

Tax & Business letter

SUMMER
2020

5 things your business needs to do now!

Navigating the pandemic requires an accurate financial picture

With the COVID-19 pandemic dominating the news and creating havoc in many sectors of the economy, companies are going to need to be on their "A" game to survive and thrive. Here are five essential tasks to help you do this.

1 Keep financial statements up to date. A clear understanding of your company's current cash flows, revenues, expenses, assets, and liabilities is critical. For example, in an effort to cut expenses, you might prematurely lay off or furlough workers who are, in fact, essential to the continued success of your business.

2 Create a forecast. After getting a solid grip on current financials, project those numbers by month for the next twelve months. What will revenues and expenses look like in two months? By year end? Of course, the future—especially in light of the current crisis—can seem especially hazy. But as the old saying goes, "Those who fail to plan, plan to fail."

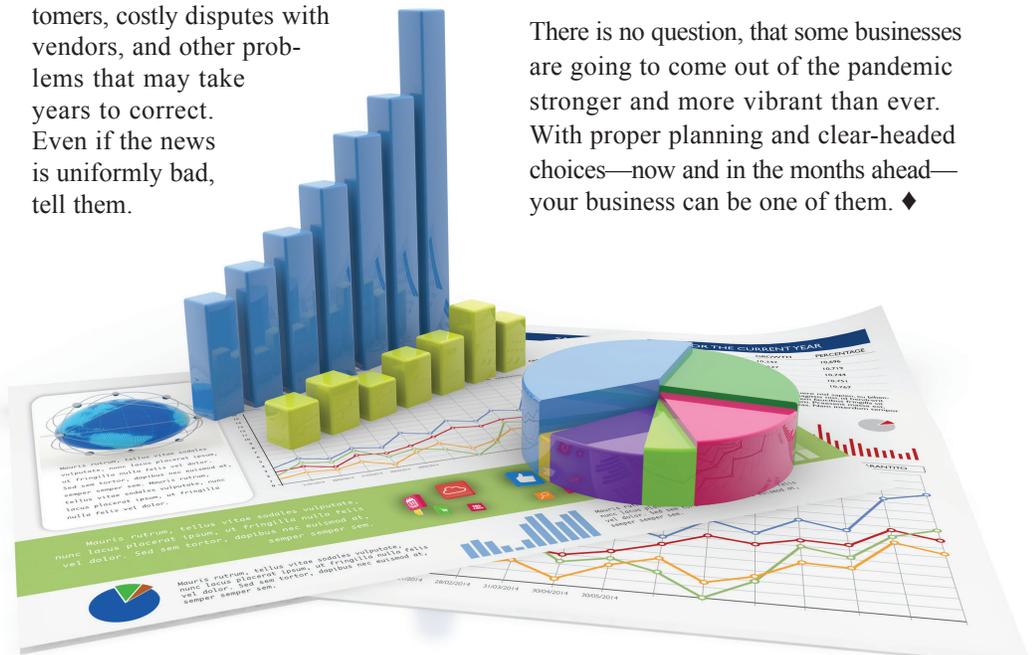
3 Build a three-scenario sensitivity analysis. Because of future uncertainty, once you've established a baseline forecast, create three different scenarios: a best-case, worst-

case and most-likely case. Then come up with action plans to adjust costs for each scenario.

4 Communicate. Don't leave customers, suppliers, creditors, and employees in the dark. Communicate with your community frequently. If workers, managers, suppliers and others don't know what you're thinking, they may develop erroneous conclusions about the direction of your business. In time, such misunderstandings can lead to unanticipated staff turnover, irritated customers, costly disputes with vendors, and other problems that may take years to correct. Even if the news is uniformly bad, tell them.

5 Stay in touch with advisors. Attorneys, accountants, insurance brokers, lenders—all these experts can provide independent help to you and your business. Advisors with a fresh set of eyes can analyze your company and offer insights into what their other clients are doing to survive the pandemic. Even better, they are often best positioned to share perspectives about recently-enacted tax law provisions targeting small businesses.

There is no question, that some businesses are going to come out of the pandemic stronger and more vibrant than ever. With proper planning and clear-headed choices—now and in the months ahead—your business can be one of them. ♦





IRSTAX NOTES

Early distribution penalty waived

The 10% early distribution penalty on up to \$100,000 of retirement withdrawals for coronavirus-related reasons is waived during 2020. New tax rules allow tax liabilities on these distributions to be repaid within a three-year period.

