

webinar

April 8, 2020  
12:00 PM - 1:00 PM

What You Need  
to Know About  
the CARES Act



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attorneys

# Liquidity Options for Injured Entities

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*Two significant opportunities for an injection of cash from the federal government*

- SBA Economic Injury Disaster Loans (EIDLs)
- Paycheck Protection Program (PPP) loans
- Both programs may be used in concert, but not to fund the same expenses
- The overarching goal is to keep employees on payroll instead of unemployment



# PPP - Defined Terms

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## *Covered Period*

- 8-week period follow closing of the loan

## *Payroll Costs*

- Salaries, wages, commissions, leave pay for vacation, sick time and FMLA, payments for group healthcare and state and local tax assessed on compensation



# PPP - Who is Eligible?

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- United States businesses that existed on February 15, 2020 and has 500 or fewer employees
- Certain 501(c)(3) and other not-for-profit organizations
- Internationally owned organizations located in the United States
- Tribal small business concerns
- Affiliation rules apply for determining number of employees



# PPP - Maximum Loan Amount

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- 2.5 times average monthly payroll cost for the 12-month period ending on the date the loan closes, or \$10,000,000, whichever is less
- The amount of the Loan is reduced by Emergency EIDL grant (if any)
- *Important note: Businesses may not borrow via the PPP and claim employee retention credits (more on these later)*



# PPP - Not Included in Average Monthly Payroll Costs

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- Annual payroll costs for any employee may not exceed \$100,000
- Compensation of any employee whose principal place of employment is outside the U.S.
- Qualified Sick and Family Leave Wages for which a credit is allowed under Family First Coronavirus Response Act



# PPP - Information to Prepare

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- Total payroll cost for the past 12 months
- Total payroll cost that exceeds \$100,000 per employee
- Account number where funds will be deposited
- Federal ID Number
- Date entity was created
- Any DBAs or trade names
- Paycheck Protection Program Borrower Application Form (SBA Form 2483)



# PPP - Information to Prepare

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- Number of employees
- Number of full-time equivalent (FTE) employees
- Summary of other businesses owned or commonly managed by the applicant or any owner of the applicant
- Records to back up all information





# PPP – Use of Funds During Covered Period

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## *Loans Can Be Used For*

- Payroll costs
- Group healthcare costs
- Interest on mortgages
- Rent
- Utilities
- Interest on debt that existed before loan closing



# PPP - Borrower Must Make a Good-faith Certification that:

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- Uncertain economic conditions make the loan necessary to support ongoing operations
- Funds will be used to retain workers and maintain payroll or monthly mortgage payments, lease payments, and utility bills
- No duplicate loan will be applied for or received



# PPP - Additional Features

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- No personal guaranties
- No collateral
- No need to show that other financing is not available
- Interest may not exceed 4%  
(the current rate is 1%)
- Payments will be deferred for 6 months
- No fees charged by the government or lender



# PPP - Loan Forgiveness

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*Generally, the loan will be forgiven to the extent that the loan proceeds are used, during the Covered Period, for:*

- Payroll costs
- Payment of mortgage interest
- Payment of rent
- Payment of utilities

*Forgiveness is tax-free!*



# PPP - Limits on the Forgiveness Amount

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- The amount of otherwise forgivable loan is multiplied by the fraction:
- Average FTE/month during Covered Period, divided by either Average FTE/month for
  - February 15, 2019 through June 30, 2019
  - or January 1, 2020 through February 29, 2020



# PPP - Further Reduction of Forgivable Loan Amount

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- Reduction in the total salary and wages that is in excess of 25% of the total salary and wages of the Designated Employee during the most recent quarter the employee was employed before the Covered Period
- Designated Employee is an employee who did not, during any single pay period during 2019, receive wages and salary at a rate in excess of \$100,000



# Emergency EIDL Grant

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- Apply to SBA for a grant up to \$10,000. This can be used for payroll, increased supply chain costs, and certain other obligations.
- No need to repay the grant
- Reduces the amount of PPP Loan
- EIDL loans are another option
  - Economic injury must have occurred



