

Coronavirus Aid, Relief and Economic Security (“CARES”) Act

This Planning Alert is a summary of some of the important provisions of the Coronavirus Aid, Relief and Economic Security (“CARES”) Act which is a \$2.2 trillion spending bill passed by Congress and signed into law by President Trump on March 27, 2020. This Act is designed as a stimulus to support the economy which has been weakened by the 2020 coronavirus pandemic.

Please note that we will be providing more detailed commentary as we continue our study of this new law.

RELIEF TO SMALL BUSINESSES

Paycheck Protection Program

An important provision of the CARES Act (“Act”) called the “Paycheck Protection Program” provides for forgivable business loans up to the lesser of 250% of payroll costs or \$10 million, to small businesses through the Small Business Administration. The interest rate on these loans cannot exceed 4% and they are nonrecourse unless used for an unauthorized purpose. They also do not require any personal guarantee or collateral and the cancelled loan is not treated as income. The covered period to obtain a loan under this provision is from February 15, 2020 to June 30, 2020.

The Act allows generally any business with less than 500 employees, including sole proprietorships, independent contractors, eligible self-employed individuals, nonprofits and veterans organizations, to borrow and have that loan forgiven to the extent that the funds are used to pay expenses such as payroll costs, paid medical, sick or family leave, payments of interest on mortgages, insurance premiums and any other obligations such as rents and utility payments, incurred during the covered period. The compensation taken into account to determine payroll costs is limited to an annual salary per employee of \$100,000 prorated over the covered period.

Qualified sick leave and family leave wages are not included if a credit is available under the Families First Coronavirus Response Act. Also, the amount of these loans forgiven will be reduced if the number of employees retained are reduced as compared to the prior year (unless the employees are hired back), or if the pay of any employee is reduced by more than 25% of their prior year’s compensation.

FICA Tax Credits for Employee Retention

The Act also includes FICA tax credits for employee retention. The credit is a refundable payroll tax credit for 50% of qualified wages paid to employees during the period March 13, 2020 through December 31, 2020. To be eligible for the credit, the employer’s operation was suspended, either fully or partially, due to a coronavirus-related shut-down order, or gross receipts declined by more than 50% from the same quarter in the prior year. The term “qualified wages” is defined differently for companies with greater than 100 employees and companies with 100 or fewer employees. For employers with more than 100 full-time employees, qualified wages are those wages paid to employees who are not working because of coronavirus-related circumstances. For employers with 100 or fewer employees, all employee wages qualify for the credit. In all cases, the credit covers the first \$10,000 of compensation plus health benefits, paid to an eligible employee.



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NOL Carryback

For individuals who are losing money in their business in 2020, the CARES Act frees up these net operating losses so that they will now be able to be carried back to earlier years to seek an immediate tax refund.

Other Provisions to Provide Relief for Businesses

- Deferrals of employer-side FICA taxes where businesses will be able to defer 50% of the FICA taxes on the employer side until December 31, 2021, and the other 50% to December 31, 2022.

- Temporary increase in the amount of interest expense businesses are allowed to deduct from 30% to 50% for 2019 and 2020.
- The limit on corporate charitable deductions is now increased to 25% of business' taxable income (increased from 10%).

RELIEF TO INDIVIDUALS

Recovery Rebates for Individuals

Under the Act, all U.S. residents with Adjusted Gross Income ("AGI") below \$75,000 (\$150,000 if married filing jointly) are eligible for a full \$1,200 "rebate" (\$2,400 if married filing jointly) so long as they are not a dependent of another taxpayer. They are also eligible for an additional \$500 per child. The rebates begin to phase out for AGIs above these limits, and completely phase out at \$99,000 (\$198,000 for married filing jointly). These rebates are being treated as advance refunds on 2020 tax credits which credits will be reduced when taxpayers file their 2020 tax return. These rebates are not available to estates and trusts.

Pandemic Unemployment Assistance

The Act contains provisions that enhance unemployment under the Pandemic Unemployment Assistance program through December 31, 2020. This program provides benefits for individuals who are not traditionally eligible for unemployment benefits such as self-employed individuals, independent contractors and individuals whose work is limited as a direct result of the coronavirus. The additional weekly benefit under the Act is \$600. To qualify for this additional assistance, a "Covered individual" needs to be fully or partially unemployed or unable or unavailable to work for reasons delineated in the Act all of which are caused by or are directly related to the corona virus. However, "covered individual" does not include individuals who have the ability to telework with pay such as working from home or who are receiving paid sick leave or other paid leave benefits.

Charity-Related Provisions for Individuals

There are also charity-related provisions creating an additional deduction for cash contributions of up to \$300 in addition to the standard deduction and suspended the AGI limitation for certain cash contributions.

Suspension of Student Loans

Regarding student loans, the Act provides for the suspension of federal student loan payments through September 30, 2020 without penalty to the borrower. In addition, employers may contribute up to \$5,250 towards an employee' student loan without that amount being included in the employee's income so long as such payments are made before January 1, 2021.

Provisions for Retirement Plans

- Required minimum distributions for 2020 are suspended.
- Deadline for making contributions to an IRA for 2019 is extended to July 15, 2020, consistent with the new due date for filing of tax returns and payment of taxes.
- Special penalty-free coronavirus-related distributions (including in-service distributions) for eligible taxpayers from retirement plans and IRAs up to \$100,000 taken during 2020. To be eligible an individual must fall within one of a number of coronavirus-related categories. Income attributable to such distributions can be included over a 3-year period, and recontribution of the distribution is allowed also over 3 years.

- There is also a provision Increasing plan loan limits from \$50,000 or 50% of the vested account balance, to \$100,000 or 100% of such vested balance. To be eligible an individual must fall within one of a number of coronavirus-related categories.

Please contact us if you would like to discuss how you are impacted by the new CARES Act. We would be happy to discuss this legislation and how it may affect you, your business or your family.

Conway Wealth Group wishes everyone the best of luck in protecting themselves and their loved ones during this challenging time.

Disclaimer

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