2020 Year-End Tax and Business Planning Webinar

November 19, 2020

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U.S. ECONOMIC RECOVERY UNDERWAY FROM SHORTEST BUT DEEPEST RECESSION: POST-ELECTION OUTLOOK

Stuart G. Hoffman
Senior Economic Advisor

PNC Economic and Investment Briefing

Kreischer Miller

November 19, 2020

PNC BASELINE ECONOMIC RECOVERY SCENARIO

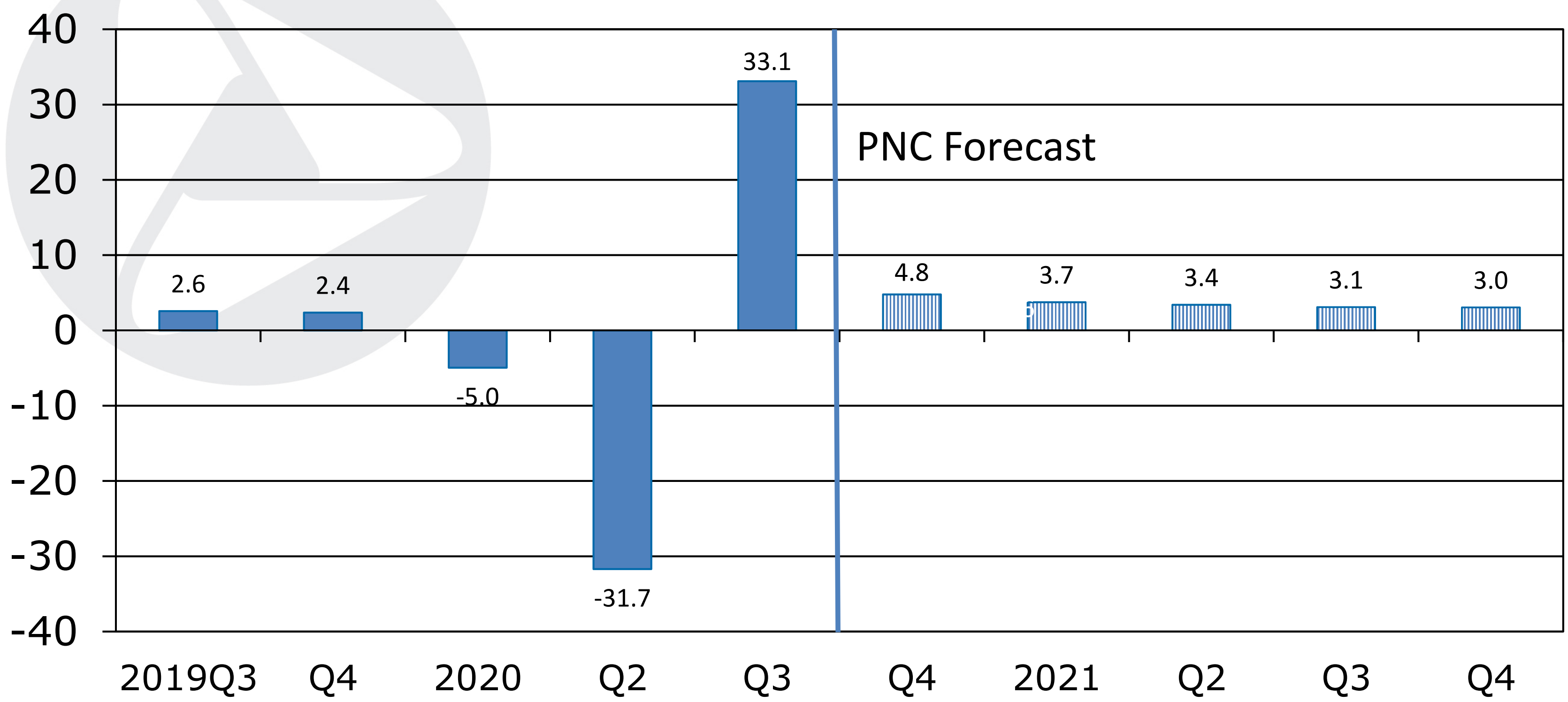
Variable	Units	'19Q4	'20Q1	'20Q2	'20Q3	'20Q4	'21Q1	'21Q2	'21Q3	'21Q4	'22Q1	'22Q2	'22Q3	'22Q4	Severity
Real GDP	% change (q/q ann.)	2.4	-5.0	-31.4	33.1	4.8	3.7	3.4	3.1	3.0	2.4	2.4	2.2	1.9	-10.14 peak-to-trough %
	% change (y/y)	2.3	0.3	-9.0	2.9	-2.8	-0.7	10.0	3.8	3.3	3.0	2.8	2.5	2.2	
	2019Q4 = 100	100.0	98.7	89.9	96.5	97.2	98.1	98.9	99.6	100.4	101.0	101.6	102.2	102.6	
Unemployment Rate	Quarterly Average (%)	3.5	3.8	13.0	8.8	7.0	6.8	6.5	6.2	6.1	5.9	5.7	5.5	5.4	9.5pp increase
Real DPI	% change (y/y)	1.6	1.4	11.8	5.6	3.3	1.1	-9.3	-5.1	-3.3	-1.1	1.0	2.3	2.7	-9.91 peak-to-trough %
	2019Q4 = 100	100.0	100.6	110.7	105.1	103.3	101.7	100.5	99.8	99.9	100.6	101.5	102.1	102.6	
Case-Shiller HPI	% change (y/y)	3.5	4.2	4.4	5.1	4.0	2.7	1.9	0.8	0.6	0.8	1.0	1.2	1.5	0 peak-to-trough %
	2019Q4 = 100	100.0	101.4	102.4	103.8	104.0	104.2	104.4	104.6	104.6	105.0	105.4	105.8	106.2	
Commercial Real Estate Prices	% change (y/y)	7.4	5.5	1.9	0.3	-1.0	-12.6	-17.9	-20.7	-16.8	-3.7	4.9	10.5	12.2	-20.48 peak-to-trough %
	2019Q4 = 100	100.0	101.2	102.0	102.9	99.0	88.4	83.8	81.6	82.4	85.1	87.9	90.2	92.4	
Fed Funds Rate	Levels	1.65	1.23	0.06	0.09	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.06 Trough
10-Year Treasury Yield	Levels	1.79	1.37	0.69	0.65	0.76	0.82	0.84	0.86	0.88	0.91	0.94	0.97	1.01	0.65 Trough

Data in RED: not recovered to 2019Q4 level

The strength and durability of the economic recovery will depend on a number of factors, including the path of the pandemic, availability of a vaccine, consumers' willingness to resume normal activity, any additional federal fiscal stimulus, and the path of the global economy.

REAL GDP REBOUNDED FROM FIRST HALF COLLAPSE BUT STILL WELL BELOW PRE-PANDEMIC LEVEL

Real Gross Domestic Product, (Annualized % change)

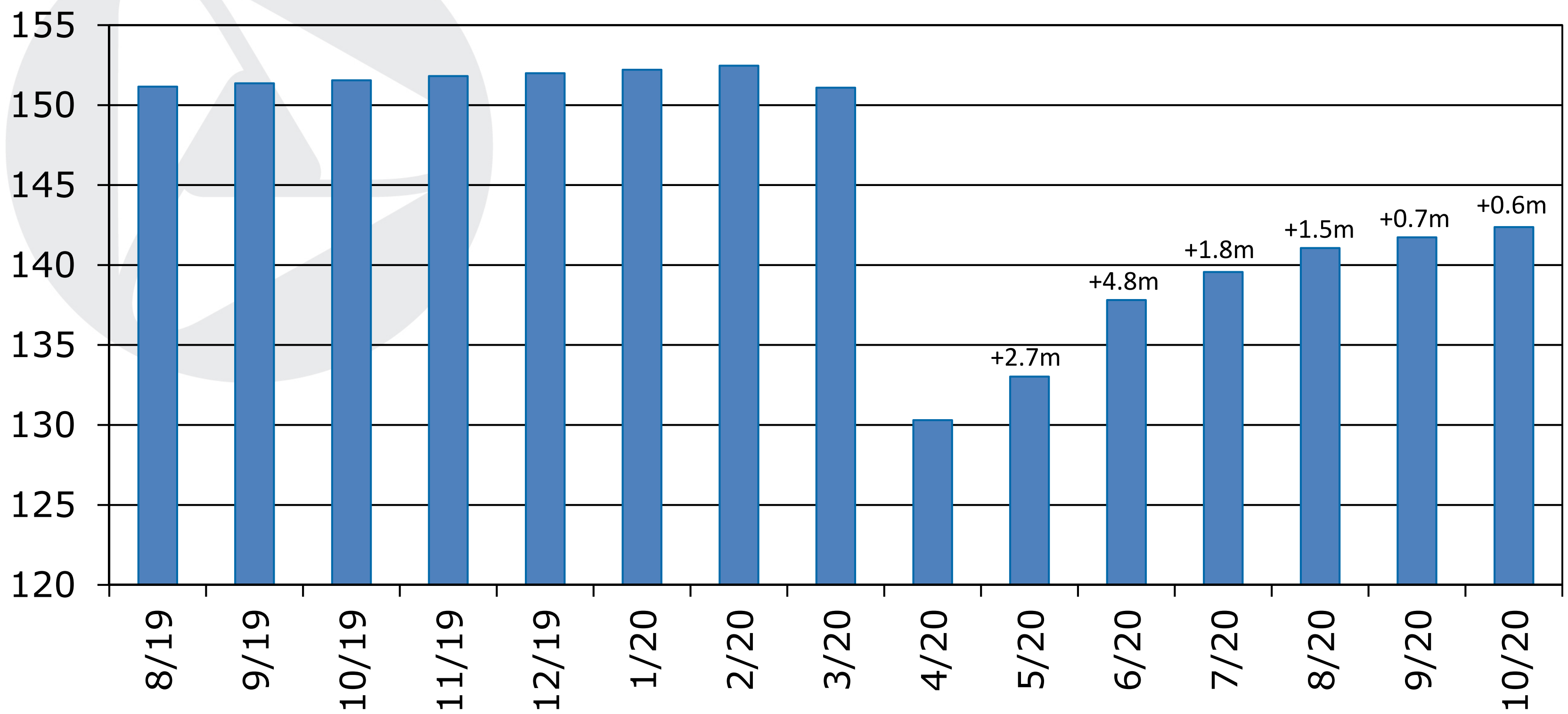


Source: Bureau of Economic Analysis

Poll question coming up next

EMPLOYMENT ROSE 12.1 MILLION IN MAY TO OCTOBER COMBINED AFTER A HUGE DECLINE OF 22.3 MILLION JOBS IN MARCH AND APRIL COMBINED. THAT IS A RECAPTURE OF ONLY 55 PERCENT OF THE JOBS LOST.

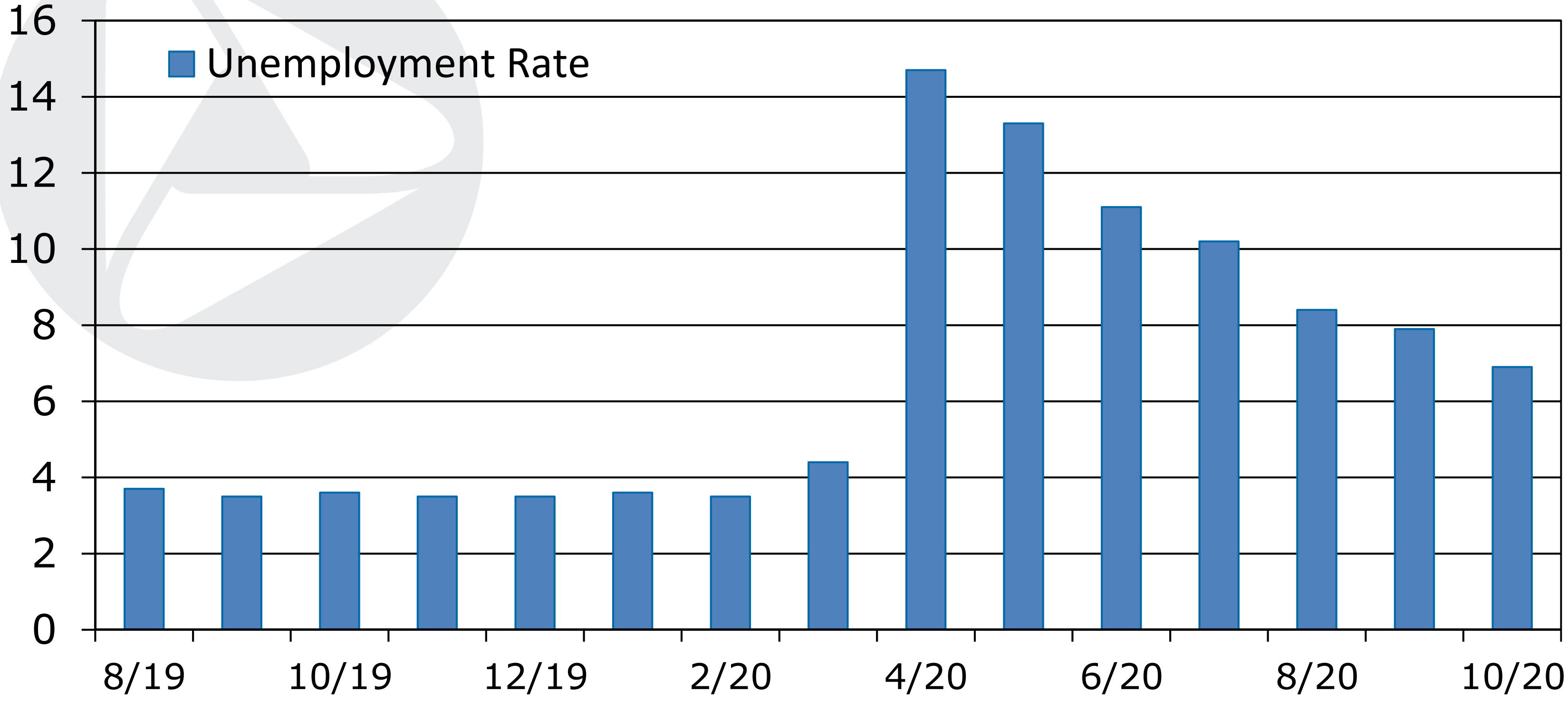
Employment: Total Nonfarm, (Mil., Seasonally Adjusted)



Source: Bureau of Economic Analysis

THE UNEMPLOYMENT RATE PEAKED AT NEARLY 15 PERCENT IN APRIL BUT MOVED DOWN TO STILL PAINFULLY HIGH MID-SINGLE DIGITS

Unemployment Rate (%, Seasonally Adjusted)

