

April 14, 2020

To all my clients:

I feel an urgency to update each of you regarding the special tax legislation embedded in recent bills that were enacted just before and during this tumultuous “Virus” shutdown. The three new laws are called The Secure Act which deals with retirement savings issues, the Family First Act which deals with employee and payroll issues and The Cares Act. The Cares Act deals with important small business provisions within a bigger emergency bill. The tax deadline for tax year 2019 has been extended until July 15th. In addition, the 2020 first and second quarter estimated tax payments are also extended until July 15th of this year. My goal is to finish all 2019 tax returns before July 15th. I would prefer no extensions this year.

I understand that many of you are not able to work right now by government statute and are not sure if there is something you need to be doing to help you get through the financial crisis we have found ourselves in. I hope this summary provides each of you at least one thing you did not know and by so doing, helps you make better decisions. The last thing you need to do right now is make a tax mistake.

For individuals, many of you will be receiving a “Stimulus Check” automatically into your account in the next few days. If you receive the full amount you will get \$1200 per person plus \$500 for your dependents under age 17. There will be a place on your 2020 tax return to account for this advance payment/credit. My understanding is that if you received it and based on next years calculation you owe a portion of it back, any balance due will be forgiven. However, if you did not get all you were entitled to when your next years return is filed you will get the balance owed to you.

The Secure Act changed the age for when you have-to begin taking money out of your retirement accounts to age 72. It used to be 70 ½. Then the Cares Act added a waiver for this year. For tax year 2020 you do “**NOT**” have to take a distribution. It does not matter if your retirement is in an IRA, 401K or an annuity.

If you have already taken a distribution from your IRA in 2020 but wished you had not, the rules have been changed for this year only to allow you to put the money back into your retirement account without penalty. You are still only allowed one rollover per year so be careful and maybe call us before you do anything. This is important for many of you. If you are fortunate enough to not need to take a distribution do not take one. Less income means less tax. Again, to summarize, there is no penalty if you elect not to take your RMD (required minimum distribution) this year only.

In addition, for this year there is no 10% penalty if you take out money when you are younger than 59 ½. If you must tap your IRA because of COVID19 issues then you only must include in income one third of the total taxable distribution this year, one third in 2021 and the last third in 2022.

For those of you with 401K's that have a loan feature, you can now borrow from your own assets up to a \$50,000 maximum. That amount has been temporarily increased to \$100,000.

For individuals who have been laid off and qualify for unemployment, please remember unemployment compensation is taxable income. The Federal Government beginning in April is increasing the benefit available to you by \$600 per week for up to four months over the North Carolina system payment. The one week waiting period as well as the provision that you must look for gainful employment to qualify for your check have been suspended. You should get the needed money quicker under the new system. Again, just remember that safety net payments are taxable income.

The small business provisions of the recent legislation were aimed at offering every business owner a lifeline until they will be allowed to re-open. Businesses are faced with the choices of laying off their entire staff and not knowing how customers will react when all social distancing limitations are removed. The IRS through the Department of the Treasury has created employer payroll credits for businesses who have between 50 and 500 employees to offset the new payroll requirements for paid sick leave they must pay to their employees. These employers are required to pay employees who have had the Corona virus, or had to care for someone who did or had to stay home because you have a child that is out of school due to the mandated school closings. These credits are calculated based on a base salary table released as part of the legislation. The credits cover a ten-week maximum and are intended to reduce an employer's costs at a time when they have had their income dramatically reduced or closed all together. Small companies with less than 50 employees may be exempt from these requirements. I am not a fan of these credits. In my opinion, I find them extremely confusing, difficult to apply in practice and by choosing may limit a better choice regarding available payroll assistance that is called a Paycheck Protection Program "PPP" loan.

Besides the owner not being certain if they will have business, the staff is not certain if they will have a job. So much uncertainty means most everyone will be with good reason very cautious coming out of these restrictions. I have studied the loan choices available for business as part of these new programs and my feeling is every small business or self-employed individual should go for the PPP Loan first and right away. It requires calculating your average payroll expense per month based on the previous year and then your employer health insurance and pension expenses are added to it. You take this average monthly cost times a factor of 2.5 to come up with your loan. Your existing business bank and banker will assist you in your application. Each bank has their own required documentation. The loan proceeds are expected to be used for payroll, rent and utility expenses over a two-month period. If the total expenditures exceed the loan amount without a more than 25% drop in payroll expense, then the entire loan upon providing the proof will be waived thereby becoming a grant and the loan forgiveness is not considered taxable income. Our government is in essence giving you eight weeks of operating

expenses to induce you to keep your workforce in place so that when you can reopen you are quicker to recover and the unemployment rate and strain on the state government systems will be reduced. It all works fine if we are back open and operating at normal levels by the end of the eight weeks. There in is the biggest unknown in this entire pandemic. Will we be able to return to normal by June of this year? If not, the business community will need more stimulus or may have to start letting people go or begin cost sharing expenses whereby every employees' hours get cut the same. We do not know those answers of course but taking one day at a time dictates my feeling that every business needs to go for the PPP loan since every business in one way or another has been impacted by the virus. I feel the loan forgiveness program was a smart solution to this unprecedented turn of events.

