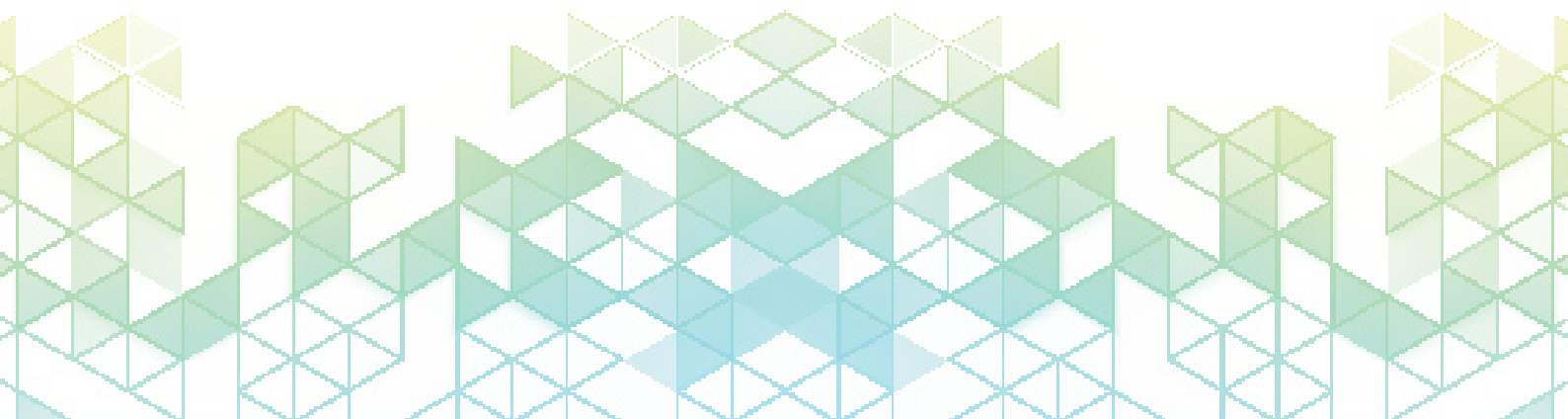




Johnson & Sheldon, PLLC
Certified Public Accountants



What the CARES Act Means for Businesses



On March 27th, 2020 the Coronavirus Aid, Relief and Economic Security Act, also known as the CARES Act, was signed into law to provide much-needed help to both businesses and individuals. Here is an overview of what the Act means for businesses.

Paycheck Protection Program

The CARES Act provides \$349 billion for the Small Business Administration to distribute through the Paycheck Protection Program. This program provides a forgivable loan to small businesses and certain non-profits with fewer than 500 employees to help cover the costs of payroll, healthcare benefits, mortgage interest, rent, utilities and interest on other debt. The loan amount can be up to 2.5 times the average monthly payroll, not to exceed \$10 million.

SBA Announced the Economic Injury Disaster Loan Program

Prior to the CARES Act, the SBA announced Economic Injury Disaster Loans which offer up to \$2 million in assistance for each affected small business. These loans may be used to pay fixed debts, payroll, accounts payable and other bills that can't be paid because of the disaster's impact. The interest rate is 3.75% for small businesses and 2.75% for non-profits. Terms are determined on a case-by-case basis, based upon each borrower's ability to repay. The loans can have a term of up to 30 years.

The CARES Act temporarily expands eligibility for economic injury disaster loans and provides an emergency advance of up to \$10,000 to small businesses and private non-profits harmed by COVID-19 within 3 days of applying for the loan. To access the advance, you first apply for an economic injury disaster loan and then request the advance. The advance does not need to be repaid under any circumstance and may be used to pay payroll, to pay for sick leave, meet increased production costs due to supply chain disruptions, or pay business obligations, including debts, rent, and mortgage payments.



In addition, the CARES Act temporarily expanded eligibility for an economic injury disaster loan to include:

- Business entities with 500 or fewer employees:
- Sole proprietorships, with or without employees
- Independent contractors
- Cooperatives and employee-owned businesses
- Tribal small businesses
- Private non-profits of any size.

