

Payroll Tax Credits and Deferral, Paycheck Protection Loans, and More – Oh My!

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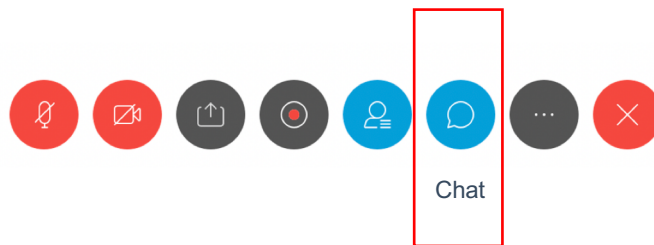
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Welcome!

Questions?

- Use the Chat window throughout the presentation – questions will be addressed at the end



✓ Chat ×

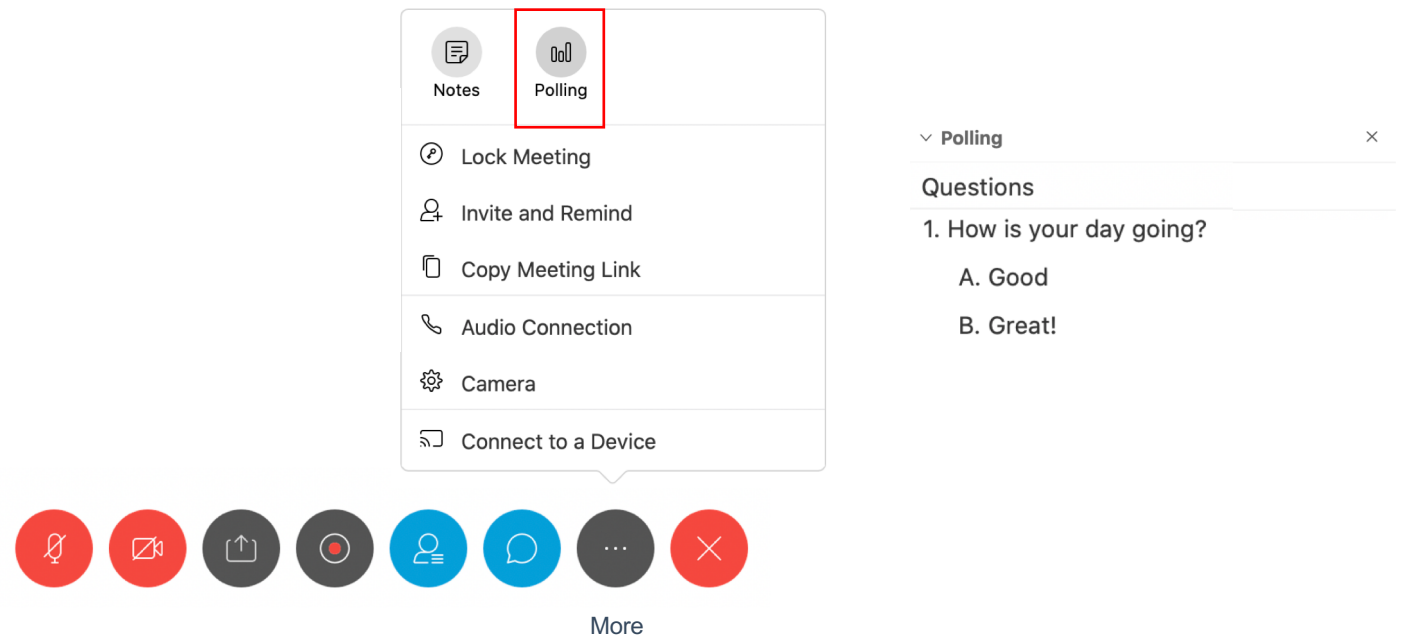
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Welcome!

