

A detailed, grayscale microscopic image of a coronavirus, showing its characteristic spherical shape and numerous spike-like projections extending from its surface. The background is dark with some out-of-focus particles.

# COVID-19: What You Need To Know Reprise

A vertical line of small white dots on the left side of the slide.

March 27, 2020

# Welcome

- Build trust with your employees
  - Issues affecting work
  - Issues affecting personal life
- Focus on the customers
  - Immediate needs
  - Overall big picture concerns
- Internal versus external focus
  - Divide and conquer if at all possible
  - Both need critical attention

# Agenda

- Welcome and Introductions
- Relief
  - Families First Coronavirus Relief Act
  - Tax Filing Deadline Relief
- CARES Act
- SBA Disaster Loan Program
- HR/Employee Considerations
- Cyber Concerns
- Steps to Conserve Cash Flow
- What to expect from GBQ coming up



# Speakers



**Darci Congrove**  
*Managing Director*  
(614) 947-5224  
dcongrove@gbq.com



**Rebekah Smith**  
*Director of Forensic and  
Dispute Advisory Services*  
(614) 947-5300  
rsmith@gbq.com



**Kaz Unalan**  
*Director, Tax & Business  
Advisory Services*  
(614) 947-5309  
kunalan@gbq.com

# Speakers Cont'd.



**Dustin Minton**  
*Director, Restaurant  
Services*  
(513) 744-5073  
dminton@gbq.com



**Azra Nakicevic**  
*Director, Tax and Business  
Advisory Services*  
(614) 947-5286  
ANakicevic@gbq.com



**Doug Davidson**  
*Director of Information  
Technology Services*  
(614) 947-5340  
ddavidson@gbq.com

# The Families First Coronavirus Response Act

## Tax Credits for Employers Providing Emergency Sick Leave

- Coronavirus Emergency Leave
  - Applies to employers with less than 500 employees; small businesses with less than 50 employees maybe exempt
  - Leave is related to provide child care
  - Following 10 day period worker receives at least 2/3 of pay, capped at \$200 per day with a maximum of \$10,000
- Emergency Sick Leave
  - Applies to employers with less than 500 employees
  - Leave is related to governmental isolation order, self-quarantine, COVID-19 symptoms, or childcare
  - When leave is for employees own condition pay is capped at \$511 per day and \$5,110 in total
  - When leave is for child care payment is 2/3 of employees pay capped at \$200 per day and \$2,000 in total

# The Families First Coronavirus Response Act

## Employer Tax Credits

- Payroll tax credits provided to employers through 2020
  - Tax credits would equal 100% of qualified wages paid for leave
  - Immediate dollar for dollar offset against employer payroll taxes
  - If payroll taxes are insufficient to cover costs, IRS will repay amounts in two weeks or less
  - Self-employed individuals receive an equivalent credit
  - DOL has clarified effective date as April 1, 2020

# Tax Filing Deadline Relief

## IRS Notice 2020-18

- Federal extension of time to file and pay 2019 taxes until July 15, 2020 – **FOR ALL TAXPAYERS**
  - Includes individuals, trusts, estates, corporations, partnerships, S-corps
- No limitations on amount due, includes Self Employment Tax
- Notice also includes extension of paying 1<sup>st</sup> Quarter 2020 estimates until July 15, 2020
- Unclear on timing for 2<sup>nd</sup> Quarter 2020 Estimates due June 15, 2020

## Ohio House Bill 197 (Pending)

- Will allow Ohio to extend time to file and pay 2019 taxes until July 15, 2020, likely to include 1<sup>st</sup> 2020 Estimate
- All Ohio cities tied to State due date so will automatically move to follow Ohio
- Commercial Activity Tax not addressed yet, deadline is May 11, 2020
- Currently no changes to Sales Tax due dates
- Temporary waiver of 20 day rule for municipal income tax withholding



# CARES Act

- Status: Senate approved. House vote Friday. President said he will sign.
- Employee Retention Credit
  - Fully refundable against the employer's 6.2% share of Social Security taxes for businesses that were forced to close, or gross receipts fell by 50% compared to the same quarter in 2019.
  - Tax credit is 50% of qualified wages for the quarter, up to \$10,000 per employee.
- Employer Payroll Tax Payment Deferral
  - Delay payments on the employee share of the 6.2% Society Security tax otherwise due in 2020. 50% of the deferred payment will be due on 12/31/21 and 50% on 12/31/22.
- Net Operating Loss Provisions
  - Losses from 2018 – 2020 can be carried back 5 years.
  - 100% offset of taxable income instead of 80% currently.