Additionally, you must have been in business as of January 31, 2020.

Expanded eligibility criteria and the emergency grants are only available between January 31, 2020, and December 31, 2020.

For more information, you can visit <https://sba.gov/disaster>.



Delay of Payment of Employer Payroll Taxes

Employers are responsible for paying a 6.2% Social Security tax on employee wages to the federal government. The CARES Act allows employers and self-employed individuals to defer payment of the employer portion of the Social Security payroll tax for up to two years. Half of the deferred amount must be paid by December 31, 2021, and the other half must be paid by December 31, 2022.

Employee Retention Credit for Employers

Businesses that either suspended operations due to a government-imposed limitation or saw a 50% reduction in gross receipts from the prior year due to COVID-19 may be eligible for the refundable employee retention credit. The credit can cover up to 50% of the first \$10,000 of eligible wages paid per employee during an affected quarter of 2020. Businesses are able to claim this credit on quarterly payroll tax returns.

Modifications for Net Operating Losses

The CARES Act relaxes the limitations on a company's use of losses from prior years. Normally, Net Operating Losses are subject to a taxable income limitation, and cannot be carried back to reduce income in a prior tax year. However, the CARES Act provides that a loss from 2018, 2019, or 2020 can be carried back up to five years. The Act also temporarily removes the taxable income limitation and allows a Net Operating Loss to fully offset income.

For pass-through businesses, the CARES Act modifies the loss limitation. Normally, pass-through losses were limited to \$250,000 per return for individuals or \$500,000 per return for married filing jointly. Any excess losses were then carried forward. However, the CARES Act eliminates the limitation for 2018, 2019 and 2020.

All of these changes enable businesses to utilize losses and amend prior years' returns, which can result in additional cash flow.



Modification of Credit for Prior Year Minimum Tax Liability of Corporations

The corporate AMT was repealed as part of the Tax Cuts and Jobs Act, but corporate AMT credits were made available as refundable credits over several years, ending in 2021. The CARES Act accelerates the ability for companies to recover those AMT credits, permitting companies to claim a refund now for all remaining credits.

Modification of Limitation on the Business Interest

The CARES Act temporarily increases the amount of interest expense that businesses are allowed to deduct on their tax returns, by increasing the 30% limitation to 50% of the taxable income for 2019 and 2020. Also, if 2020 is less profitable than 2019, then the business can use the 2019 taxable income amount for the 2020 filing.

Correction of Qualified Improvement Property

The CARES Act enables businesses, especially in the hospitality industry, to immediately write off costs for qualified improvement property instead of having to depreciate those improvements over the 39-year life of the building. This provision is important to businesses such as real estate owners, restaurants and retailers who have invested in improving their properties. The provision is retroactive, so 2018 tax returns may be amended and refunds requested.

Increase in Charitable Contribution Rate

The CARES Act increased the amount a business is able to deduct for charitable contributions. In 2020, businesses may deduct charitable contributions of up to 25% of net income, an increase from 10%. Additionally, the deduction for contributions of food inventory has increased from 15% to 25%.



Final Thoughts

This document provides an overview of how specific provisions in the CARES Act may help businesses. Be sure to call us with any questions or to discuss how the provisions may impact your specific situation.



About Johnson & Sheldon, PLLC

Johnson & Sheldon, PLLC is professional corporation that has established itself as one of the leading, aggressive accounting and consulting firms in the Panhandle Region of Texas. Our clients have been relying on the experience and guidance of our partners, Terry Sheldon , Richard Blankenship and Jeff Joyce for over 30 years. Located in Amarillo, Johnson & Sheldon's client base consists of small to medium size mostly privately-owned business and organizations. J&S is a member of the RSM US Alliance, the nation's fastest growing association of independent accounting firms. Through our affiliation with this network, Johnson & Sheldon, PLLC can offer the pooled expertise and resources of the RSM US Alliance, as well as other network members.



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