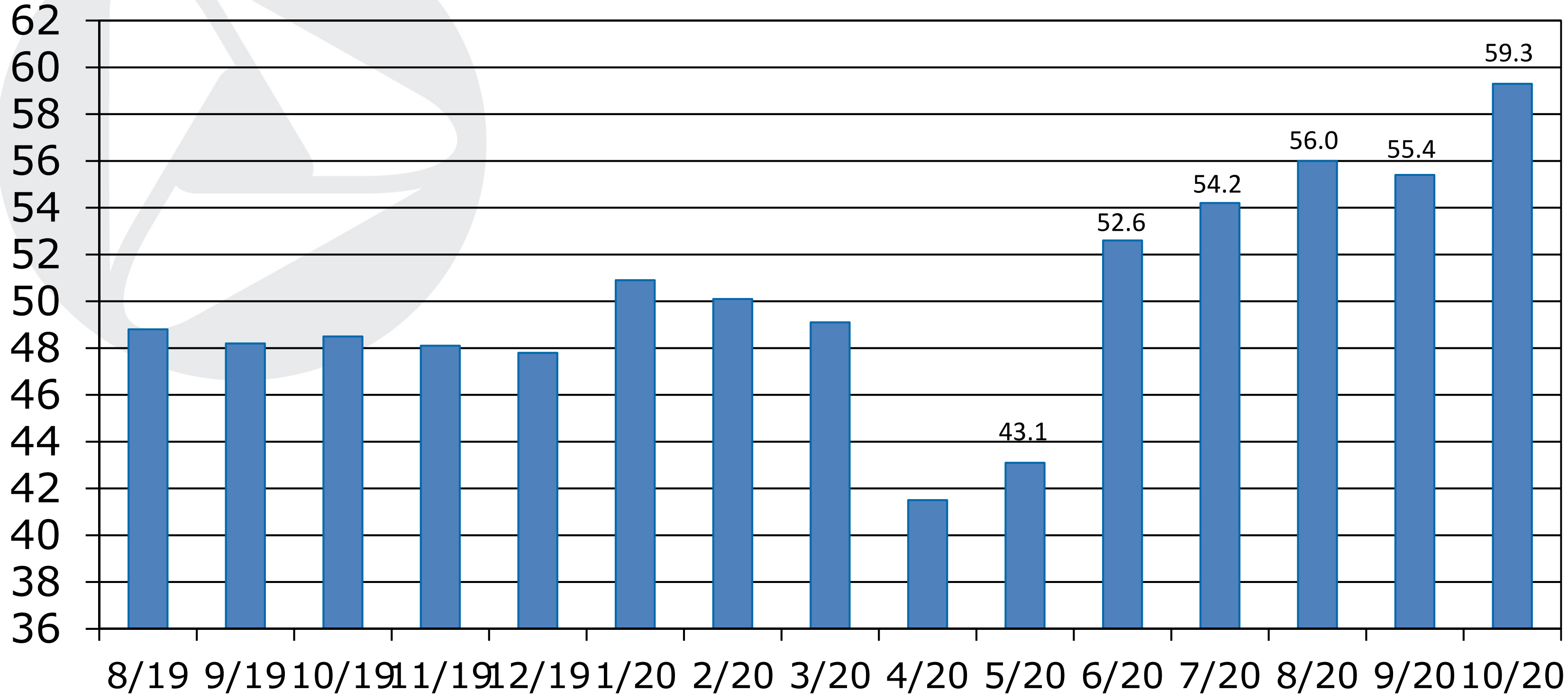


Source: Bureau of Labor Statistics; Bureau of Economic Analysis

Poll question coming up next

MANUFACTURING ACTIVITY REBOUNDS STRONGLY BACK UP WELL ABOVE PRE-COVID 19 LEVELS

Manufacturing Purchasing Managers' Index, (Index, Seasonally Adjusted)



Source: Institute for Supply Management

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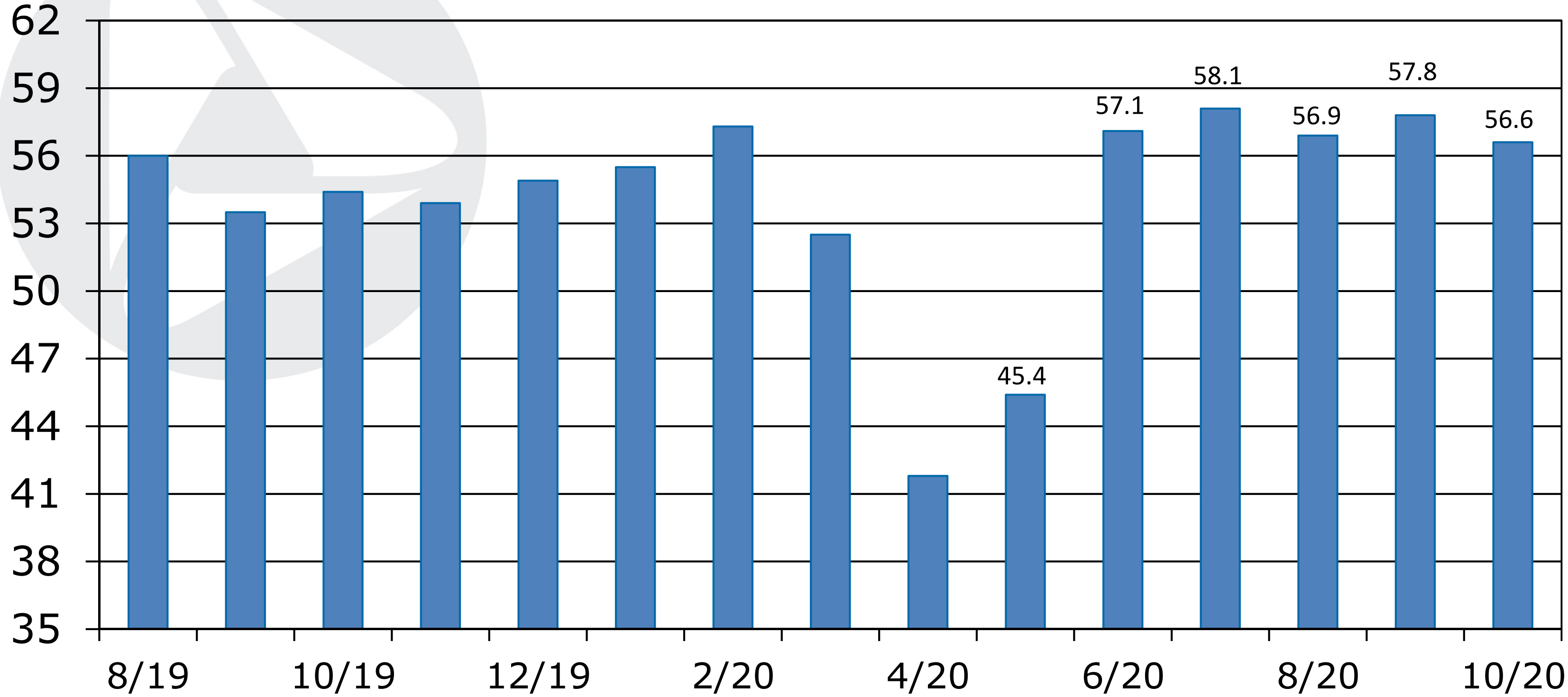
NONMANUFACTURING ACTIVITY REBOUNDING BUT HELD BACK BY MOST VULNERABLE SERVICES TO RISING COVID 19 CASES

Non-Manufacturing Composite Index, (Index, Seasonally Adjusted)



Source: Institute for Supply Management

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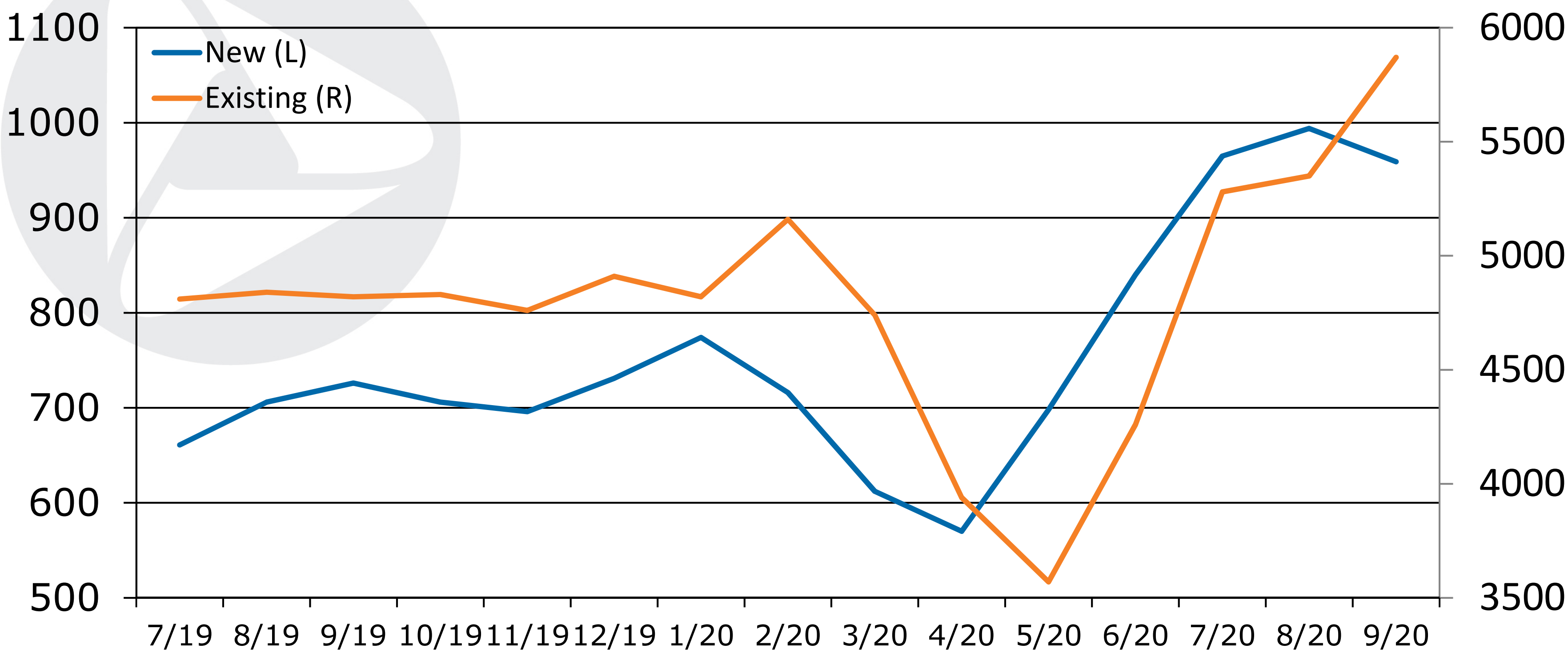
Poll question coming up next

NEW AND EXISTING HOME SALES SOARED AS MORTGAGE RATES FELL TO A RECORD LOW AND WORK FROM HOME BECAME MORE PREVALENT

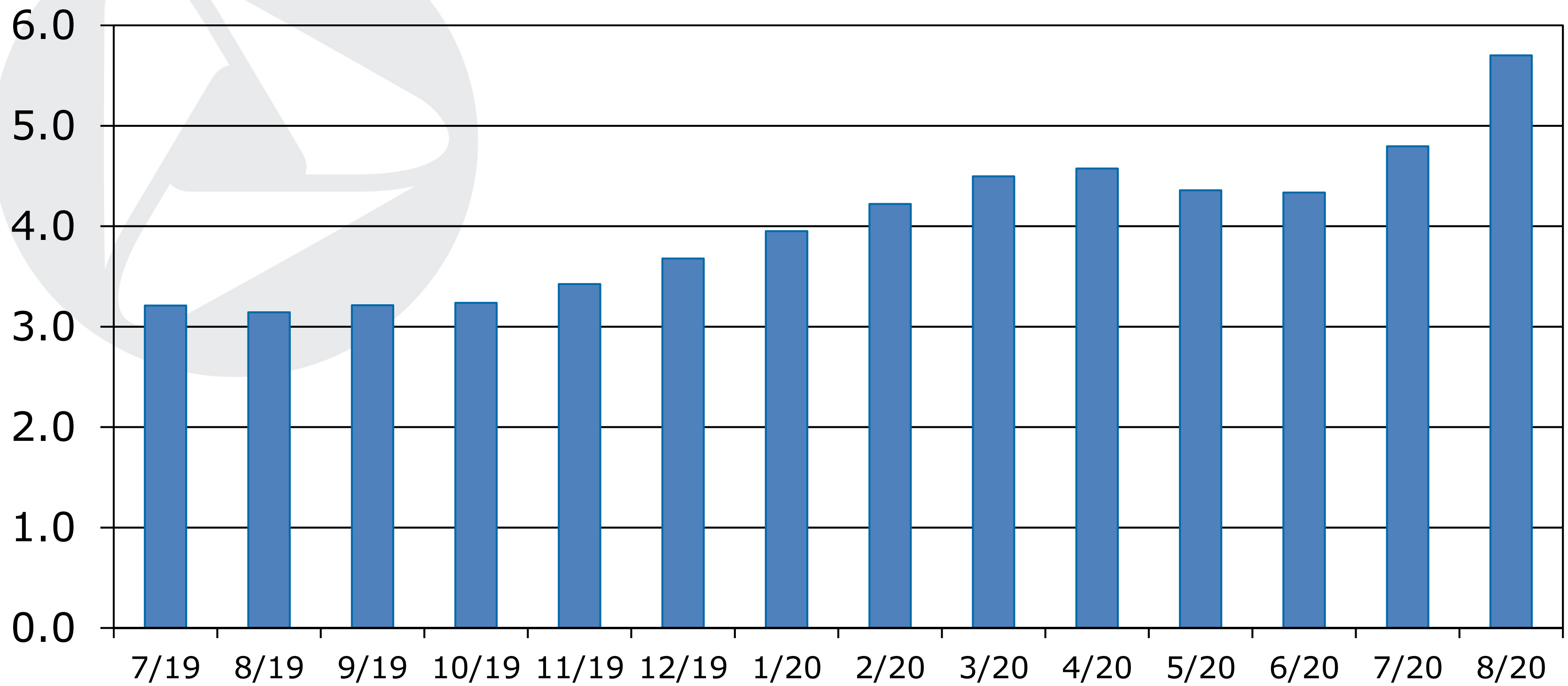
Single-Family Home Sales, (Ths., SAAR)



Source: Bureau of Census; National Association of Realtors

HOME PRICES SOAR AS MORTGAGE RATES REACH RECORD LOWS AND WORK FROM HOME BECOMES THE NEW NORMAL FOR MANY WORKERS

Case-Shiller House Price Index, (% change year ago)

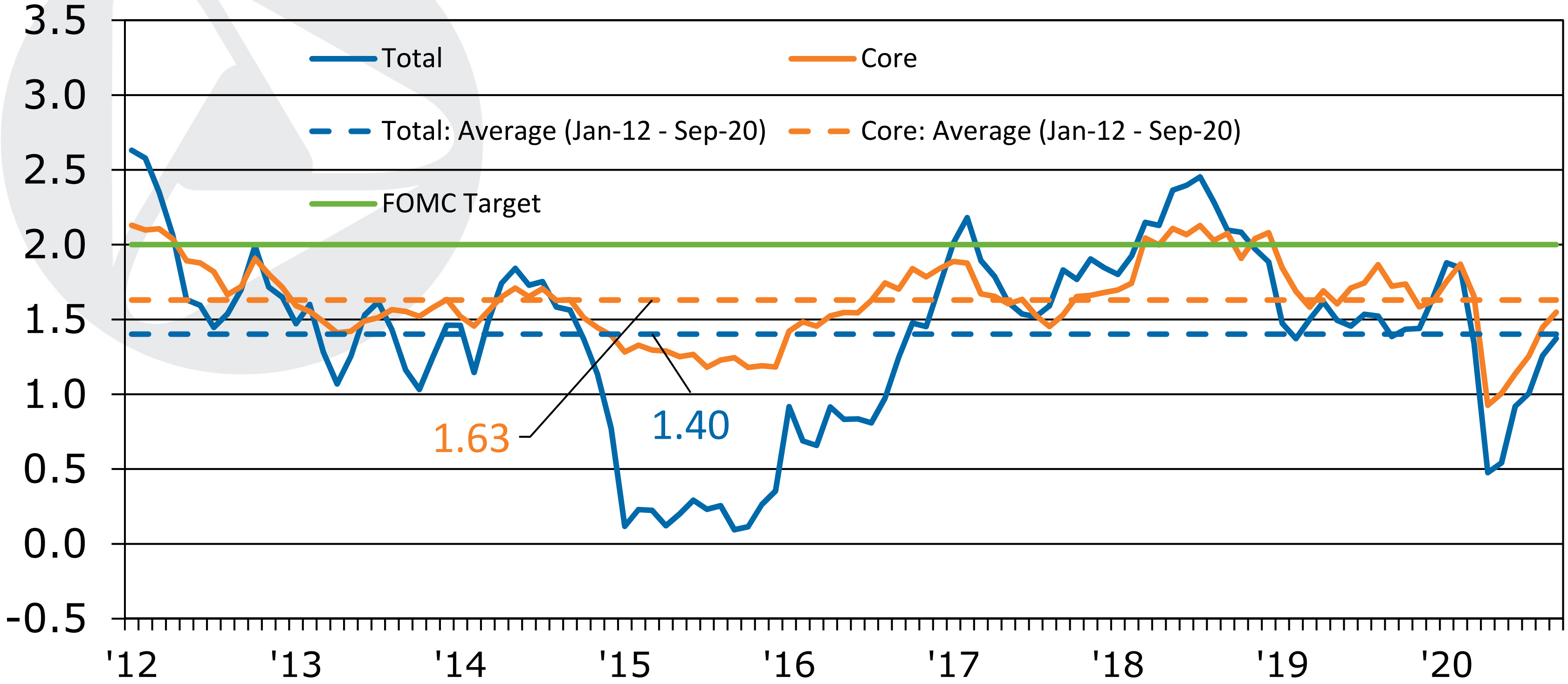


Source: CoreLogic, Inc.