# CARES Act

- Excess Business Loss Limitations
  - Temporary suspension of excess business loss limitations for individuals for 2018 – 2020
  - Amended tax return/refund opportunity for 2018 and 2019
- Changes to Interest Expense Limitations
  - Taxpayers subject to interest income limitations under IRC section 163(j) will be able to deduct interest expense up to 50% of EBITDA, rather than 30% currently.
  - Taxpayers with no taxable income in 2020 may elect to use 2019 EBITDA in computing the limitation.
- Qualified Improvement Property Technical Correction
  - Tenant improvements to nonresidential real property will be eligible for a 15-year depreciable life and bonus depreciation.
- Charitable Contribution Enhancements
  - No AGI limits for 2020 for individuals
  - Corporations limited to 25% of taxable income instead of 10%

# CARES Act

- Individual Stimulus Payments
  - Individuals will receive checks from the IRS (\$1,200 single or \$2,400 MFJ, plus \$500 for each child under 17)
  - Payments phase out based on taxpayer's AGI reported on 2018 or 2019 returns
  - Taxpayers may be eligible for tax credits against 2020 tax if not eligible for direct payment based on 2018/2019, but below income threshold in 2020
- Retirement Fund Withdrawals
  - No 10% penalty for early withdrawals up to \$100,000.
  - 3-year repayment period, or
  - Taxpayer elects to spread income and pay tax over 3 years
- Student Loans
  - Exclusion from income for employer-paid student loan payments of up to \$5,250

# SBA Disaster Loan Program

	Current	Proposed
Qualifying	<p>All for profit and nonprofit businesses impacted by COVID-19 and based on revenue and employee count determined by NAICS code</p> <p><a href="https://ecfr.io/title-13/se13.1.121_1201">https://ecfr.io/title-13/se13.1.121_1201</a></p>	<ul style="list-style-type: none"> <li>• Less than 500 EEs or applicable industry size standard determined by SBA**</li> <li>• Sole proprietorships, with or without employees</li> <li>• Independent contractors</li> <li>• Cooperatives and ESOPs with &lt; 500 EEs</li> <li>• Tribal small business concerns</li> </ul> <p>**Restaurant and hospitality exclusion for the small business requirement</p>
Loan Amount	Up to \$2M based on formula	No change to loan amount; however, Emergency Advance up to \$10,000 available within three days of application
Loan Proceeds Use	Payroll, paid sick leave, payables, debt service	No change
Interest Rate	3.75% for business and 2.75% for nonprofits	No change
Terms	Up to 30 years	No change

# SBA Disaster Loan Program

	Current	Proposed
Debt forgiveness	None	None
Personal Guarantee	Required by owners of 20% or more of the company, or at least one guarantor	Waived on advances and loans of \$200,000 or less for all applicants
Prepayment Penalties	Waived	No change
Credit Elsewhere	Evaluated	Waived
Approval documentation	Requires tax return submission	No tax return submission required. Based solely on credit scores or alternative methods to determine ability to pay

# Paycheck Protection Loan Program (Pending)

- Paycheck Protection Loan (PPL) Program (**subject to change**)
  - Loans provided during the period from February 15, 2020 to June 30, 2020
  - SBA to provide 100% federally-backed loans
  - Will be administered through commercial banks approved as SBA lenders
  - No recourse unless loan proceeds used for unauthorized purposes
  - Loan under SBA Disaster Loan Program after Jan 31, 2020 may be refinanced under this new program
    - Can you get both?
  - Exclusion for the small business requirement as it relates to restaurants and hotels, based on less than 500 employees per location

