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Fully Integrated Tax, Accounting & Financial Services

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PPP Flexibility Act Summary

On June 5th, the Paycheck Protection Program (PPP) Flexibility Act was singed into law. Here is a summary of the legislation's main points:

- Current PPP borrowers can choose to extend the eight-week period to 24 weeks, or they can keep the original eight-week period. New PPP borrowers will have a 24-week covered period, but the covered period can't extend beyond Dec. 31, 2020. This flexibility is designed to make it easier for more borrowers to reach full, or almost full, forgiveness.
- The payroll expenditure requirement drops to 60% from 75% but is now a cliff, meaning that borrowers must spend at least 60% on payroll or none of the loan will be forgiven.
- Borrowers can use the 24-week period to restore their workforce levels and wages to the pre-pandemic levels required for full forgiveness. This must be done by Dec. 31, a change from the previous deadline of June 30.
- There are two new exceptions allowing borrowers to achieve full PPP loan forgiveness even if they don't fully restore their workforce.
  - Previous guidance already allowed borrowers to exclude from those calculations employees who turned down good faith offers to be rehired at the same hours and wages as before the pandemic.
  - The new bill allows borrowers to adjust because they could not find qualified employees **or** were unable to restore business operations to Feb. 15, 2020, levels due to COVID-19 related operating restrictions.
- New borrowers now have five years to repay the loan instead of two. Existing PPP loans can be extended up to 5 years if the lender and borrower agree. The interest rate remains at 1%.
- Businesses that took a PPP loan to also delay payment of their payroll taxes, which was prohibited under the CARES Act.

Think Before Tapping 401(k) as Emergency Fund

Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, you may be able to take money out of a qualified plan, like a 401(k), or an IRA, with favorable tax consequences. But should you do it? You might view withdrawing money from a retirement account as a last resort.

Background

Among other changes in the CARES Act relating to qualified plans and IRAs, a participant can withdraw up to $100,000 of funds without paying the usual 10% tax penalty on distributions before age 59½. Plus, you can take as long as three years to pay the resulting tax bill, spread out evenly over the three years. If you repay the full amount within three years, you owe no tax.

To qualify for this program, you or your spouse must be diagnosed with COVID-19 or experience adverse financial consequences due to the virus such as being laid off, having work hours reduced or being quarantined or furloughed.

What are the pitfalls?

There are several reasons why you may want to avoid taking money out of your retirement accounts unless it's an absolute emergency:

You're diluting your retirement savings. Although the money comes in handy now, you're chipping away at your nest egg and forfeiting growth. For example, if you withdraw the maximum amount of $100,000 that would have earned 6% annually tax-deferred for ten years, the value would have been $179,000.

It may be bad timing. Experts say it is difficult to time the markets in the current volatile environment. If you sell some holdings right now, you may be locking in losses that would miss the recovery in the next few months or years.

You still owe income tax. Income tax is due unless you replace the full amount within three years. Also, depending on your situation, you could end up paying tax at higher rates than you would in your retirement years.

Better options might exist. Arranging a hardship loan from your 401(k) might be a better alternative for your situation. You avoid the taxable event of the withdrawal and you pay back yourself with interest. Other options include refinancing a mortgage with lower interest rates, taking advantage of payment relief from mortgage, rent or student loan payments or deferred credit card billing.

While it is an option, retirement plan withdrawals are not always the best choice. Think through all scenarios before withdrawing from retirement funds to cover emergency expenses.

Be Prepared for Pandemic Tax Surprises

Numerous new laws provide economic relief to individuals and businesses hardest hit by this year's pandemic. This much-needed financial assistance, however, comes with a few strings attached.

Here are three potential surprises if you use the available economic relief packages:

- **Getting a tax bill for unemployment benefits.** While the $1,200 economic impact payments most Americans received does not have to be reported as taxable income on your 2020 tax return, there is currently no such luck with unemployment benefits. In addition to paying federal taxes on your unemployment compensation, more than half of states (including Illinois) also impose a tax on unemployment benefits.

