



CLARK SCHAEFER HACKETT
CPAs & ADVISORS

Navigating through a Pandemic

PRESENTED BY: Kevin Dehner
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TODAY'S PRESENTERS



KEVIN DEHNER
Shareholder



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Agenda

- **Government Response**
 - **CARES Act**
 - **PPP Loans**
 - **Other CARES Act Tax Considerations**
 - **Other CARES Act Non-Tax Considerations**
 - **Families First Coronavirus Response Act**
 - **Emergency Family Medical Leave**
 - **Emergency Paid Sick Leave**
 - **Ohio Small Business Relief – Ohio Development Services Agency**
- **How can CSH help?**

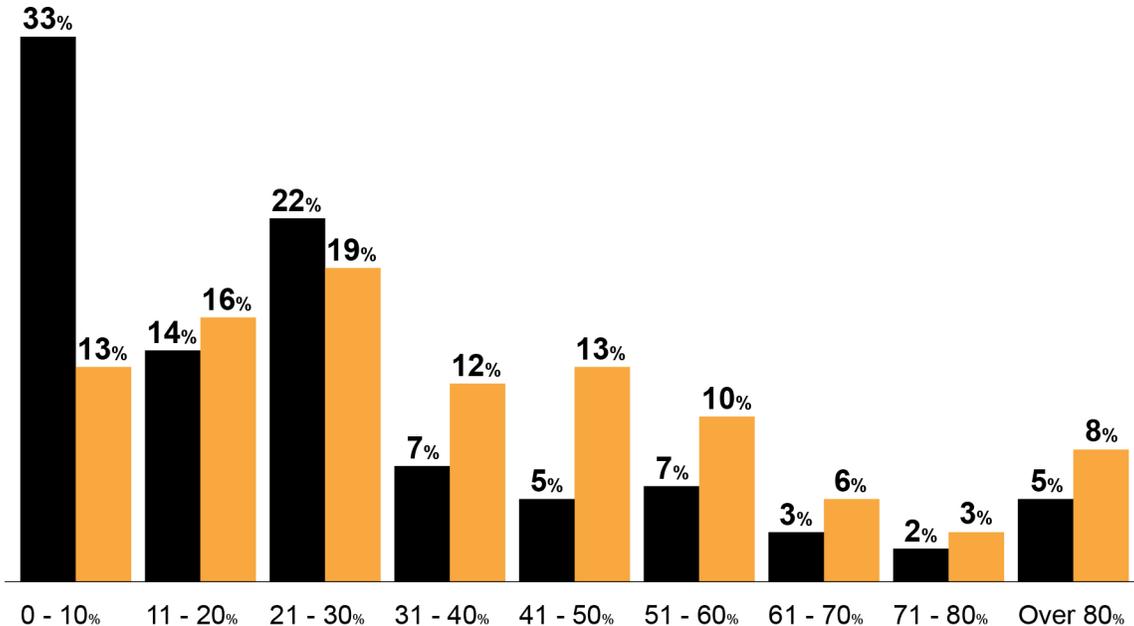


CSH CARES Act/FFCRA Assessment

Visit <https://www.cshco.com/covid-19-resource-center> to receive your own
customized assessment

Business Implications

Estimated and projected decreases in sales year over year as of calendar year 2020 vs. 2019



Ways businesses are increasing cash flow

11% 
Offering discounts/promotions to customers

14% 
Identifying alternative uses of current products/services/capacity

21% 
Increasing payment days to vendors or requiring up-front payments for products/services

23% 
Delaying CapEx projects or other operational improvement projects

32% 
Reducing variable general expenses (marketing, SG&A, etc.)

Workforce Implications

Have you laid off employees?



Reasons employees have not come to work



Have you furloughed employees or put them on a leave of absence?





CARES Act

On March 27, President Trump signed into law the “Coronavirus Aid, Relief, and Economic Security Act” or the CARES Act. This legislation, aka the Phase 3 bill, provides very significant tax and non-tax stimulus to individuals and businesses. Providing over \$2 trillion in support, it is the largest relief package in US history.