# Pending Legislation under CARES Act

	Disaster Loan	Paycheck Protection Loan
Qualifying	<ul style="list-style-type: none"> <li>• Less than 500 EEs or applicable industry size standard determined by SBA               <ul style="list-style-type: none"> <li>• For Profit businesses</li> <li>• Nonprofit organization</li> <li>• Veterans' organization</li> <li>• Tribal business</li> </ul> </li> <li>• Sole proprietorships, with or without employees</li> <li>• Independent contractors</li> <li>• Cooperatives and ESOPs with &lt; 500 EEs</li> </ul>	<ul style="list-style-type: none"> <li>• Less than 500 EEs or applicable industry size standard determined by SBA               <ul style="list-style-type: none"> <li>• For Profit businesses</li> <li>• Nonprofit organization</li> <li>• Veterans' organization</li> <li>• Tribal business</li> </ul> </li> <li>• Sole proprietors</li> <li>• Independent contractors</li> <li>• Self-employed individuals</li> </ul>
Loan Amount	Up to \$2M based on formula	Up to \$10M based on a multiple of 2.5 times the average monthly payroll over one year prior to loan <u>PLUS</u> outstanding loan under Disaster Loan Program
Loan Proceeds Use	Payroll, paid sick leave, payables, debt service	Payroll costs, benefits costs, salaries and commissions, mortgage interest, rent, utilities and interest on debt incurred before February 15th
Interest Rate	3.75% for business and 2.75% for nonprofits	No more than 4%.

# Pending Legislation under CARES Act

	Disaster Loan	Paycheck Protection Loan
Terms	Up to 30 years	Up to 10-year amortization after deferral period
Debt forgiveness	None	Provides for debt forgiveness with stipulations
Deferral of Payments	30 days	Minimum of six months, up to one year
Personal Guarantee	Waived on advances and loans of \$200,000 or less for all applicants	No personal guarantee or collateral required
Prepayment Penalties	Waived	Waived
Credit Elsewhere	Waived	Waived
Approval documentation	No tax return submission required. Based solely on credit scores or alternative methods to determine ability to pay	Good-faith certification <ul style="list-style-type: none"> <li>• Fund operations during COVID-19</li> <li>• Fund payroll, mortgage, lease and utility payments</li> <li>• No other application under program for same purpose</li> <li>• Has not received duplicative amounts under this program</li> </ul>



# PPL Debt Forgiveness

## How does debt forgiveness work?

- Amount forgiven cannot exceed principal amount of the loan
- Debt forgiveness is excluded from gross income
- Equal to costs incurred and payment made during covered period (2/15/20 to 6/30/20) for:
  - Payroll costs
  - Interest payments on mortgages
  - Rent
  - Utility payments
- Will be reduced for any employee cuts or reductions based on formula
- Relief is available for employers
  - Rehire employees by June 30, 2020
  - Make up for wage reductions by June 30, 2020

# PPL Debt Forgiveness

## How do I apply for forgiveness?

- Borrowers must submit to their lender the following:
  - Documentation verifying employees on payroll and their pay rates;
  - Documentation on covered costs/payments
  - Certification from business representative
  - Additional documentation as requested
  - Amount forgiven cannot exceed principal amount of the loan

# SBA Loans – Now What?

- Evaluate which loan program is best for your situation based on
  - Qualifications and program details
  - Modeling of scenarios to maximize loan amount and debt forgiveness
- Setting Expectations under Pending Legislation
  - SBA has 15 days to set policies once law is passed
  - Commercial banks will need to implement their underwriting policies and procedures
  - Be ready to go with your documentation
- Be Proactive
  - Reach out to your banker that is SBA approved
  - Keep your books and records current
  - Gather legal documents for easy reference (e.g., organizational, leases, loans)
  - Keep investor ownership records current
  - Keep investors apprised of overall status

## Communication with employees

- Be open and transparent with all of your associates about your business plans and preparedness for COVID-19.
- Sharing information widely educates your team and reduces anxiety, which allows them to think more clearly and make better decisions about their work and family situations.
- Key topics include:
  - Remote working policies and opportunities to participate in adequate training to ensure productivity.
  - Communication and policies regarding travel restrictions, including to other company sites.
  - Procedures and expectations around illness, exposure and self-quarantine.
  - Employee Assistance Program guidelines and requirements.
  - Telemedicine and other pertinent insurance-related benefits.