Offers-in-compromise payments suspended

The IRS will allow you until July 15, 2020 to provide additional requested information for any pending offers-in-compromise (OIC) and will not close out the OIC during this time without your consent. The IRS is also suspending any payments due under an OIC until July 15, 2020.

IRS installment agreement suspension

The IRS is suspending payments of all amounts due through July 15, 2020 and will not default any installment agreement during this period. Interest will continue to accrue on all installment agreements.

Second-quarter IRS interest rates remain the same

Interest rates for the second quarter in 2020 will remain the same compared to last quarter. These rates include: 5% for overpayments (4% for corporations); 2.5% for the portion of a corporate overpayment over \$10,000; 5% for underpayments and 7% for large corporation underpayments.

Most enforcement activities suspended

The filing and enforcement of liens and levies will generally be suspended. However, IRS Revenue Officers will continue to pursue high income non-filers and initiate other actions when warranted. ♦

Take it to the bank

Make the most of your banking relationships

When the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) rolled out this spring, many small business owners who didn't have an existing relationship with a bank or other lender found themselves unable to apply for these federal loan programs.

The COVID-19 pandemic has highlighted the importance of having an established relationship with a lending institution if your business needs a quick infusion of cash.

If you don't have a current relationship with a bank or are a business that's never needed to go into debt in the first place, now is a good time to find a lending relationship.

Here are some tips for either establishing a banking relationship if you don't currently have one or expanding an existing relationship you do have:

► Meet with your banker once a year.

Similar to periodically meeting with your attorney and other advisors, make it a point to meet with your banker at least once a year to go over your financials and how your business is performing. Even if you don't need to take out a loan now, circumstances can quickly change as we're seeing with the pandemic.

► **Research different lending institutions.** While the banking industry is becoming commoditized, there are subtle differences between the different types of banks and lending institutions.

- **Community Banks and Credit Unions** often get to know their customers' needs, serving them with more personalized attention. You can also get faster decisions because lending decisions will be made locally.

- **National Banks** have a vast ATM network and more branch locations. Bigger banks may also mean more resources when you need financing because of a larger network, including relationships with the Small Business Administration. As witnessed when the PPP and EIDL programs rolled out, national banks initially received preferential treatment.

► Consider choosing several bankers.

You don't have to do businesses exclusively with community banks, credit unions or national banks. It may be smart to develop relationships and have deposit accounts with each type of institution. ♦



Help providing employees with COVID-19 related paid leave

The Families First Coronavirus Response Act offers COVID-19 paid leave assistance for both employees and employers.

Businesses will get reimbursed

This new law provides a reimbursement for businesses with fewer than 500 employees for providing employees with paid leave, either for the employee's own health needs or to care for family members, for COVID-19 related reasons.

Here is a summary of the new law's benefits:

- **Paid sick leave for workers.** The new law provides employees of eligible employers two weeks (up to 80 hours) of paid sick leave at 100% of the employee's pay (\$510 daily limit applies) when the employee can't work because the employee is quarantined and/or experiencing COVID-19 symptoms and seeking a medical diagnosis.
- **Paid leave for workers.** Employees can receive two weeks (up to 80 hours) of leave at two-thirds of the employee's pay (\$200 daily limit applies) if they need to care for someone in the following situations: The need to care for an individual subject to quarantine, to care for a child whose school is closed, or childcare provider is unavailable for reasons related to COVID-19.
- **Extended leave.** In some instances, an employee may receive up to an additional ten weeks of expanded paid family and medical leave at two-thirds the employee's pay (\$12,000 overall, twelve week payment limit applies).
- **Companies will get paid back.** Businesses who pay employees the mandatory sick and childcare leave according to the new law will get reimbursed through a payroll tax credit.



FAMILIES FIRST CORONAVIRUS RESPONSE ACT

What you need to do now

■ Employees

To take advantage of the Act's paid leave provisions, you must provide your employer with documentation in support of your paid sick leave. As of press time there was no official application that needs to be completed. If you have questions or concerns, you may call the Department of Labor's Wage and Hour Division at 1-866-4US-WAGE or visit www.dol.gov/agencies/whd.