Polling

- Answer polling questions in the Polling window for CPE credit



Meet the speakers



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**The matters discussed in these materials
provide general information only.**

**You should consult with an advisor about your
specific situation before undertaking action
based on such general information.**

Today's topics

1. Sick and family leave payroll tax credits
2. Employee retention tax credits
3. Deferred payment of employer payroll taxes
4. Paycheck protection loans
5. Economic injury disaster loans

POLLING QUESTION

- What is your position within your company?
 - Owner
 - CEO/CFO
 - Controller
 - Accountant/Payroll
 - All of the above

POLLING QUESTION

- What size is your business?
 - Less than 5 employees
 - Between 5-50 employees
 - Between 51-100 employees
 - Between 101-500 employees
 - Over 500 employees

POLLING QUESTION

- Is your business a ...
 - Private employer
 - Non-profit organization
 - Government or governmental agency or instrumentality



Payroll Tax Credits and Deferral

Payroll tax relief measures



Sick and family
leave payroll
tax credits



Employee
retention tax
credit



Payroll tax
deferral



Sick and Family Leave Payroll Tax Credits

Families First Coronavirus Response Act

- Emergency Paid Sick Leave Act (Sick Leave Act)
- Emergency Family and Medical Leave Expansion Act (Family Leave Act)
- Tax credits for paid sick and family leave

Sick Leave Act

- Applies to government employers as well as tax-exempt organizations and private employers with less than 500 employees
- Requires employer to provide two weeks (up to 80 hours) of paid sick leave if employee is unable to work for COVID-19 related reasons

Reasons for paid sick leave

1. Subject to federal, state, or local quarantine or isolation order related to COVID-19
2. Advised by healthcare provider to self-quarantine
3. Experiencing symptoms of COVID-19 and seeking diagnosis
4. Caring for individual subject to (1) or (2)
5. Caring for child whose school/place of care is closed or childcare provider unavailable due to COVID-19
6. Any other substantially similar reason specified by federal government

Paid sick leave

Reason for leave		Rate of pay	Maximum
1.	Subject to COVID-19 quarantine/isolation order	Regular rate of pay	\$511 per day/\$5,110 total
2.	Advised by healthcare provider to self-quarantine		
3.	Symptoms of COVID-19 and seeking diagnosis		
4.	Caring for individual subject to (1) or (2)	2/3 regular rate of pay	\$200 per day/\$2,000 total
5.	Caring for child whose school closed or childcare provider unavailable		
6.	Other substantially similar reason specified by federal government		

Family Leave Act

- Applies to certain government employers as well as tax-exempt organizations and private employers with less than 500 employees
- Employees unable to work due to need to care for child whose school or place of care closed due to COVID-19 emergency
 - Employees must be on the payroll for at least 30 days

Family Leave Act

- Twelve weeks of job-protected family leave
- First two weeks may be unpaid
- After first two weeks, must provide 2/3 regular rate of pay, up to \$200/day and \$10,000 total

Payroll tax credits

- Refundable payroll tax credits equal to 100% of:
 - Wages paid under Sick Leave Act
 - Wages paid under Family Leave Act
- Credits include amounts paid for health plan coverage
- Governmental employers, including government agencies and instrumentalities, not eligible for credits
- Equivalent credits for self-employed individuals

Payroll tax credits

Type of leave	Reason for leave	Tax credit limit per employee
Paid Sick Leave	<ol style="list-style-type: none"> 1. Subject to COVID-19 quarantine/isolation order 2. Advised by healthcare provider to self-quarantine 3. Symptoms of COVID-19 and seeking diagnosis 	Employee's regular rate of pay, up to \$511/day and \$5,110 total, for up to 10 days
Paid Sick Leave	<ol style="list-style-type: none"> 4. Caring for individual subject to (1) or (2) 5. Caring for child whose school closed or childcare provider unavailable 6. Other substantially similar reason specified by federal government 	2/3 employee's regular rate of pay, up to \$200/day and \$2,000 total, for up to 10 days
Paid Family Leave	Caring for child whose school closed or childcare provider unavailable	2/3 employee's regular rate of pay, up to \$200/day and \$10,000 total

POLLING QUESTION

- For an employee unable to work because he or she is caring for a child whose school or place of care is closed due to COVID-19, the amount of qualified sick leave wages the employer can take into account is capped at \$511 per day.
 - True
 - False

Fewer than 50 employees?

