March 31, 2020

Karen,

The Federal government has been busy enacting legislation related to the COVID-19 pandemic. While much of the legislation has been focused on public health measures and emergency funding for federal agencies, there are also provisions providing economic relief to individuals and businesses. Some of the measures intended to provide economic relief for American workers come with compliance requirements for businesses, including small businesses.

We would like to take this opportunity to share a few of the provisions that may be of interest to you and require some compliance action on your part.

The Families First Coronavirus Response Act (FFCRA) became law on March 18, 2020. This Act requires small businesses with less than 500 employees to provide paid leave to employees if certain conditions are met. The federal government recognizes that small businesses have been hard hit by economic conditions beyond their control, so there is a mechanism for businesses to be reimbursed or even provided an advance for the payroll costs related to providing this leave to their employees.

On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security (CARES) Act. The Act includes a Paycheck Protection Program that provides low interest rate loans to small businesses that retain employees. The most exciting feature of this program is the federal government may provide tax free loan forgiveness of the loan amount if certain requirements are met, turning the loan into a grant. Financial Institutions are participating with the Small Business Administration (SBA) to make these loans available beginning on April 3, so we encourage you to contact your financial institution as soon as possible to participate in this program. If your financial institution does not participate in this program, please contact us and we will direct you to a financial institution that does participate.

We have attached a summary of some of the specifics related to the legislative acts mentioned above. We have also included a summary of other legislation you may be interested in such as the individual rebate checks and tax related measures. These are just a few of the new laws. We encourage you to keep abreast of new legislation and compliance requirements through government websites such as the Department of the Treasury and Department of Labor as we navigate this pandemic. We are also available to consult with you on how these new laws may affect you individually and how they may affect your business.

www.gowland-cpa.com
Our office is currently closed to anyone other than staff and most of our employees are working remotely, therefore please call or email if you have any questions or need any additional information.

We believe these new laws will have a significant economic impact and strongly encourage you to take advantage of these offered programs as soon as possible. We wish you health, safety and economic provision through these difficult times.

Sincerely,

Gowland, Strealy, Morales & Co., PLLC
Certified Public Accountants
Summary

The Federal government has recently passed two new bills related to the impact of the COVID-19 pandemic. The Families First Coronavirus Response Act (FFCRA) was signed into law on March 18, 2020 and made substantial changes to sick leave and family medical leave. This law goes into effect on April 1, 2020 and remains in effect until December 31, 2020. This legislative act includes two new leave provisions that apply mainly to businesses with fewer than 500 employees. Employers are required to inform employees of their rights under this act by either posting a notice or provide the notice via email or regular mail if the workforce is primarily working remotely.

Emergency Paid Sick Leave

An employer must provide sick leave (in addition to paid time off already offered by the company) to any employee unable to work in-house or remotely due to any of the following factors related to COVID-19:

- Government mandated quarantine or isolation
- Advised by their doctor to self-quarantine
- Experiencing symptoms of the virus and seeking medical diagnosis
- Caring for a family member subject to quarantine or self-quarantine
- Caring for children if school or place of care is closed or their caregiver is unavailable

Full time employees are eligible for up to 80 hours of paid sick leave and part time employees receive pay based on average hours. If subject to quarantine, self-quarantine or seeking diagnosis, pay shall be at 100% of the regular rate of pay and may be limited at the employer’s option to the maximum reimbursable amount of $511/day and $5,110 total. If taking leave because of caring for a family member or child, pay shall be 2/3 of regular pay and may be limited at the employer’s option to the maximum reimbursable amount of $200/day and $2,000 total.

Emergency Family and Medical Leave

An employer must provide an additional 10 weeks of family and medical leave to any employee employed for at least 30 days who is unable to work in-house or remotely due to caring for children whose school has closed or place of care or caregiver is unavailable due to the coronavirus health emergency. Pay shall be 2/3 of regular pay and may be limited at the employer’s option to the maximum reimbursable amount of $200/day and $10,000 total for the full 10 weeks.

Group health insurance must continue during leave.