Poll question coming up next

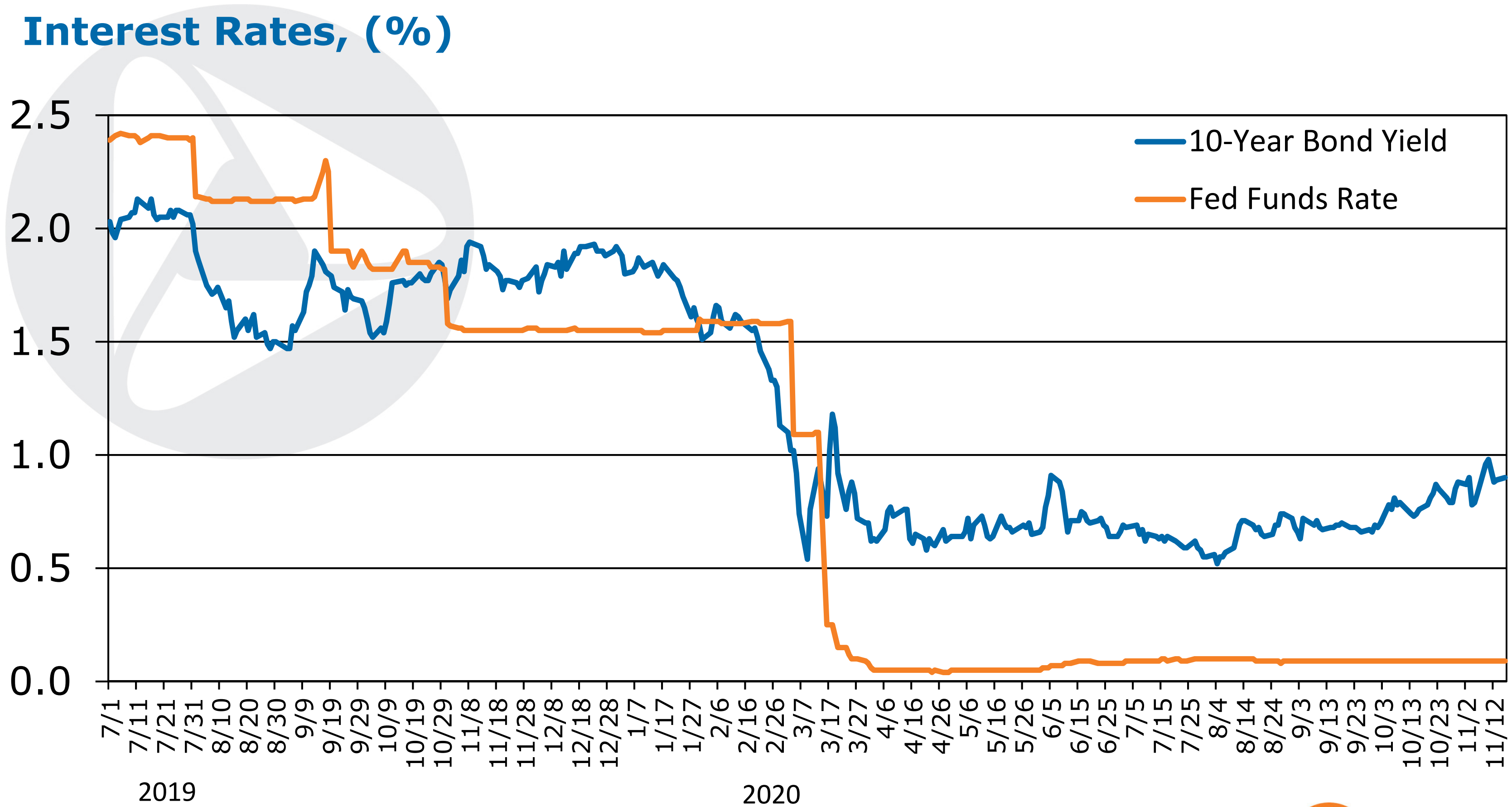
FOMC HISTORIC SHIFT TO AN "AVERAGE INFLATION TARGET" REGIME PARTLY REFLECTS PERSISTENT UNDERSHOOTING OF THEIR 2 PERCENT TARGET

Personal Consumption Expenditures (PCE) Price Index, (% change year ago)



Source: Bureau of Economic Analysis

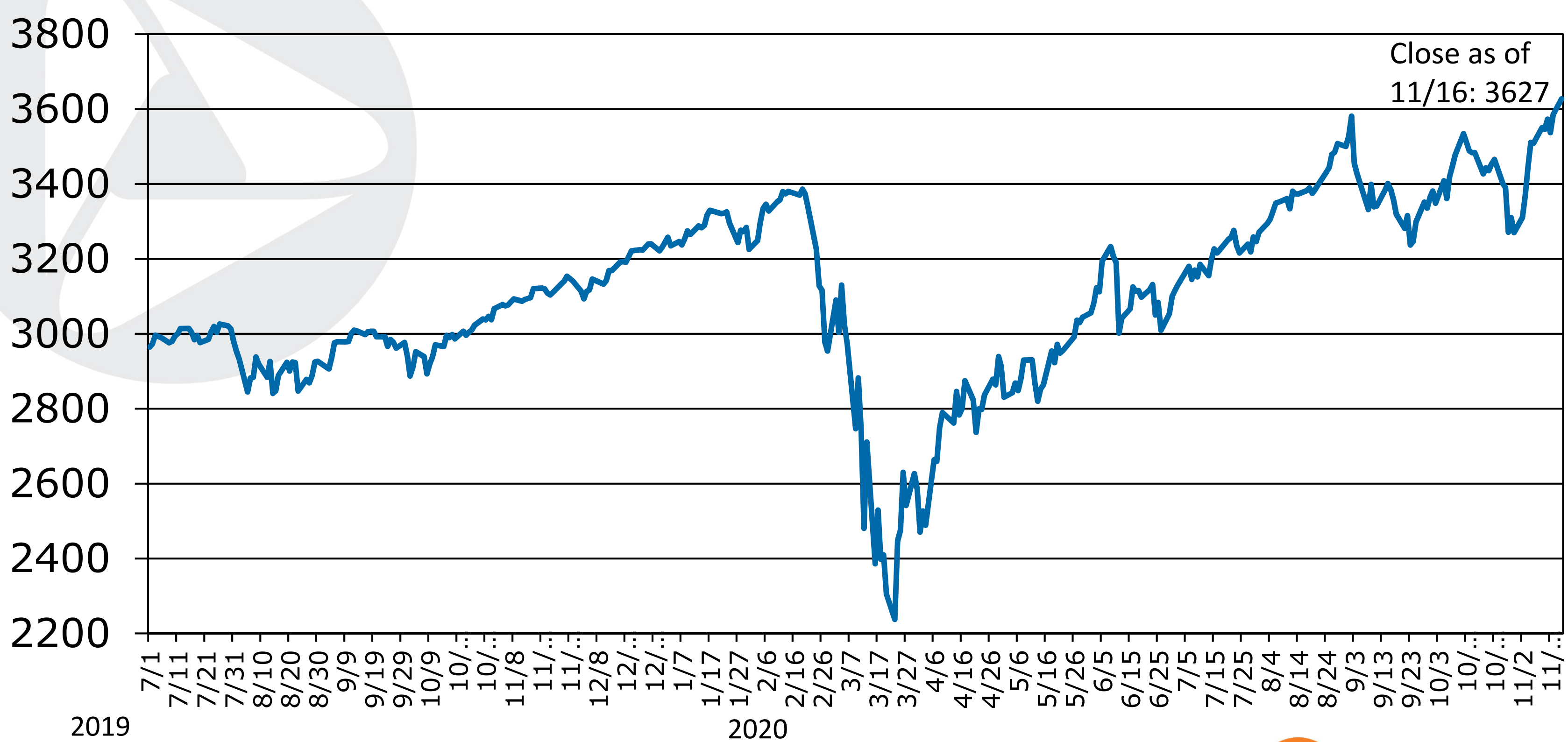
FOMC'S NEW "AVERAGE INFLATION TARGET" REGIME REQUIRING ADDITIONAL QE AND KEEPING THE FUNDS RATE NEAR ZERO FOR MANY YEARS WILL KEEP TREASURY RATES NEAR RECORD LOWS



Source: U.S. Board of Governors of the Federal Reserve System

STOCK PRICES REACH NEW HIGHS ENDING THE SHORTEST BEAR MARKET IN MODERN HISTORY.

S&P 500, (Index, 1941-43=10, Not Seasonally Adjusted)



Source: S&P Dow Jones Indices, LLC

Break

Our next session will resume at 10:00am.

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Accounting and Financial Statement Update

Todd E. Crouthamel,
Director in Charge,
Audit & Accounting

Steve P. Feimster,
Manager,
Audit & Accounting

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Agenda

1. Impact of the Pandemic on Accounting Issues
2. New Accounting Pronouncements

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A Moment on PPP
Accounting and Tax Considerations

- PPP accounting and tax considerations are complicated
  - Could spend all of our time, and then some, on PPP
  - Tune in from 3:00PM to 4:00PM for a detailed discussion on PPP accounting and tax considerations, including the treatment of forgiveness

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Impact of the Pandemic

- Asset impairments and other adjustments
- Assets held for sale
- Subsequent adjustments for acquisitions that occurred pre-COVID
- Debt covenant compliance

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Impact of the Pandemic, Continued

- Impairment considerations
- Generally any area that is subject to judgment
  - Accounts receivable reserves
    - Enhanced scrutiny of customers and the industries they operate in
  - Inventory reserves
    - Obsolete?
    - Net realizable value?
    - Excess inventory?
  - Goodwill and other intangibles
    - COVID is likely a triggering event
    - Check your accounting policy election
      - Entity level vs. Reporting Unit level
    - Other intangibles potentially affected
  - Valuation allowances on deferred tax assets

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Impact of the Pandemic, Continued

- Assets held for sale
  - Buildings and other assets no longer used and expected to be sold as a result of the pandemic should no longer be depreciated and reclassified on the balance sheet (current asset)
  - Book value > fair value?
  - Idle property will continue to be depreciated

- Acquisition accounting
  - If inside the measurement period (generally 1 year from transaction), adjustments may be made directly to the purchase price allocation
  - Adjustments to contingent consideration
    - Achievement of certain targets that are driving contingent payouts may be less certain

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Impact of the Pandemic, Continued

- Debt covenant compliance
  - Important to talk to your lender early about how they're treating PPP covered expenses
    - Added back to debt service coverage?
    - Factored into leverage / tangible net worth ratios?
  - Consider modeling out covenant calculations based on year-end projections
  - Does the company forecast project to pass covenants in 2021?
    - If no, may need waivers for 2021 prior to 2020 issuance

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Poll question coming up next

New Accounting Pronouncements Required to be Implemented in 2020

- ASC 606, Revenue from Contracts with Customers, and 7 related ASUs
- ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement
- ASU 2019-08, Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements – Share Based Consideration Payable to a Customer

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Pronouncements Effective for 2020: ASC 606

- ASC 606 Revenue from Contracts with Customers (Topic 606):
  - Effective for 2020 for those entities that had not yet issued financial statements or made them available for issuance as of June 3, 2020. If not already implemented, there are no more extensions
  - 7 ASUs related to revenue recognition are also tied to adoption of ASC 606 and will be effective upon implementation
  - Most companies have not had significant changes to when their revenue was recognized, but there are substantially more disclosures surrounding revenue recognition

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Pronouncements Effective for 2020: ASU 2018-13

- ASU 2018-13, Fair Value Measurement (Topic 820):
  - Contains 2 new disclosures that are not applicable to non-public entities
  - Eliminates and reduces disclosures (most notably)
    - Non-public entities no longer have to present a roll-forward of Level 3 assets; however, still need to disclose purchases and transfers into and out of Level 3 assets
    - For investments that utilize NAV, timing of liquidation and the date that restrictions on redemption may expire when it has been communicated. Importantly, if it has not been communicated, and timing is unknown, just need to disclose that fact

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Pronouncements Effective for 2020: ASC 2019-08

- ASU 2019-08, Compensation – Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606):
  - Clarifies that share-based consideration that is payable to a customer follows the same guidance as stock compensation
    - Still need to decide if the awards should be classified as equity or liabilities
    - Measure the consideration at fair value on the date of award
    - Consider whether it is a reduction of revenue or expense in accordance with ASC 606
    - Adjust to fair value at each reporting date

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New Accounting Pronouncements Considerations for Early Adoption

- ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill and Impairment
- ASU 2018-15, Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract
- ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities

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Considerations for Early Adoption: ASU 2017-04

- ASU 2017-04, Intangibles – Goodwill and Other (Topic 350):
  - Generally effective for years beginning after 12/15/21
  - Generally applicable to those entities that have not taken the private company reporting option which allows for amortization of goodwill, and to test for impairment only when a triggering event occurs
    - Private companies that have elected private company reporting may voluntarily adopt this guidance, discontinue amortization, and develop an annual impairment test in accordance with this guidance
    - If you have elected to combine goodwill and intangibles under private company reporting, you have to demonstrate why this guidance would be preferable, as described in ASC 350
  - Current guidance requires a two step process to test for and calculate impairment
  - This guidance removes the second test

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Considerations for Early Adoption: ASU 2018-15

