



BNY MELLON

WEALTH MANAGEMENT

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COVID-19 & the CARES Act: *What Business Owners Need to Know*

Presenters

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Questions

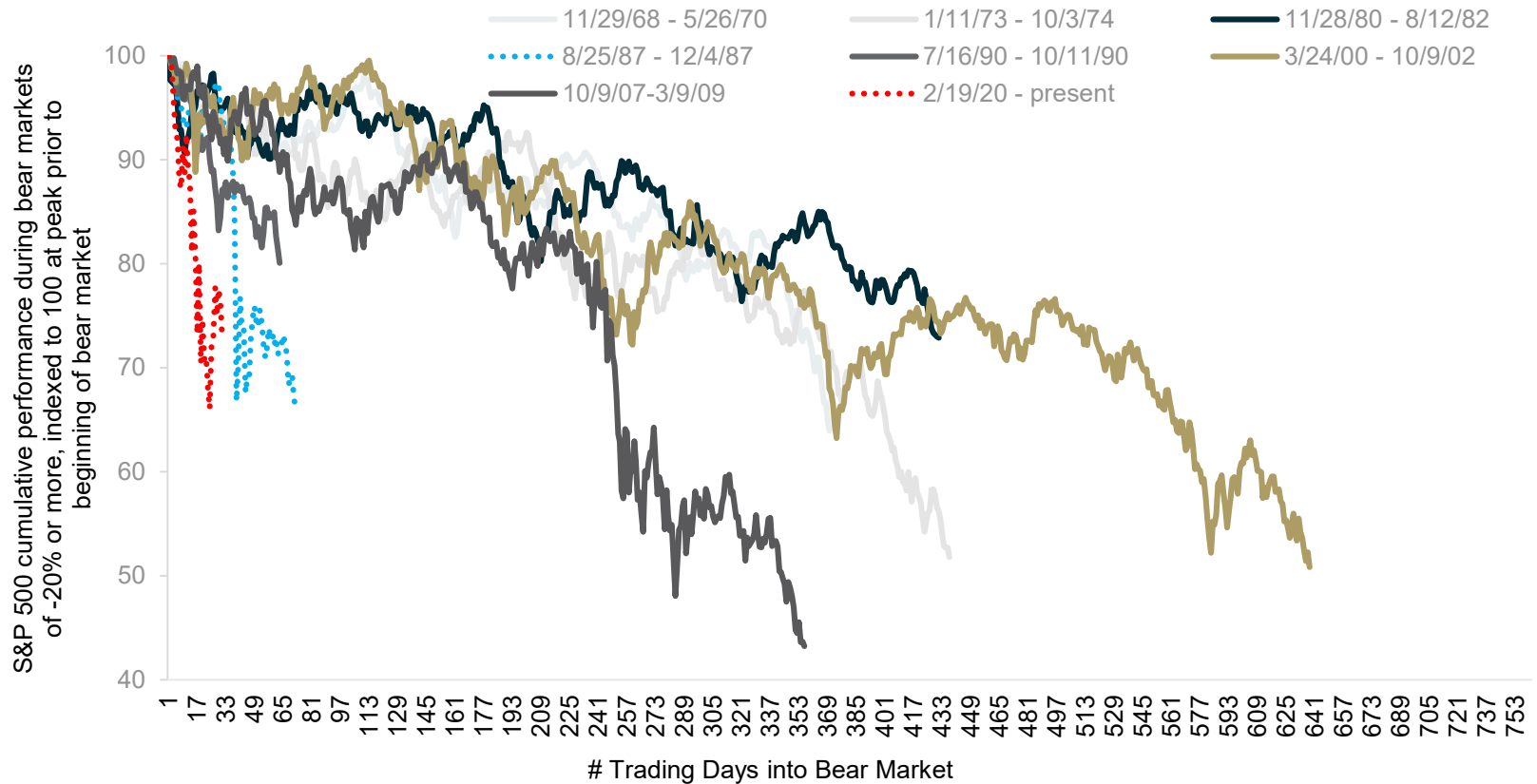
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Markets and Investment Update