## Communication with employees

- Send frequent, straightforward, summarized communications on specific topics.
- Encourage every associate to be ready for sudden, unexpected changes in the situation, to stay in touch with your internal company guidance and reliable news sources.
- Ensure that you have multiple ways to contact every associate – and that they know who (and how) to contact for concerns.
- Consider the accommodations that you can (or cannot) make for individual associate situations. (ADA, FMLA and other labor law requirements).
- Develop explicit instructions related to 14-day self-quarantine protocols for employees who may have been exposed to COVID-19.

## Employment Law & Policy Matters

- Familiarize yourself with recent changes in federal and state laws:
  - Ohio, Kentucky, Indiana and Michigan unemployment benefits have been extended, and several restrictions to qualifications have been lifted.
  - Employees may consider filing for Workers' Compensation in the event they believe they have contracted COVID-19 as a result of their employment.
  - Changes to FMLA eligibility result from the Families First Coronavirus Response Act, enacted as law as of March 18, 2020, which applies to companies with more than 50 and fewer than 500 employees. Understand the qualifying events for companies with fewer than 50 employees to qualify.
  - The Families First Coronavirus Response Act includes provisions for emergency leave.

## Employment Law & Policy Matters

- Review and perhaps re-visit certain employment policies in your company:
  - Determine if any changes to paid time off are warranted to allow for additional time off in the event of illness (employee or family member).
  - Review 401(k) plans for hardship clauses, participant loans, etc. Consider whether plan amendments may be advisable to provide financial alternatives for employees.
  - Review existing flex time policies and update as necessary to accommodate employees who may be caring for small children or other family members as a result of school and daycare closures.

# Cyber Concerns: Coronavirus Themed Attacks

- **Cyber criminals using COVID-19 fears to scare people into clicking on links, open malicious attachments, or give out confidential information.**
  - Bad guys use your emotions against you to get you to act in a way that without the emotional discomfort you likely wouldn't do.
  - Increased attacks are being reported
- **Be wary of topics related to the Coronavirus in emails, attachments, social media, texts on your phone, information online, etc.:**
  - Charitable contributions
  - General financial relief
  - Airline carrier refunds
  - Fake cures and vaccines
  - Fake testing kits
  - Amazon delivery issues



# 5 COVID-19 Cybersecurity Recommendations

- Create an organizational culture of cybersecurity from the top down
  - Raise security awareness with employees
  - Avoid email based financial transactions
- Harden computer network components
  - Quick change to remote working posture creates weaknesses
  - Focus IT resources on securing the remote network
- Continue Security Testing
  - Prioritize critical systems
  - Understand how operating changes impact compliance programs
  - Speak to vendors / third parties about their testing
- Monitor IT assets and employees
- Plan for more bad news
  - Review Incident Response Plans
  - Review / test disaster recovery plans

# Security & Privacy Compliance Amid COVID-19

- With new IT setups and processes supporting social distancing, be aware of obligations under security & privacy regulatory and contractual obligations
- Don't assume the regulators won't act on non-compliant companies
- Each authority managing different:
  - California AG is not providing any relief on California Consumer Privacy Act
  - Health & Human Services has provided HIPAA relief for telemedicine applications
  - Payment Card Industry is providing guidance for working from home and BYOD setups
- Review your changed IT infrastructure and processes to make sure you have your regulatory bases covered
- GBQ is building a jump list to the regulatory authority COVID-19 advisories, which you can access from:

<https://gbq.com/coronavirus/>

# Forecasting your Cash Flow Needs

- Create a rolling 13 week cash flow projection to determine your 30, 60 and 90 day cash needs. **Update daily** and identify pre-determined triggers.
  - Understand break-even points and staffing levels
  - Create “what if” scenarios from best case to worst case
    - Complete closure of the business
    - Lag in AR collection
    - X% decrease in sales mix
    - Disruption in supply chain
- Evaluate whether outlet locations need to be closed entirely
  - Consider the revenue drivers (e.g., sporting events, office workers)
  - Profitability of partial operations open for business
  - Maintain security to deter theft and looting
- Re-evaluate revenue streams and ways to expand allowable revenue streams

