ClientLine®

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MAKE SURE YOUR LOAN IS FORGIVEN

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided for small businesses to receive low-interest loans under the Paycheck Protection Program (PPP). At this writing, Congress is considering additional billions in funding to replenish the depleted program. Meanwhile, here is an overview of the program.

WHO CAN APPLY

Loans may be available to businesses with fewer than 500 employees that were in operation on February 15. This includes not-for-profits, veterans' organizations, Tribal concerns, self-employed individuals, sole proprietorships, and independent contractors. According to the SBA and Treasury, some businesses with more than 500 employees in certain industries also can apply for loans.

Specific loan amounts are calculated as two months of a company's pre-coronavirus average monthly payroll costs plus an extra 25%. The PPP loans have a 1% interest rate and a two-year repayment term, which is deferred for the first six months.

LOAN FORGIVENESS

The loan may be fully, or partially forgiven provided the company appropriates at least 75 percent of the loan to cover payroll, including benefits costs, within eight weeks. Additionally, not more than 25% of the loan may be attributable to nonpayroll costs, including mortgage interest, rent and some utilities.

If you reduce your staff or their wages, the rate of forgiveness on your loan lowers – meaning you will be on the hook to repay ineligible funds. Business owners must rehire any laid off employees by June 30 and must keep at least 90% of their original staff on the payroll through at least September 30.

Before applying for the Paycheck Protection Program, consult with your tax advisor to make sure you can feasibly meet all of the requirements within your current business outlook and that you fully understand the rules. Keep in mind that if you are unable to meet every requirement perfectly, your loan may not be forgiven and you will be responsible to pay it back within two years.

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Should You Refinance Your Mortgage?

Refinancing your mortgage could result in a lower monthly payment, especially with interest rates at a near historic low. Here's what to consider before you decide:

Rule of Thumb

It usually makes sense to refinance if you can save 75 basis points, but consider the whole package, including points paid and closing costs.

Job Stability

With record unemployment numbers in just a matter of weeks, job stability plays a huge role in qualifying for a refinance – even if you have a substantial amount of equity in your home.

Shop Around

Although refinancing is on the minds of many homeowners, check your credit score before you apply. Some lenders are raising their minimum credit score requirements. While its always smart to shop around for the best deal, today's environment has banks strictly enforcing expanded qualification guidelines.

CARES ACT RETIREMENT PLAN CHANGES

The Coronavirus Aid, Relief, and Economic Security (CARES) Act offers relief to individuals with some major changes to retirement plans in the near-term. These temporary new rules apply to both current retirees and those saving for future retirements.

RMDs SUSPENDED FOR 2020

Under normal circumstances, individuals with IRAs or 401(k)s who are over the age of 72 must take required minimum distributions (RMDs) each year. [1] Your RMD is calculated by the life expectancy factor assigned to your age, then divided by your retirement plan's account balance from December 31 of the prior year.

The CARES Act, however, has created a provision that lifts RMDs for 2020. Depending on your tax bracket, it may or may not make sense to take out the money.

EARLY WITHDRAWAL PENALTY ELIMINATED FOR 2020

Tapping retirement funds is something we should all try to avoid, but sometimes circumstances leave us no choice. That is why the government has waived penalties when you take out an early distribution from an IRA or 401(k) before retirement age. While income tax is still due, the 10% penalty is removed for any distribution up to $100,000 from January 1, 2020 to December 31, 2020. This is meant to help with cash flow for those who have been financially impacted by the pandemic.

HIGHER 401(k) LOAN LIMITS

If you have been impacted by COVID-19 in some way, you may qualify for a larger 401(k) loan amount. Typically, you can borrow up to $50,000 or half of your balance amount. Between March 27 and December 31, 2020, however, you can borrow up to $100,000 or 100% of your 401(k) account balance, if less, as part of the CARES Act provisions.

Qualifying circumstances include you, your spouse, or dependent being diagnosed with COVID-19 or financial consequences from the pandemic like losing your job. Consult your tax advisor on how to qualify and what type of certification you need.

[1] Age 70 is a new age limit effective 2020.

Client PROFILE....

At the beginning of the year, Phil, age 40, took out a 401(k) loan to use as a down payment on his new home. When the coronavirus hit, Phil was laid off from his job at a travel tech firm as flights all but came to a standstill.

Along with the bad news of losing his job, Phil also found out that his outstanding 401(k) loan balance of $20,000 will be due in full by April 15, 2021. What options are available to Phil?

Phil must either repay the full loan balance by the deadline or treat the amount as a distribution. In the first scenario, he must save over $2,000 each month in order to pay back the loan by April 2021.

In the second scenario, Phil will have to pay state and federal income tax on the money withdrawn. However, thanks to the Cares Act, the 10% penalty for withdrawing the funds before age 55 will be waived. Depending on how quickly he returns to work, the distribution may even bump him up into a higher tax bracket.