Jeff Mortimer

Director of Investment Strategy

History of Bear Markets

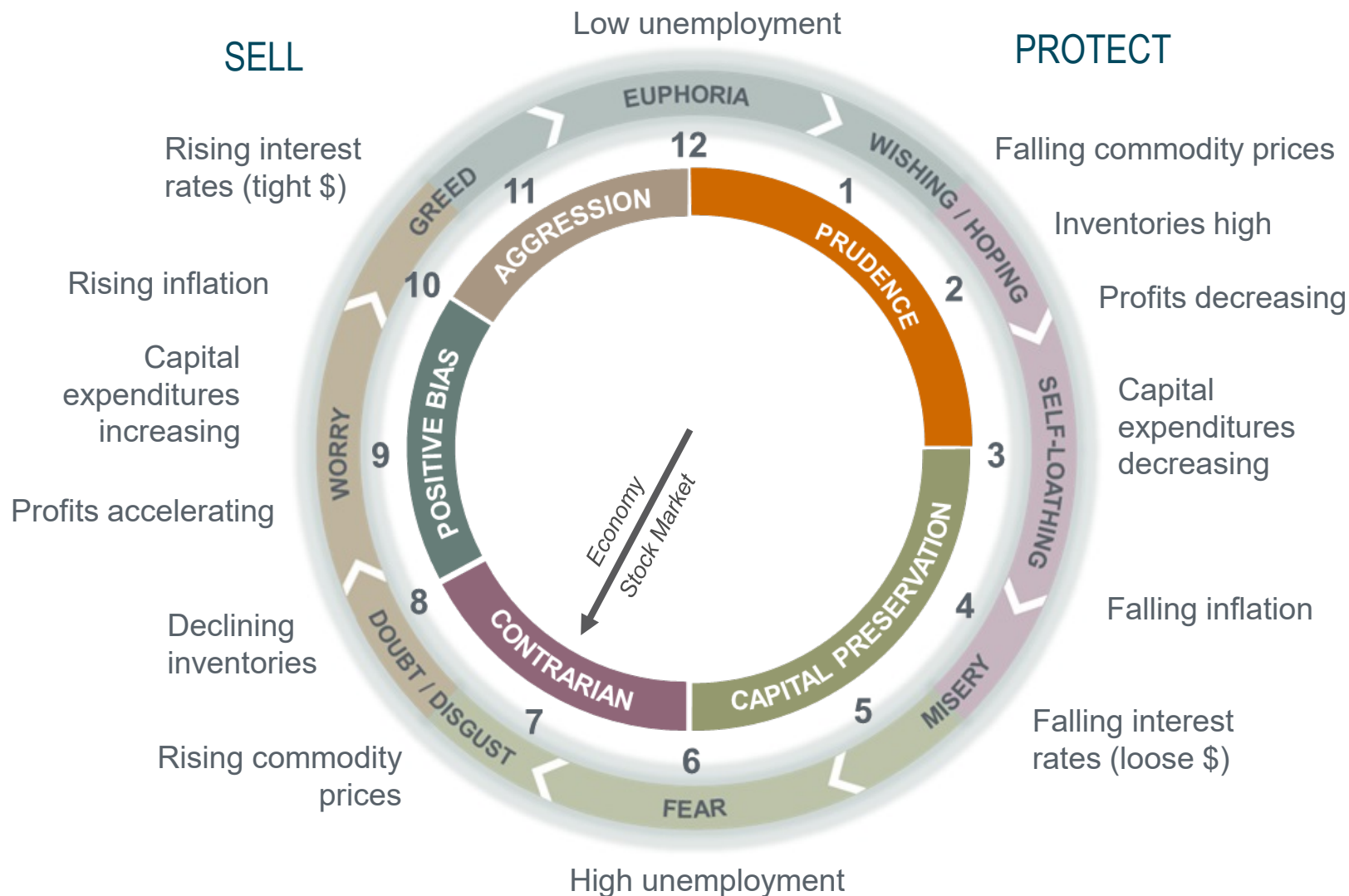


*Dashed lines correspond to non-recessionary bear markets, all others correspond with recessions.

Markets Rebound Before the Economy

Recession Start	Market Low	Recession End	Market Bottom	S&P Performance from Low to Recession End
July 1953	September 1953	May 1954	8 months prior	25.8%
August 1957	October 1957	April 1958	6 months prior	11.4%
April 1960	October 1960	February 1961	4 months prior	21.3%
December 1969	May 1970	November 1970	6 months prior	25.8%
November 1973	October 1974	March 1975	5 months prior	33.8%
January 1980	March 1980	July 1980	4 months prior	23.9%
July 1981	August 1982	November 1982	3 months prior	35.3%
July 1990	October 1990	March 1991	5 months prior	27.0%
March 2001	October 2002	November 2001	11 months after	-
December 2007	March 2009	June 2009	3 months prior	35.9%
		Average	4 months prior	24.9%

Interaction Between The Economy And Stock Market



CHEAPER CAPITAL: BORROW TO BUY OR BUILD

M153057

CARES Act – Relief Available to Business Owners

Jere Doyle

Senior Tax and Estate Planning Strategist

The CARES Act: Main Provisions

Financial Assistance to Individuals

Americans will receive a check in the amount of:

- **\$1,200 for individuals**
- **up to \$2,400 for couples**
- **\$3,000 for a family of four**

The payments will be phased out based on income levels.

