COVID-19 Best Practices
Online Training: Interpreting the CARES Act for Manufacturers and Modeling Liquidity for Financial Clarity

April 9, 2020
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The FloridaMakes Network


The FloridaMakes network is an industry-led initiative operated by Florida’s regional manufacturers associations in partnership with industry, research, educational and economic development organizations, both public and private, at the state and national levels.

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Interpreting the CARES Act for Manufacturers and Modeling Liquidity for Financial Clarity

April 9, 2020

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Agenda

• CARES ACT
• Filing and Payment Deadlines
• CLA Approach to Evaluating the Financial Implications of COVID-10
Coronavirus Aid, Relief, and Economic Security Act
2020 Recovery Rebates for Individuals

- New credit for 2020 (Sec. 6428)
  - $1,200 per eligible individual
  - $500 per qualifying children

- Limit based on AGI
  - $150,000 MFJ
  - $112,500 HOH
  - $75,000 all others
2020 Recovery Rebates for Individuals

• Advance refunds of credit
  – Based on 2019 or 2018 AGI
  – Refunds supposed to start April 6
• Example:
  – Family of 5 with 2019 AGI of $200k and 2020 AGI of $170k
  – Advance refund = $1,400 ($3,900 - $2,500)
  – Credit with 2020 return = $1,500 ($3,900 - $1,000 - $1,400)
Special Rules for Retirement Funds

• Penalty-free “coronavirus-related distributions” ≤$100k
  – Income recognition spread over 3 years
  – However, have 3 years to repay
    ◇ Repayment amounts treated as eligible rollover distribution or trustee to trustee transfers

• Plan loans
  – Limit increased to $100k
  – 1 year delay of repayment
Waiver of RMDs

- Defined contribution plans and IRAs
  - RMDs for 2020 are waived
  - 5-year rule determined without regard to 2020
Charitable Contributions

- ≤$300 above-the-line deduction allowed
  - Cash contributions to public charity
  - For non-itemizers only
- Contribution base for cash contributions:
  - Individual itemizers – 100% of AGI
  - Corporations – 25% of taxable income
- Food donations – 15% limit increased to 25%
Employer Payments of Student Loans

• Sec. 127 Educational assistance programs
• 2020 only:
  – Educational assistance includes student loan payments
  – Can be paid to employee or lender
Corporate Minimum Tax Credits

• MTC refundable in 2019 tax year
  – Can elect full refund for 2018 tax year
Delay of Employer Payroll Taxes

- ER share of social security tax deferred
  - 50% due 12/31/21
  - 50% due 12/31/22
- Applies to wages paid from enactment to 12/31/20
- Also applies to ER portion of SS tax for self employed
- N/A if taxpayer uses paycheck protection loan forgiveness
Suspension of EBL

• EBL suspended for 2018-2020
  – Amended return opportunity/obligation
• Starting in 2021, wages will be non-business income
Bonus for QIP

• QIP is improvement to interior of building but not:
  – Enlargement
  – Escalator/elevator
  – Internal structural framework

• Eligible for 100% bonus retroactive to 2018
  – N/A if elected out of bonus for 15 year property
  – N/A if elected or forced to use ADS (e.g., real prop T/B)

• 3115 or amended return opportunity/obligation
Modifications to NOLs

• 5 year c/b for NOLs from 2018, 2019, or 2020
  – Can waive c/b but can’t modify c/b period

• 80% of TI limitation suspended through 2020
  – No change to 90% limit for AMT
  – NOLs generated in ‘18, ‘19, and ‘20 subject to 80% of TI limit starting in ‘21

• 2 year c/b for NOLs from year starting in ‘17 and ending in ‘18
Increase in Sec. 163(j) Limitation

• Limit increased from 30% of ATI to 50% of ATI for 2019 and 2020
  – Amended return opportunity for ‘19 returns

• Partnerships
  – Limit remains 30% of ATI for ‘19 – 50% for ‘20
  – 50% of ’19 excess interest treated as paid in ‘20

