

March 30, 2020

Summary of COVID-19-Related Policy Changes

We have all been inundated with new information from everywhere as we adjust to the current situation surrounding COVID-19. It has been increasingly difficult to stay on top of every policy change taking place as Congress reacts to the pandemic with the goal of providing relief to both employers and employees. This overview is meant to consolidate all of these various changes in one place, and give a brief summary of each change relevant to small businesses and individual taxpayers. This is not all-encompassing, and many of these areas have fine details that will need to be addressed on a case-by-case basis.

- Effective April 1, 2020, for private-sector employers with fewer than 500 employees
 - 80 hours emergency paid sick leave
 - Emergency family and medical leave expansion
 - Tax credits for paid sick and paid family and medical leave
- Coronavirus Aid, Relief, and Economic Security (CARES) Act
 - **Businesses**
 - Small Business Administration Paycheck Protection Program
 - Employee retention credit
 - Payroll tax deferral
 - Net operating losses
 - Business interest expense limitation
 - Qualified improvement property
 - **Individuals**
 - Recovery rebates
 - Retirement withdrawals
 - Charitable contributions

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Emergency Paid Sick Leave

Up to two weeks (80 hours, or a part-time employee's two-week equivalent) of paid sick leave based on the higher of their regular rate of pay, or the applicable state or federal minimum wage, paid at:

- 100% of regular pay, up to \$511 daily and \$5,110 total for employees:
 - subject to a federal, state, local, or healthcare provider-issued quarantine
 - experiencing COVID-19 symptoms and is seeking a medical diagnosis
- Two-thirds of regular pay, up to \$200 daily and \$2,000 total for employees:
 - caring for an individual subject to a federal, state, local, or healthcare provider issued quarantine
 - experiencing any other substantially similar condition specified by the Dept of Health
- Up to 12 weeks of paid sick leave and expanded family and medical leave paid at 2/3 up to \$200 daily, and \$12,000 total for employees caring for a child whose school or place of care is closed

Emergency Family and Medical Leave Expansion

The first two weeks of Family Medical Leave Act (FMLA) may be unpaid, at which time an employee may use accrued leave, but they are not required to do so. The remaining 10 weeks of FMLA will be paid up to two-thirds of employee's regular rate and the number of hours the employee is normally scheduled to work up to a limit of \$200 per day, up to a total of \$10,000 for all calendar quarters.

Small Business Administration Paycheck Protection Program

- Businesses with fewer than 500 employees, including self-employed individuals, who have had operations impacted by the pandemic are eligible to apply for a loan through the SBA
- Loans are expected to be forgiven up to the amount of the following expenses during the eight-week period, beginning with the origination of the loan:
 - Payroll costs
 - Interest on mortgage or other debt instrument
 - Rent obligated under a leasing agreement
 - Utilities including electricity, gas, water, transportation, telephone, and internet
- The maximum loan is set to be 2.5x the company's average total monthly payroll cost for the previous year up to \$10 million
- Within five days of applying, an initial disbursement of \$25,000 will arrive
- The rest of the loan being disbursed on a schedule determined by loan office
- Applicants must verify the previous six weeks of payroll and subsequently verify that they have paid employees for eight weeks after receiving the loan

Businesses seeking to apply will be required to provide several documents including:

- SBA Form 5 completed and signed
- Tax Information Authorization (IRS Form 4506T) completed and signed by each applicant and each principal owning 20 percent or more
- Complete copies of the most recent Federal tax return for the business
- Personal Financial Statement completed, signed and dated by applicant and each principal owning 20 percent or more
- Schedule of Liabilities listing all fixed debts

The SBA application process has three methods for applying:

- SBA online portal - <https://disasterloan.sba.gov/apply-for-disaster-loan/index.html>
- By mail – SBA Processing & Disbursement Ctr, 14925 Kingsport Rd, Fort Worth, TX, 76155-2243
- In person at an SBA disaster center

Employee Retention Credit

One-year only credit against the employer's 6.2% share of Social Security payroll taxes. The credit will equal 50% of the qualified wages through December 31, 2020. There are two ways a business is eligible for the credit:

- Operation of business was fully or partially suspended during any calendar quarter during 2020, due to government orders related to COVID-19 and the business continued to pay its employees

OR

- The business remained open, but during any quarter in 2020, gross receipts for that quarter were less than 50% of what they were for the same quarter in 2019.
 - In this case, the business will then be entitled to a credit for each quarter until the business has a quarter where its receipts exceed 80% of what they were for the comparative quarter in the previous year.

Payroll Tax Deferral

The employer's share of the 6.2% Social Security tax for the period beginning on March 27, 2020 through December 31, 2020 will now be due as follows: 50% on December 31, 2021 and the remaining 50% on December 31, 2022. This also applies for self-employed taxpayers owing their 50% of the employer portion of self-employment tax. *(businesses utilizing the forgiveness of loans from the SBA are not eligible for this payroll tax deferral)*

Net Operating Losses

There will now be a five-year carryback period for net operating losses arising in 2018, 2019, or 2020 by a business. Businesses will be able to amend returns dating back to 2013 to take advantage.