  What you need to do: *See if your unemployment compensation check withholds a portion of your pay for taxes. Even if your check does have withholding for income tax purposes, the withholding amount may not be enough. If possible, talk to your state unemployment office and try to get withholding amounts revised.*

- **Paying estimated tax payments.** If you normally receive a paycheck from your employer, you may have never needed to write a check to the IRS to pay estimated future taxes. Your employer withholds your taxes from your paychecks and sends it to the IRS for you. If you're collecting unemployment benefits, however, you may be required to pay tax on the unemployment benefits received during the first six months of 2020 by July 15, 2020.

  What you need to do: *Estimate the amount of tax you owe for all sources of income, then compare that number with the amount of money withheld from your income to pay these taxes. If necessary, send in quarterly estimated tax payments to the U.S. Treasury and, in some cases, state revenue departments. This must be done each quarter with the next payment due July*

15. You may need to send money in on September 15, 2020 and January 15, 2021 as well.

- **Reporting emergency distributions from retirement accounts:** You may withdraw up to $100,000 in 2020 from various retirement accounts to help cover pandemic-related emergency expenses without incurring penalties. While you will not be required to pay an early withdrawal penalty, you will still be subject to income tax when filing your 2020 tax return.

  What you need to do: *If you plan to withdraw funds from your retirement account, reserve enough of the money to pay the tax! The amount you reserve depends on your potential tax situation so call for a tax review before taking money out of the account.*

Financial Questions to Ask Mom and Dad

Many Americans have been focused on their own finances over the past several months. But don't neglect helping those closest to you with their finances as well, especially aging parents. Here are some questions to ask your parents to help them sort through their financial picture.

- ✓ **Have you decided when you'll start taking Social Security benefits?** If your parents have not started taking Social Security, a discussion in this area will help both of you. Generally, Baby Boomers can receive their full amount of benefits at age 66, but benefits increase gradually if they wait longer, reaching the peak at age 70. Conversely, if your parents intend to retire early, they may wish to start receiving reduced benefits as soon as age 62. To add more complexity, a spouse can take retirement benefits from their partner's work history. Often a rule of thumb is if you expect to live past 80, consider delaying when you first receive benefits, if you can afford to do so.
- ✓ **Do you have a durable power of attorney?** If you need to act on behalf of your parents regarding financial matters, you will need a power of attorney. Without this document in place, you'll have to go to court to get guardianship of your parents in order to access their financial accounts.
- ✓ **Is there an executor?** Who is responsible for going through everything when necessary? You don't really need to know who it is, just that there is someone in

place with a potential backup executor if the primary executor is unwilling or unable to help.

- ✓ **Where do you keep financial records?** Does someone, other than your parents, know where financial documents and information are kept? This includes bank account numbers along with usernames and passwords for websites.
- ✓ **Who are key advisors?** The executor will need the names and contact information for each member on your parents' team of trusted advisors. Ideally your parents have introduced their executor to each of the members of their team.
- ✓ **How are you planning to pay for long-term care?** One of the main financial concerns is the possibility of paying exorbitant amounts for long-term care in a nursing home or with stay-at-home assistance that will drain all your parents' assets. Traditionally, this was handled by long-term care insurance to absorb at least some of the cost. Unfortunately, these policies are now very expensive. But there are other ideas that can help, including certain tax advantaged insurance policies and establishing a trust to shield assets from nursing home costs (subject to certain restrictions for Medicaid assistance).
- ✓ **Do trusts need to be created or updated?** Although there are numerous types of trusts, each with a various purpose, your parents may use a trust to preserve assets for their heirs. They are also used to avoid probate. An irrevocable trust can fully protect assets, but your parents must give up all control over their assets. In contrast, a revocable trust can be modified (where your parents can still change beneficiaries), but offers less protection.

Remember, your goal is not to pry into your parents' finances, but to help ensure a plan is in place. And as an added benefit, many of the questions outlined here are great to apply to your own situation!