



MICHAEL F PHARRIS CPA, LLC
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Discussion and analysis of the key provisions of
the Coronavirus Aid, Relief, and Economic
Security Act

CARES Act



Introduction and disclaimer

About me:

I've been practicing as a CPA for over 30 years and spent the vast majority of that time working with small business owners. My practice in Longmont, CO focuses on small businesses and self-employed individuals. I help them with tax planning and compliance as well as general business management issues along with payroll and sales tax compliance assistance.



This presentation is not intended to be specific tax advice and you should consult an adviser familiar with your particular facts before acting on any of the information contained herein. Subsequent guidance from Treasury could impact application of some of these provisions.

The information that follows is intended to highlight certain provisions of the CARES Act and illustrate how they might apply to small business owners in general. It is not a comprehensive study of the entire bill.





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Paycheck Protection Program

The paycheck protection program provides forgivable loans to businesses that are impacted by the virus.

It will be administered by banks and supported by the SBA

Expires June 30, 2020





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Qualifying Businesses

Employers with fewer than 500 employees on 2/15/2020;
including S Corp shareholders, Partners, sole proprietors/single-
member LLCs

Presumption of virus-related economic impact on all businesses





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Maximum Loan Allowed

Lesser of: 2.5 times average monthly “payroll costs” in prior year, or \$10,000,000. Adjustments are to be made for seasonal businesses.





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Payroll Costs Defined

Payroll costs include the following items:

salaries, wages, cash equivalents, family leave, sick leave, severance, group health benefits, retirement benefits, state or local payroll taxes, and sole proprietor income, up to \$100,000 per employee





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Qualified Expenses: To be forgivable, borrowed funds must be spent on:

“Payroll costs”; as defined

Rent and Utilities

Mortgage interest and other business interest





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Loan Forgiveness

Application to document funds are spent on qualified expenses above in the eight (8) weeks following date of loan AND average number of employees stays consistent.

Documentation must be provided in order to obtain forgiveness

Decision to be made within 60 days of application.





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Other Details

- Payments under loan are deferred for 6 to 12 months; then set on a ten-year term with interest at 4%.

No collateral or guaranty is required.

In theory, forgiveness application would be approved before any payments are required.





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Individual Rebates

- One-time payments to all individuals with a Social Security Number

No payments to estates or trusts, nor to non-resident aliens, or dependents of others





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Amount of Payment

Single persons with AGI less than \$75,000 receive \$1,200

Married couples with AGI less than \$150,000 receive \$2,400

Each qualifying child, (dependent under 17) adds \$500

Amounts phase out completely at \$99,000 (single) and \$198,000 (joint)
AGI amounts





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Method of Payment

Payments based on most recent return filed, 2018 or 2019
Direct deposits to last account used for refund, or mailed to
address used on last tax return filed.

Advance payment of tax credit for 2020 income tax





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Advance of 2020 Tax Credit

Actual credit amount will be calculated in 2020 tax return

Current payment treated as an estimate of credit

Could have to repay if AGI exceeds limit for 2020

Planning opportunities to defer or reduce AGI





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Special Rules for Retirement Accounts – 2020 Only

No penalty tax for 'corona-virus distributions' taken from
retirement accounts or qualified plans

Amount may be repaid over three-year period

Income included ratably over three-year period





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Corona-Virus Distribution

- Any retirement distribution during 2020 to an individual who is:
 - (a) Diagnosed with Covid-19, or has a spouse so diagnosed, OR
 - (b) Who experiences adverse financial consequences as a result of being quarantined, laid-off, or had their hours reduced due to the disease





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Waiver of RMD Rules

No required minimum distributions are required that otherwise would have been made for 2020

Allows retiree to preserve retirement funds in a down market

Amounts already taken could be repaid if within 60-day window





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New 'Above the Line' Deduction for Charitable Contributions

Cash donations of up to \$300 to qualified charities now deductible for AGI purposes.

Not allowed for donations to donor-advised funds





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Suspension of limitation on Charitable Donation

No limit on charitable donations for 2020 – 100% of taxable income can be offset by charitable donations in itemized deductions.

C Corps can deduct up to 25% of their income as charity for 2020





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Business Provisions

Numerous provisions affecting small business

Largely centered around payroll tax credits

No duplication of benefits obtained from Paycheck Protection
Program Loans





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Payroll Tax Credits

Credit against FICA taxes for up to 50% of 'qualified wages'

No more than \$10,000 in wages per employee can be considered

Thus, max credit of \$5,000 per employee/tax on \$40,000 salary

Refundable on payroll tax returns





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Eligible Businesses

To be eligible, a business must have been in operation at any time in 2020 **and** their business was fully or partially suspended during the quarter due to COVID 19; or the quarter is “a period significant decline” – meaning that the quarter’s gross receipts are less than 50% of the same quarter last year.

Participants in the Paycheck Protection Program cannot take these credits.





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Qualified Wages

If less than 100 employees: all employees, but qualified wages may not exceed wages paid in 30 days prior to March 12, 2020, including group health plan costs

If more than 100 employees: only includes wages for employees not providing service after March 12, 2020. Employees working from home for these employers do not qualify.





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Qualified Wages

Qualified wages do not include any wages paid under the Families First Coronavirus Response Act (sick leave and family leave)





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New NOL Rules

Repeal of taxable income limits – full offset of taxable income with
NOL carryover

Ability to carry-back NOL and claim refunds





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NOL Carrybacks – Refund Claims

Any net operating loss from years beginning after 12/31/17 and before 1/1/21 are able to be 'carried back' for 5 years.

Taxes paid in 2013 thru 2018 subject to potential refund claims





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Depreciation

A much-needed technical correction of a TCJA drafting error, leasehold improvements will be included in the list of property subject available for bonus depreciation elections. This is effective back to the enactment date of TCJA and could result in an ability to amend 2018 returns.





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Payroll Tax Deferral

In addition to the credits, there's now an ability to defer payment of a portion of the employer payroll taxes

This is NOT AVAILABLE to any taxpayer that received Paycheck Protection Program loan forgiveness





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Payroll Tax Deferral

Applies to the employer and employee share of FICA taxes (12.4%)
as well as half of the FICA portion of Self-Employment tax

Taxes subject to deferral period are for wages paid March 27, 2020
thru January 1, 2021





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Payroll Tax Deferral

Half of taxes deferred are due on 12/31/2021

Remainder is due on 12/31/2022

No penalty or interest if paid on those dates; however- late payment would trigger interest and penalty back to original payroll dates.





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Payroll Tax Deferral – RISK ELEMENT

Failure to meet either of the two deferred payment dates would result in a tremendous penalty and interest cost to the taxpayer.

Penalties would be nondeductible. Consider this program very carefully.





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I'm happy to discuss this bill and how it might impact you and your business. Please reach out to me at 720-621-3456, or via email at michael.pharris@mfpcpa.com

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Contact Me

