unemployment insurance will be included on your tax return next year as taxable income. Please be prepared to pay tax on this amount.

Tax Deadline Extensions:

As we have previously made you aware, the tax filing deadline for the IRS and most states has been changed from April 15th to July 15th. This includes the first quarter 2020 estimated tax payments which are normally due April 15th. As mentioned above, the retirement contribution deadline for most plans has also been extended to July 15th.

Please note: At this time the second quarter 2020 estimated tax payment due on June 15th has not been extended.

Other Incentives:

- Net Operating Losses (NOLs) that are generated in taxable years beginning after December 31, 2017 and before January 1, 2021 may be carried back up to five taxable years. For taxable years beginning before January 1, 2021, taxpayers will be allowed to use their NOL carryforwards to offset 100% of their taxable income, without regard to the 80% limitation that previously applied to NOLs arising in taxable years beginning after December 31, 2017. The ability to carry back NOLs for up to five taxable years is particularly valuable for corporate taxpayers who can carry such losses back to 2017 and earlier, when the tax rate was 35% (as opposed to the current, lower rate of 21%). Moreover, by temporarily repealing the 80% limitation on NOL carryforwards, losses that are generated during this calendar year become more valuable in reducing any future tax liabilities (although the 80% limitation on NOL carryforwards is put back into place for taxable years beginning after December 31, 2020).
- The limit on the business interest expense deduction is increased from 30% to 50% of adjusted taxable income.
- Federal student loan payments are suspended until September 30, 2020. In addition, the interest on the federal student loans will not accrue during this time period.

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