Extended Unemployment Insurance Program

- Adds \$600 per week to normal state benefits for up to four months and provides an extra 13 weeks of benefits. It expands eligibility to freelancers and gig economy workers as well.

Payroll Taxes

- The measure allows for employers and self-employed individuals to defer payroll tax, requiring half to be paid by the end of 2021 and the other half by 2022.

Small Business Loans

- \$350 billion in loans for small businesses impacted by the virus. Companies with 500 or fewer employees could tap up to \$10 million each in forgivable small business loans to keep paychecks flowing.

The CARES Act: Main Provisions (cont'd.)

Federally Guaranteed Loans

- This provision will provide eight weeks of assistance for qualifying employers who maintain payroll. Those who meet requirements would have costs such as utilities, mortgage interest and rent forgiven.

Hospitals and Health Care Funding

- \$240 billion would be set aside in additional emergency appropriations to fight the virus and shore up safety net programs.

Industry

- \$500 billion proposal to provide loans to distressed companies, with \$50 billion in loans for passenger air carriers. Limitations on executive pay and retirement have been placed on businesses who accept the loans and loan guarantees.

State and Local Funding

- \$150 billion to address spending shortages related to the coronavirus outbreak.

Payroll Tax Relief

- Delay in payment of employer share of payroll and self-employment taxes (6.2%) during 2020.
- Applies to payroll taxes due from March 27, 2020 (date the CARES Act was signed into law) until December 31, 2020.
- Delayed payroll tax must be paid back:
 - 50% by December 31, 2021
 - 50% by December 31, 2022
- Not eligible if employer had a loan forgiven under the CARES Act.

Refundable Employee Retention Credit

- Gives eligible employers a credit against the employer's share of employment taxes equal to 50% of qualified wages paid to employees who are not working due to the employer's full or partial suspension of business or a significant decline in gross receipts.
- Designed to encourage businesses to keep workers on the payroll.
- Requirements:
 - The company's operations were fully or partially suspended**OR**
 - The company's gross receipts declined more than 50% when compared to the same quarter of 2019. The credit would continue each quarter until the business' revenue exceeds 80% for the same quarter in 2019.
- Credit is available on a quarterly basis but is limited to the first \$10,000 of wages paid, including health benefits i.e., maximum credit is \$5,000.
- The credit applies to wages paid after March 12, 2020 and before January 1, 2021.
- Not eligible for the credit if the employer got a Payroll Protection Program loan under CARES Act.

Modification of Limitations on Use of NOLs

- Allows business to temporarily carry back net operating losses to prior years.
- The Tax Cuts and Jobs Act of 2017 previously eliminated the ability to carryback Net-Operating Losses for years after 2017 even though it did provide for an unlimited carryforward of NOLs.
- NOLs incurred in 2018-2020 may be carried back 5 years and may fully offset income in the carryback years.
- NOLs arising before January 1, 2021 may fully offset income. Prior to the CARES Act, NOLs were limited to offset up to 80% of taxable income.
- Businesses will be able to amend or modify tax returns for tax years dating back to 2013 in order to take advantage of the carryback.

Increase of the Limitation on Deductibility of Business Interest Expense

- TCJA of 2017 also limited the deductibility of the business interest expense for years after 2017 to the amount of business interest income for the year plus 30% of the taxpayer's adjusted taxable income for the year. This limitation does not apply to taxpayers with average gross receipts for the prior three years below an inflation adjusted amount which, for 2020, is \$26 million or less.
- CARES Act amends the federal interest deduction limitation by increasing the interest expense deduction limitation from 30% to 50% of business adjusted taxable income, plus any interest income for taxable years beginning in 2019 and 2020.
- For 2020, taxpayers may substitute their adjusted taxable income for their 2019 tax year for their adjusted taxable income for their 2020 tax year. This option is intended to give the taxpayer a larger taxable income as the 2019 income will most likely be more than the 2020 income.

Qualified Improvement Property

- Defines qualified improvement property as 15 year property thus allowing 100% of improvements to be deducted in the year incurred.
 - Qualified improvement property is any improvement to an interior portion of an already existing nonresidential building
- This change is effective for property acquired and placed in service after September 27, 2017.
- This provision has nothing to do with COVID-19. It was thrown into the CARES Act to correct a previous Congressional oversight. This technical correction allows any expenses incurred by owners to make improvements to the physical premises related to business to be accelerated into the 2017 or 2018 tax year on an amended return or the 2019 tax year return due July 15, 2020. It will assist small businesses like, hospitality businesses, restaurants and retail stores that have been hit hard by the pandemic.