CARES Act: **Impact to Businesses**

CARES Act: Impact to Businesses

Paycheck Protection Program (PPP) Summary

- PPP provides a forgivable Small Business Administration loan, administered through private banking institutions.
- Generally limited to employers with 500 or fewer employees, including sole proprietors and self-employed, and 501(c)(3) entities.
- The maximum loan amount is \$10 million.
 - Allowable loan uses include payroll, paid sick/medical leave, insurance premiums, mortgage, rent and utility payments.
- Available loan of up to 2.5X total monthly payroll costs during prior year measurement period from when the loan was originated.
- Forgiveness payroll paid during 8-week period between loan origination date AND June 30, 2020.
- Must show that business met the “economic uncertainty” test AND have only utilized the loan for qualified expenditures.
- No personal guarantees or collateral required; no requirement that borrower sought and unable to obtain credit elsewhere.

CARES Act: Impact to Businesses

Paycheck Protection Program – Employer Eligibility

- Employer Eligibility
 - Businesses with less than 500 employees (as of application date)
 - 501(c)(3) with less than 500 employees (as of application date)
 - Individuals that operate as a sole proprietor, independent contractor or self-employed carrying on a trade or business
 - Tribal businesses that meet the SBA size standard
 - NAICS 72 Code Businesses – Accommodation and Food Service Sector businesses may apply the 500 employee rule on a per-location basis
 - Franchise operations are not impacted by normal affiliation rules to determine employee count

Note: The 500-employee threshold includes all employees – FT, PT and any other status

CARES Act: Impact to Businesses

Paycheck Protection Program – Employer Certification

- Required Employer Certification
 - The **uncertainty of current economic conditions** makes the loan request necessary to support ongoing operations.
 - Borrower will **use the loan proceeds to retain workers and maintain payroll or make mortgage, lease, and utility payments.**
 - Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for under PPP.
 - From Feb. 15, 2020, to Dec. 31, 2020, the borrower has not received a loan duplicative of the purpose and amounts applied for under PPP. (**Note:** There is an opportunity to fold SBA emergency loans made between Jan. 31, 2020, and the origination date of the PPP loan program into a new loan.)

CARES Act: Impact to Businesses

Paycheck Protection Program – Payroll Costs

- **Maximum loan** is based on 2.5X total payroll costs based on the average monthly payroll costs from 2019 or from the 1-year period before the date on which the loan is made.
 - Full-year 2019 is likely the administratively the easier answer for most businesses
 - If a seasonal business, there is an alternative period where the maximum loan can be 2.5X total payroll costs based on the amount paid in 2019 for the period beginning February 15, 2019, or March 1, 2019, through June 30, 2019.
- **Payroll costs** are defined very broadly:
 - includes salary, wage, commission, or similar compensation; payment of cash tip or equivalent; payment for vacation, parental, family, medical or sick leave; allowance for dismissal or separation; payment required for the provisions of group healthcare benefits, including insurance premiums; payment of any retirement benefit; and payment of state or local tax assessed on the compensation of employees.
 - Payroll costs for a “sole proprietor or independent contractor” equals sum of payments of **any compensation to or income of** a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment or similar compensation and that is in an amount that is not more than \$100,000 in 1 year, as prorated for the covered period.
- **Excluded payroll costs** include compensation of an individual employee in excess of an annual salary of \$100,000, prorated for the period February 15, 2020-June 30, 2020, employer portion of FICA taxes, compensation to employees whose residence is outside of the US and qualified emergency paid sick leave and emergency paid family medical leave, which a credit is allowed under the FFCRA.

CARES Act: Impact to Businesses

Paycheck Protection Program – Loan Forgiveness

- The potential forgiveness of a PPP loan is equal to the **sum of qualifying costs** incurred during the 8-week period following the origination of the loan.
- **Qualifying costs** include any “payroll costs,” as previously defined, mortgage interest, rent, and/or utilities (gas, electric, water, transportation, telephone or internet).
 - Wages in excess of a prorated \$100,000 annually will not be forgiven (up to \$100,000 prorated can be forgiven)
- The amount forgiven will be reduced proportionally by any reduction in employees retained compared to the measurement period (either avg. # of FTEs per month from February 15, 2019-June 30, 2019, or avg. # of FTEs per month from January 1, 2020-February 29, 2020).
- Further loan forgiveness reduction occurs if any employees pay is reduced beyond 25% of their most recent prior quarter compensation.

