
What the CARES Act Means for Businesses



The Coronavirus Aid, Relief and Economic Security Act, also known as the CARES Act, was signed into law on March 27, 2020. This Act will provide much needed help to both businesses and individuals. This document provides an overview of how the Act helps businesses with cash flow and liquidity.

Expansion of the Economic Injury Disaster Loan Program

The CARES Act expanded the Economic Injury Disaster Loan program offered through the SBA. The loan program can provide up to \$2 million to a small business 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. The advance is funded 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 available until December 31, 2020 and you apply directly to the SBA instead of a third party lender. For more information, you can visit <https://sba.gov/disaster>.

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.

Loans for Mid-sized Businesses

The CARES Act authorized \$500 billion to be used for loans to mid-sized businesses with 500 to 10,000 employees. Loans carry an interest of 2%, with a six-month deferment of principal and interest.

Delay of Payment of Employer Payroll Taxes

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.

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. Then, any excess losses were then carried forward. However, the CARES Act eliminates the limitation for 2018, 2019 and 2020.

You are able to amend prior years' tax returns to help with your 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 from 30% to 50% of the taxable income for 2019 and 2020. Also, if 2020 is less profitable than 2019, then you can use the 2019 taxable income amount to determine the limit for your 2020 return.

Correction of Qualified Improvement Property

The CARES Act enables businesses 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 any business that has invested in improving their property. The provision is retroactive, so 2018 tax returns may be amended and refunds requested.

Increased Charitable Contribution Rate

The CARES Act increased the amount a business is able to deduct for charitable contributions from 10% to 25% of net income. Additionally, the CARES Act increased the deduction for contributions of food inventory from 15% to 25%.

Next Steps

Be sure to call us with any questions or to discuss how the provisions may impact your specific business.



About Your Firm LLC

We have hand-picked a team with tax, auditing, accounting, business and management advisory expertise in a multitude of fields, including healthcare, professional-services firms, commercial contractors, home builders, real estate companies, manufacturing and distribution companies, dealerships, non-profit organizations and pension funds.

We have the expertise and the resources to provide not only the critical services you need during these evolving economic times, but also, importantly, to build for the future. Our strategic alliances with professional organizations across the country allow us to bring our clients the talent and expertise of national firms with the high-touch service of a local firm. While we remain focused on the core services of tax, accounting and audit, we expand and offer you the business consulting needed to remain competitive. We believe the success of our clients is the greatest measure of our own.



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