- ASU 2018-15, Intangibles – Goodwill and Other Internal Use Software (Subtopic 350-40):
  - Generally effective for fiscal years beginning after 12/15/2020
  - Aligns the treatment of implementation and development costs in connection with cloud computing arrangements that are a service to the treatment of implementation and development costs in connection with internal use software – Not software to be sold, leased, or marketed
  - Software as a Service (SAAS Model) – access and use software solutions over the internet
  - Guidance provides:
    - Details of the costs that are to be capitalized
    - Amortization method and life
    - Impairment considerations
    - Details on where to present these items on the balance sheet, income statement, and cash flows statement

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Considerations for Early Adoption: ASU 2018-17

- ASU 2018-17, Consolidation (Topic 810):
  - Private company only guidance
  - Generally effective for fiscal years beginning after 12/15/2020
  - Expansion of Variable Interest Entity Guidance that was issued in 2014 and limited to lease arrangements. This guidance now applied to all qualifying common control arrangements, not just leases
    - Must apply to all common control arrangements, cannot pick and choose where to opt out of the VIE Model
  - Can opt out of VIE model. VIE model often results in consolidation
  - This leaves only the voting interest method (control) to determine whether or not an entity should be consolidated

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Poll question coming up next

New Accounting Pronouncements Likely Not Going to Early Adopt

- ASU 2016-02, Leases (Topic 842): Leases: Amendments to the FASB Accounting Standards
- ASU 206-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Loses on Financial Instruments (CECL)

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Likely Not Going to Early Adopt: ASU 2016-02

- ASU 2016-02, Leases (Topic 842):
  - Extended again as part of Coronavirus relief
  - Now, generally effective for fiscal years beginning after 12/15/2021
  - Off balance sheet activities associated with leases is now going to be on balance sheet
    - Right to use asset
    - Obligations recorded

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Likely Not Going to Early Adopt: ASU 2016-13

- ASU 2016-13, Financial Instruments – Credit Losses (Topic 326):
  - Generally effective for fiscal years beginning after 12/15/2022
  - Only applies to those assets not at fair value
  - Forward looking model
    - Current GAAP record an allowance when assets become impairment (loss is probable)
    - Current expected credit losses (CECL) Forward looking – Record allowance at inception of the asset, not waiting until it is known to be impaired.
  - Impact
    - Current AR will have a reserve, not just the aged categories
    - Loans to shareholders, employees, etc. may require a reserve when recorded
    - Financial guarantees, maybe need to accrue earlier, rather than when it becomes probable
    - Held to maturity debt securities
  - Public companies are implementing this year

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Timeline of New Pronouncements Considered within this Presentation

2020
- Rev Rec
- Fair Value
- Stock Comp

2021
- Consolidation
- Cloud Computing

2022
- Leases
- Goodwill Impairment

2023
- CECL

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Contact the Presenter

Todd E. Crouthamel
Director-in-Charge, Audit & Accounting
tcrouthamel@kmco.com

Todd serves as the leader of Kreischer Miller's Audit & Accounting Practice. In this role, Todd is responsible for managing the resources of the Audit & Accounting Practice including training and recruiting, budgeting, serving as a resource on technical matters and development and maintenance of compliance policies and procedures.

Todd also has extensive experience in the investment industry, including providing traditional audit services to investment managers, hedge funds, and broker/dealers, as well as performing custody examinations, GIPS verifications and composite examinations, and due diligence throughout the U.S. and Europe to assist investors in understanding the operational risk inherent in their investment managers' operations.

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Contact the Presenter

Steven P. Feimster
Manager, Audit & Accounting
sfeimster@kmco.com

Steve has a wide range of experience providing traditional audit and accounting services to a variety of businesses, including manufacturers, not-for-profits, distributors, and professional services organizations. Steve has also provided business advisory services such as accounting department assessments and due diligence services for his clients.

Steve serves on Kreischer Miller's Manufacturing Industry Group, Not-for-Profit Industry Group, and is a member of the ESOP specialty area. He is also an instructor for several of Kreischer Miller's in-house professional training seminars and has delivered presentations on various accounting issues, focusing on ESOPs, inventory, and industry updates for manufacturing and not-for-profit clients.

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Break

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Individual Tax Update

Brian Kitchen
Director
Tax Strategies

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Agenda

- CARES Act – Impact on year-end tax planning
- Revisiting the SECURE Act
- Traditional Tax Planning
- Post-Election Considerations

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CARES Act – Planning Opportunities

Charitable Contributions

- 100% Adjusted Gross Income (AGI) limit vs. pre-CARES 60% AGI limit
  - Cash and only directly to charitable organization
  - Donor Advised Funds are ineligible

Required Minimum Distribution (RMD)

- Not required in 2020

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CARES Act – Planning Opportunities

Retirement Account Distributions

- Allows eligible individuals to withdraw up to $100,000 from qualified retirement plans during 2020 without incurring the 10% early distribution penalty
- Individuals or their spouses, dependents, or other household members affected by COVID-19 may qualify for this relief
- Taxpayer friendly income inclusion – over 3 year period
- Ability to repay within 3 years of distribution

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Revisiting the SECURE Act

<u>Retirement Account Distributions for birth/adoption expenses</u>

- Penalty-free withdrawal of up to $5,000 from traditional IRAs and qualified retirement plans for expenses related to the birth or adoption of a child)
- Included in income, but not subject to 10% penalty or mandatory 20% tax withholding
- Ability to be repaid to the retirement plan at any time
- The $5,000 distribution limit is per individual, so a married couple could each receive $5,000

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Revisiting the SECURE Act

<u>Changes to Individual Retirement Accounts</u>

- Eliminated age cap for traditional IRA contributions

- Changed the age for required minimum distributions (RMDs) from tax-qualified retirement plans and IRAs from age 70½ to age 72 for individuals born on or after July 1, 1949

- Established new 10-year rule: Generally requires that designated beneficiaries of persons who die after December 31, 2019, take inherited plan benefits over a **<u>10-year period</u>**.
    - Eligible designated beneficiaries are not subject to this rule

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Poll question coming up next

Traditional Tax Planning

Retirement Accounts

- Max out 401(k) & IRAs
- Consider “back-door” ROTH Conversions
- Self-employed – consider Simplified Employment Pension Plans

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Traditional Tax Planning

College Savings

- 529 plan accounts
  - Consider lump-sum contribution – 5 times the annual gift exclusion limit
- Custodial accounts
- ROTH IRAs

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Traditional Tax Planning

Income Tax Planning

- Deferral of income
- Acceleration of deductions
- Opportunity Zones
  - Introduced by Tax Cuts and Jobs Act (TCJA)
  - Qualifying investments are granted a temporary deferral or a permanent exclusion from gross income for reinvestment of capital gains into a QOZ within six months of a disposal

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Traditional Tax Planning

Income Tax Planning

- **Q**ualified **C**haritable **D**istribution from retirement account

- Business use of home
  - Self-employed
  - Schedule K-1 (partnership/S corporation)
  - Expense considerations
    - Remote work expenses
    - Utilities
    - SALT Cap opportunity

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Poll question coming up next

Post-Election Considerations

Immediate Concerns

- Individual Income – tax rates
  - Top rate: 39.6% income tax rate from 37%
  - Removing the payroll tax ceiling for income earned over $400,000 (2021 FICA cap $142,800)
  - Raising capital gains rate to 39.6% from 20% for those taxpayers with more than $1,000,000 in income

- Impact on itemized deductions
  - 28% cap on total itemized deductions
  - Pease Limitation

- Estate consideration
  - Step-up of basis at death

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Post-Election Considerations

Opportunities to Consider

- Acceleration of compensation (bonuses, option exercise)
  - Potential income and payroll tax planning opportunity

- Gain harvesting

- ROTH Conversions

Contact the Presenter

Brian D. Kitchen
Director, Tax Strategies
bkitchen@kmco.com

Brian has a wide range of experience providing domestic and international tax planning and compliance services to a variety of middle market companies and entrepreneurial businesses in a number of industries, including manufacturing, distribution, media, real estate, financial, and professional services. He has also assisted companies with business transactions, including mergers, acquisitions, and transition planning. He has significant experience in federal, state, and local tax audits, settlements, and appeals.

As an advisor to his clients, Brian uses his experience to ensure all tax incentives are being considered, including federal and state research and development tax credits, utility sales tax exemptions, and, for domestic manufacturing clients with significant exports, the Interest Charge Domestic International Sales Corporation.

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Break

Our next session will resume at 11:00am.

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Business Tax Update

Carlo Ferri
Director, Tax Strategies

Brad Runyen
Manager, Tax Strategies

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Disclaimer

This presentation is based on the current guidance that has been published as of November 19, 2020. You should not rely on information contained in this presentation to make business or tax decisions without first consulting with your tax advisor.

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Agenda

1. Tax Landscape
2. 2020 Tax Planning Techniques
3. CARES Act Changes

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Tax Madness

Poll question coming up next

Tax Landscape

Timeline of New Tax Law Changes

- December 20, 2019 – SECURE Act
- March 20 – Family First Coronavirus Act
- March 30 – CARES Act
- April 24 – Paycheck Protection and Health Care Enhancement Act
- June 5 – Paycheck Protection Program Flexibility Act of 2020
- August – President Executive Order – Deferral of Payroll Taxes

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Biden's Tax Proposals

	Current Law TCJA	Biden
QBI Deduction	20% deduction for qualified S-Corps, Partnerships & individuals. Expires 2025.	Phase out the QBI deduction for filers with **taxable income over $400,000.**
Corporate Tax Rates	Flat tax of 21% and no AMT. No expiration.	Raise rate to 28% and reinstate AMT on $100M of profit.
Individual Tax Rates	Top rate of 37% for individuals earning $518,400 or $622,050 MFJ. If QBI applicable rate is 29.6%.	Raise rate to 39.6% for taxable **income above $400,000.**
Capital Gains	The top tax rate is 20% for income over $441,450 for individuals and $496,600 for married filing jointly. There is an additional 3.8% net investment income tax.	Biden would eliminate breaks for capital gains and dividends for **income above $1 million**. Instead, taxed at ordinary rates.
Payroll Taxes	The 12.4% payroll tax is divided evenly between employers and employees and applies to the first $137,700 of an individual's income.	Biden would maintain the 12.4% tax split between employers and employees and keep the $137,700 cap but would institute the tax on **earned income above $400,000**. The gap between the two wage levels would gradually close with annual inflationary increases

Tax Planning Approaches

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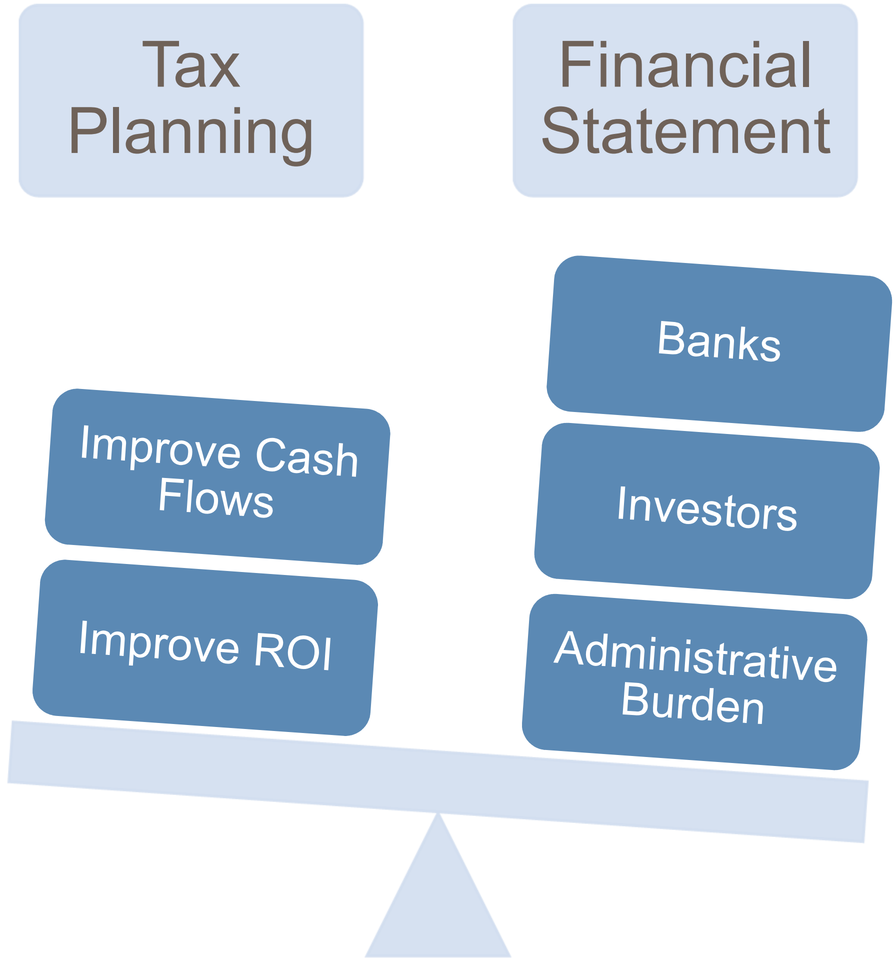
Tax Planning - Consider the Right Balance



Pass-Through Business Income Tax Rates

Effective Date	20% Deduction	W/O 20%
Business income *	1,000,000	1,000,000
Less: 20% of QBI**	(200,000)	0
Taxable income	800,000	1,000,000
Tax rate	37%	37%
Federal tax	296,000	370,000
Effective Tax Rates:		
Federal effective tax rate when earned	29.6%	37%

* Assumes all business income qualifies for the deduction

** Assumes more then $400,000 of wages from the business

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How to Accelerate Expenses for Accrual Method Taxpayers

Strategy	Benefit
Reoccurring Items Exceptions	Certain accrued expenses can be deducted if paid within 8 ½ months after year-end
Prepaid Expense – 12 Month Rule	Certain types of prepaid expenses can be expensed when paid rather then amortized over the life of the contract if less then 12 months
Accrued Employee (non-owner) Bonuses	If bonus pool is fixed at year-end and paid within the first 2 ½ months of the following calendar year
Bad Debts and Inventory Write-offs	Evaluate A/R that will be uncollectable and inventory that is obsolete

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Small Taxpayer - Accounting Method Benefit

Accounting Method	Applicable	Benefit
Cash Method	Average annual gross receipts are under $26 million **	Create an opportunity for tax deferral
UNICAP exemption	Average annual gross receipts are under $26 million **	Ability to deduct indirect costs as period costs when incurred
Inventory not required	Average annual gross receipts are under $26 million **	Ability to deduct direct overhead costs immediately

** Attribution Rules Applies

Poll question coming up next

Tax Credit for Required Paid Leave

1. Introduction
2. Interaction with other credits
3. Tax treatment

COVID-19 Related Legislation

Interplay between COVID-19 Legislation

Families First Coronavirus Response Act or FFCRA (Phase II)

- Refundable paid sick leave credit and the paid child care leave credit.
- If there are not sufficient payroll taxes to cover the cost of qualified sick and child care leave paid, employers will be able to file a request for an accelerated payment from the IRS.

Coronavirus Aid, Relief, and Economic Security Act or the CARES Act (Phase III)

- Paycheck Protection Program
- Employer Payroll Tax Deferral
- Employee Retention Credit***

***(See Appendix for more information)

FFCRA

Eligibility – 6 instances:

1. An employee who is subject to a coronavirus quarantine or isolation order;
2. An employee who has been advised by a health care provider to self-quarantine due to coronavirus concerns;
3. An employee who is experiencing symptoms of coronavirus and is seeking a medical diagnosis;
4. An employee caring for an individual who is subject to government quarantine or isolation order or who has been advised by a health care provider to self-quarantine;
5. An employee caring for a child whose school or place of care is closed or whose care provider is unavailable due to coronavirus precautions;
6. An employee who is experiencing any other substantially similar condition specified by the Department of Health and Human Services in consultation with the Treasury and Labor Departments.