CARES Act: Impact to Businesses

Paycheck Protection Program – Business Planning

- If Borrowers laid off employees or reduced salary/wages between February 15, 2020 – April 26, 2020, they have until June 30, 2020 to restore those changes to prior levels and **not be penalized**.
- Portions of loans not forgiven are payable over 2 year period at 1% interest.
- Any forgiveness of loan is **not** considered “income.”
- Common documents required to apply include 2019 Form 941s, 2019 W-2 Employee files, and 2019 W-3 files.
- Contact your bank and inquire: 1. are they participating in the PPP program, 2. what information do they need to assist you to apply.
- Timing for application for sole-proprietors/independent contractors begins April 10th.

CARES Act: Impact to Businesses

Paycheck Protection Program – Simplified Sample Calculation

- Small business with 5 employees, including 1 owner.
- No employee makes more than \$100K.
- Total annual payroll of \$360,000.
- Benefits in addition to wages of \$30,000.

- Total Available PPP Loan = $\$390,000/12 = \$32,500 \times 2.5 = \$81,250$

- \$81,250 available for 8 week period from origination date of loan thru 6/30 for payroll costs, mortgage interest, rent, and utilities.

CARES Act: Impact to Businesses

Paycheck Protection Program – Coordination with Other Programs

- Coordination with EIDL Loans
 - Completion of an EIDL application does not jeopardize the PPP loan or forgiveness.
 - Funding from EIDL and PPP cannot be used for the SAME expenses.
 - Allows a borrower who has an EIDL loan unrelated to COVID-19 to apply for a PPP loan, with an option to refinance that loan into the PPP loan.
 - The emergency EIDL grant award of up to \$10,000 would be subtracted from the amount forgiven under the Paycheck Protection Program.
- Coordination with Retention Tax Credit
 - Employer cannot claim both a forgivable PPP and an employee retention credit.
- Coordination with FICA Deferral
 - Employer cannot both receive a PPP and receive deferral of FICA as allowed under the CARES Act.

CARES Act: Impact to Businesses

Tax Measures for Businesses

- **NOL Carryback**
 - Changes to the rules governing net operating losses (NOLs), including a five-year carryback of certain 2018, 2019 and 2020 losses and, temporarily, the ability to fully offset income.
 - To the extent a business reported Net Operating Losses ("NOLs") in 2018 or 2019 and reported taxable income in any of the tax years 2013-2018, a refund of previous taxes paid by carrying back your 2018/2019 net operating losses to all of those prior years to the extent there is taxable income.
 - To the extent a business reported a NOL in 2018 (and cannot carryback or will still have NOL remaining after carryback) and are expecting to report taxable income for 2019, the business will be able to use as much of its 2018 NOL as is needed to offset taxable income in 2019.
- **Interest Expense Limitation Increase**
 - The business interest limitation under IRC Section 163(j), currently set at 30% of adjusted taxable income based on EBITDA, would be set at 50% for 2019 and 2020.
 - Provides value to business with an increased interest expense taken on its tax return for 2019 and 2020.
- **Increased Limits for Charitable Contributions**
 - Limitations for charitable contributions deduction for business have been increase from 10% to 25% of taxable income. This provision also increases the limitation on deductions for contributions of food inventory from 15% to 25%.

CARES Act: Impact to Businesses

Tax Measures for Businesses (cont.)

- **Employee Retention Credit**
 - Fully refundable tax credit is available, tied to the payment of employee wages, against the employer's share of Social Security taxes and claimed on Form 941.
 - All eligible employers would be permitted to claim a 50% credit of wages paid up to \$10,000 per employee (maximum of \$5,000 credit per employee).
 - Employer Tests
 - The credit is available to employers whose (1) operations were fully or partially suspended, due to a COVID-19-related shutdown order, or (2) gross receipts declined by more than 50% when compared to the same quarter in the prior year.
 - Employee Tests
 - For eligible employers with **greater than 100 full-time employees**, qualified wages are **wages paid to employees when they are not providing services** due to one of the employer tests.
 - For eligible employers with **100 or fewer full-time employees**, **all employee wages qualify for the credit, whether the employer is open for business or subject to a shutdown order, if impacted by one of the employer tests.**
- The credit is provided for the first \$10,000 of compensation, including health benefits, paid to an eligible employee. The credit is provided for wages paid or incurred from March 13, 2020, through December 31, 2020.

