

3.30 @ 1PM CT
PETRA COACH PRESENTS

DEMYSTIFYING THE CARES ACT

What It Is & Where It's Going

WITH DAVID WADDELL & TERESA BAILEY



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Your Team?



**Business
Lender**



**Tax
Preparer**



**Wealth
Strategist**



**Employee
Benefits**



Payroll & HR



Business Owner (YOU!)



Coronavirus Aid Relief and Economic Security Act

BIG QUESTION: How will this deliver cash to individuals and businesses?

INDIVIDUALS:

- Recovery Rebates
- Access to IRA and Employer Plan
- Expanded Unemployment
- Student Loan Relief

... and more!

BUSINESSES:

- Emergency Grants
- Existing SBA Loan Payment Relief
- Payroll Tax Credit
- Payroll Tax Deferral
- Payroll Protection Loans

... and more!



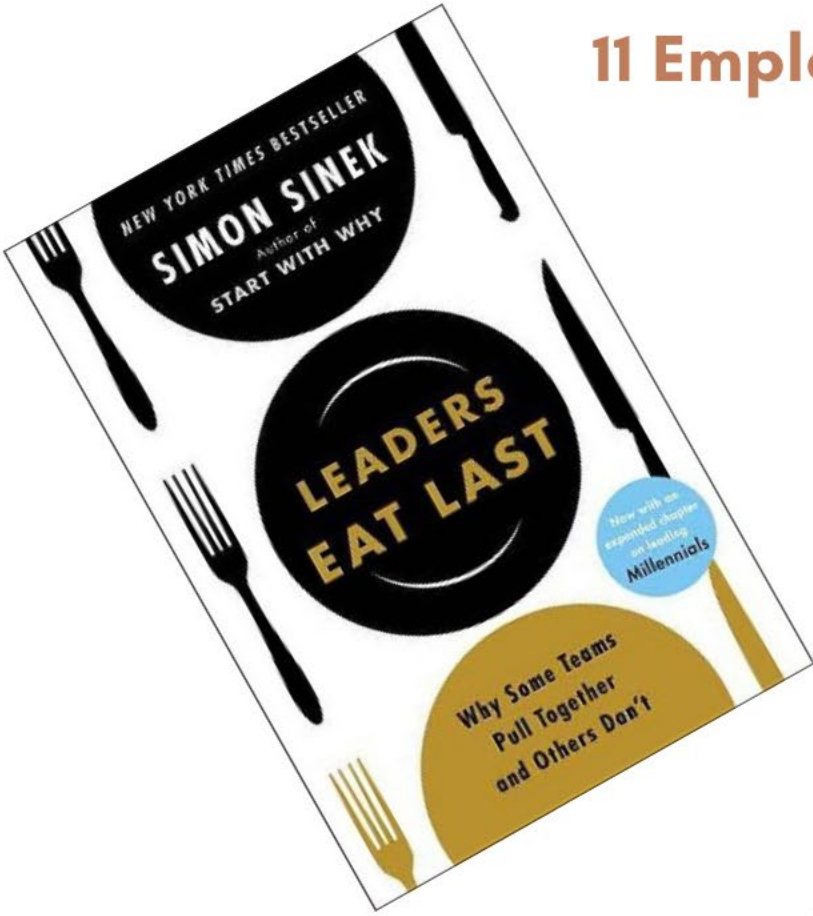
Case Study: Wonka



Case Study: Wonka



11 Employees



What help can Wonka's Employees receive?

"Recovery Rebate" = Money in the Bank

WHO?

- US Citizen or Resident
- Not a dependent of someone
- Work-eligible Social Security #
- Adjusted Gross Income (AGI) under
 - \$75,000 S
 - \$112,500 HH
 - \$150,000 MFJ
 - (then phaseouts apply)

HOW MUCH?

- \$1200 Individual
- \$2400 Joint
- \$500 child UNDER age 17
- Amount is reduced by \$5 for each \$100 that a taxpayer's income exceeds the phase-out threshold
- No kids?
 - \$0 at \$198,000 MFJ
 - \$0 at \$99,000 S



What help can Wonka's Employees receive?

"Recovery Rebate" = Money in the Bank

Wonka's Rebate Notes for Team Wonka

- Verify direct deposit bank account on last return filed
- Verify mailing address on last return filed – Form 8822 ASAP if moved
- If 2019 return not filed – is it more favorable for a rebate? – File ASAP
- If 2020 income is below threshold – rebate on next year's return / rebate will not be clawed back if income is above
- Not taxable income



What help can Wonka's Employees receive?

"Coronavirus Related Distribution" from Retirement Funds

WHO?

- Diagnosed with COVID-19
- Spouse/dependent diagnosed with COVID-19
- Experience **adverse financial consequences as a result of being quarantined, furloughed, being laid off, or having work hours reduced because of the disease,** or
- Are **unable to work because they lack childcare** as a result of the disease, or own a business that closed or operated under reduced hours b/c of the disease, or
- Some "other reason" that the IRS decides to approve



What help can Wonka's Employees receive?

"Coronavirus Related Distribution" from Retirement Funds

WHEN & HOW MUCH?