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Tax Credits for Required Paid Leave

- FFCRA mandates paid sick leave and child care leave – US DOL Rules
  - Applies to employers with fewer than 500 employees
- Refundable paid sick leave credit and paid child care leave credit – Payroll tax credits claimed on Form 941
- Credits for qualified leave wages, qualified health plan expenses and ER share of Medicare tax for period April 1, 2020 through December 31, 2020
- Self-employed individuals also eligible to claim these credits (claimed on Form 1040 for 2020 tax year)
- Impact on tax returns
  - See IRS **FAQ #49 to 51**
  - Full amount of credits included in gross income
  - Employment taxes still fully deductible

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Employee Retention Credit

Employee Retention Credit for Employers

New Law

- ✓Provides a refundable payroll tax credit for 50% of qualified wages paid by eligible employers to certain employees during the COVID-19 crisis.
- ✓The maximum amount of the eligible wages for the credit is $10,000 per employee.
- ✓IRS is granted authority in the act to advance payments to eligible employers and waive applicable penalties for employers who do not deposit applicable payroll taxes in anticipation of the receiving the credit.
- ✓The credit applies to wages paid after March 13, 2020 and before January 1, 2021.

Eligible employers

- ✓Available to all for profit businesses including non-profits.
- ✓Operations have been fully or partially suspended due to the concern about the spread of COVID-19 during any calendar quarter in 2020.

OR

- ✓The business has a significant decline in gross receipts by more than 50% compared to the calendar quarter in the previous year.

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Delay of Payment on Employer Payroll Taxes

Delay of Payment of Employer Payroll Taxes

- An ability to delay the employer's share of the Social Security payroll taxes until December 31, 2020, with 50 percent due on December 31, 2021 and the remaining 50% due on December 31, 2022.
- Can still be utilized even if PPP Loan proceeds were received.
- Self-employed individuals can defer 6.2% of their SE Tax (50% of 12.4%).
- Addressed in **IRS Notice 2020-22.**
- Businesses can payback the deferral of payroll taxes early - FAQ #29.

Tax Planning Consider: Timing of tax deduction may be impacted

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Poll question coming up next

NOL Changes

1. Business income limitations
2. Carryback changes
3. Special filing procedures

What is a Net Operating Loss?

For a C-corporation:

- An NOL is generated when the business expenses exceed the business income that is reported during the taxable year on Form 1120.

For a pass-through business (i.e., S-Corp, Partnership, Sole Proprietor):

- Pro-rata share of the business expenses that exceed the business income that is reported to the business owner on their personal return.
- The business owner has **sufficient basis** to deduct the loss on their personal income tax return and is **active in the business**.
- The aggregate business losses reported on the business owner's return exceed all other income (i.e., investment income, w-2 wages, etc.) on the business owner's return which generate the NOL.

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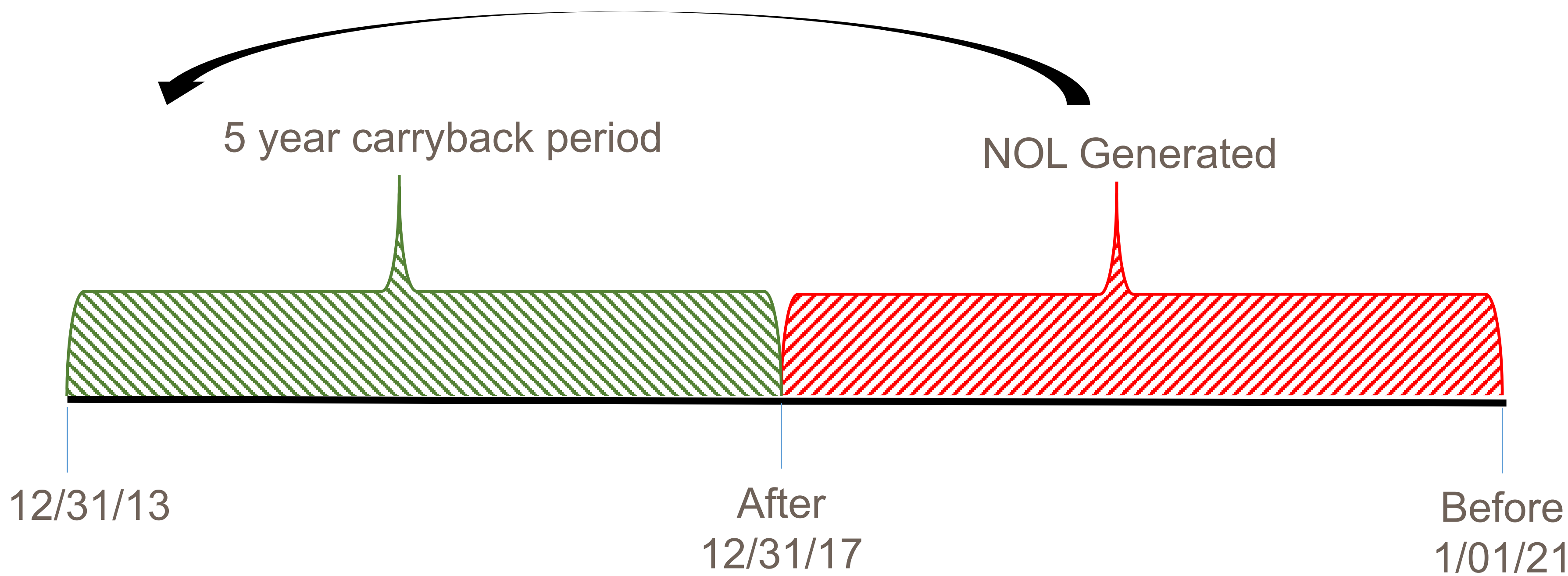
Net Operating Losses- Pre/Post-TCJA, CARES

Pre-TCJA	Post-TCJA	CARES Act
2-year carryback, 20-year carryforward.	No carryback, indefinite carryforward for NOLs generated in taxable years ending after 12/31/2017.	5-year carryback for NOLs in taxable years beginning after 12/31/2017 and before 1/1/2021.
No limitation on ability to offset current taxable income with NOL deduction, 90% AMT limitation.	For taxable years beginning after 12/31/2017, limited to 80% of taxable income computed without regard to NOL deduction. Ordering of pre-2018 NOLs ambiguous.	For years beginning after 12/31/2020, NOL deduction limited to 80% of taxable income following the deduction of any pre-2018 NOLs, before any §199A or §250 deduction.

NOL Carrybacks - Corporate and Non-Corporate Taxpayers



NOLs arising in a tax year beginning after Dec 31, 2017 and before Jan 1, 2021 can be carried back to each of the five years preceding the tax year of such loss.

Special Rules for Non-Corporate Taxpayer

Under Pre-CARES Act Law

- Disallowed the deduction of excess business losses by non-corporate taxpayers for tax years beginning after December 31, 2017 and ending before Jan 1, 2026.
- Aggregate Business losses in excess of $250,000 for single filer or $500,000 for married filing jointly were limited and subject to be carried forward only.

CARES Act Changes

- CARES Act retroactively modifies the business loss limitation so they can deduct excess business losses arising in 2018, 2019, and 2020.
- Losses arising in tax years beginning after Dec 31, 2020 and before Jan 1, 2026 continue to be subject to the limitation as mentioned above.

Carryback vs. Carryforward Considerations

Benefits of a Carryback

1. Extended carryback may provide a favorable tax rate differential
   - C-corporation tax rates pre-2018 were 35% compared to 21% today
   - Individual rates pre-2018 were as high as 39.6% compared to 29.6% if you take into consideration the 20% pass-through deduction
2. Eliminate the need to generate future taxable income
3. Reducing the risk potential of limitation on future loss utilization

Negatives of a Carryback

1. Compliance cost
2. Potentially reopen certain prior year tax risks
3. M&A activity in prior year where taxpayer is not entitled to refund

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Opportunities to Consider

- 2018 business losses limited under pre-CARES Act due to the 80% business income limitation are now retroactively removed
- 2018 Excess Business Loss Limitation for individual retroactively removed
- Change in Law for Qualified Improvement Property - Bonus Depreciation
- Cost Segregation Opportunities in 2019
- Business Interest Limitation change in rules
- Closely monitoring PPP Loan expense deductibility
- Adjusting estimated tax payments

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Poll question coming up next

Qualified Improvement Property & Depreciation Changes

1. Definition of QIP
2. Special filing procedure
3. Overview of current depreciation
4. Planning Consideration

Qualified Improvement Property (QIP)

What is QIP?

A. Any improvement to an interior portion of a building which is nonresidential real property if such improvement is placed in service **after the date the building was first placed in service**.

B. Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to—

i. the enlargement of the building,
ii. any elevator or escalator,
iii. the internal structural framework of the building.

Under TCJA, Congress eliminated qualified leasehold improvement property, qualified restaurant property and qualified retailed improvement property and provided for single definition of QIP under IRC Section 168(e)(6)

The TCJA never included 15 year life for QIP, thus was 39 year property and not eligible for bonus depreciation.

The CARES Act **retroactively** designates QIP as 15 year property which is eligible for 100% bonus for property placed in service after December 31, 2017.

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PLANNING OPPORTUNITY: Increased deductions for 100% bonus depreciation on 2018 and/or 2019 assets.

Qualified Improvement Property (cont.)

Tax Planning Opportunity

- Any business that renovated their commercial buildings in 2018 or 2019 should review fixed asset ledgers.
    - Applies to owners of commercial property as well as lessees.
- What is the best year to take advantage of deductions (tax rates, interplay with other deductions/credits, changes in ownership, etc.)?
- Review 2020 capital expenditures - adjust estimated tax payments if applicable.

If Taxpayer had QIP in 2018 and 2019 and has filed 2019 tax return…

- Must change through Form 3115
- Can File Form 3115 with 2020 return

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Bonus Depreciation

Bonus deprecation is increased to 100% for qualified property acquired and placed in service after Sept 27, 2017 but before Jan 1, 2023.

2023	2024	2025	2026	2027
• 80%	• 60%	• 40%	• 20%	• 0%

Observation
Consider impact of accelerated depreciation. If taxable loss is generated new rule allows potential for NOL Carryback.

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Consideration for Fixed Asset Purchases

Repair Regs
- Accounting policy - Book/Tax Conformity
- Large improvements treated as a repair
- May provide better benefit for state income taxes

Bonus Depreciation
- 100% with no phase-out or taxable income limitation
- Opportunity to create losses - NOL opportunity
- Qualified Improvement Property qualifies

Section 179 Expense
- Immediate write-off
- Limited to $1.040 million with $2.59 million property phase-out
- Limited to taxable income of the entity
- Enhanced property includes certain building components
- May not be applicable to real estate entities

Tax Depreciation

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Qualified Improvement Property Eligible Section 179 Expense

- ✓ Roofs
- ✓ HVAC property
- ✓ Fire protection/alarm systems
- ✓ Security systems
- ✓ Interior portion of the building

- ✗ Building enlargements
- ✗ Elevators and escalators
- ✗ Internal structural framework

★**More thoughtful and detailed analysis**★

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Depreciation Planning Considerations

- Tax bracket planning
- Timing purchases before year-end
- Building Improvements - Operating vs Real Estate Entity
- Cost Segregation
- Fixed Asset Review – Certain previously Capitalized Assets cannot be treated as repairs
    - Cost to update of existing space
    - Parking lot improvements
    - Roof replacements
    - HVAC replacement

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Deductibility of Interest Expense

1. CARES Act Changes
2. Changes in Final Regulations

Deductibility of Interest Expense

- Under TCJA, Section 163(j) limited interest expense deduction to 30% of adjusted taxable income.
- Under CARES Act, limitation is increased from 30% to 50% for tax years beginning in **2019** and **2020** (for all taxpayers except for partnerships).
  - Can elect out of increased limitation.
- The increased 50% limitation only applies to any tax year beginning in 2020 for partnerships.
  - 50% of excess business interest allocated for 2019 can be deducted and not subject to 163(j) limitations in year beginning in 2020.
- In addition, can elect to calculate 2020 interest limitation using 2019 adjusted taxable income. Election made at entity level.

TAX PLANNING OPPORTUNITY: Defer income until 2021 to maximize interest limitation (will drop back to 30% limitation).

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Thank You

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Contact the Presenter

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Carlo has extensive experience providing tax and business advisory services for privately-held companies in various industries including manufacturing, distribution, and construction. He helps these companies, including their owners and key executives through the various cycles (i.e. growth, maturity, exit) of their business related to corporate and individual tax matters, as well as representing them in front of the IRS.

As the Construction Industry Group Co-Leader, he specializes in tax compliance and strategic planning for the construction industry. Carlo has been actively involved in advising clients with tax strategies on the new Tangible Property Regulation and Cost Segregation Services along with solar and other alternative energy projects.

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Contact the Presenter

Bradley Runyen
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Brad provides a variety of tax services including tax compliance, tax planning, and tax research for corporations, multi-state companies, partnerships, trusts, and high-net-worth individuals. He has a diversified range of experience providing services to a variety of companies in the construction, manufacturing, real estate, distribution, and service industries. Brad actively participates in developing and presenting professional in-house training and is a member of Kreischer Miller's Construction Industry Group.

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Break

Our afternoon session will resume at 1:00pm.

