

## Tax Survival Checklist For Small Businesses

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March 30, 2020

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The fiscal preservation plan offers a lifeline for small businesses in this uncertain time. The IRS has weaponized the tax code to combat the financial pain of the pandemic and to provide immediate relief to small businesses on the brink of disaster.

For most small businesses, cash flow and liquidity are top of mind. The recent tax changes provide important tools for small businesses to accomplish these objectives. The tax relief comes in two forms: (1) additional liquidity in the form of refundable tax credits and (2) interest-free bridge loans in the form of deferred tax payments. The cumulative effect creates immediate relief for small businesses during the shutdown.

Below are key points for small businesses to factor into their cash flow plans:

### **1. April 15th Tax Payment Deferral**

The IRS has delayed many tax payment obligations for small businesses until July 15th. The effect is a 3-month interest-free bridge loan from the IRS to small businesses. If the recession extends beyond 3 months, the IRS may further extend the deadlines

### **2. Employee Retention Payroll Tax Credits**

The Employee Retention Credits are a valuable source of tax relief for small businesses. The refundable payroll tax credit is limited to \$5,000 per employee and provides important additional liquidity for small businesses. To qualify, the business must be forced to close (in whole or part) or suffer a substantial decline in revenues. Available credits depend on workforce size. Employers with more than 100 employees qualify for the credit for wages paid to employees retained, but not currently working. Employers with 100 or less employees qualify for the credit for all employee wages. Wages paid after March 12, 2020 and before January 1, 2021 qualify for the credit.

### **3. Employer Payroll Tax Deferral**

Businesses may defer the employer's share of Social Security payroll taxes (6.2%). The deferred tax must be repaid by in equal installments (50% by December 31, 2021 and the remaining 50% by December 31, 2022). This creates an interest-free bridge loan from the IRS to small businesses.

#### 4. Paid Sick Leave Payroll Tax Credits

Employers who provide paid sick leave under the Families First Coronavirus Response Act (effective April 1, 2020) are eligible for a refundable payroll tax credit equal to 100% of qualified paid sick leave wages. The employer claims the credit as an offset against its quarterly payroll taxes. There are certain limits on the amount of the credit available depending upon the circumstances. This payroll tax subsidy provides additional liquidity for small businesses.

#### 5. Family and Medical Leave Payroll Tax Credits

Employers who provide paid family and medical leave under the Families First Coronavirus Response Act (effective April 1, 2020) are eligible for a refundable payroll tax credit equal to 100% of qualified family leave wages. The employer claims the credit as an offset against its quarterly payroll taxes. There are certain limits on the amount of the credit available depending upon the circumstances. Payroll tax subsidy provides additional liquidity for small businesses.

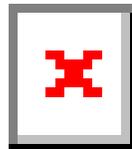
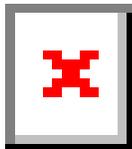
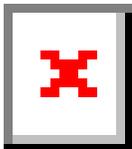
#### 6. Tax Refunds for Tax Loss Carryback

The IRS allows net operating losses (“NOLs”) from 2018, 2019 or 2020 to be carried back for five years. The carryback of the tax losses to tax years with higher tax rates is favorable for taxpayers and will create more financial value. This tax loss monetization relief creates additional liquidity for some small businesses.

#### 7. Tax Refunds for Accelerated Depreciation

Businesses, including retailers, restaurants and bars, are eligible for accelerated depreciation for their costs of interior improvements. This change, sometimes referred to as the “retail glitch,” applies retroactively. The increased tax write-offs should provide more liquidity for some small businesses.

The cumulative financial impact of these tax incentives can be significant. Small businesses should take full advantage of these tax opportunities by incorporating them into their cash flow plans. If the shutdown persists or the recession lingers, businesses may see more tax relief from the IRS. Our firm will continue to monitor all important tax changes and report them to you as they develop.



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