CARES Act: Impact to Businesses

Tax Measures for Businesses (cont.)

- **Qualified Improvement Property (QIP)**
 - Provides a technical correction to provisions in the 2017 tax law (Tax Cuts and Jobs Act) to treat qualified improvement property as 15-year property under MACRS, and eligible for bonus depreciation. These corrections are retroactive to the effective date of the Tax Cuts and Jobs Act.
 - QIP is defined as any improvement to an interior portion of a building that is nonresidential real property as long as that improvement is placed in service after the building was first placed in service by any taxpayer.
 - Under the Tax Cuts and Jobs Act that was effective Jan. 1, 2018, Congress unintentionally required QIP to be treated as property depreciated over 39 years and not eligible for bonus depreciation provisions.
 - As a part of the CARES Act, Congress fixed this error retroactive to Jan. 1, 2018. This would treat QIP as 15-year property that is eligible for bonus depreciation.
 - Businesses may have an opportunity to recover taxes paid as a result of 39-year classification of QIP either through filing an amended return for 2018 or by filing a Form 3115, Change in Accounting Method in the current year (2019/2020).

CARES Act: Impact to Businesses

Tax Measures for Businesses (cont.)

- **FICA Payment Deferral**
 - Offers delay payment of employer (6.2% Social Security Tax) payroll taxes.
 - Payment must be made over the next two years, with half of the amount required to be paid by December 31, 2021, and the other half by December 31, 2022.
 - Allows **employers and self-employed individuals** to defer payment of the employer share they are otherwise responsible for paying.
- **Loss Limitations**
 - Changes to the limitation on loss rules for partnerships and sole proprietors (some temporary).
- **Refundability of AMT Credits**
 - Acceleration of refundability of corporate alternative minimum tax (AMT) credits.
- **Excise Tax Exclusions**
 - A temporary exception from excise taxes for alcohol used to produce hand sanitizer through December 31, 2020.
 - A suspension of certain aviation excise taxes through the creation of an “excise tax holiday” through December 31, 2020.

CARES Act: Impact to Businesses

Non-Tax Measures for Businesses

Economic Injury Disaster Loans (“EIDL”)

- The Act expands eligibility for access to Economic Injury Disaster Loans (EIDL) to include tribal businesses, cooperatives and ESOPs with fewer than 500 employees or any individual operating as a sole proprietor or an independent contractor during the covered period (January 31, 2020 to December 31, 2020).
- Private nonprofits are also eligible for EIDLs.
- **Waiver of Personal Guarantees & Other Eligibility Requirements**
 - The Act requires that for any SBA EIDL loans made in response to COVID-19 before December 31, 2020, the SBA shall waive any personal guarantee on advances and loans below \$200,000, the requirement that an applicant needs to have been in business for the 1-year period before the disaster, and the credit elsewhere requirement.
 - During the covered period, allows SBA to approve and offer EIDL loans based solely on an applicant’s credit score, or use an alternative appropriate alternative method for determining applicant’s ability to repay.

CARES Act: Impact to Businesses

Non-Tax Measures for Businesses

Emergency EIDL Grants

Emergency Grant Payment Distributions

- Establishes an emergency grant to allow an eligible entity who has applied for an EIDL loan due to COVID-19 to request an advance on that loan, of not more than \$10,000, which the SBA must distribute within 3 days.
- Applicants shall not be required to repay advance payments, even if subsequently denied for an EIDL loan. In advance of disbursing the advance payment, the SBA must verify that the entity is an eligible applicant for an EIDL loan. This approval shall take the form of a certification under penalty of perjury by the applicant that they are eligible.
- Advance payment may be used for providing paid sick leave to employees, maintaining payroll, meeting increased costs to obtain materials, making rent or mortgage payments and repaying obligations that cannot be met due to revenue losses.