Business Interest Expense Limitation

Increases the interest expense limitation created under the new tax laws from 30% of income to 50%.

Qualified Improvement Property

Fixes the error in the signed version of the new tax laws that limited qualified improvement property to a 39-year depreciation life. They will now be 15-year property and eligible for bonus depreciation.

Recovery Rebates

Individual taxpayers will receive rebates depending on their filing status and calculated based on either 2018 or 2019 taxes. The rebates are phased out by \$5 for every \$100 of income in excess of the threshold. These rebates are advance refunds for credits that will be calculated on your 2020 taxes.

- \$1,200 for single filers claiming themselves
 - Phaseout begins with AGI of \$75,000 and is fully phased out at \$99,000
- \$2,400 for married filing jointly
 - Phaseout begins with AGI of \$150,000 and is fully phased out at \$198,000
- \$1,200 for head of household filers
 - Phaseout begins with AGI of \$112,500 and is fully phased out at \$136,500
- \$500 credit for each child

Taxpayers that have already filed their 2019 return will have their rebate determined utilizing that information while taxpayers that have not filed will see their 2018 income used. The IRS will be direct depositing these amounts for every taxpayer that already utilizes the direct deposit for refunds.

Retirement Withdrawals

The 10% early withdrawal penalty will be waived on withdrawals up to \$100,000 made to individuals that were either diagnosed with COVID-19 or experiences adverse financial consequences as a result of quarantine, business closure, layoff, or reduced hours. Any income attributable to the withdrawal will be subject to tax over a three-year period. Taxpayers may retribute the withdrawn amounts without regard to annual caps within the same three-year period to avoid taxes.

Charitable Contributions

Individuals that do not itemize their deductions will now be allowed a deduction for qualified charitable contributions up to \$300. Additionally, in 2020, taxpayers that do itemize will no longer be subject to the 60% of AGI limit for charitable contributions.

COVID-19 has created many challenges in recent weeks. At Malloy, Montague, Karnowski, Radosevich & Co., P.A. (MMKR), we strive to guide our clients through these uncertain times. If you are concerned about how these changes will impact you and your business, contact our team today to schedule a consultation with one of our accountants.



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March 23, 2020

Dear MMKR Tax Client,

As we continue to monitor the ever-changing and evolving situation around the corona-virus (COVID-19), our number one priority is the safety and well-being of our clients and our staff and how this impacts all of us during these stressful times.

In an effort to minimize the risk of exposure within the office, we are requesting that you please call ahead, (952) 545-0424, as the number of staff working in the office is limited. We are making every effort to keep the office open to our clients between 10:00 a.m. and 2:00 p.m. Monday through Friday. Should you need to stop by the office, please call ahead to ensure someone is available. Employee access is restricted to individuals only involved with tax processing and IT. As stated in previous e-mails, MMKR is encouraging the transfer of documents electronically or send documents via the U.S. mail. If you are in need of assistance using our electronic communication options, please contact Lisa Bolser at lbolser@mmkr.com for assistance.

Trying times generally bring out the best in people and we are confident the same will hold true for MMKR as a whole.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

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March 20, 2010

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MMKR Commercial and Tax Clients:

You recently received a message from us regarding our operations during these stressful times. We wanted to expand on that message specifically for the commercial and tax clients as to what MMKR is currently doing today, and what our plans are as we approach the original individual tax deadline of April 15, 2020.

NEW TAX DEADLINE – JULY 15, 2020

As of today, the IRS has announced that it has pushed back the due date of all tax returns until July 15, 2020. We expect the states will follow the federal mandate (Minnesota also followed today); however, that is yet to be decided by other states. It is our plan to continue to prepare tax returns as we receive them for as long as possible under the circumstances. If you have a refund due to you, the taxing authorities are still processing them to help taxpayers' cash flow. If your tax return is prepared, we will continue to electronically file the returns as normal. If you have a balance due, that amount can be paid without interest or penalty up through July 15, 2020.

As a result of the new tax deadline, the IRS has also extended the due date of the first estimate payment for the year ended December 31, 2020, to July 15, 2020. However, at this time, we are uncertain as to how much that first estimate will need to be. It could either be an estimate to make up the first two quarters, or there may be a different method used for the balance of the year. For those who pay estimated taxes, we will keep you informed as more details become available.

IN THE EVENT OF A TRAVEL BAN

We have invested in technology that allows our team members to work remotely to maintain sufficient staff to ensure work is completed. To protect both our employees and clients against potential virus spread, we ask that you share information with us electronically whenever possible. We are accepting documents in paper format via mail or drop-off as well during this time; however, this may also change, due to issues beyond our control. If possible, electronic documents are preferred. If you are in need of assistance using our electronic communication options, please contact Lisa Bolser at lbolser@mmkr.com for assistance.

EXTENSION OF INCOME TAX RETURNS

If the states do not follow the federal change, we can prepare and file your extension without your signature. We will make every effort to finalize your tax return with the resources we have, but in any scenario, rest assured that your tax return will not be filed late. Although we are using electronic receipt and delivery as much as possible, there are limits to this as well.

