

Managing Through Turmoil for Businesses

Responding to COVID-19

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Areas of Focus

- Federal and State Taxation
- Employment Issues
- Business Continuation Issues
- CARES ACT

Federal and State Taxation

- Extension of income tax filing and payment deadlines.
- Tax credit for amounts paid under new family leave and sick-pay rules.
- Tax relief to individuals and businesses under the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”).

Filing and Payment Deadlines

- IRS Notice 2020-18 announced special Federal income tax return-filing and payment relief.
- What relief was granted?
 - Returns due April 15, 2020 are now due July 15, 2020.
 - Tax payments due April 15, 2020 are now due July 15, 2020.
 - No penalty or interest assessed for period between April 15 and July 15.
 - Contribution deadlines for IRAs, HSAs and MSAs extended to July 15.
- Does the relief apply to payroll taxes?
 - No. Payroll tax returns and payments must be made according to the existing schedule.

Filing and Payment Deadlines

- Does this relief affect second quarter estimated tax payments due June 15?
 - Absent further relief, this payment is still due June 15.
- What type of entities are included in this relief?
 - Any person with a Federal income tax return or payment due on April 15, 2020 eligible for relief.
 - “Person” includes any type of taxpayer.
- If a taxpayer already filed its 2019 income tax return and scheduled taxes to be paid by April 15, can this payment be cancelled and rescheduled?
 - Yes. They may cancel the scheduled payment by calling the U.S. Treasury Financial agent at 888-353-4537 at least 2 business days before the scheduled date. Then go to irs.gov/directpay to schedule the tax payment.
- Has the state of Arizona extended filing and payment deadlines to coincide with the Federal relief?
 - Yes.

Payroll Tax Credits

- Relief provided to employees under the Families First Coronavirus Response Act
 - For COVID-19 related reasons, requires employers to give employees up to 80 hours of paid sick leave and expanded child-care leave when employees' children's schools are closed or child-care providers are unavailable.
 - Government reimburses employers by allowing them to take credits against payroll taxes due.
- IRS Notice 2020-57 explained the tax credit available to small and midsized employers.

Payroll Tax Credits

- What employers are entitled to the credit?
 - Employers of less than 500 employees.
- How does the paid family leave work?
 - Employee is unable to work or telework due to a need for leave to care for a son or daughter under age 18 because the school or place of care has been closed or the childcare provider is unavailable due to a public health emergency related to COVID-19
 - Paid leave is available for up to 10 weeks.
 - The first 10 days may consist of unpaid leave but the employee may choose to use any accrued paid time off.
 - Amount per day calculated based on the 2/3 rule.
- How does the payroll tax credit for the paid family leave work?
 - Credit available for up to \$200 of wages for each day an employee receives qualified family leave wages.
 - Maximum of \$10,000 in wages per employee are eligible for the credit.

Payroll Tax Credits

- How does the paid sick time work?
 - Two weeks of sick pay must be paid when the employee is unable to work or telework for any of the following:
 1. The employee is subject to a federal, state or local quarantine or isolation order related to COVID-19.
 2. The employee has been advised by a healthcare provider to self-quarantine due to concerns related to COVID-19.
 3. The employee is experiencing symptoms of COVID-19 and is seeking a medical diagnosis.
 4. The employee is caring for an individual who is subject to an order.
 5. The employee is caring for a son or daughter of such employee if the school or place of care of the son or daughter has been closed, or the childcare provider of such son or daughter is unavailable, due to COVID-19 precautions.
 6. The employee is experiencing any other substantially similar condition specified by the Secretary of Health and Human Services in consultation with the Secretary of the Treasury and the Secretary of Labor.
 - There are exceptions for healthcare workers and emergency responders. And, employers with fewer than 50 employees can be exempted from the requirement.
 - The maximum amount of paid sick time is:
 - \$511 per day (\$5,110 in total) for leave paid because of situations 1,2 and 3 above.
 - \$200 per day (\$2,000 in total) for leave paid due to situations 4, 5 and 6 above.
 - The duration of the sick pay is 80 hours for full-time employees and equal to the average hours worked over a two-week period for part-time workers.

Payroll Tax Credits

- How does the payroll tax credit for sick leave work?
 - The employer is entitled to a credit up to the maximum amount of paid sick time payments referenced above.
- What is the tax credit applied against for both family leave and sick leave payments?
 - Credit is applied against the employer's portion of Social Security (6.2%) and Medicare (1.45%) taxes.
- Do self employed individuals also qualify for the credit?
 - Eligible self-employed individuals are eligible for a refundable credit against income tax for qualified family leave and qualified sick leave equivalent amounts.
 - An eligible self-employed individual is one who regularly carries on any trade or business and would be entitled to receive paid leave under the Emergency Paid Sick Leave Act if the individual were an employee.

CARES Act

- Act passed by the Senate on March 25 passed by the House of Representatives on Friday, March 27th
- Aims to stabilize the economy and provide broad relief to individuals and businesses directly or indirectly impacted by the COVID-19 pandemic.
- Tax relief provided to both individuals and businesses

CARES Act Tax Relief

Individuals

- Direct payments to individuals
 - Rebates to eligible individuals.
 - Generally \$1,200 per individual taxpayer and \$500 per qualifying child (using information from 2019 income tax filing (or 2018 if 2019 not available)).
 - Rebates to be issued as rapidly as possible.
 - Expectation of 3 weeks from date of enactment.
 - No later than December 31, 2020.
 - Phased out based on adjusted gross income.
 - Beginning at \$150,000 joint, \$112,500 head of household and \$75,000 for all others.
 - Phase out will be 5% of AGI in excess of thresholds.

CARES Act Tax Relief

Individuals

- Special rules for retirement funds
 - Age 59½ premature distribution penalty relief.
 - Repayment, income-spreading and withholding relief.
 - Increase in retirement plan loan limit.
- Temporary waiver of required minimum distribution rules for certain retirement plans and accounts.
- Modification of charitable deductions and limitations.

CARES Act Tax Relief

Businesses

- Employee retention credit for employers subject to closure due to COVID-10.
 - Offset to employment taxes.
 - Credit allowed for 50% of qualified wages for each qualified employee.
 - Credit applies after employment taxes reduced by other credits including credit for required family leave or sick leave payments.
 - Employers taking small business interruption loans not eligible.
- Delay of payment of employer payroll taxes.
 - Permits deferral of employer's matching portion of FICA.
 - Deferred liability due in two installments: by Dec. 31, 2021 and Dec. 31, 2022.
- Modifications to net operating loss provisions.
 - Act suspends 80% limitation for taxable years before Jan. 1, 2021.
 - Act reinstates NOL carrybacks. Losses in 2018, 2019 and 2020 can be carried back to each of five prior taxable years.

CARES Act Tax Relief

Businesses

- Modifications to loss limitation rules for taxpayers other than corporations.
 - Defers active business loss limitation rule to tax years after December 31, 2020.
 - Makes certain technical changes to the definition of excess business loss including the exclusion of wages and capital losses from the computation.
- Modification to the alternative minimum tax.
 - Accelerates the use of corporate alternative minimum tax credit carryforwards.
- Modification to the limitation on business interest.
 - Limitation on amount of deductible business interest expense increased from 30% of adjusted taxable income (“ATI”) to 50%.
 - Provides partners a different benefit for 50% of their allocable share of the partnership’s excess business interest.
 - Taxpayers may elect to use 2019 ATI to compute deductible amount for 2020.