# EIDL vs. PPP

EIDL	PPP
Maximum \$2 million	Maximum \$10 million, but generally limited to 2.5 times the company's average monthly payroll (see the fine print for details and exceptions)
3.75% (for-profit) or 2.75% (not-for-profit) interest rate	1.0% current interest rate (and may not exceed 4.0%)
Up to 30-year terms, with 12 months of deferral	Two-year terms, with 6 months of deferral
Includes a \$10,000 maximum emergency grant that may be forgiven	Partial forgiveness is available for permissible expenditures made during the eight-week period following the date of the loan if employers retain employees during a specified period
Possible collateral on loans that exceed \$25,000	No collateral requirements
No personal guarantees for loans under \$200,000	No personal guarantees
May be used for payroll, related benefits, vendor payments, fixed debts, and other expenses that cannot be paid because of COVID-19's impact	May be used for payroll, related benefits, interest on pre-existing debt obligations, rent, and utilities (strings attached to loan forgiveness)
Administered directly by the SBA	Administered by SBA-approved lenders





# Act Now!

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- Contact your commercial lender immediately if you have not already initiated this critical step
- Funds are limited
- Lenders are scrambling to accommodate their clients
- The situation is fluid
- Be ready to respond nimbly if your lender needs additional information



# Recovery Rebates

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- \$1,200 per individual plus \$500 per qualifying dependent child
- Reduced by 5% of AGI tax above thresholds
  - Single filers: \$75,000
  - Joint filers: \$150,000
  - Head of household: \$112,500
- Complete phase-out examples
  - Single: \$99,000
  - Joint with no children: \$198,000
  - Joint with two children: \$218,000
  - Head of household with one child: \$146,500



# Recovery Rebates

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- On March 25, Treasury Secretary Steven Mnuchin said, “We expect the IRS will do direct deposit in the next three weeks.”
- The amount will be based upon 2018 if you have not yet filed your 2019 return
  - But it will be based upon 2019 income levels if you have filed your 2019 return
  - Thus, taxpayers who have not yet filed their 2019 returns should determine if it is better to file ASAP or wait until they receive a rebate
- Paper checks could require significantly more time than direct deposit



# Other Noteworthy Provisions

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- No 10% penalty for Coronavirus-related early retirement plan distributions
  - Taxation is also favorable
    - No taxation if withdrawn amounts are recontributed within three years
    - Alternatively, taxpayers may spread income taxation over three tax years
- No required minimum distributions (RMDs) for 2020
  - This could be especially helpful for retirees who may not want to liquidate distressed investments while markets are in turmoil



# Other Noteworthy Provisions

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- Refundable credit for employers who retain employees
  - 50% of wages up to a maximum of \$10,000 of wages
  - Employers with more than 100 employees
    - Credit available for retained employees who are not currently working
  - Employers with 100 or fewer employees
    - Credit available for all employees
  - **But not available if you borrowed via PPP**
- Expanded unemployment insurance benefits



# Other Noteworthy Provisions

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- Net operating losses (NOLs)
  - Five-year carryback treatment may be elected for NOLs incurred in 2018, 2019, or 2020
  - The 80%-of-taxable-income limitation is suspended
- Employer Social Security tax payments may be delayed for a deferral period beginning with the enactment of the CARES Act, and ending on December 31, 2020 (*but not if PPP was forgiven*)
  - 50% due on December 31, 2021
  - 50% due on December 31, 2022



# Individual Filing and Payment Deadlines

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- Federal and Michigan income tax returns and payments formerly due on April 15 are now due on July 15
- Grand Rapids returns and payment are due on July 31 instead of April 30
- No extension request needs to be filed as long as you file by the new, postponed date
- The three-year statute of limitations to claim refund of a federal overpayment is unaffected
  - File your 2016 return by April 15, 2020 if you have waited this long to claim a refund for this tax year!



# Just the Highlights

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- The CARES Act is 880 pages
- There are many more details
- We have covered many of the most prominent provisions
- This is simply general advice; you should seek the counsel of a trusted advisor
  - Someone who can help you navigate the complexities
  - Someone who can help you apply provisions to your unique circumstances





# Presenters

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**Peter Lozicki**  
[lozicki@rhoadesmckee.com](mailto:lozicki@rhoadesmckee.com)



**Chris Harper**  
[charper@hungerfordnichols.com](mailto:charper@hungerfordnichols.com)