CARES Act: **Impact to Individuals**

CARES Act: Impact to Individuals

Cash & Retirement Plans:

- Rebates of up to \$1,200 for single filers and \$2,400 for joint filers (with amounts increased by \$500 per child). These payments are subject to phase-outs beginning at \$75,000 / \$150,000 adjusted gross income (AGI) for single filers / joint filers. Individuals who have no income or those whose income comes from entirely non-taxable means-tested benefit programs are eligible to receive.
- A waiver of the early withdrawal penalty for certain coronavirus-related withdrawals from qualified retirement plans up to \$100,000. In addition, income attributable to those distributions would be subject to tax over three years and the taxpayer can recontribute those funds within the three-year period without regard to the annual contribution cap.
- A waiver of the required minimum distribution rules for certain defined contribution plans and IRAs for calendar year 2020.

CARES Act: Impact to Individuals

Unemployment

- Establish a temporary Pandemic Unemployment Assistance program through December 31, 2020, to provide payment to those not traditionally eligible for unemployment benefits (self-employed, independent contractors, those with limited work history and others) who are unable to work as a direct result of the coronavirus public health emergency.
- Provide an additional \$600 per week payment to each recipient of unemployment insurance or Pandemic Unemployment Assistance for up to four months.
- Provide an additional 13 weeks of unemployment benefits through December 31, 2020, to help those who remain unemployed after weeks of state unemployment benefits are no longer available.

CARES Act: Impact to Individuals

Charitable Deductions

- Allowance of up to \$300 of charitable deductions for non-itemizing taxpayers for tax years beginning in 2020 and relaxation of the limitations for those taxpayers who itemize.
- The 50% of adjusted gross income limitations on deductions for charitable contributions is suspended for 2020.

Student Loans

- Student loan repayment contribution by the employer for an employee is not taxable to the employee up to \$5,250 annual cap for employer provided educational assistance made prior to January 1, 2021.



Families First Coronavirus Response Act

On March 18, President Trump signed the Families First Coronavirus Response Act (H.R. 6201), “FFCRA,” which provides affected individuals with paid sick and emergency leave and creates tax credits for affected employers, expands food and nutrition services, allows for emergency state unemployment insurance grants and increases Medicaid funding to states, among other things.

- **FFCRA became effective on Wednesday, April 1, 2020.**

Families First Coronavirus Response Act

Benefits for Employees

Emergency Family Medical Leave (EFML) & Emergency Paid Sick Leave (EPSL)

- Private-sector (and tax-exempt) employers with fewer than 500 workers and all government entities are required to provide as many as 12 weeks of job-protected leave to employees ONLY in the situation in which they are unable to work or telework due to caring for a child (under the age of 18) whose school or place of care is closed.
 - The first 10 days may be unpaid, although a worker could choose to use other accrued leave (including EPSL). Employers would be required to pay employees two-thirds of their wages, not to exceed \$200 per day and \$10,000 in the aggregate. Only employees that have been employed for at least 30 days by the employer will qualify.
 - As with traditional FMLA leave, EFMLA leave is job-protected, and an employer must return the employee to the same or equivalent position upon their return to work.
- Private-sector (and tax-exempt) employers with **fewer than 500 employees and all public-sector employers** are required to provide **paid sick leave** of two weeks (80 hours) for full-time employees

Families First Coronavirus Response Act

Benefits for Employees

Emergency Paid Sick Leave (EPSL) – Qualifying Leave

- Qualifying sick leave under this bill includes **ANY** of the following situations:
 - Pay at either employees regular rate or applicable minimum wage, whichever is higher, up to \$511 per day and \$5,110 in the aggregate
 - (1) Employee is under federal, state or locally mandated quarantine or isolation
 - (2) Employee has been advised by a healthcare provider to self-quarantine
 - (3) Employee is experiencing symptoms and seeking a medical diagnosis
 - Pay at either employees regular rate or applicable minimum wage, whichever is higher, up to \$200 per day and \$2,000 in the aggregate
 - (4) Employee is caring for an individual under (1) or (2) above
 - (5) Employee is caring for a family member under quarantine or isolation, or caring for a child whose school has closed, or care provider is unavailable, due to the coronavirus
 - (6) Employee is experiencing substantially similar condition specified by Health and Human Services Secretary