Thank you for your patience and trust in MMKR.

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March 20, 2020

Please find below some recommendations regarding internal control modifications and other helpful reminders related to the Coronavirus pandemic:

Maintaining Strong Internal Controls During the Coronavirus Pandemic

As the COVID-19 pandemic grows, we've begun receiving questions from our clients on how to best handle the many disruptions. To help broadly respond to the situation, we have decided to list some of the recommendations here:

Internal Control Considerations

Because of the impact of COVID-19, entities may need to implement new internal controls or modify existing ones. Any changes in internal controls that have materially affected, or are reasonably likely to materially affect, entities' internal control over financial reporting should be documented and approved by appropriate levels of management prior to implementation.

Entities will need to consider the operating effectiveness of controls, including assessing any breakdown in review-type controls or the inability of individuals to perform control duties because of absences (e.g., due to employee illness or the closure of affected offices). Entities should also consider how a lack of information may affect management's ability to effectively operate controls (e.g., personnel may not be available in offices in affected areas to provide information that is essential to the effective operation of an internal control). If an existing control cannot be performed, management may need to identify alternative appropriately designed controls to compensate for the lack of information.

Entities should also consider management's ability to complete its financial reporting process and prepare its financial statements on a timely basis. Delays in closing the underlying financial records may increase the potential for error in the financial statements and merit the use of new or modified controls to offset the increased risk of potential financial statement error. In addition, entities will need to ensure that they have properly designed and implemented controls related to the selection and application of accounting standards and the related disclosure issues arising from COVID-19.

Working from Home

While working from home is recommended by authorities for containing the outbreak, employees remotng in creates challenges when following internal control policies and ensuring proper segregation of duties.

Given all of this, some best practice recommendations to consider include the following:

Accounting Policies and Procedures

- We highly recommend calling an email requester before wiring funds, sending a check, sending sensitive information, changing direct deposit accounts, or updating system settings. Unfortunately, fraudsters will see the coronavirus as an opportunity to push out phishing and spear phishing attacks on organizations.
- Consider how all your approval processes will change for areas in which you aren't currently using an online approval process.
- Diligently check online banking at least weekly, if not daily, since segregation of duties is harder to accomplish.
- For those with grants or contracts that have periods of availability specified in them, you may want to reach out to negotiate a longer period of availability if your capacity to execute on the agreement is limited during this time.
- Payroll is typically an organization's largest expense. Whether you do it yourself or outsource the responsibility, develop a plan for processing and approvals in a remote environment.

IT Policies and Procedures

With regard to your IT systems, while employees are working remotely you should consider:

- Multi-factor authentication for all external access (especially email) no matter the situation. It may be easier for organizations to implement this now since they can use the change in work environments as a trigger.
- Data and remote access policies are another item of concern as more people work from home, especially if they are using a personal computer to access company resources. It's important to address these questions:
 1. If employees don't have laptops, do you allow employees to work from their own computer and what are the minimum acceptable operating system and antivirus software requirements for doing so?
 2. What is the policy for accessing data/resources (e.g. cloud services) from a personal computer?
 3. Are there policies around (not) storing data on personal computers?

Payroll Taxes

One consideration is federal tax requirements.

- Tax forms are required to be signed by specific individuals in your organization. Look into the consideration early and have a plan to get needed approvals.

Conclusion

If there is anything we can do to assist you regarding these matters, please contact us. We are in uncharted waters now, so please contact our office if you have questions.



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March 16, 2020

A message from the Managing Partner:

Clearly, these past several weeks have generated concerns on how to respond and manage the ongoing developments related to coronavirus (COVID-19). I wanted to connect with our clients to briefly share MMKR's plan for continued operations and address any concerns you may have.

At MMKR, the health and well-being of our team members, clients, colleagues, and their families are of utmost importance to us. We have been proactively communicating with team members about common-sense hygiene practices to limit the spread of illness-carrying germs, and asking anyone who is not feeling well to work from home. We have also been implementing revised work plans as this situation continues to evolve.

Effective Tuesday, March 17, 2020, MMKR will end all non-essential on-site visits, both at client sites and our offices, until further notice. Our team members will be in contact with you regarding the status of any upcoming scheduled fieldwork, office visits, or meetings in the short-term. Our offices will be staffed by a limited number of essential personnel during this time, but will be closed to outside visitors.

During this turmoil, we want to assure you that we will remain "open for business" to the extent possible and working hard for you. We have invested in technology which will allow our team members to work remotely. To protect both our employees and clients against potential virus spread, we ask that you share information with us electronically whenever possible. We will be accepting documents in paper format via mail or drop-off as well during this time, but electronic documents are preferred. If you are in need of assistance using our electronic communication options, please contact our office and a staff member will assist you with your needs.

Communication is very important during stressful times like these. Our team members will be reachable by email, and will monitor and respond to voicemail messages. We are following this situation closely and if any major changes occur, we will update you with the details. If you have any concerns, please do not hesitate to reach out to us at any time.

Please know we are here to answer your questions.

Kindest regards,

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