Client Profile is based on a hypothetical situation.
The solutions we discuss may or may not be appropriate for you.

PAYROLL TAX CREDIT ELIGIBILITY

The CARES Act's new Employee Retention Credit is an alternative to receiving a loan through the Paycheck Protection Program (PPP). Businesses may choose the credit or PPP loan, if available. Unlike the PPP, the tax credit does not have a limit on the size of your business, making it an option for larger companies that don't qualify for the PPP.

The Employee Retention Credit helps businesses to retain employees during the current economic crisis. The credit equals 50% of qualified wages and qualified allocable health care expenses paid to staff members between March 12, 2020 and December 31, 2020. The maximum credit per employee is $5,000 per quarter during that period.

In order to be eligible for this credit, however, the IRS states you must meet one of two qualifying factors. The first is if your operations have been suspended in any way because of the government's restrictions on commerce, travel, or group meetings due to COVID-19. The other eligibility factor is if you experience a "significant decline" in gross receipts for the quarter. The IRS defines a significant decline as gross receipts totaling less than 50% than what they were in the same quarter for 2019. Once gross receipts reach 80% of the previous year's quarterly numbers eligibility for any credit ends.

The employer is not required to pay qualified wages if they qualify for the program, and can choose to opt out of claiming the Employee Retention Credit.

TAX DEADLINE EXTENSION

As part of the federal government's response to the economic impact of the coronavirus, Tax Day has been moved from April 15, 2020 to July 15, 2020 – a three-month extension. Both individuals and businesses have until this new deadline to both file their taxes and make a payment on anything owed. Quarterly estimated tax payments that were set to be due on June 15 have also been pushed back to July 15. Additionally, no penalties or interest will accrue during the extension period.

Also remember that state tax filing deadlines don't necessarily match up to the federal changes.

Your tax advisor can confirm any changes to the state process and help you determine the best overall course of action for filing. If you're likely to receive a refund, for example, it's smart to file sooner rather than later.

Given so many sweeping changes in the tax landscape, working with your tax advisor is more important than ever to make sure you don't miss out on any potential benefits from the IRS. While you may be accustomed to in-person meetings to go over your tax documents, help is still available via remote meetings.

Q&A

Q **I am filing taxes on July 15. Can I still contribute to my IRA?**

A Yes, but your income and tax filing status will determine if your traditional IRA contributions are tax-deductible. For example, if you are covered by a retirement plan at work and your tax filing status is single or head of household, you can make a tax-deductible contribution of up to the limit of $6,000 if your modified adjusted gross income (MAGI) is $64,000 or less. Take a partial deduction if your MAGI is between $64,000 and $74,000.

If you file jointly or are a qualified widower, the income limit for a full deduction is $103,000. Married taxpayers filing jointly have no income limits to qualify for tax-deductible contributions when neither has a workplace retirement plan. If your spouse has a workplace plan and you don't, take a full deduction if your MAGI is $193,000.

Q **I was laid off because of COVID-19. Will I have to pay taxes on my unemployment benefits?**

A Yes, unemployment benefits are generally taxed at federal ordinary income rates. Some states also count unemployment benefits as taxable income while others exempt it. You can opt to have 10% withheld from each payment. No other percentage or amount is allowed.

ClientLine® SHORT BITS....

> FEDERAL STUDENT LOAN RELIEF
Individuals with federal student loans can defer their payments for up to six months under the CARES Act. If you're facing hardship, you can suspend your payments until September 30, 2020 without accruing additional interest. This will happen automatically, meaning you don't need to contact your loan services to take advantage of federal student loan forbearance.

> CHARITABLE GIVING FOR COVID-19
The CARES Act includes a provision to increase deductions for charitable giving during the crisis. If you don't itemize your taxes, you can take an above-the-line deduction of up to $300. In other words, you don't have to pay taxes on that amount. If you do itemize your taxes, you can deduct gifts up to 100% of your adjusted gross income, rather than the usual 60%.

> PUBLIC TRUST
Trust is high in public health officials like the Centers for Disease Control (CDC), according to a recent Gallup poll. Government health agencies earned an 80% approval rate, while hospitals topped the list with 88% approval. The bottom of the list was the news media, which only had a 44% approval on its response to the coronavirus.

> MORTGAGE REFINANCES SPIKE
With the Fed lowering the federal funds rate to near-zero in March, mortgage rates have also dropped significantly. As a result, homeowners have been scurrying to refinance their mortgages to take advantage of this savings opportunity. In the last week of March, refinance applications jumped 168% from the previous year. They also increased 26% compared to the week before. Mortgage applications for new homebuyers dropped 24% year over year, as measured by the MBA Purchase Index.. This is largely due to the economic uncertainty surrounding COVID-19.