• Election to use 2019 ATI in computing 2020 limit

• Election to continue to use 30% of ATI
Employee Retention Credit

• 50% of first $10K of comp (incl. health benefits) paid from 3/13/20 to 12/31/20

• Available if:
  – Operations fully or partially suspended due to COVID-19 or
  – GR <50% of same quarter in PY (until GR<80%)

• ER > 100 EE: only comp paid to out-of-work EE

• ER ≤ 100 EE: any comp paid during one of two situations

• Not available if ER uses paycheck protection loan
Employee Retention Credit - Example

- Shut down of factory floor from 3/20 to 4/14
  - Security and some admin personnel still working
  - Continues paying all employees
- ER claims sick leave credit for 4/1 to 4/14
- If >100 EEs – credit for comp paid 3/20 to 3/31 for employees not working
- If ≤100 EEs – credit for all comp paid 3/20 to 3/31; credit for employees working 4/1 to 4/14
Filing and Payment Deadlines

Notice 2020-18, FAQs and Notice 2020-20
Due Date to July 15

• For any “person”
  – Everyone and everything

• Not covered
  – Payroll and excise taxes
  – June 15 estimates

• 10% add’l tax for early distribution of IRA is delayed

• Notice 2020-20 added gift tax returns

• Estate tax returns not delayed
Extension Forms

- Federal not needed for April 15
  - At July 15, can be extended to October 15
  - Separate gift tax extension not necessary

- States
  - SALT maintains and updates the list
Other Acts on April 15

• Deferred to July 15
  – IRA contributions
  – Other retirement plan contributions
  – HSA, Archer MSA contributions
Lending Programs
Lending and Grant Programs

• PPP (Paycheck Protection Program)
• EIDL (SBA Emergency Injury Disaster Loan Program)
• CARES Act Emergency Grant
• Midsized Loan Program
• Other Grant Programs
CLA Intuition 2.0

Matthew Borchardt, CPA
Seven Stages of Grief

- Shock and Denial
- Pain & Guilt
- Anger & Bargaining
- Depression, Reflection

CLA and ALL of our Clients are at the beginning stage of an unprecedented trauma

- Upward Turn
- Reconstruction
- Acceptance & Hope
Key Lessons Learned

• Focus on the next 90 days – “Keep it Simple” Dashboard
• Utilize the COVID Curve to bring structure to the chaos – We are not predicting the future we are understanding possibilities
• PRACTICE – You have to play this movie before the client sees it
• Build a story – turn it all off – don’t tell multiple parts at the same time
• Be athletic and think outside the box and find creative solutions
PreCOVID Status Quo

Adjustable Assumptions

The original and adjusted values all agree.
**CLA COVID Revenue Modeling Approach**

**The “Old” Baseline**

**DIP**
(How Big & How Long?)

**TURN**
(How Big & How Long?)

**RECAPTURE**
(How Much & How Long?)

**The New COVID Reality**

**KEY ISSUES:**
1. The size of the “dip”
2. How long will it last?
Sizing the Dip

Sized up a 70% “Dip”

The “Dip” ends 6/30

$1,441 of lost revenue

The “Keep it Simple” allow us monthly views

This is the June viewpoint

All numbers are cumulative

How you can calculate the size of a needed loan (lowest point our month end cash goes)
Sizing the Dip

Sized up a 70% “Dip”

The “Dip” ends 6/30

$1,441 of lost revenue

The gray boxes allow us different views.

This is the revenue dashboard.

The gray background is the budgeted performance.

The lost revenue shows up in black (the straight up line in June shows an instant turn).
CLA COVID Revenue Modeling Approach

The “Old” Baseline

The New COVID Reality

DIP
(How Big & How Long?)

TURN
(How Big & How Long?)

RECAPTURE
(How Much & How Long?)

KEY ISSUES:
1. When will we return to the status quo?
Sizing the Turn

It will take 8 weeks to ramp up to the “New Reality” from the end of the “Dip”.

Did anything change? Did the “Turn” matter for surviving the next 90 days? Not if the “Dip” goes to 6/30.
It will take 8 weeks to ramp up to the “New Reality” from the end of the “Dip”.