- Exemption for businesses with fewer than 50 employees
- Applies to requirement to pay leave related to school closings or childcare unavailability
- Must jeopardize viability of business as going concern
- DOL guidance expected

POLLING QUESTION

- John is diagnosed with the flu and is unable to work or telework. XYZ Company pays John sick leave under its sick leave policy. Can XYZ take a payroll tax credit equal to the sick leave wages it pays John?
 - Yes
 - No

Closing remarks

- Sick Leave Act and Family Leave Act effective 4/1/20
- Payroll tax credits apply to wages paid for period 4/1/20-12/31/20
- How do I take the credit?



Employee Retention Tax Credit

The basics

- Created by CARES Act
- Refundable payroll tax credit *equal to 50% of “qualified wages” per employee*
- “Qualified wages” per employee cannot exceed \$10,000 for all quarters
- Applies to wages paid 3/13/20-12/31/20

“Qualified wages”

- Include health plan expenses
- Do not include wages paid under Sick Leave Act or Family Leave Act
- Depend on average number of full-time employees during 2019
- Aggregation rules apply
 - Companies with common ownership could be treated as single employer

“Qualified wages”

Full-time employees during 2019	“Qualified wages”
More than 100	Wages paid when employee not providing services, limited to 30 days per employee
100 or fewer	All employee wages

POLLING QUESTION

- XYZ had an average of 100 full-time employees during 2019. All employee wages paid by XYZ are considered “qualified wages,” up to \$10,000 per employee.
 - True
 - False

Eligible employers

- Operating business in 2020
- Meet one of the following:
 - Operation of business fully or partially suspended due to COVID-19 orders from government agency
 - Calendar quarter within the period that:
 - Begins with 1st calendar quarter after 12/31/19 for which gross receipts are less than 50% of gross receipts for same calendar quarter in prior year
 - Ends with calendar quarter following 1st calendar quarter for which gross receipts are greater than 80% of gross receipts for same calendar quarter in prior year

Ineligible employers

- Governmental employers, including government agencies and instrumentalities
- *Employers who receive a small business interruption loan under the Paycheck Protection Program*

POLLING QUESTION

- XYZ received a payroll tax credit for wages it paid to one of its employees under the Sick Leave Act. XYZ can include these wages when determining “qualified wages” for purposes of the employee retention tax credit.
 - True
 - False



Payroll Tax Deferral

The basics

- Employers and self-employed individuals can defer payment of employer share of Social Security taxes payable for all reporting periods through 12/31/20
- Tax liability must be paid (just deferred, not forgiven)
- Payment is due in two installments:
 - 50% by 12/31/21
 - 50% by 12/31/22

The basics

- Payroll tax deferral period is 3/27/20-12/31/20
- *Employers who receive loan forgiveness from Paycheck Protection Program not eligible*

POLLING QUESTION

- My last trip to the grocery store for toilet paper was successful.
 - True
 - False

A faded background image of a business meeting. Four people are gathered around a table. A woman stands on the right, gesturing with her hand while speaking to three seated individuals (two men and one woman). They are looking at documents and laptops on the table. The scene is brightly lit, likely from a window on the left.

SBA Section 7(a) Loans

Loans offered through the SBA

- SBA had small business loan programs and disaster loans prior to COVID-19
- Section 7(a) of the Small Business Administration Act authorizes and describes the small business loan programs
- SBA loans are provided to “small business concerns”
- There is a definition for “small” and “business concern”

What is a “small” business?

- Size standards define small
- Size standards come in two flavors and vary by industry
- The flavors ...
 - Number of employees
 - Annual gross receipts
- NAICS codes are used when identifying industries

What is a “small” business?

- When determining number of employees or gross receipts “affiliates” must be included
- An affiliate is a party with the “power to control”
- Power to control?
 - External party with 50% or more ownership
 - Less than 50% ownership, but has other ways to control
 - Exercise of control not necessary, just ability

Examples of small businesses


- Number of employees
 - Dog food mfg – 1,000
 - Sawmills – 500
 - New car dealers – 200
 - Airlines – 1,500
- Gross receipts
 - Book stores - \$30M
 - Dentists - \$8M
 - Hospitals - \$41.5M
 - Hotels - \$35M

“Business concern”

- For profit business entity
- A place of business within the US
- Operates primarily within the US
- Legal form
 - Individual proprietorship
 - Partnership/LLC/JV
 - Corporation
 - Association, trust, cooperative

Not a “business concern”

- Financial institutions
- Foreign businesses
- Gambling businesses
- Private clubs
- Life insurance companies
- Religious businesses
- Passive businesses??