We have created simple proforma workpapers to help you get to the loan amount calculation for the PPP loan. Our workpaper considers the latest requirements of both the banks and the Small Business Administration who is overseeing this program. We will post the loan workpaper on our website for you to download and use or you may give us a call if you need help and we will have someone get back to you. The program started last Friday, and I have had clients we helped and some who we did not start getting the loan direct deposited into their accounts already. This means as a business, they will be OK for the next two months and their staff will have a job and they get to keep their staff in place. All owners know that minimizing employee turnover is one cornerstone to being successful in small business. Turnover is very disruptive and expensive.

I have advised several of my clients that the other program called Economic Injury Disaster Loan or EIDL for short maybe important to apply for as well. The difference is that the EIDL loan application is directly with the SBA office and not your local Bank. The loan can go up to two million dollars and have a payback period of as long as 30 years with no payment for the first year. Several important features of this loan are that you cannot apply for the same expenses as you did for with the payroll (PPP) loan. You can use it to fund inventory, launch marketing campaigns to let the public know about you and your products, purchase capital assets like equipment or building expansions that will make you more competitive and finally refinance your business debt in your time of need. These EIDL loans carry a comparatively low interest rate and may be beneficial for any of the reasons just discussed. I found the SBA in the past to be slow to action and heavy on documentation. They have promised to handle these loans differently and expedite their decisions to lend the money or not. I have been told that the first \$10,000 of these loans must be paid very quickly as emergency funding and may turn to a grant and therefore not have to be repaid like the PPP loan forgiveness feature. I will be learning more about these loans in the next 30-60 days to see how they can help some of you get through these hard times. If any of you go for this loan, please update me on your experience so that I may be better able to advise all of you who inquire.

So, in summary because of the recent tax bills, money has been made available to small business by the SBA to help you stay open during the coming eight weeks. It is my strong recommendation that you apply for one of these programs with emphasis on the PPP loan product first.

Tax decisions need to be considered regarding distributions from your IRA this year. If you do not need to take a distribution, I would suggest you do not. However, many of you have your income taxes paid from withholdings and if you do not take a distribution you may come up short a year from now. We can help you review this decision but ask that you wait until after July 15th.

OFFICE ADMINISTRATION

I want to go over some of the changes to our office policies that have been instituted because of the Corona Virus for reasons of your safety as well as our staffs. We are now open Monday through Friday from 10 AM until 2PM or by appointment. Please limit your walk-in appointments. For the rest of this year, Frances is only giving your tax package to you and will not take you through it at the counter as she has always done previously as we are trying to minimize her contact with everyone. If you have questions about the return when you get home, please give us a call so we can discuss it. Where possible, we would appreciate your sending your other tax, accounting or personal questions and documents to be reviewed to us this year via the secure portal. If you are not on the portal this may be a good time to sign up.

Half of my staff is working the morning from 8AM until 3PM. The other half of us are working the afternoon shift from 12 until 7PM. So, in summary the office hours have been restricted to four hours per day and the staff is working 7 hours per day until further notice.

As stated previously, my goal is to finish all 2019 tax returns by July 15th so there will be no extensions. Sadly, Carrie's situation has not improved following her surgery last June and she has had to go on disability and will not be returning. However, Leslie has been helping exclusively with tax preparation to help us make my July 15th goal. If we cannot complete your return by July 15th, for whatever reason, then we will need to do an extension which gives us until October 15th to complete your return. I feel it is important to get all the returns done while we are social distancing to allow us more time later this year. We will need extra time to handle all the special issues we anticipate related to the 2020 tax year decisions alluded to in this letter like should I take my RMD or not this year and what is the effect if I do not. We charge \$125 for most office visits for existing clients and \$150 for non-tax clients who have a question.

Lastly, there are two points that are not a part of any new tax legislation but are worth sharing. The first point is that many of our local banks are offering their own assistance. The federal government has deferred all student loan debt through this economic slowdown. Most banks are following that lead in their own way and allowing you a three-month deferral on many types of debt such as home mortgage loans, commercial loans, car loans and even some credit card debt automatically. This means your credit will not be damaged by the deferral and the missed principal will be allowed to be paid back in various ways. For example, one banker told me where you can miss three months of loan payments and then your loan payment will increase a little for the remaining months with no lengthening of the loan term. This happens without normal bank charges and fees. Some banks are adding the missed payments to the end of the loan and lastly some are making the entire missed amount due in the fourth month. My suggestion is that you talk to your bank if you are concerned about your cash flow through these trying times.

The second point is what the Federal Reserve has done to the cost of money. It may be a smart time to look at refinancing your already low interest rate as it might be even better than it has been. A quick call to your bank or banker and they should be able to determine if the savings are substantial enough to consider doing a refinance of your loan at this time. The low rate is meant to spur spending and may allow you to either have a shorter loan period or a lower payment as a result. It is worth looking into right now.

I take responsibility for the content within this letter and hope that this attempt to inform you of some of the many key changes as I understand them has been helpful. It is possible for these rules to change again before year end so please accept this as my best attempt to keep you up to date. I will keep studying the published reports and learn as much as I can to keep you informed in these special times. I intend to use the website to post the changes that I would want you to know about. Please check the web site first if you have questions before you call.

We will be here for your questions and we pray that you stay safe and healthy.

Howard Gartman, CPA