- Up to \$100,000 from IRA or employer plans (**combined**)
- **Anytime** in 2020
- Taxes owed can be spread over three years (one or three, either/or)
- Withdrawal can be repaid back into account over three years
- Plan 20% withholding waived (if employee claims coronavirus related distribution)
- 10% early withdrawal penalty waived



What help can Wonka's Employees receive?

"Coronavirus Related Distribution" from Retirement Funds

Wonka's Retirement \$ Notes for Team Wonka

- Talk to personal investment advisor and Wonka plan investment advisor before making a withdrawal
- Talk with tax preparer
- Plan loans were enhanced (100% vested amount, max increased to \$100k, delay repayment on current loans for 1 year)



What help can Wonka's Employees receive?

Other Items for Wonka's Team Notes

Unemployment

- "Pandemic Unemployment Insurance"
- Now cover those that typically don't qualify (self-employed)
- Elimination period waived
- \$600/wk extra for eight weeks (on top of state amount)

Student Loans

- Payments on certain Federal student loans suspended until September 30, 2020
- Call! Payments will not stop automatically, even if covered under Act

Health

- Group Health
 - COVID-19 Testing
 - COVID-19 Preventative (Vaccine)
 - Telehealth restrictions loosened



Coronavirus Aid Relief and Economic Security Act

NOW: What about **Wonka**?

INDIVIDUALS:

- Recovery Rebate
- Access to and Employment
- Expanded Unemployment
- Student Loan Relief
- ... and more!



BUSINESSES:

- Emergency Grants
- Payroll Protection Loans
- Payroll Tax Credit
- Payroll Tax Deferral
- Existing SBA Loan Payment Relief
- ... and more!



Quick Comparison: PPP vs. EIDL

Paycheck Protection Program: "Sustain Your Payroll"		Economic Injury Disaster Loan: "Sustain Your Business"
- Payroll expenses - Employee Salaries - Mortgage Interest		- Payroll - Fixed Debts - Accounts Payable
- Rent & Utilities - Interest on debt incurred before 2/15/20		- Other expenses that can't be paid because of the disaster's impact
2.5x business's monthly payroll		Up to \$2 Million
Fixed 4% Annual Percentage Rate		3.75% Annual Percentage Rate
No Payments for the first 6-12 months, then a 10-year loan term		Up to 30 Years
Up to 100% forgiveness with approval		0% loan forgiveness available



First: Wonka needs a PLAN!

Fastest: (EIDL) Economic Injury Disaster Loan Grant

- CARES Act amended program to include emergency advance of up to \$10,000 (GRANT)
- Uses credit score and tax return
- Receive funds within three days of applying
- Use for payroll costs, increased material costs, rent or mortgage payments, or for repaying obligations that cannot be met due to revenue losses
- Does not have to be repaid if EID Loan Application is later denied (or unused...?)
- **Apply for EID loan through SBA and request grant**

Most Favorable: CARES Act "Paycheck Protection" Loan

- Administered by private banks, not SBA
- Applications begin mid to late April, end 6/30
- Forgiveness & deferral features
- Recordkeeping matters! (eight weeks after loan)
- Must be used for:
 - working capital needed to carry your business until normal operations resume
 - maintaining payroll
 - providing paid sick leave to employees
 - paying rent and utilities
 - repaying interest only on business debt
- **Covers same losses as EIDL loan (will reduce forgiveness)**

Paycheck Protection Program: What can Wonka Borrow?

For Emps making less than \$100,000/year	March 2019 – December 2019 (10 Months)	January & February 2020 (2 months)	Total
Avg monthly salaries, wages, tips per employee	\$4,166.67	\$4,166.67	\$50,000
Avg monthly healthcare costs per employee	\$333.33	\$333.33	\$4,000
Avg retirement benefits per employee	<u>\$125</u>	<u>\$125</u>	<u>\$1,500</u>
Avg total compensation per <\$100,000 employee	\$4,265	\$4,265	\$55,500
# full-time eqvt >\$100,000 emps	<u>x 10</u>	<u>x 9</u>	
Payroll to be considered for the period	\$46,250	\$41,625	\$545,750
For Emps making more than \$100,000/year			
Capped monthly payroll	\$8,333.33	\$8,333.33	\$100,000
# full-time eqvt >\$100,000 emps	<u>x 1</u>	<u>x 1</u>	
Payroll to be considered for the period	\$8,333.33	\$8,333.33	\$100,000
Total payroll to be considered for the period			\$645,750
Average Monthly Payroll			\$53,812.50 (\$645,750 / 12)
CARES Act Borrowing Factor			2.5 x Avg monthly payroll
			\$134,531.25

March through December 2019:
Wonka has **11** full-time equivalent employees

January through February 2020:
Wonka is down to **10** full-time equivalent employees



PPP: How much will Wonka pay back if he's down to 8?