Families First Coronavirus Response Act

Benefits for Employees

Exemptions Available Under EPSL and EFML

- **Exemption:** Employers with **fewer than 50 employees** are exempt from providing (a) paid sick leave due to school or place of care closures or childcare provider unavailability due to COVID-19 and (b) expanded family and medical leave due to school or place of care closures or childcare provider unavailability due to COVID-19 when doing so would jeopardize the viability of the small business. Determined by the following:
 - The sick leave or expanded family leave would **result in the small business's expenses and financial obligations exceeding available business revenues and cause the small business to cease operating at a minimal capacity**; or
 - **Absence of the employee** requesting paid sick leave or expanded family and medical leave would **entail a substantial risk to the financial health or operational capabilities** of the small business because of their specialized skills, knowledge of the business or responsibilities; or
 - There **are not sufficient workers who are able, willing and qualified, and who will be available at the time and place needed, to perform the labor or services provided by the employee** requesting paid sick leave or expanded family and medical leave, and these labor or services are needed for the small business to operate at a minimal capacity.

Families First Coronavirus Response Act

Benefits for Employers

Emergency Family Medical Leave and Emergency Paid Sick Leave Tax Credit

- Any amount paid by an employer under EFML and EPSL is eligible for a 100% refundable tax credit, equal to 100% of the qualified emergency family leave and/or sick leave wages paid to employees.
- The credit is claimed against the tax imposed by section 3111(a) (the employer portion of the Social Security taxes) each calendar quarter through the IRS Form 941.
- The amount of qualified leave wages taken into account for each employee is capped at \$200 per day and \$10,000 for all calendar quarters (EFML), or the credit is capped at \$2,000 or \$5,110, depending on the sick leave (EPSL) taken by the employee.
- If the credit exceeds the employer's total liability for any calendar quarter, the excess credit is refundable to the employer.

Families First Coronavirus Response Act

Actions Employers Can Take Today

- Employers may be eligible, depending on the direct or indirect impact to their employees, for up to a total of \$10,000 for EFMLA, and up to \$2,000 or \$5,110 for EPSL in tax credits for employees that are on emergency family or sick leave, starting April 1, 2020.
- Employers must accurately capture the hours and corresponding pay for each type of leave in order to calculate and capture the tax credit.
- Payroll providers can help establish time codes to assist with this process.



Ohio Office of Small Business Relief

Ohio Office of Small Business Relief

- Newly formed office part of Ohio Development Services Agency (DSA)
- Provides resources for SMB related to:
 - Business operations during Covid-19
 - Financial Support
 - Layoff Alternatives
- <https://businesshelp.ohio.gov/>

Rapid Summary

Summarizing the Noise

- Businesses with fewer than 500 employees should consider applying for a Paycheck Protection Program (PPP) Loan.
- Businesses with fewer than 100 employees, if not pursuing the PPP, should consider the Employee Retention Credit.
- ALL businesses not pursuing PPP should consider the FICA deferral until 12/31/2021 and 12/31/2022.
- EIDL SBA Loans will not have the financial benefit of PPP, but may offer needed liquidity for business survival.
- FFCRA effective 4/1/2020 – many businesses must comply.



Closing Thoughts

1. Compile records needed for loan documentation.
2. Coordinate with tax and payroll provider to review ALL tax benefits available.
3. Establish a realistic go-forward plan and understand what impacts those decisions have on your business.



Questions?

Contact Us – Thank you!



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Looking for additional COVID-19 guidance? [Visit our Business Continuity & Recovery Resource Center](#)

Appendix: Helpful Links

1. Treasury PPP Fact Sheet:
<https://home.treasury.gov/system/files/136/PPP--Fact-Sheet.pdf>
2. Treasury PPP FAQ:
<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>
3. Treasury PPP Interim Rules:
<https://home.treasury.gov/system/files/136/PPP--IFRN%20FINAL.pdf>
4. PPP Application Form:
<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf>