

CARES Act Summary for Home Technology Integrators

Published: Sunday, March 29, 2019

Updated: March 29, 2019

Over the last 48 hours, I have seen a number of posts from Home Technology Integrators about the impact of the recently passed Coronavirus Aid, Relief, and Economic Security (CARES) Act. In many situations, this Act has created confusion and questions from Home Technology Business Owners.

I took some time to go through the myriad of documents that are available and have tried to synthesize the information in a way that I think can help people make the best decision for their business. There is a lot of information out there and people are confused, hurt and frustrated by the situation we are. The goal of this document is to summarize the impact of the recently passed legislation so Home Technology Business Owners can have a roadmap for dealing with this situation. I will do my best to keep this up to date as new developments come out. A few caveats....

- This is not a legal document. I am not a CPA or a Lawyer. I am a Home Technology business owner who knows enough to be dangerous. I also have a weird appreciation for this stuff and enjoy it. Please do not consider any of this as legal or financial advice. You've got a lot at stake here so please consult your paid experts who are going to be better at this than I am.
- These acts are over 800 pages in length. I am not putting everything in this document. I am highlighting what I know and what I think impacts Home Technology Business Owners.
- A lot of this information was obtained from other sources. I'm not claiming it as my own. What I have tried to do is take that information and synthesize it in a way that makes sense to business owners in our industry.
- Because of the speed at which this legislation was enacted, there are still a number of things being worked through, specifically with the loan program. This is all subject to change based on that.
- I have tried to break this information down into facts, **analysis** and **opinion**. The goal of the analysis and opinion section is to give you some things to think about as you navigate the next few months.
- I am not including any information on the changes to unemployment programs because they differ by state and that's not really my area of expertise. As Home Technology Business Owners, we should be familiar with those so we know how it will impact any employees we have to let go. The purpose of this document, though, is to focus on the things that we can impact as Home Technology Business Owners.

Revised Tax Deadline

- The new tax deadline for filing your 2019 taxes is now July 19. If you file for an extension, the extension date remains October 15.

- Opinion: I would highly recommend filing a tax extension request if you haven't already done so. With everything else you need to worry about right now, taxes shouldn't be one of them. File the extension request ASAP.

Families First Act

- The Families First Act was passed on March 18, 2020. Friday, March 27, 2020. This was considered "Phase 2" of the stimulus package and "Phase 3" was the CARES ACT which passed on March 27, 2020.
- April 1 is the deadline to implement a Paid Sick Leave Program that is covered by the Families First Act. Everything listed below starts with an effective date of April 2.
- The Families First program mandates paid sick leave for employees who are unable to work under any of the following conditions:
 1. Exhibition of coronavirus symptoms, including time to seek a medical diagnosis;
 2. A medical diagnosis is made for coronavirus;
 3. A health care provider advises a self-quarantine;
 4. A federal, state or local quarantine or isolation order is issued; or
 5. Care is necessary for another individual who is in quarantine or for a child under the age of 18 affected by a school or daycare closure on account of coronavirus (including adopted and step-children, and children for whom the individual is the legal guardian)
 - Analysis: The biggest question here is what the definition of "A federal, state or local quarantine or isolation order is issued". I suspect we will get some clarity on this but I think it is safe to say that any state that has a shelter-in-place rule or an work stoppage rule would qualify.
 - Opinion: Be careful if you are still operating your business under a "Critical Business" designation but later try and claim that a Federal, State or Local quarantine order was in place. At best, that feels disingenuous. At worst, it is fraud. This act is not designed to cover paid leave for a business slowdown. It is designed to cover paid sick leave for people that can't work due to the situations listed above.
- Anyone who qualifies on #1-#4 as outlined above can get up to 80 hours of mandatory paid sick leave
 - Employees get paid their daily wages but can't exceed \$511 per day (\$5,110 in total for the 10 days)
- Anyone who qualifies on #5 as outlined above can get 2/3 of their regular wages, not to exceed \$200 per day (\$2,000 in total for the 10 days)
- Furthermore, there is an additional "Family Leave Program" that is available for anyone who has to take care of a sick relative or care for a child at home who can't go to school.
 - In that situation, the employee is given \$200 per day, for a total of 50 days (\$10,000 in total)

- **100% of these expenses are reimbursable from the IRS.** The goal is that no employer will be faced with out-of-pocket expenses to deal with these new laws. This is from the IRS Web Site
 - *Reimbursement will be quick and easy to obtain.*
 - *An immediate dollar-for-dollar tax offset against payroll taxes will be provided*
 - *Where a refund is owed, the IRS will send the refund as quickly as possible.*
 - <https://www.irs.gov/newsroom/treasury-irs-and-labor-announce-plan-to-implement-coronavirus-related-paid-leave-for-workers-and-tax-credits-for-small-and-midsize-businesses-to-swiftly-recover-the-cost-of-providing-coronavirus>
- **Analysis:** The the IRS' goal is to make sure you don't have to pay your employee sick leave and then get the reimbursement later. They want to get you the reimbursement ASAP. My guess is that we will get some further clarification on exactly how that will happen in the coming week or two. Also---You need to make sure you post a notice of this in your office in order to be in 100% compliance with the program. I haven't seen the notice yet but as soon as you see it, make sure it is up on your bulletin board that contains other workplace notices.
- **Opinion:** Put this program in place if you haven't already done so. It's no cost to you and will help you and your employees if anyone gets sick or needs to take care of someone who is sick. Track your hours for employees that are in this situation. Don't try and "cheat" the system by saying that no one can work when you have people actively working. Not only is that illegal, it's bad Karma!!

Phase 3 (CARES ACT)

- Tax Refunds (Recovery Rebates)
 - The most well-publicized provision is the \$1,200 recovery rebates for individual taxpayers. The rebate amounts are advance refunds of credits against 2020 taxes, and equal to \$1,200 for individuals, or \$2,400 for joint filers, with a \$500 credit for each child. The amount of each rebate is phased out by \$5 for every \$100 in excess of a threshold amount. This threshold amount is based upon 2018 adjusted gross income (unless a 2019 return has already been filed), and the phaseout begins at \$75,000 for single filers, \$112,500 for heads of households, and \$150,000 for joint filers. Thus, the rebates are completely phased out for single filers with 2018 (or 2019, if applicable) adjusted gross income over \$99,000, heads of household with \$136,500 (or higher, depending upon whether status is established because of children), and joint filers with \$198,000

- Analysis: Not much to say here. Some people will get money and others won't. Hopefully this will help many of our employees put some money in their pockets during this difficult time.
- Employee Retention Program
 - The CARES Act also provides a new “employee retention tax credit.” **It is important to note, however, that this tax credit is not available to employers that receive the small business “paycheck protection” loans discussed in the next section.** The employee retention tax credit provides eligible employers with a refundable payroll tax credit for 50% of the wages paid by employers during the COVID-19 crisis and applies to wages paid between March 13, 2020 and the end of the year. This tax credit is available to employers whose:
 - Operations were fully or partially suspended due to a COVID-19 related “shut-down order,” or
 - Gross receipts declined by more than 50% when compared to the same quarter in the previous year.
 - The tax credit is provided for the first \$10,000 of qualified wages paid to an eligible employee, which may include the employer’s contribution to the employees’ health insurance costs but will exclude any amounts that the employer already received a tax credit for under EFMLA or EPSL. For employers with more than 100 full-time employees, “qualified wages” will be further limited to wages paid to employees when they are not providing services due to the reasons specified above. For employers with 100 or fewer employees, employee wages may qualify for the credit, whether the employer is open for business or subject to a shut-down order.
 - The credits under this program are also reduced by the amount of any credits that would have been given under the “Families First” Act mentioned in the section above.
 - Analysis: On the surface, this seems like a good program but there are a couple of key caveats. First, if you are going to try and do a loan program (described below), you aren’t eligible for this program. Second---Any credits that you get under this program would be reduced by the amount of credits you received under the “Families First” act. Said another way—you can’t double dip. Lastly—You need to show that your business impact was related to COVID-19 and that your receipts went down by 50% or more. For most Home Technology businesses, it will be hard to show that receipts dropped by more than 50% because of the long-term nature of our work. That being said, this seems like a good program and is something you should consider as you navigate your future path.
- Payroll Tax Deferral
 - In order to free up employers’ cash flow and retain employees during times of quarantine or shutdown, the CARES Act defers the payment of payroll taxes. Payroll taxes due from the period beginning on the date the CARES Act is signed into law and ending on December 31, 2020, are deferred. The 6.2 percent OASID portion of payroll taxes incurred by employers,

and 50 percent of the equivalent payroll taxes incurred by self-employed persons qualify for the deferral. Half of the deferred payroll taxes are due on December 31, 2021, with the remainder due on December 31, 2022

- Opinion: This is a very good thing. It can help you conserve some cash in 2020. There's no reason not to do this as there is no interest associated with it. It's like a zero-interest loan on your payroll tax obligations.