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State and Local Tax Update

Thomas M. Frascella
Director, Tax Strategies

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Agenda

1. State of the State
2. Nexus Developments
3. Telecommuting during COVID and its impact on businesses (hint, it's bigger than you can imagine)
4. Sales Tax Update
5. Pass-Through Entity Level Taxes
6. Predictions for 2021

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State of the State

- State budgets have been significantly impacted due to the shutdown caused by COVID-19
  - Majority of states are projecting significant revenue declines for 2020 & 2021
    - California tax revenue expected to decline by $32 billion in 2021
    - New York tax revenue expected to decline by $13 billion in 2021
    - New Jersey tax revenue expected to decline by $2.8 billion in 2020 and $7.3 billion in 2021
    - Pennsylvania tax revenue expected to decline by $3.5 billion in 2020

- Legislators recessed in late March and have not reacted to many federal tax updates
- Guidance from state departments of revenue lacking

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Nexus Developments

- Wayfair
  - It isn't just for sales tax anymore
  - States are adopting economic nexus for other non-income taxes AND service based businesses
  - We would expect more states to adopt factor presence standards
  - PL 86-272 the grad daddy of federal legislative protection is being taken apart piece by piece
- Prior to the Wayfair decision, only eight states had adopted a factor presence/economic nexus standard
- Today, a majority of states utilize some form of economic nexus or factor presence standard
- PA recently amended its guidance regarding factor presence to include direct and indirect receipts

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Tax Considerations Resulting from Remote Workers Due to COVID

- Taxes Affected
  - Income tax nexus
  - Employer withholding nexus
  - Sales tax and other non-income tax nexus
- Income tax nexus
  - A number of states have issued guidance that the presence of remote workers for the SOLE purpose of COVID will not create corporate income tax nexus (AL, CA, DC, GA, IN, IA, KY, ME, MD, MA, MN, MS, NJ, ND, OH, OR, PA, RI, SC, WI)
  - No specific guidance issued related to personal income tax
  - Employers need to weigh their decisions regarding remote workers carefully once the presence of the remote worker is no longer temporary the COVID protections end

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Tax Considerations Resulting from Remote Workers Due to COVID

- Employer withholding
  - State guidance is lacking as many states have not specifically addressed withholding for remote workers due to COVID
  - Residents can get whipsawed if states do not allow credit
    - NY and PA continue to utilize the “convenience of the employer” rule to source wages
    - MA has issued guidance that creates a hybrid rule and treats wages as MA wages if a remote employee was working in MA immediately prior to the work from home order
  - Different rules create the possibility of border wars between the states (NH v MA)
- Sales tax and other non-income tax nexus
  - No guidance issued by states due to COVID most likely because physical presence is no longer the standard for nexus

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Marketplace Facilitators

- States are beginning to impose the sales tax collection responsibility on marketplace facilitators.
- States are recognizing that the collection of data by the facilitators makes it easier and more convenient for all parties
- Facilitators are reluctant accomplices
- Relieves the burden on marketplace sellers
  - Example is recent legislation enacted by Massachusetts that requires facilitators who had $100,000 or more of sales into the state in the prior year to register and collect sales tax
  - Marketplace sellers who only sell into the state through a facilitator are not required to register for sales tax

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Cloud Computing

- One of the most difficult areas to manage for purposes of determining taxability
- Cloud computing can be considered software, data processing, information services and even telecommunication services
- States have become very aggressive with its determination of what cloud computing represents. Often relying on factors such as login credentials to justify classifying the service as tangible personal property
- Determinations are made on a state-by-state basis and criteria can vary considerably

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Pass-Through Entity Level Taxes

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Pass-Through Entity Level Taxes

- States such as NJ, CT and WI enacted legislation to provide relief to owners of pass-through entities due to the federal limitation
- SALT cap work around receive vague blessing from Treasury
- More states may revisit a legislative fix

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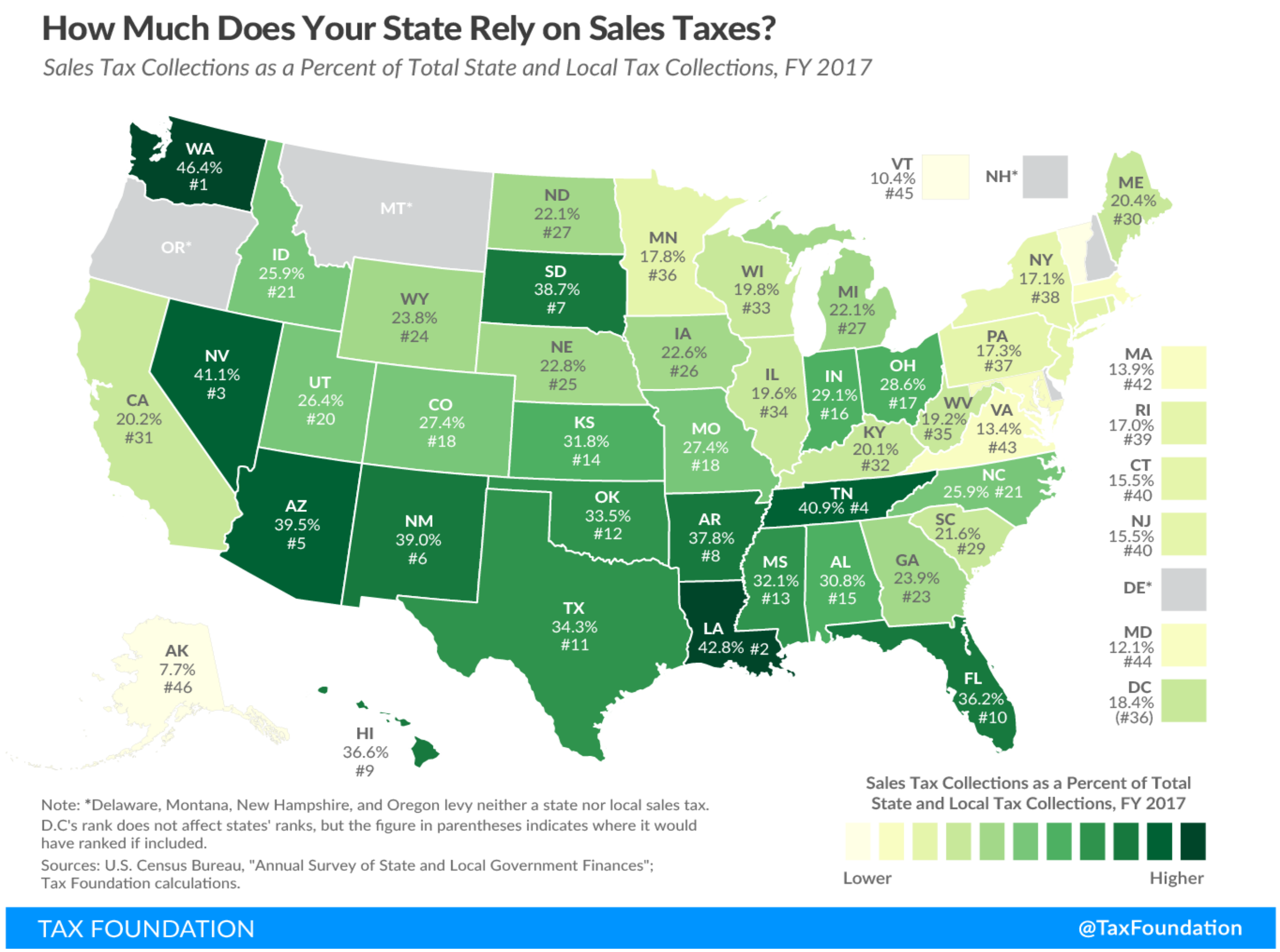
2021 and Forward



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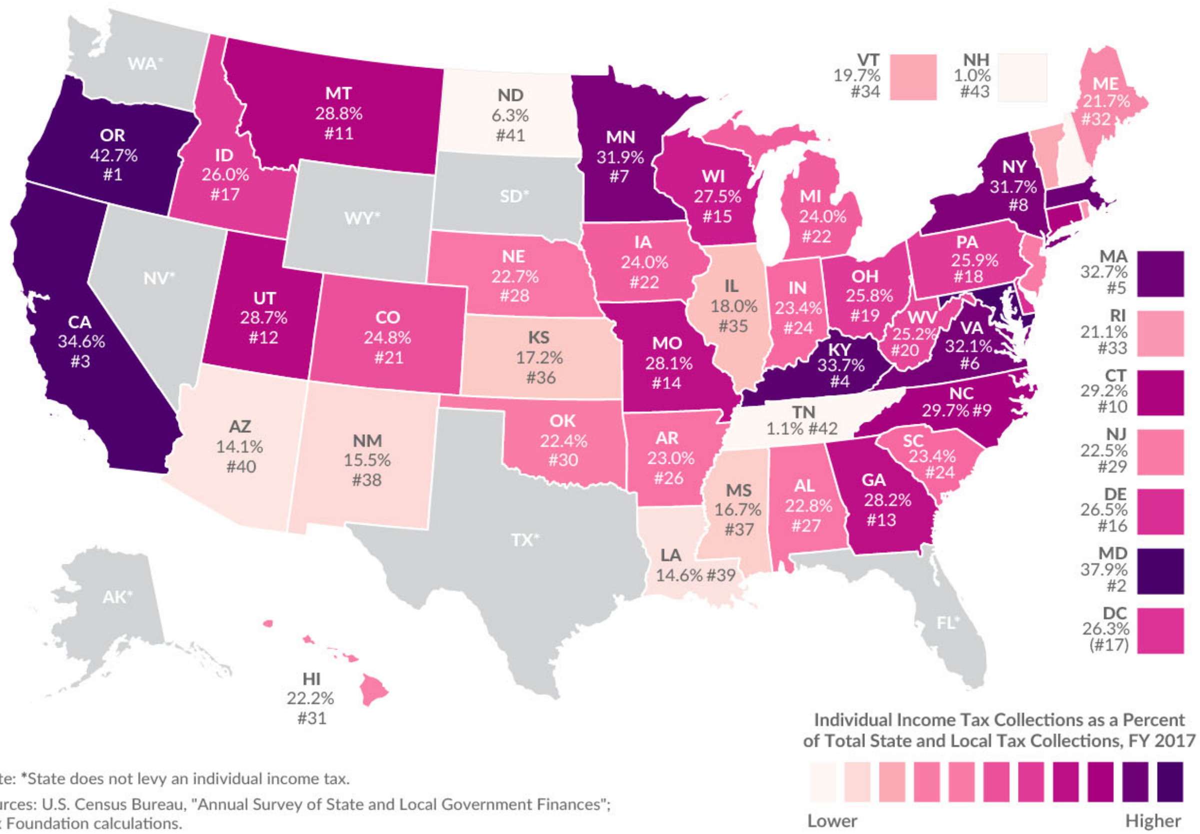
2021 and Forward

How Much Does Your State Rely on Individual Income Taxes?

Individual Income Tax Collections as a Percent of Total State and Local Tax Collections, FY 2017



Note: *State does not levy an individual income tax.

Sources: U.S. Census Bureau, "Annual Survey of State and Local Government Finances"; Tax Foundation calculations.

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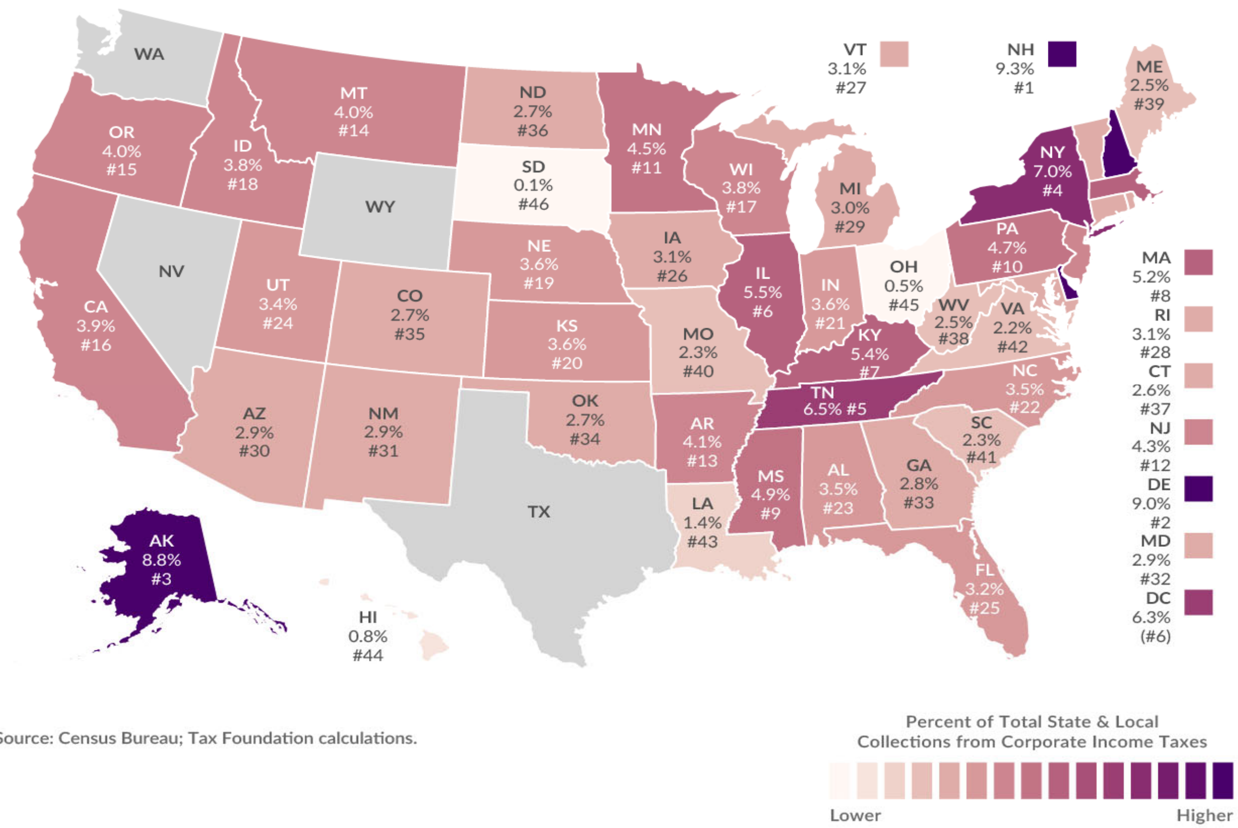
2021 and Forward

To What Extent Does Your State Rely on Corporate Income Taxes?

Corporate Income Tax Collections As a Percent of Total State and Local Tax Collections, FY 2015



Source: Census Bureau; Tax Foundation calculations.

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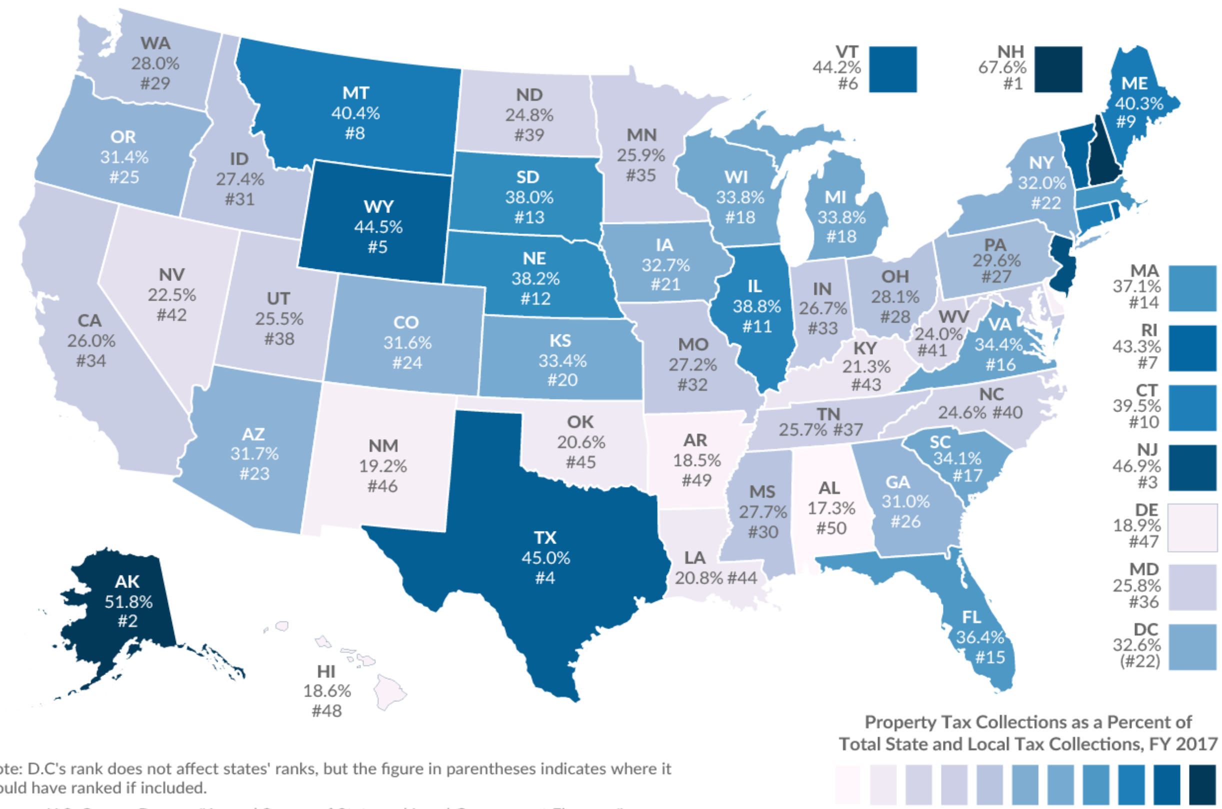
2021 and Forward

How Much Does Your State Rely on Property Taxes?