# Preserving Cash through Vendor Management

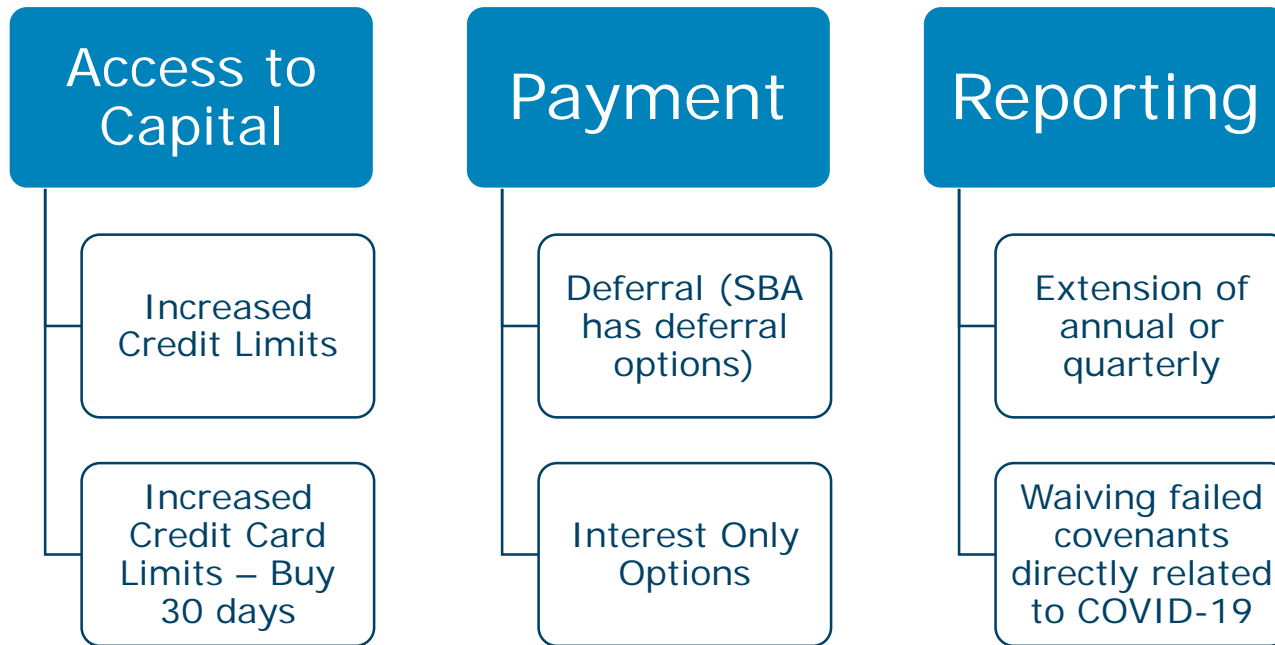
- Stay aware of governmental payment deferral programs (mortgages, lease and loan obligations, sales tax, workers compensation, health insurance premiums, property taxes, income tax payments)
- Reach out to your landlord and request payment deferment; consider spreading deferred payments over the next X months with no interest or penalties
  - Review the force majeure clause for rent abatements or extended closing
- Review each expense line item and cut to the bare bone
- Prioritize vendors and use them as a source of cash flow (payment deferral options)
- Keep inventory levels as low as possible based on revised expectations

# Preserving Cash through Vendor Management

- Revisit any prepayment methods used and stop immediately (e.g., insurance premiums, property taxes, sales taxes)
- Reduce utilities used, especially if office space or outlets are not being used
- Request deferral or abatement of royalty and/or ad fund fees from franchisors
- Set strict approval process for R&M and capital expenditures
  - Consider pausing major capital projects, be it new outlets, remodels, or software implementations
- Review subscription type services and determine whether any can be frozen or level of service reduced (cable, BMI, cleaning, trash)
- Re-evaluate marketing efforts – discontinue or shift strategies that will reach customers

# Banking Considerations

## Communicate Early and Often



# What to Expect from GBQ

- **Knowledge.** We're reading and reacting all day every day so that we can share important information with you quickly.
- **Accessibility.** We're not in the office, but we're on high alert to help with whatever you need.
- **Reliability.** One of us may not know the answer, but our team will find it, whether inside or outside of GBQ. We will help you solve your problems.
- **Empathy.** We are learning every day, just like you. We are worried about our employees, our customers and our families, just like you.

# Questions