Option 1: Same time frame, 2019 vs. 2020	If average # of emps reduces...		If average # of emps stays the same or increases...	
	8	11	11	15
Avg full-time eqvt emps per month (2/15/20 – 6/30/20)	8	11	11	15
Avg full-time eqvt emps per month (2/15/19 – 6/30/19)	11	11	11	11
Forgivable % of Loan	72.73%	100%	100%	100%
Amount of Loan	\$134,531.25	\$134,531.25	\$134,531.25	\$134,531.25
Amount Forgiven	\$97,840.90	\$134,531.25	\$134,531.25	\$134,531.25
Amt to be paid back (over 10 years at 4% or less)	\$36,690.34	\$0	\$0	\$0

Option 2: 2020, Pre-Corona Event vs. Post-Corona Event	If average # of emps reduces...		If average # of emps stays the same or increases...	
	8	11	10	15
Avg full-time eqvt emps per month (2/15/20 – 6/30/20)	8	11	10	15
Avg full-time eqvt emps per month (1/1/20 – 2/29/20)	10	10	10	10
Forgivable % of Loan	80%	100%	100%	100%
Amount of Loan	\$134,531.25	\$134,531.25	\$134,531.25	\$134,531.25
Amount Forgiven	\$107,625	\$134,531.25	\$134,531.25	\$134,531.25
Amt to be paid back (over 10 years at 4% or less)	\$26,906.25	\$0	\$0	\$0

Wonka can choose which time period gives his business the more favorable outcome.

The greater the retention %, the greater the loan forgiveness.



PPP: What about Wonka's tax return?

Net Tax Effect of Using the Paycheck Protection Program Loan

	Cash On Hand	Taxable Income
Loan Received	\$134,531.25	\$0
Salaries Paid	(\$134,531.25)	(\$134,531.25)
Net	\$0	(\$134,531.25)

Not only does Wonka owe \$0 in taxes on the loan received,
it's possible that the Chocolate Factory also receives a \$134,531.25 tax deduction. (Regs to come!)



Coronavirus Aid Relief and Economic Security Act

More on Taxes

Payroll Taxes

Credit

- **Must qualify** (must be entirely or partially shut down **or** REVENUE must be down by over 50% calendar quarter 2020 vs 2019)
- Cannot combine with Paycheck Protection Program (PPP)
- Only on "eligible wages": a 50% credit for amounts paid to employees max credit \$5,000 / employee (\$10,000 of comp)
- Credit against employer share of payroll tax

Deferral

- Virtually **all employers** can defer - unless using PPP
- Social security portion (6.2% subject to a cap) of an **employer's** payroll tax liability on employee salaries for the period beginning March 27, 2020 and ending on December 31, 2020 is not due at any time during 2020
- Deadline for making these deposits:
 - 12/31/2021 : 50%
 - 12/31/2022: Remaining 50%

Employee portion of payroll taxes must be paid in all scenarios!

Credit Eligibility

"Must qualify"

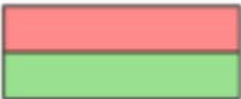
must be entirely or
partially shut down

or

REVENUE must be down
by over 50% calendar
quarter 2020 vs 2019

Company A					
	Q1	Q2	Q3	Q4	Total Annual Revenue
2019 Revenue	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 400,000.00
2020 Revenue	\$ 80,000.00	\$ 45,000.00	\$ 75,000.00	\$ 82,000.00	\$ 282,000.00

Company B					
	Q1	Q2	Q3	Q4	Total Annual Revenue
2019 Revenue	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 400,000.00
2020 Revenue	\$ 65,000.00	\$ 55,000.00	\$ 60,000.00	\$ 68,000.00	\$ 248,000.00



Not eligible for Credit

Eligible for Credit

Source: Kitces.com



Maybe Take Credit Over Forgiveness?

When to **Choose PPP** over the Payroll Tax Credit

- **Average employee makes more than \$24,000 and head count stays the same**
- **Business still has ability to rebound quickly**
- **May not qualify for credit**

$$\begin{aligned} \$24,000 / 12 \\ = \$2,000 \end{aligned}$$

$$\begin{aligned} \$2,000 \times 2.5 \\ = \$5,000 \end{aligned}$$

When to **Choose Payroll Tax Credit** over the PPP

- **Average employee makes below \$24,000**
- **Expecting significant layoffs until after 6/30**
- **Business in survival mode, not rebound mode**



And Deferral Over Forgiveness?

Paycheck Protection Loan or Payroll Deferral

**Take the
Paycheck
Protection
Program Loan.**

The loan is **2.5 months of payroll** paid by the government.

The payroll tax deferral is 6.25% of compensation (equivalent of **3.25 weeks** of comp) and you still have to pay it later.

Finding Your Golden Ticket



**Business
Lender**



**Tax
Preparer**



**Wealth
Strategist**



**Employee
Benefits**



Payroll & HR



Business Owner (YOU!)



Additional Resources

W&A Resource Page:

waddellandassociates.com (if popups allowed)
wealthstrategists.lpages.co/covid-19-hub (direct)

Poll for Follow Up Presentation:

sli.do Use #WADDELLCARES

Text to opt in to our email list:

text PETRACOACH to 44222

Petra Coach Resource Page:

petracoach.com/covid19

Style Blueprint:

styleblueprint.com/covid-19

Small Business Administration

sba.gov/funding-programs/disaster-assistance

US Chamber:

uschamber.com/co

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