CARES Act – Navigating the SBA Process

John Winchester

Head of Private Bank Structural Funding

CARES Act – Navigating the SBA Process

- The CARES Act has allocated billions to keep businesses operating and workers employed amid the COVID-19 pandemic
- Administered by the SBA through revisions to its existing 7(a) and Disaster Assistance Programs, relief is provided in two loan programs:
 - **The Paycheck Protection Program Loans (PPP) – \$350B**
 - and
 - **Economic Injury Disaster Loan (EIDL) program – \$10B**

Small Business Paycheck Protection Program

- The Paycheck Protection Program provides 100% federally guaranteed funds to be used for:
 - Up to 8 weeks of payroll costs including benefits (from date of loan disbursement)
 - Interest on mortgages or on other debts
 - Rent, utilities and insurance premiums
 - Additional operational costs that cannot be met as a result of COVID-19
- PPP Loans may be fully forgiven (requires application), based on:
 - Employer maintaining or quickly rehiring employees
 - Maintaining salary levels
 - Forgiven debt will NOT be recognized as income for tax purposes
 - Forgiveness reduced if full-time headcount declines, or if salaries and wages decrease
 - Forgiveness for proceeds used for non-payroll costs will likely be capped at 25% (new)

Not required: personal guarantees, pledge of collateral or personal guarantees, ability to repay, credit elsewhere certification

Small Business Paycheck Protection Program (cont'd.)

- Neither the government nor lenders will charge small businesses any fees
 - All small business are eligible (as defined by SBA), which, in general, include small businesses with 500 or fewer employees—including nonprofits, veterans organizations, tribal concerns, self-employed individuals, sole proprietorships, and independent contractors
-

Application

- Applications are scheduled to be accepted from April 3, 2020 through June 30, 2020
- Applications will be accepted by (i) existing SBA 7(a) lenders, (ii) federally insured depository institution or credit union, (iii) Other regulated lenders once approved and enrolled in the program

Loan Terms

- All loans will have the same terms regardless of lender¹ or borrower
- The interest rate will be fixed at 1.00% (100 basis points)
- Loan amounts will be based on 2.5x average total monthly payroll costs (max \$10MM)
- Loan payments will be deferred for six months (interest will accrue)
- Outstanding loans will be due in two (2) years

Economic Injury Disaster Loan Program

An expansion of the SBA's existing Disaster Assistance Loan Program, the CARES act has earmarked \$10B for EIDLs

- Funded directly by SBA (Treasury), EIDL offer disaster assistance to:
 - Maintain payroll
 - Remit rent or mortgage payments (or other obligations) that cannot be met due to revenue losses
 - Provide paid sick leave to employees
 - Meet increased costs to obtain materials
- Qualified small businesses (as defined by SBA) are eligible

Application

- Small business owners can apply for Economic Injury Disaster Loans directly from SBA's website

Economic Injury Disaster Loan Program (cont'd.)

Loan Terms

- Maximum loan size \$2 million
- Interest rate: 3.75% (2.75% for non-profits)
- Advance: eligible for up to \$10,000
- Credit may be extended based credit score or other means to assess ability to repay

Standard Disaster Assistance Loan requirements that have been *waived*:

- Personal guarantees (for loans of up to \$200,000)
- Age of business
- Credit elsewhere test
- Submission of tax returns

Emergency Grants

- A small business that applies for an EIDL may also request an emergency grant –an advance on that loan of no more than \$10,000
- The SBA must distribute the advance within 3 days
- Repayment of the advance is not required, even the EIDL is ultimately denied

Planning Opportunities for Business Owners

Boryana Zamanoff

Family Wealth Strategist

Asset Protection 101

- Use entity protection
 - Separate business and personal assets/liabilities
 - Bolster personal balance sheet
 - Charging orders as exclusive creditor remedy against LLCs in some jurisdictions
- Fully fund ERISA plans
 - Inherited IRAs are not protected in bankruptcy
- Consider asset protection trusts in a suitable jurisdiction before creditors claims arise
- Cease receiving distributions from spendthrift trusts
- “Sheltering” assets by putting them in spouse’s name: cannot undo in the event of divorce

Advanced Tax Planning

Income Tax Planning

- QSBS qualification
- CRTs
- NINGs/DINGs
- Changes in tax domicile

Wealth Transfer Planning

- GRATs
- Sales to IDGTs

Making A Positive Difference

Ways to Help Employees:

- Fund an Employee Relief Fund at a 501(c)(3) charity with tax deductible contributions
- Make “qualified disaster relief payments” to employees under IRC Section 139 (tax free to employee and fully deductible to employer)
- Provide student loan repayment benefit to employees

Ways to Help the Community At Large:

- \$300 charitable deduction for taxpayers who don't itemize
- Up to 100% of AGI charitable deduction for taxpayers who itemize
- Contributions need to be in cash and cannot be made to DAFs

Q&A

To submit questions please email: WMmarketingmailbox@bnymellon.com

Thank You

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