The ramp up of the turn shows up in the slanted black graph.
CLA COVID Revenue Modeling Approach

**Key Issues:**
1. How much of what you lost will you recover?
2. Do you have capacity to recover any of it?
Recapture

Recapture 25% of the lost revenue during the “Dip” and the “Turn”

The Recapture takes 5 weeks to occur from the end of the “Turn”

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Impact (500s)</th>
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<tbody>
<tr>
<td>Turn Rate</td>
<td>$504</td>
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<tr>
<td>Recapture</td>
<td>$504</td>
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<tr>
<td>Recovery</td>
<td>$504</td>
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</tbody>
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End of June

Revenue Miss (Cost of COVID) $1,441 (24%)

Margin Miss (After intervention) $836

Cash Needed (Maximum Deficit) $60

Did anything change? Did the “Recapture” matter for surviving the next 90 days? Almost never will the “Recapture” impact our ability to survive the next 90 days
Recapture

Recapture 25% of the lost revenue during the “Dip” and the “Turn”

The Recapture takes 5 weeks to occur from the end of the “Turn”

The uptick in revenue during the recapture

The recaptured revenue shows up in gold
CLA COVID Revenue Modeling Approach

The “Old” Baseline

The New COVID Reality

DIP
(How Big & How Long?)

TURN
(How Big & How Long?)

RECAPTURE
(How Much & How Long?)

KEY ISSUES:
1. What will your future revenue stream look like?
New COVID Reality

The new COVID reality will have 90% of the revenue we budgeted for.

Did anything change? Did the “New Reality” matter for surviving the next 90 days? Almost never will the “New Reality” impact our ability to survive the next 90 days.
The new COVID reality will have 90% of the revenue we budgeted for.

You can notice the lost revenue every month.
Contingency Plan Considerations

- Reductions or Delays in Spending
- Reduce or Eliminate Discretionary Benefits
- Workforce Reductions
- Capital Spending
- Working capital considerations
- Hiring Delays
- Across the Board (atb) Compensation Reductions
- Investment Market Downturn implications

CLAs Models and Approach Can Help Inform

- How Much?
- When?
- How Long?
The client noted they had a 70% workforce reduction on 3/16 which we run till the end of the year.

We now survive the next 90 days!!!
Sizing up a Loan

Only look at your transaction and tie out the cash flow to the loan

Change the timing and amount to get the results you want
The client wanted to see the implications of hiring back their workforce and having a PPP loan for 3 months (5/1 – 7/31).
Check Out the Annual View To Verify we Survive!

The gray boxes allow us different views.

This is the liquidity dashboard.

We now have positive cash balances!!!
Key Process Next Steps

- Populate the Baseline Model
- Discuss and Evaluate “Revenues at Risk”
- Review Initial Model
- Multiple Web meetings to Evaluate Possibilities and Size Contingencies
- Memorialize Options and Contingency Highlights
- Formal Reports as Necessary
- On going monitoring and communication
Key Features and Benefits of CLA COVID Financial Modeling Approach and Tools

Features
1. Structured Approach to Assess the Possible Revenue, Expense and Cash Flow Impacts of COVID over a 12 Month Period
2. Quick and Cost Effective Tool to Get to Actionable Financial Intelligence in Uncertain Times
3. Easily incorporate CLA Tools and Approach to ANY level of the organization
4. Ability to Interactively Evaluate COVID Financial Impacts in a “Sizing and Timing” Environment

Benefits
1. Creates the basis for more consistent organizational understanding of the economic impacts of many potential COVID possibilities over an 8 to 12 month time horizon
2. Supports an Interactive, Team Based approach to COVID Financial Planning
3. Provides a structured way to scenario plan, communicate and monitor COVID financial impacts
4. Allows for easy evaluation of the size and dimensions of multiple contingency plans

CLA USE ONLY. PREPARED 3/29/2020 9:52AM
Thank you

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Upcoming webinar:

COVID-19 Best Practice Series

April 16 – MACF Webinar: What Are Employer Risks When Dealing with COVID-19