Property Tax Collections as a Percent of Total State and Local Tax Collections, FY 2017



Note: D.C's rank does not affect states' ranks, but the figure in parentheses indicates where it would have ranked if included.

Sources: U.S. Census Bureau, "Annual Survey of State and Local Government Finances" Tax Foundation calculations.

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2021 Predictions

- What to look for in 2021
  - Increased audits of all tax types and stricter enforcement of policies and exemptions
  - Increased notices
  - Higher scrutiny of refunds
  - Greater state adoption of economic nexus standards for income taxes and possible expansion of unprotected activity for PL 86-272
  - Discovery, discovery, discovery
  - Decoupling from federal legislation
  - Potential expansion of sales tax base and higher rates

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Contact the Presenter

Thomas M. Frascella
Director, Tax Strategies
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Tom has a wide range of experience providing state and local tax services in the areas of income/franchise, sales and use, realty transfer, and unclaimed property taxes to a variety of businesses, including multi-state and multi-national businesses in the light and heavy manufacturing, distribution, life sciences, not-for-profit and services industries. He helps businesses address their multi-state tax needs.

Tom has also assisted clients with navigating the complex state and local tax issues associated with significant entity life events, such as acquisitions, dispositions, or liquidations.

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Break

Our next session will resume at 1:30pm.

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Estate Planning Using Trusts

Richard J. Nelson
Director, Tax Strategies

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Agenda

1. Post Election Planning
2. Biden’s Estate Tax Proposals
3. Use of Trusts in Estate Planning
4. Types of Trusts
5. Spousal Lifetime Access Trust

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Disclaimer

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Post Election Planning

- Election is over. Democratic Joe Biden is now president.
- For the moment the Senate is controlled by the Republicans by a margin of 50 to 48. Two seats still up for grabs in Georgia with a runoff election January 5th.
- If Democrats take both seats they would seize control of the Senate with the tie breaker being the incoming Vice President Kamala Harris. This would make it easier for Biden to get some of his programs through the Senate.
- If Republicans keep control of the Senate it will be much harder for Biden to push his programs through.

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Biden's Estate Tax Proposals

	Current Law	Biden
Estate Tax Exemption and Rate	$11,580,000 exemption per person ($23,160,000 Married) and a 40% tax rate.	$3,500,000 exemption per person ($7,000,000 Married) and a 45% tax rate
Gift Tax	Same as the estate tax exemption	$1,000,000 exemption and a 45% rate
Step up in basis upon death	Yes	Eliminated

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Biden’s Estate Tax Proposals

Example of Lifetime Exemption

Jack is single and wants to gift $10,000,000 to his children.

- 2020 Gift
  - $10,000,000 gift and Jack’s exemption is $11,580,000
  - Jack ‘s gift is tax free
- 2021 Gift (Assume Biden’s plan is passed)
  - $10,000,000 gift and Jack’s exemption is $3,500,000
  - Jack has a Taxable gift of $6,500,000
  - Jack’s gift tax is $2,925,000 ($6,500,000@ 45%)
  - Jack needs $12,925,000 to gift $10,000,000

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Biden's Estate Tax Proposals

Example of Step-up in Basis

Purchase property for $100,000 and upon your death it is worth $1 Million

- **Step-up**
  - Upon death the property receives a step-up in basis from $100,000 to $1 Million
  - Beneficiaries who receive property receive it with a basis of $1 Million
  - If they sell it tomorrow, there is no tax. $1 Million sales price less $1 Million of basis

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Biden’s Estate Tax Proposals

Example of Step-up in Basis (continued)

- No Step-Up (Assumes Biden’s plan is passed)
    - Upon death, the beneficiaries receive the property with a basis of $100,000
    - If they sell the property tomorrow for $1 Million they have a $900,000 gain
    - They will pay a capital gain tax of $214,200

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Biden's Estate Tax Proposals

What does this all mean?

- We know what the law is through the remainder of 2020
- The IRS has said that there will not be a claw back if the lifetime exemption drops below the current amount
- We don't know for sure what 2021 will bring
- Change can occur anytime during year and may be retroactive to the beginning of the year
- There is still time to get gifts in before the end of the year

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Poll question coming up next

Use of Trusts in Estate Planning

Why use trusts in estate planning?

- Manage Assets
- Asset Protection
- Control Distributions
- Tax Savings both income and estate
- Avoid Probate
- Privacy
- Set aside assets for a special needs dependent
- Charitable

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Types of Trusts

Two broad categories of Trusts

- Revocable Trust
  - Avoids probate
  - Maintain control of your assets
  - Assets are still included in your estate
- Irrevocable Trust
  - Cannot be altered and you give up control of your assets
  - Asset protection
  - Assets not included in your estate

Poll question coming up next

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Spousal Lifetime Access Trust (SLAT)

What if you want to use up your exemption, but you want the ability to get the money back if you need it? Consider a SLAT.

- Locks in gifts up to exemption of $11,580,000
- Avoids estate tax on assets and appreciation upon the death of both spouses
- Income and principal can be paid to the beneficiary spouse (grantor spouse indirectly)

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Spousal Lifetime Access Trust (SLAT)

- Married couple
- Spouse (A) with assets in their own name transfer assets to the trust for the benefit of the other spouse (B) and children
- Permits spouse (B) to have access to the income
- Must name an independent trustee
- Trust is attractive because of the control of the cash flow. Probably not a good idea if divorce is a concern
- Grantor trust. Grantor pays tax on the income
- May also create a SLAT for each spouse
    - Cannot be identical
    - Must avoid the Reciprocal Trust Doctrine

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Spousal Lifetime Access Trust (SLAT)

Disadvantages

- Beneficiary spouse dies first
- Beneficiary spouse divorces you

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Use of Trusts in Estate Planning

Thank You!

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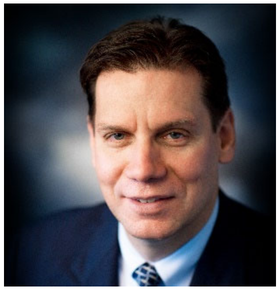

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Rich Nelson has extensive experience providing domestic and international tax planning and services to a variety of middle market companies and entrepreneurial businesses in a number of industries including manufacturing, distribution, real estate, financial, and professional services. He also has significant experience and expertise with high-net-worth individuals, investment companies and pass-through entities and has been involved in federal, state, and local tax audits, settlements, and appeals.

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Break

Our next session will resume at 2:00pm.

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Transition Readiness

Steven E. Staugaitis
Director, Audit & Accounting
Family Business Specialist

Katrina R. Samarin
Manager, Tax Strategies
ESOP Specialist

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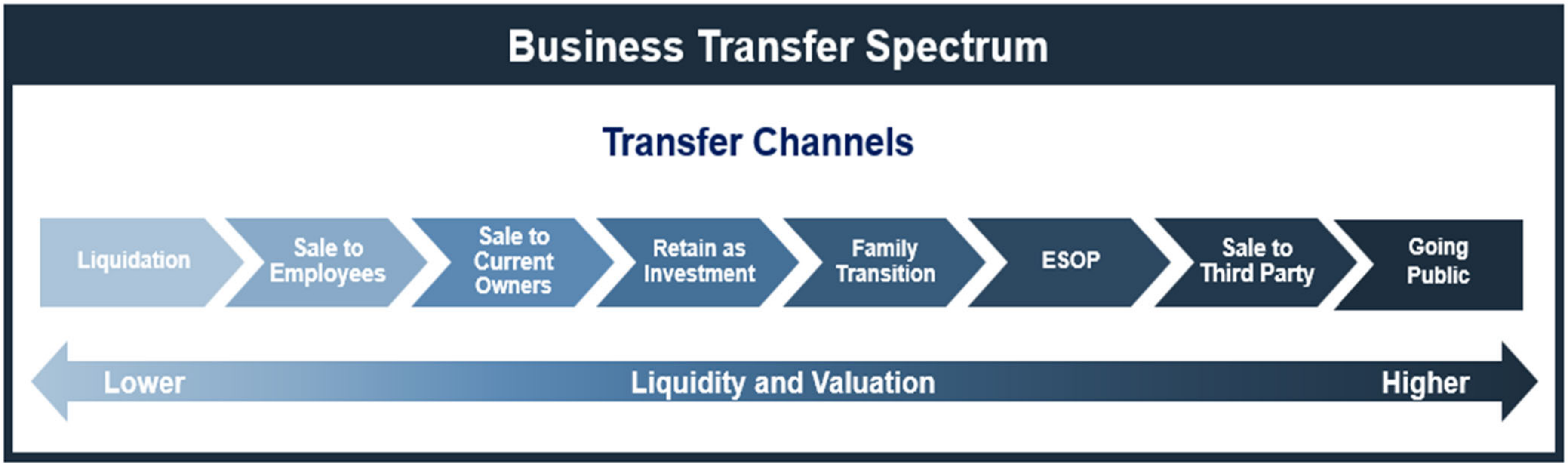
Business Transfer Spectrum



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Poll question coming up next

Ownership Transition Process

Goal Clarity → Identify Lifestyle → Determine Valuation → Evaluate Financial Capacity → Analyze Tax Efficiency → Evaluate Transfer Channels → Structure Transaction → Develop Buy-Sell

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Poll question coming up next

Business Transfer Methods and Structures

Family Gift

- Simple transaction
- No cash flow
- Low business risk
- High tax efficiency

Deferred Compensation

- Moderate complexity
- Provides cash flow
- Moderate business risk
- High tax efficiency

Seller-Held Note

- Simple transaction
- Provides cash flow
- Moderate business risk
- Lower tax efficiency

Bank Note

- Moderate complexity
- Provides cash flow
- Moderate business risk
- Lower tax efficiency

Other Payments

- Moderate complexity
- Provides cash flow
- Moderate business risk
- High tax efficiency

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Contact the Presenter

Steven E. Staugaitis
Director, Audit & Accounting and Family Business Specialist
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Steve has a wide range of experience providing accounting, tax and business advisory services to businesses in a variety of industries including manufacturing, distribution, construction, commercial real estate, and professional service organizations. He helps companies analyze and understand their financial position, reviews their buy-sell agreements, and assists with business valuations, structure business transfer plans for family and non-family businesses, and merger and acquisition activities.

As the Entrepreneurial Services Group Leader, Steve works exclusively with privately-held companies, many of which are family-owned, to provide integrated accounting, tax, and business advisory services.

Steve also serves as an instructor for Kreischer Miller's in-house professional training seminars. And, he is also a specialist with Kreischer Miller's Center for Private Company Excellence, for which he leads the Family Business Structure content hub.

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Contact the Presenter

Katrina R. Samarin
Manager, Tax Strategies and ESOP Specialist
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Katrina provides a variety of tax services including tax compliance, tax planning and tax research for corporations, multi-state companies, partnerships, trusts and high-net-worth individuals. Katrina has a diversified range of experience providing tax services to a variety of distribution, construction, manufacturing and service industries. As a member of Kreischer Miller's Manufacturing Industry Group, she assists in the development and instruction of in-house professional training on topics relating to the manufacturing industry. She is actively involved with the firm's Employee Stock Ownership Plan "ESOP" Group. She works with several companies who are ESOP owned and has experience with the unique tax attributes and reporting for ESOP-owned companies.

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Break

Our next session will resume at 2:30pm.

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M&A Update 2020

Rich Snyder
Director,
Audit & Accounting

Jennifer Kreischer
M&A Consultant

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Agenda

1. Are deals closing?
2. Valuation implications
3. Trends in structure and terms
4. How has COVID changed the process?
5. How to prepare for a sale

Are Deals Closing?

- Yes, but more slowly.
- Transactions that were close to closing before COVID are more likely to close.
- If the target was hit hard by the shutdown, it will not likely happen now unless a distressed sale.
- Q3 showed a broader uptick in M&A activity.
- Some expectation that Q2 was the trough, but COVID is expected to impact M&A well into 2021, at least.

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Which Deals Are Likely to Close?

- Likelihood of success is very situation-specific
  - Industry
  - Impact of shutdown on the business
  - Impact of shutdown on customers and suppliers
- Broadly, fewer and smaller transactions are expected
- There is less cross-border activity
- Private equity still have plenty of funds available for acquisitions

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Which Deals Are Likely to Close?, cont'd

- New transactions are much more likely if the parties already have a relationship.
- Defensive sectors that do well in a down-turn.
- Examples of sectors where we see activity:
  - Healthcare
  - Technology
  - Residential services/building
  - Veterinary services
  - Manufacturers who supply essential services companies
  - Companies that allow a buyer to bring supply chain onshore

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Valuation Implications

- It's challenging to determine normalized earnings this year for most businesses.
  - Introduces higher risk/discount rate in discounted cash flow models
  - Buyers are offering lower multiples
- Credit impact:
  - Traditional banks less active unless buyer already has a relationship with them
  - Private credit is available now, but was slower in interim
  - More favorable terms for lenders
    - Rates are higher by 100-150 basis points per Bain Capital
    - More restrictive covenants
  - All lenders are much more involved in due diligence earlier

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Poll question coming up next

Trends in Structure and Terms

- Multiples are lower
- A larger portion of the purchase price is in the form of earn-outs
  - Allows for time to assess long term impact of COVID
  - Period of earn-out is longer
- More creative purchase price adjustments and escrows
- In uncertain regulatory/political environment, we see a real push to close transactions by December 31, 2020 in case tax rates go up

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How Has COVID Changed the Process?

- Technology makes it more possible than we would have imagined.
  - Video conferencing
  - Screen sharing
  - Data rooms
- Not seeing the assets presents a real challenge
  - If parties know each other, this is eased.
  - Sellers are being creative making videos of their assets and processes.
- Relationship building is tougher virtually.
- Silver lining – more access to target personnel as their schedules are more flexible.

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How Has COVID Changed the Process?, cont'd

- Due diligence
  - Quarterly/monthly trends are more important
  - Target must be able to explain trends in sales and profitability by customer
  - Often takes longer to get information needed
- If target has a PPP loan
  - Ensure they really qualified
  - Ensure that they used the PPP loan for allowable expenses
  - If the loan has not been forgiven by the closing, will need to notify SBA of the transaction (important to involve legal counsel)
  - Escrow the entire PPP loan balance until forgiveness has been processed by the SBA and the lender

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Poll question coming up next

How to Prepare for a Sale

- Know your "story" on COVID
  - Support with good records of the impact
  - If you don't close the books monthly, you may want to in order to really show the impact
  - Consider:
    - Revenue, including explaining impact on your customers
    - Costs, including impact on your supply chain
  - Need to support "proof of recovery"
- Relationships enhance likelihood of a deal in tough times
  - Successful sellers start to informally market early
  - Consistent story is important if you start early

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Contact the Presenter

Richard Snyder
Director, Audit & Accounting
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Rich has a wide range of experience providing business advisory, audit, accounting, and tax services to a variety of businesses, including family-owned and privately-held companies. He also has assisted clients with various business advisory services including acquisition due diligence, operational audits and reviews, and bank refinancing. As the Media Industry Group Leader, Rich works with a large number of newspaper and media companies as well as newspaper trade association groups. He also serves as audit director in several other industries, including manufacturing and distribution.