Paycheck Protection Loan Program

The PPL Program

- Created as part of CARES Act
- *A new* Sec. 7(a) loan program with special provisions that expand eligibility
- Eligibility expanded to include
 - Veterans organizations
 - Tribal businesses
 - Sole proprietors, independent contractors, and eligible self-employed individuals

What's all the fuss about?

- *Potential loan forgiveness*
- No fees (but there could be “costs”)
- “Credit elsewhere” requirement waived
- No personal guarantee or collateral required
- Deferral of payment for at least 6 months up to one year
- Up to 10 years to repay at 4% interest
- No prepayment penalty
- Waiver of affiliation rules for hospitality and restaurant industry

POLLING QUESTION

- The Paycheck Protection Loan Program is a new 7(a) loan program.
 - True
 - False

I just want to know four things ...

- How much can I borrow?
- How do I have to spend the money?
- How much of the loan will be forgiven?
- How do I get the loan?

How much can I borrow?

- Loan amount is the lesser of:
 - 2.5x average monthly payroll costs, or
 - \$10M
- “Payroll costs”
 - Salaries, wages, commissions, cash tips, sick and other leave, retirement payments, state and local taxes
 - Excluding individual employee compensation in excess of \$100,000, FICA for both employee and employers, federal income tax withholding, employees with principal residence outside US, *qualified sick leave wages or qualified family leave wages* discussed earlier

How do I have to spend the money?

- Allowable uses ...
 - Payroll costs
 - Interest on mortgage indebtedness (preexisting)
 - Rent (preexisting)
 - Utilities
 - Interest on other indebtedness

POLLING QUESTION

- I can use a PPL to purchase inventory.
 - True
 - False

How much of the loan will be forgiven?

- *Eight weeks of ...*
 - Payroll costs
 - Mortgage interest or rent
 - Utilities
- Interest on other indebtedness not included in list of forgivable loan amount
- Amount forgiven can be reduced in certain circumstances
- Documentation *critical*

How do I get the loan?

- Apply at an SBA-approved bank
- Certify
 - The uncertainty of current economic conditions makes the loan necessary to support ongoing operations
 - The money will be used to retain workers and maintain payroll, make interest payments on mortgage or pay rent, and pay utilities
 - You have not applied for or received a PPL more than once



Economic Injury Disaster Loans

EIDLs – What are they for?

- Working capital loans
- Must be used to maintain payroll, provide sick leave to employees unable to work due to the “direct effect” of COVID-19, meet increased material costs due to supply chain disruptions, make rent or mortgage payments, repay other obligations unable to be met
 - Cannot be used to refinance long-term debt
 - Cannot be used to replace lost sales or profit or for expansion

EIDLs – Who is eligible?

- Location must be declared a disaster area – entire country has been declared disaster
- Suffered working capital losses due to disaster
- Available to “small business concerns,” 501(c)(3) nonprofit organizations, small ag cooperatives, small businesses engaged in aquaculture, sole proprietorships, and independent contractors
- Acceptable credit and ability to repay

POLLING QUESTION

- I can use an EIDL to pay accounts payable.
 - True
 - False

What are the terms of an EIDL?

- Amount loaned depends on demonstration of need, but cannot exceed \$2M
- Interest rate is 3.75% for small businesses and 2.75% for nonprofit organizations
- Terms up to 30 years

What else do I need to know?

- Collateral required for loan amounts > \$25,000
- CARES Act modified certain normal terms
 - Personal guarantee not required unless loan is >\$200,000
 - Borrower having existing credit elsewhere is waived
 - Available even if in business less than 1 year
 - Permits borrowers to apply for a \$10,000 emergency grant
- Apply online directly to the SBA
- Documentation of how funds are spent is *critical*

Polling question

- I am glad the weather has been good.
 - True
 - False

What questions do you have?



Use the Chat box now



Thank you

Additional Questions?

Contact your Dean Dorton advisor or other professional advisor, or email us at info@deandorton.com

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