Healthcare and Emergency Response businesses may exclude employees from the family medical leave expansion due to the current health crisis.

The Department of Labor may provide an exemption to a business with less than 50 employees if providing such leave would jeopardize the viability the business.
Reimbursement

Under the FFCRA, businesses are reimbursed for the cost of the sick leave and expanded family medical leave through tax credits taken against payroll taxes. An employer may reduce their payroll tax deposits by the amount of reimbursement due. If the amount of paid leave exceeds the payroll taxes for the applicable time period, the Treasury Department will issue a refund check to the company for the excess.

The CARES Act added a process whereby employers can request an advance of the anticipated tax-credit reimbursements, due to cash flow concerns for the small businesses subject to these new leave provisions.

The Coronavirus Aid, Relief and Economic Security (CARES) Act was signed on March 27, 2020 and includes tax relief, emergency business loans and individual recovery rebate payments.

Individual provisions include:

**Individual Rebate Checks** - Based on a new 2020 tax credit of $1,200 per adult and $500 for each qualifying dependent child under the age of 17. Advance checks will begin to be issued in the next few weeks based on income reported to the IRS on 2019 returns. If a taxpayer’s 2019 return has not yet been filed, the IRS will look to the 2018 return and then to Social Security records if a return has not been filed for 2018 or 2019. The rebate amounts are lowered or eliminated for higher income earners. The phase out begins on a sliding scale at $75,000 adjusted gross income for single filers and $150,000 for joint filers. Rebate payments will be made electronically if direct deposit bank account information was provided on the 2018 or 2019 returns.

**Required Minimum Distributions from retirement accounts** - Suspended for 2020

**Retirement Account Distributions** up to $100,000 – Early withdrawal penalty is waived for COVID-19 related withdrawals and taxable income can be spread over 3 years or may be treated as a loan and paid back. Eligibility requirements include the taxpayer, spouse or dependent diagnosed with COVID-19 or adverse financial consequences from a quarantine, layoff, reduced hours or lack of childcare.

Some of the business provisions of the CARES Act include:

**Paycheck Protection Program loans** – designed to provide an incentive for small businesses of less than 500 employees to keep their workers on payroll by providing low interest federally guaranteed loans that may be forgiven up to 100% if certain conditions are met.

Businesses including non-profits, sole proprietorships and independent contractors with 500 or fewer employees may apply for the loans. Some specific industries with more than 500 employees may also be eligible to apply for the loans. The allowable loan amount is based on the average of 2 ½ months payroll costs including health insurance premiums and retirement contributions for the year prior to the date the loan is made. Compensation of any individual employee in excess of an annual salary of $100,000 is excluded from the allowable loan amount.
The SBA may forgive some or all of the loan principal balance provided the company retains all employees on payroll and expends the loan funds on the qualifying expenses of payroll, rent, mortgage interest or utilities within allowable time frames. A reduction in workforce or reduction in wages paid for the time period of March 1, 2020 through December 31, 2020 could result in a lower amount of loan forgiveness.

Refundable employee retention credit of up to $5,000 based on 50% of wages paid up to $10,000 while business operations are suspended due to government order or if gross receipts for a business drop by $50% for the 1st quarter of 2020 as compared to the 1st quarter of 2019. This credit is available for each quarter until the business suspension ends, gross receipts reach 80% of prior year receipts or the employee's cumulative wage totals the $10,000 maximum.

Wages utilized in determining the payroll tax credit for the new sick leave and family medical leave payroll tax credit are not available for the employee retention credit.

The employee retention credit is not available to employers who take out a Payroll Protection Loan.

Deferred Payroll Tax Deposits – The deposit of the employer 6.2% portion of payroll taxes through 12/31/20 may be deferred with half due by 12/31/21 and the other half due by 12/31/22.

This deferral is not available to any business that takes out a Payroll Protection Loan.

Net Operating Losses – 5-year carryback is allowed for NOL's arising in calendar years 2018 through 2020.

Qualified Improvement Property – treated as 15-year property eligible for bonus depreciation