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Contact the Presenter

Jennifer Kreischer
M&A Advisory Consultant
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Jennifer has over 25 years of experience providing services including financial due diligence for buyers and sellers, transaction structuring, purchase price adjustment advice, purchase agreement review, and related advisory services. She has advised on a variety of complex transactions, including cross border, carve-outs, recapitalizations, initial public offerings, and rollups.

Jennifer has experience performing quality of earnings analysis and operational due diligence. She has led projects to assess M&A process, purchase accounting, and implementation of IFRS for companies in a variety of industries. Additionally, Jennifer has a broad range of industry experience, including power and utilities, industrial products, healthcare, service businesses, and industry consolidations.

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Break

Our next session will resume at 3:00pm.

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Paycheck Protection Program Update

Brian J. Sharkey,
Director-in-Charge
Business Advisory Group

Lisa G. Pileggi,
Director-in-Charge,
Tax Strategies

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Agenda

1. Current Events
2. Demographics
3. Loan Forgiveness Timeline
4. Status of Loan Forgiveness
5. Types of Applications
6. Application Overview
7. Best Practices/Observations
8. Loan Necessity Questionnaire
9. Impact to Financial Statements
10. Tax Treatment of Forgiveness

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PPP Loan Forgiveness Current Events

- Loan Necessity Questionnaire
- SBA Form 3508S
- Related Party Rent/Lease Payment Limitation
  - Limited to the interest paid by the related party landlord

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PPP Loan Demographics

Loan Size	Count	% of Count	Dollars	% of Dollars
$50K and under	3,262,529	66.8%	$58.652B	11.2%
$50K - $150K	964,582	19.7%	$83.589	16.0%
$150K - $2M	628,599	12.9%	$271.417B	52.1%
$2M and over	29,678	0.6%	$107.824	20.7%

*Source: U.S. Small Business Administration

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Overview of the Forgiveness Timeline

Within 10 Months from End of Covered Period	Within 60 Days	Within 90 Days

- Borrower Completes Forgiveness Application and Support
- Borrower Submits Forgiveness Application and Support to Lender
- Lender Reviews Applicatio n and Support
- Lender Submits Application and Recommendation for Forgiveness to SBA
- SBA Remits Forgiveness and Payment to Lender

- “A borrower with a covered period that ends Oct. 30, 2020, has until Aug. 30, 2021, to apply for forgiveness before loan repayment begins.”

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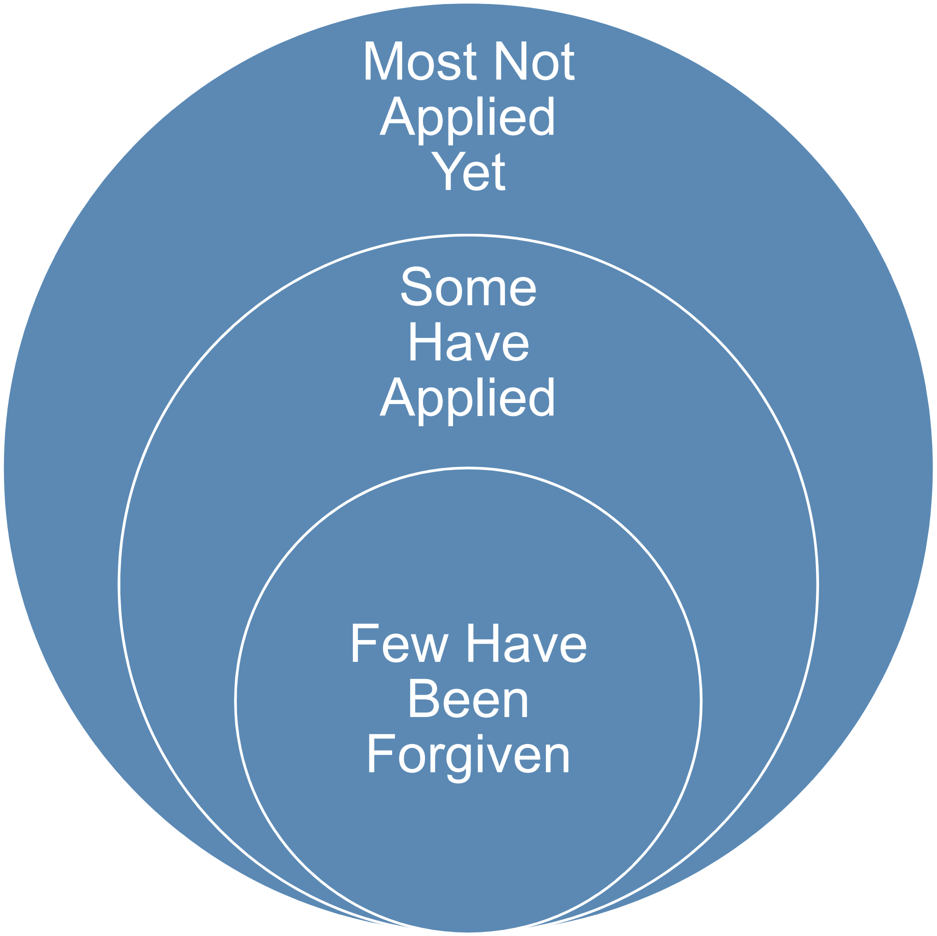
PPP Loan Forgiveness Status



Poll question coming up next

PPP Loan Forgiveness Applications

- **<u>Three</u>** versions of the application form:
  - SBA Form 3508
  - SBA Form 3508 EZ - *Designed for borrowers with no employees or borrowers with no salary or FTE reductions*
  - SBA Form 3508 S – *Borrowers with PPP Loans of $50,000 or less (based upon total loans, including affiliated groups)*

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Forgiveness Application - Form 3508EZ

Who Can Use the EZ Form

- ❑ Self-Employed Individual, Independent Contractor or Sole Proprietor ***with no employees*** at time of PPP loan application, or a
- ❑ (1) Borrower with no reduction of salary or hourly wages by more than 25% during Covered Period (or Alternative Payroll Covered Period) compared to 1st quarter of 2020; **AND** (2) Borrower did not reduce number of employees **or** average hours paid from January 1, 2020 to end of Covered Period
- ❑ (1) Borrower with no reduction of salary or hourly wages (same as above); **AND** (2) Borrower was unable to operate during Covered Period at same level of business as before February 15, 2020 due to compliance with requirements established* between March 1 – December 31, 2020

*by Secretary of Health and Human Services, CDC or OSHA

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Forgiveness Application - Form 3508EZ

What is Different About It

- No calculations for salary reductions or FTE tests
- Less supporting documentation to include with application
- 10 certifications instead of 8

What's the Catch

- Must maintain documentation that supports the certifications
- Still need to evaluate salary reductions and FTE tests for certifications

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Overview of Loan Forgiveness Application

Expenses
- Payroll (Salaries and Wages)
- Payroll Related Costs (Health and Retirement Benefits)
- Non-payroll related Costs (Rent, Utilities and Interest)

Reductions
- Salary/Wage Test Reduction
- FTE Reduction

Smallest of the following
- Modified Total Expenses
- PPP Loan Amount
- Payroll and related costs divided by 60%

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Poll question coming up next

Total Salary/Hourly Wage Reduction

Applicable To Employees That….

- Received a decrease in **rate of pay**.
    - Hourly rate decreased
    - Annualized salary decreased
- Did not received compensation in excess of $100,000 ***in 2019***

Determined by comparing the following…

- Average annual salary or hourly wage during the Covered Period
- Average annual salary or hourly wage between January 1 – March 31, 2020

Only comes into play if….

- Employee the decreased rate of pay is greater than 25%

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FTE Reduction Test

- The amount eligible for forgiveness shall be reduced proportionally by a reduction in the number of FTEs
- FTE reduction is based on comparing:
  a) Base Period Average FTEs:
     - 2/15/2019 – 6/30/2019, or
     - 1/1/2020 – 2/29/2020

  b) Average FTEs during Covered or Alternate Period
- The Loan Forgiveness will be reduced if (a) is greater than (b)
- Except if FTE Reduction Safe Harbor applies

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FTE Reduction Test – Safe Harbor #1

- If you were unable to operate between 2/15/2020 and the end of the covered period at the same level of business activity as before 2/15/2020 due to compliance with requirements established or guidance issued between 3/1/2020 and 12/31/2020, by the Secretary of Health Services, the Director of the Centers for Disease Control and Prevention, or OSHA.
- The above statutory exemption **<u>includes both direct and indirect</u>** compliance with COVID Requirements or Guidance, because a significant amount of the reduction in business activity stemming from COVID Requirements or Guidance is the result of state and local government shutdown order.

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Forgiveness Documentation

- ✓ Bank account statements – showing payroll disbursements – **OR …**
- ✓ … Payroll service provider reports showing compensation paid
- ✓ Payroll tax filings, including Form 941 and unemployment insurance filings
- ✓ Payment receipts, cancelled checks, or account statements showing payments
- ✓ Documents verifying existence of nonpayroll obligations prior to February 15, 2020
- ✓ Copy of lender amortization schedule and receipts or cancelled checks
- ✓ Statements from February 2020 to one month after end of Covered Period
- ✓ Support for each employee for Salary/Wage reduction test
- ✓ Support for FTE Reference Period
- ✓ All documentation must be retained for six years
  - submitted or not submitted

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Loan Forgiveness Best Practices/Observations

- Use 3rd party payroll provider reports when available
- **Consider** only applying with payroll cost
- Check your lender's portal before starting the process
- Wait until the dust settles

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Poll question coming up next

Loan Necessity Questionnaires

- Oct. 26th – SBA issued a notice seeking approval from the OMB to gather certain information from PPP recipients for loans $2 million or greater
- Purpose: assist the SBA in evaluating the good-faith certification made when upon applying for PPP funds
- Review is to “maximize program integrity and protect taxpayer resources”
- The Forms are in comment period until Nov. 25th - allowing business to comment and provide feedback
- Form is due back within 10 business days of receipt from the Lender

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Loan Necessity Questionnaires

- Gross receipts in Q2 2020 and 2019
- Was the borrower ordered to shut down or significantly alter operations by a state or local authority
- Did the Borrower voluntarily cease or reduce its operations
- Cash outlays for new capital projects (not due to COVID-19)
- Cash and cash equivalents prior to the PPP loan application
- Prepayment any outstanding debt during the covered period
- Whether any employee or owner received compensation in excess of $250,000, on an annualized basis, during the covered period
- Dividends or other capital distributions, other than pass-through tax payments, to owners

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Financial Statement Impact

- Two methods:
  1. Follow **debt guidance** – simple
  2. Follow **implied grant guidance** – more complex
- Debt Method:
  - Remains a debt obligation until the forgiveness is approved by the SBA
  - Then treat as an item of non-operating income "Forgiveness of Indebtedness"
- Grant Method:
  - Remains as liability until it can be reasonably **assured** that forgiveness will be achieved
  - Record as:
    - Non-operating income (preferred)
    - Operating income
    - Offset to expense

Poll question coming up next

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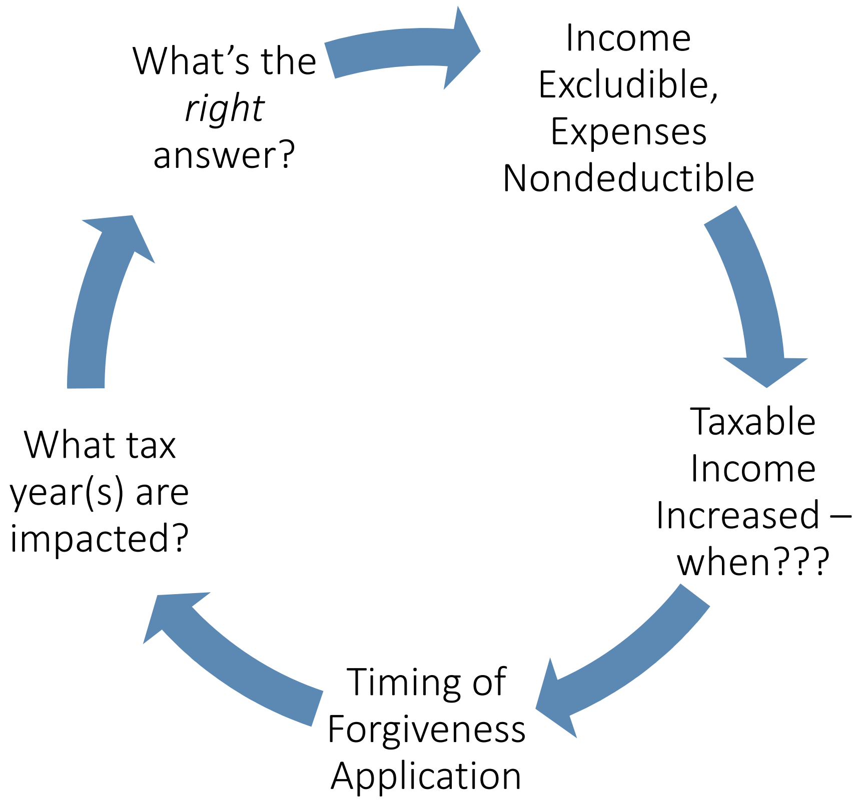
Federal Tax Implications & Considerations



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Major Takeaways

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Contact the Presenter

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Lisa is a trusted advisor to her clients, providing tax and business advisory services for a broad range of privately-held businesses including real estate developers and investors, construction contractors, manufacturers, and distributors. Lisa specializes in educating her clients, helping them maneuver their evolving business needs and become comfortable with the unknown. She helps her clients navigate various business cycles (i.e., growth, maturity, and exit), advising them on the corporate and individual tax-related implications of M&A transactions, succession planning, and changing tax laws. She has also assisted taxpayers in audits with the Internal Revenue Service and various states.

As the Director-in-Charge of Kreischer Miller's Tax Strategies practice, Lisa provides strategic leadership and management of the group, including recruiting, training, team member development, and serving as a resource on technical matters.

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Contact the Presenter

Brian J. Sharkey
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Brian leads Kreischer Miller's Business Advisory group, which offers an array of services including M&A/transaction advisory, business valuation, transition/exit planning, and ESOP consulting.

Brian is experienced in business valuations, transition planning, due diligence, and merger and acquisition activities. He helps his clients by actively working with them to solve issues, provide recommendations, and offer opportunities for success. Brian's experience includes working with a variety of privately-held and family-owned businesses such as manufacturers, distributors, professional service companies, and internet-based organizations.

In addition, Brian has a wide range of experience providing audit, review, and tax services to closely-held corporations. He also serves as a member of the firm's Manufacturing Industry group as well as in the ESOP specialty area.

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About Kreischer Miller

Kreischer Miller is an accounting, tax, and business advisory firm that has been serving clients since 1975. We've built our firm to respond to the unique needs of growth-oriented private companies, helping you smoothly transition through growth phases, business cycles, and ownership changes. The companies we work with need to be able to quickly adapt and respond to changing market opportunities and challenges. That's why our focus is on being responsive, decisive, and forward-thinking. We're up to the challenge—always looking at the road ahead, not in the rear-view mirror. **Learn more at www.kmco.com.**

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