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S. Harris Financial Group

INNOVATIVE STRATEGIES + PERSONAL FOCUS

Timely Topic
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Highlights and Action to Consider from Newly Passed CARES Act

As you have likely heard, lawmakers agreed last week on a massive stimulus package that will offer tax relief to both businesses and individuals. President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) into law on Friday, March 27th. This is a \$2.2 trillion stimulus package that has many hopeful that it can help the country with a massive cash infusion as we experience a significant economic slowdown due to the effects of the virus.

Although there are many provisions of this bill that we won't cover here (we recommend you discuss with your CPA), we wanted to summarize some of the key provisions of the CARES Act we believe you should be aware of:

Individual Taxpayers

- **Individual Stimulus Payments** – up to \$1,200 for each individual and \$500 per child.
 - These payments will be based on your 2019 income tax return (if filed), or alternatively your 2018 income tax return.
 - Amount of payment will be phased out when income is above \$75,000 for single filers and \$150,000 for couples filing married joint.
 - For most Americans, no action will be required to determine qualification for, or to receive this recovery rebate.
- Special Rules for **Use of Retirement Funds**
 - Individuals under age 59 ½ can withdraw money from their retirement acct between January 1 and December 31, 2020 without incurring the standard 10% penalty.
 - Funds withdrawn must be used to pay for medical expenses or for those who experience financial consequences of being quarantined, laid off, or furloughed.
 - Please note you are still required to pay the income tax on this withdrawal.
 - Distributions would be taxable ratably over three years, but you may recontribute the distributed funds into your retirement account for three years and it will be treated as a rollover contribution.
 - Required Minimum Distribution requirements for 2020 have been waived for defined contribution plans and IRAs.
- **Charitable Contributions** – allows for a charitable deduction of up to \$300 for certain cash contributions by individuals who would not otherwise elect to itemize their deductions.
- **Student Loans** – enables employers to provide a tax-free student loan repayment benefit of up to \$5,250 annually for payments made by an employer on behalf of an employee prior to January 1, 2021.

Businesses

Since each business is different, every business owner should consider the various assistance programs available to determine which fit it best, including other programs and benefits available under the Family First Coronavirus Response Act (passed previously) and the CARES Act. Please check with your CPA and/or attorney for availability of these programs. Here is a summary of just some of the key provisions we thought you should be aware of (not all details or exclusions provided):



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- **Employee Retention Tax Credit –**
 - Payment of employer's 6.2 percent portion of social security payroll tax payments and corresponding portion of self-employment taxes, otherwise due for the period beginning on the date of enactment of the CARES Act and ending before January 1, 2021, may be delayed as follows:
 - 50 percent until December 31, 2021.
 - Remainder until December 31, 2022.
 - Note: this will not apply to employers that receive forgiveness of a loan under this Act's provisions.
- **Refundable Payroll Tax Credit** - Allows a refundable payroll tax credit equal to 50 percent of qualified wages paid by employers during the COVID-19 crisis.
 - The credit is available to employers (including tax-exempt entities) whose:
 - Operations are fully or partially suspended due to a COVID-19 related shutdown order.
 - Gross receipts declined by more than 50 percent when compared to the same quarter in the prior year; credit applies to subsequent quarters unless gross receipts exceed 80 percent of gross receipts for same quarter in prior year.
 - For employers with more than 100 full-time employees, qualified wages are wages paid to the employees when they are not providing services due to COVID-19 related circumstances. For employers with 100 or fewer full-time employees, all employee wages qualify for the credit whether the employer is open for business or subject to a shutdown order.
 - The amount of qualified wages with respect to any employee who may be taken into account by an eligible employer shall not exceed \$10,000.
 - The refundable payroll credit is applicable to wages paid after March 13, 2020 and before January 1, 2021.
- **Small Business Loans**
 - Paycheck Protection Loan — Congress has appropriated \$349 billion for this program, which can provide a loan of up to 250% of your monthly payroll. It has a ten-year maturity and caps interest at 4%.
 - The maximum amount of the loan is set by formula (average monthly payroll prior to the COVID-19 pandemic times 2.5 plus the amount of any other debt approved for refinancing, including any debt incurred as a result of COVID-19 under the EIDL Program), subject to a maximum of \$10 million.
 - These loans are intended to be forgivable if the borrower maintains employees and otherwise complies with the CARES Act.
 - Economic Injury Disaster Loan (EIDL) Program
 - EIDL Loans are available in a maximum amount of \$2 million, carry an interest rate of 3.75 percent and have a maximum term of 30 years.
 - Loans over \$200,000 must be guaranteed by any owner having a 20 percent or greater interest in the applicant (the CARES Act removed the requirement for personal guarantees on loans under \$200,000).
 - EIDL Loans are processed directly through the SBA, although the SBA may determine to enlist the assistance of lenders for the processing and making of loans.
 - The CARES Act also removed standard EIDL Program requirements that the borrower not be able to secure credit elsewhere or that the borrower have been in business for at least one year, as long as it was in operation on January 31, 2020.
 - Applicant may request an expedited disbursement that is to be paid within three days of the request. The advance may not exceed \$10,000 and must be used for authorized costs but is otherwise not repayable if the EIDL Loan is not approved.
 - NOTE: An applicant may receive an EIDL Loan and loans under other programs (such as the Paycheck Protection Program described below) as long as the basis for the loans/costs being paid with each are different (no "double-dipping").



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- **Loan Forgiveness Provisions** – small business loan borrowers will be eligible for loan forgiveness, both for new loans under the Paycheck Protection Program and for existing 7(a) loans.
 - For borrowers under the Paycheck Protection Program, the loan forgiveness will equal the amount spent by the borrower in the eight-week period after the loan origination date on the following items (not to exceed the original principal amount of the loan):
 - payroll costs (not to exceed \$100,000 of annualized compensation per employee); and
 - payments of interest on any mortgage loan incurred prior to February 15, 2020; and
 - payment of rent on any lease in force prior to February 15, 2020; and
 - payment on any utility for which service began before February 15, 2020.
 - SBA loan forgiveness allowed under this act is excluded from gross income.

We felt it was important to share these changes with you because changes in tax laws often create planning opportunities. We are here to discuss these changes as it relates to your personal financial plan and are happy to engage in any conversations about this law with your attorney or tax professional.

While we know this is a stressful time for many reasons, we are constantly reminded that the first and most important concern is for the safety and health of all. *Our prayers are with the medical community that are on the front lines caring for patients, families and individuals who will be affected physically or financially, and our leaders as they continue to make decisions to work through this challenging time.*

We are thankful for the ongoing trust you place in us. Please know that we will continue to research, understand, adapt, and communicate what we believe to be important in this ever-changing time. We hope you and your families continue to stay safe and healthy.

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