■ Employers

- 1. Keep detailed records.** Be prepared to defend your request for federal assistance. Keep good records of who's asked for paid time off because of COVID-19 related circumstances.
- 2. Talk to your payroll provider.** If you have someone doing your payroll, they are often the first ones who will know how you will receive reimbursement. Payroll companies will eventually issue guidance on how to report paid leave provided under the Families First Act and which forms need to be completed to obtain the corresponding tax credits. ♦

CASHFLOW CORNER

The 3 cash basics

To keep your business solvent through the COVID-19 pandemic, refocus on these cash basics:

1. Now is better than later. Decreasing cash flow for many of your customers means you'll likely have trouble collecting 100% of your accounts receivable in the short term. But don't overlook clients whose cash flow or revenue has yet to be dramatically affected by the pandemic or who have a big enough emergency fund to pay most of their bills for several months.

What to do now: Be compassionate, but don't stop your A/R collection efforts. You need as much cash as possible now, not later. You likely have some customers who can still pay your invoices.

2. More is better than less. It is important to build your cash reserves now more than ever. While difficult during lockdowns, think long-term to build up your cash. Review every asset on your balance sheet – accounts receivable, prepaid expenses, fixed assets and inventory. Determine what it would take to convert each of them to cash.

What to do now: Consider leveraging these assets with your bank as a line of credit. Also talk to your lenders about the need or option to postpone several months of loan payments.

3. Don't run out. According to a 2019 survey by The Service Corps of Retired Executives, 82% of small businesses that eventually fail do so because they run out of money. If things take a dramatic turn for the worse, this is the ultimate rule for your business: Don't run out of cash. Forecast your business's worst-case scenario and figure out how much cash you need to keep your doors open.

What to do now: Prioritize your business's expenses, starting with the first expenditure you can cut from your income statement to increase your cash position.

The 3 cash basics seem obvious, but they are difficult to put into practice. By keeping these ideas top of mind, you should be able to meet your goal: Have enough cash to keep your doors open and business solvent. ♦

Thieves get creative with COVID-19 scams

Thieves are getting creative with different ways to gain access to your checking account and personal information during the COVID-19 pandemic. Here are some of the reported schemes:

▶ **Mandatory online COVID-19 test.** Individuals posing as workers from the U.S. Department of Health and Human Services or other federal departments use text messages to instruct the recipients to click on a link to complete a mandatory online COVID-19 test. As of right now, however, there is no way of conducting a COVID-19 test online.

▶ **You've been in contact with COVID-19.** This scam sends an e-mail to warn recipients that they came into contact with a colleague/friend/family member who has COVID-19. The e-mail instructs the recipient to download and print an Excel spreadsheet and bring it to the nearest COVID-19 testing site. After opening the spreadsheet, recipients are told they need to enable the content in order to view the spreadsheet's details. Malicious macros are then activated when the recipient clicks on the "Enable Content" button, infecting the computer.

▶ **SBA loan applications.** Fraudulent e-mails are sent out as correspondence from the U.S. Small Business Administration telling recipients that they can apply for a small business disaster assistance grant. The recipient is instructed to sign an attached document and upload it to the SBA's website. When the attachment is downloaded, a remote access trojan is installed on the device.

▶ **COVID-19 malware.** There are multiple variants of a master boot record (MBR) locker, including one called coronavirus.bat. The malware replaces the MBR of a computer, preventing the operating system from starting and instead displays a ransom note or other message.

▶ **Fake pop-up testing sites.** Hands down the most brazen attempt to steal personal information are pop-up COVID-19 testing sites. The thieves tell passersby that they can be tested for COVID-19 for a \$240 fee. They then pocket the cash and use the personal information gathered from individuals to make fraudulent Medicare and Medicaid claims. ♦



July 15

- Individual income tax returns for 2019 are due.
- 2019 calendar-year C corporation income tax returns are due.
- 2019 annual gift tax returns are due.
- Deadline for making 2019 IRA and HSA contributions.
- First installment of 2020 individual estimated tax is due.
- Second installment of 2020 individual estimated tax is due.

NOTE: Dates are per IRS as of press time.

NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

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We appreciate your business. Please contact us any time we can be of assistance to you in your tax, financial, or business affairs.