- PayCheck Protection Program (Loans with Forgiveness)

This is the biggest piece of the CARES Act for Home Technology providers and is the one that still has the most unanswered questions. I'm going to do my best to summarize what is known right now as well as outline what still needs to be defined in the coming weeks

- This program is an extension of the existing SBA loan program under Section 7A.
- It is important to note that under this program, the loan comes from a bank---Not the SBA. They are 100% guaranteed by the SBA but you actually get them from a bank.
- Opinion: To a large degree, banks are in the dark right now. They are as confused as we are. There was a WSJ article this morning that said they hope to have details in place by the end of the coming week. The goal is to get money to people as quickly as possible. I spoke with my banker on Saturday and she doesn't have any information on these loans yet. My neighbor runs business banking for Wells Fargo and he said the same thing. I'm hearing that from a lot of folks so the key will be to keep your eyes and ears open in the next 1-2 weeks. As I mentioned earlier, I will do my best to keep this document updated as I learn new things next week.
- While the actual details on how to apply for the newly enhanced loans are unclear--the SBA is expected to release guidance on this soon. They have 30 days to publish these but I suspect we will see them sooner.
- Here's a summary of the SBA Loan Program:
 - The maximum value of a company's loan will be equal to the lesser of \$10 million or the sum of 2.5 times the [average monthly payroll cost](#) in 2019. This includes wages for employees as well as expenses for paid sick leave, health care, and other benefits.
 - Loans may be [fully or partially forgiven](#). Any portion of the loan used to make payroll, pay for utilities, rent, mortgage and existing business debt may be forgiven, dollar for dollar. To receive this dollar for dollar loan forgiveness, however, **workers need to remain employed through the end of June**. Here's a summary I found that outlines the forgiveness very well.
 - “ (A) IN GENERAL.—The amount of loan forgiveness under this section shall be reduced, but not increased, by multiplying the loan amount by the quotient obtained by dividing—

- (i) the average number of full-time equivalent employees per month employed by the eligible recipient during the covered period; by
 - (ii) (I) at the election of the borrower—
 - (aa) the average number of full-time equivalent employees per month employed by the eligible recipient during the period beginning on February 15, 2019 and ending on June 30, 2019; or
 - (bb) the average number of full-time equivalent employees per month employed by the eligible recipient during the period beginning on January 1, 2020 and ending on February 29, 2020; or
- (B) CALCULATION OF AVERAGE NUMBER OF EMPLOYEES.—For purposes of subparagraph (A), the average number of full-time equivalent employees shall be determined by calculating the average number of full-time equivalent employees for each pay period falling within a month.”

Analysis: Basically what this says is that the percentage of the loan that is forgiven is based on the ratio of employees that you have on your staff when you commence the loan compared to the number of employees you had in 1Q2019 or 1Q2020. There are some details around this, though, that I will address later.

- There is also a carve-back in the forgiveness amount if there is a reduction in pay of more than 25% of any individual full-time employee.
- Businesses that have let employees go before accepting the loan will not be subject to penalties. If those businesses rehire employees after accepting the loan, they'll receive additional credit to cover wages.
- Employees who make over \$100,000 are not part of this and are not eligible for forgiveness.
- The maximum interest rate for these loans is capped at 4 percent
- There is a 1-year deferment so no payments need to be made for 1 year
- Normally with the SBA, you have to provide collateral and prove that you can't get a loan anywhere else. This isn't true with the PayCheck Protection Program.
- **Analysis:** On the surface, this program seems great! I think it is, for the most part. That being said, there are some things that are confusing and still need to be worked out.
 - At best, this program will give Home Technology business owners a 100% forgiveness of the loan. At worst, it is a low-interest loan with deferred payments so that is a really good thing. I also read the program to say that you can reduce wages by up to 25% and still get loan forgiveness of up to 100%. That allows you some payroll flexibility while still being able to take advantage of this loan program.
 - **Advice:** The biggest concern I have with this right now is what happens 8 weeks after you take the loan. For example---If you take the loan and keep your staff on, only to let them go in 8 weeks when business is still rough, is the loan still “forgiven” because you kept them on for 8 weeks? I have a tough time believing that will be the case but that is why there needs to be more clarification on this. I’m also concerned that the guidelines

could change if the impact of COVID-19 is greater than we think. Once you agree to take money from someone, you are pretty much bound by their terms and conditions even if they change. For that reason, I recommend proceeding cautiously.

- Advice: Run some calculations to see how you think this will pan out and what the impact to your business will be. Pay close attention next week as more details come out. If all this loan is going to do is help you get through the next 8 weeks, it probably isn't worth it. You need to do other things for your business today (cut payroll, reduce overhead, etc...). Get your data ready, too. You need to look at your employee count from 2019 and early 2020 as you filed it with the Federal Government (e.g. payroll taxes). This will help you figure out how many employees you had so you can figure out where you are right now. **If you have less employees now than you did in 1Q2019 or 1Q2020, you won't have 100% forgiveness of the loan.** That's not necessarily a bad thing but I want to make sure people are going into this with their eyes wide open.
- Advice: If you take a loan, I would recommend that you seriously consider opening an account where you deposit the loan proceeds and using that account to pay permitted expenses. That would give you a very easy audit trail to track.

SBA Loan Deferral

- The SBA has said that outstanding loans can be deferred for up to 6 months without penalty. Further guidelines on this are supposed to come out in the next 30 days, similar to the PayCheck Protection Program.
- **Analysis: If you own your real estate through an SBA 504 loan, this will be a positive impact for you. Do it!**