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"Yielding Success Through Financial Management"

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Dear Client,

The legislation recently passed in response to COVID-19 brought quite a few changes that we thought we should make you aware of. The following articles highlight some of the bigger effects of the bill. While we still have quite a few questions on some of these topics, this is how we are currently interpreting them. If you have any questions, please contact your consultant.

Paycheck Protection Program

Part of the Cares Act passed March 27th included incentive for small businesses to keep people on payroll. While details are still being worked out, here is what we know.

- The program is for eligible small businesses, nonprofits, Tribal businesses and, veteran's organizations with less than 500 employees
- A partially (or potentially fully) forgivable loan can be received for 250 percent of the employer's average monthly payroll. This is essentially equivalent to 10 weeks of payroll. There is a limit of $10 million per application.
- Payroll has a very loose definition including wages & salaries, retirement contributions, healthcare benefits, covered leave and other expenses such as contract payments.
- You must certify that the economic conditions make the loan necessary to support ongoing business operations and that the funds will be used to maintain payroll and other covered expenses.
- The legislation authorized a total of $350 billion for this program but with the wide definitions for who qualifies, this money is expect to go quickly. There are already rumors of the 4th stimulus package that may extend the limit.

For farms with no payroll (and no significant custom hire expense), may still be able to benefit but the signup is delayed until April 10th and the rules will be different. We do not know for sure yet what that may look so stay tuned. For farms with significant payroll, this could be a large shot of capital. For those with moderate payroll, there will have to be a balance between the benefit of the loan and the paperwork required to apply for a Small Business Administration (SBA) loan. Many are quantifying moderate payroll around $100,000. This guideline will also likely apply to self-employed individuals.

After closing on the loan, each business will have to track spending over the next 8 weeks on specific costs such as payroll, rent, utilities and mortgage interest. The payment of these costs allow the loan to become a tax-free grant. In other others, the loan will be forgiven if spent on these qualifying expenses. Any remaining loan will become a 2-year loan at 0.5% interest.

The application for the loan has been released and some banks are saying they will be able to accept them Friday, April 3rd. We will keep working on this and will continue to keep you updated.

Rebate Payments

On Friday March 27th, the Coronavirus Aid, Relief, and Economic Security Act or CARES Act was passed. One section of the CARES Act will provide most individuals, other than nonresident aliens and dependents, with some financial relief in the form of a rebate payment. The amount of this rebate payment will be the lesser of one's net income tax liability or $1,200 ($2,400 for Married, Filing Jointly).

Furthermore, if those individuals qualify as a "taxpayer," they are eligible for additional benefits. In order to be a taxpayer as defined in the CARES Act, one must have at least $2,500 of qualifying income, an income tax liability, or gross income greater than the standard deduction. Qualifying income consists of earned income, social security benefits, and Veteran's benefits.

If someone qualifies as a "taxpayer" their rebate payment will be at least $600 ($1,200 MFJ). "Taxpayers" who have qualifying children for the Child Tax Credit will receive an additional $500 per qualifying child. For the purposes of the Child Tax Credit, a qualifying child is under the age of 17, so it does not look like there will be any payments for any dependents of ages 17 and up.

There are income limitations for this rebate payment. For Single filers, the rebate will phase out between Adjusted Gross Incomes of $75,000 and $99,000. For Married, Filing Jointly filers, the rebate will phase out between adjusted gross incomes of $150,000 and $198,000. If you are in the phaseout range in 2019, and your income is lower in 2020, any additional credit will be refunded or be used to reduce your 2020 tax liability. If your 2019 income is lower than your 2020 income, you will not be required to pay back the credit.

These payments will be calculated based on 2019 tax returns. If you have not yet filed your 2019 tax return when these checks are processed, the payment will be calculated based off of your 2018 return. This rebate payment is scheduled to come as soon as possible, but no later than December 31, 2020. This payment will not be taxable and is treated as an advance of a tax credit that you may claim on your 2020 tax return.

April 15th Tax Deadline

The CARES Act created an automatic extension for the 2019 filing season. The April 15th, 2020 tax deadline was extended to July 15th, 2020 for all returns. If you have already filed your return, but haven't paid, you have until July 15th to pay the tax due.

This extension is also applicable for April 15th tax estimates. While the first estimated payment is now due on July 15th, 2020, they did not extend the due date for the second estimate, which is still due on June 15th.

Along with the filing season, the CARES Act also extended the amount of time you have to make 2019 contributions to an HSA and IRA. You now have until July 15th, 2020 to make these contributions.

Changes made to Retirement Plan Distributions

Previously, for those who participated in a defined contribution plan or owned an individual retirement account (IRA), a required minimum distribution (RMD) was required to be withdrawn from the account every year after the participant or owner reached the age of 70 ½. Passed in December of 2019, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act), changed the rule that RMD's now have to start being taken after a participant or owner turns 72. However, if an account owner turned 70 ½ in 2019, an RMD still needs to be withdrawn by April 1st of 2020 and within the calendar year for every year thereafter. The rule change applies to those who turn 70 ½ in 2020 and after. If an owner turns 70 ½ in 2020, they don't have to make their first RMD until April 1st of the year after they reach 72, and again within the calendar year of every year thereafter. It is important to remember when making a withdrawal that you are able to take more than the minimum required amount. Also, keep in mind that your withdrawal is included in your taxable income except for any part that has already been taxed or amounts that are received tax-free, such as qualified distributions from a designated Roth account.

For any defined contribution plan participant or IRA owner who passes away after December 31st, 2019, the SECURE ACT requires that the entire balance of the account be distributed over the next 10 years. Exceptions apply to a surviving spouse, a child who is not at the age of majority, a disabled or chronically ill person, or a person that is no more than ten years younger than the employee or IRA account owner. There is no universal plan as to when/how much to withdraw over the 10-year period. **It is best to inquire with your tax consultant when tax planning on what would be best for your situation.**

In accordance with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the 10-percent early withdrawal penalty has been waived for distributions up to $100,000 from qualified retirement accounts for coronavirus-related purposes made on or between the dates of March 27th,2020 and December 31st, 2020. According to the act, a coronavirus-related distribution is one made to an individual who:

1) Is diagnosed with COVID-19
2) Has a spouse or dependent who is diagnosed with COVID-19
3) Experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors as determined by the Treasury Secretary

Any income attributed to an early coronavirus-related distribution can be recognized over a three-year period beginning in the year the distribution was taken. The taxpayer has the option to recontribute the funds to an eligible retirement plan within three years without regard to that year's cap on contributions. Keep in mind, if not absolutely necessary, it might be best to avoid taking a distribution from a retirement account in a time when the market is so low, because you will be taking marginal losses on your investment.

Another factor to consider is that if many people pull their money out at once in a short amount of time, the funds will not be available to help the market recover quicker. Given this, the CARES Act has waived the required minimum distributions rules for defined contribution plans and IRA's, for the 2020 calendar year. Nobody is required to take an RMD, even those who turned 70 ½ in 2019 and would normally have needed to take their first RMD by April 1st.

Traditionally, participants of 401(k) plans are eligible to borrow up to 50% of their vested account balance, with a maximum of $50,000. The CARES Act has changed these rules, to allow participants to borrow 100% of their vested account balance, with a maximum of $100,000 within 180 days after the CARE Act was enacted. The repayment period is 5 years, so it shouldn't be forgotten that if choosing to take a large distribution, there is only 5 years to repay, which can create a real cash flow issue for some.

Heath Savings Account (HSA) Changes

The legislation passed in response to COVID-19 made a three main changes to HSA rules and the way HSA and FSA funds can be used. The deadline to contribute to an HSA, HDHPs coverage, and definition of qualified medical expenses were all effected.

The automatic extension of the 2019 tax deadline also extended the deadline to make 2019 contributions to your HSA. You now have until July 15th, the extended tax deadline, to make these contributions.

The IRS is allowing High Deductible Health Plans (HDHPs) to provide coverage for testing and treatment of COVID-19, as well as telemedicine services, before you meet your deductible without disqualifying the HDHP. This applies to all HDHPs beginning on or before December 31st, 2021. Usually this type of coverage would disqualify a HDHP, making you ineligible to contribute to an HSA.

Under the Affordable Care Act, Health Savings Accounts and Flexible Spending Accounts could not be used to pay for over-the-counter medicines not prescribed by a doctor. The CARES Act repealed this rule, making over-the-counter medicines, purchased without a prescription, qualified medical expenses that can be paid for by HSA and FSA funds. The CARES Act also classified expenses for menstrual care products as expenses paid for medical care as of December 31, 2019, making these qualified medical expenses as well.