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Five Ways to Increase Cash Flow

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THANK
YOU



Agenda

Topic	Presenter
Introduction	Moss Adams
Paycheck Protection Program & Forgiveness Overview	Danielle Newhouse
Loan Forgiveness Maximization Strategies	Sara Bailey
Payroll Planning	Sara Bailey
Research and Development (R&D)	Sara Bailey
Net Operating Loss (NOL) Carrybacks and Carryforwards	Sara Bailey
Balance Sheet Management	Danielle Newhouse
Q&A	ALL



Paycheck Protection Program & Loan Forgiveness Maximization Strategies

Paycheck Protection Program – Overview

- Payroll costs – “at least” 60% of expenditures
 - ❖ Gross salary, wage, commission, similar (limited to \$100K/yr) (Owner compensation limited for 24 week period at \$20,833 or 2.5 months compensation)
 - ❖ Certain employee benefits – health insurance & retirement benefits paid by employer
 - ❖ State & local taxes assessed on compensation (i.e. unemployment)
- Other forgivable “covered” costs – “up to” 40% of expenditures
 - ❖ Mortgage interest on real and personal property (no pre-payments) (in place before 2/15)
 - ❖ Rent/lease payments on real and personal property (agreement in place before 2/15)
 - ❖ Utilities – electricity, gas, water, transportation, phone, internet (services started before 2/15)
- Other allowable uses (not forgivable) – included in 40%
 - ❖ Interest (on/after 2/15)
 - ❖ Interest (nonmortgage liabilities)
 - ❖ Rent (lease in force on/after 2/15)
 - ❖ Utilities (service began on/after 2/15)



Forgiveness Haircuts

- Reduction in headcount
 - ❖ Based on change in FTEs (40 hrs/wk) between base period and covered period
 - ❖ Safe harbor: December 31 headcount restoration
 - ❖ Special rule: worker refuses re-hire – must document
 - ❖ *NEW* safe harbor not able to re-hire individuals who were employees on 2/15/20 AND unable to hire similarly qualified employee
 - ❖ *NEW* safe harbor not able to return to the same level of business due to compliance with HHS, CDC, or OSHA related to sanitation, social distancing, or worker/customer safety
- Wage reduction
 - ❖ Decline in an employee's pay over the covered period > 25%
- Document all assumptions based on guidance currently in existence

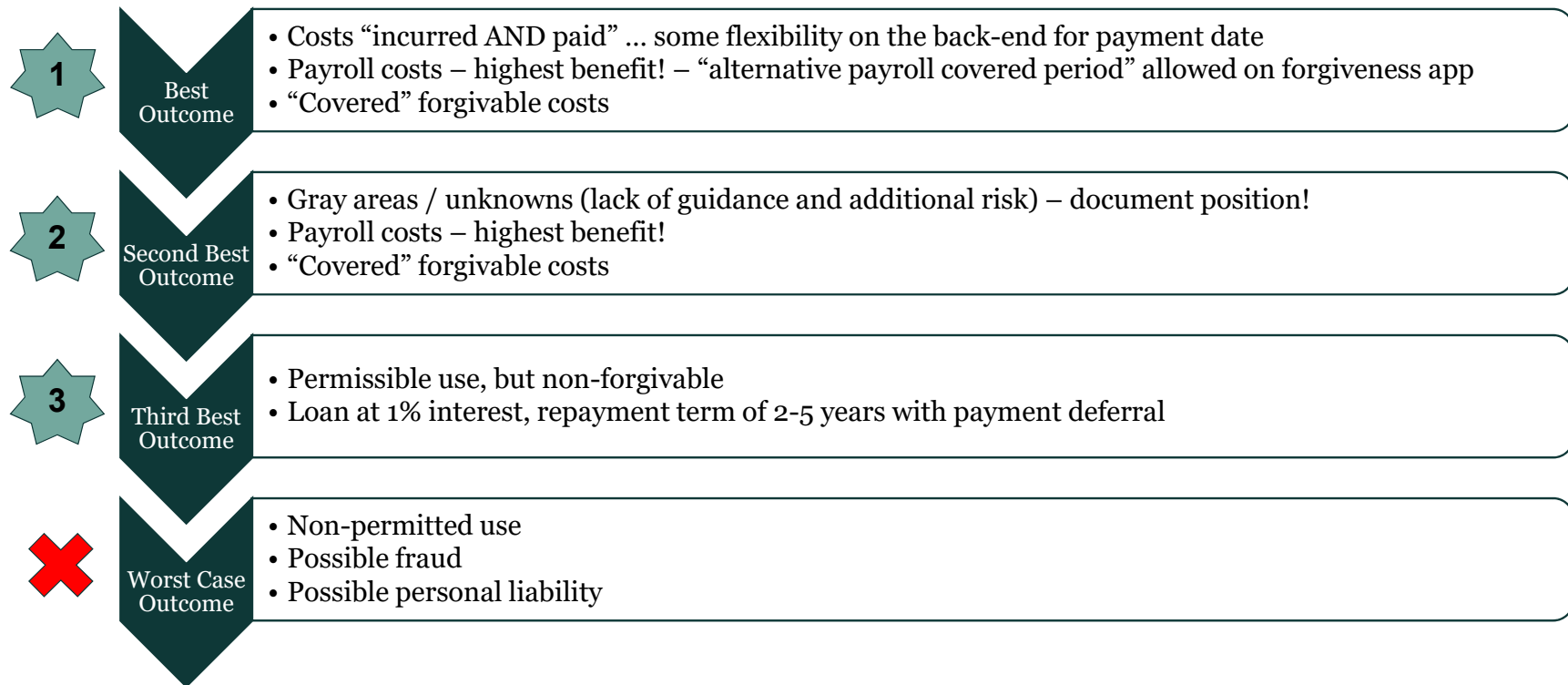


PPP Loan Forgiveness: Unknowns

1. Application submission prior to the end of the covered period – no guidance on how to calculate FTE ratio if submitting calculation before the end of covered period.
2. Loan forgiveness applications “between” the 8-week and 24-week covered period
3. Are expenses paid with forgiven funds tax deductible – currently NO
4. Loan forgiveness “haircut” specifics – complex area which will require calculations; ability to use “simplified method”



Loan Forgiveness Maximization Strategies



Loan Forgiveness Maximization Strategies

1. Strategy: Waterfall maximization: bucket 1, bucket 2, bucket 3; never go to bucket 4!
2. 8 week v. 24 week covered period decision
3. Model payroll during covered period (\$100K cash compensation limit, annualized)
4. Consider payment dates for “incurred” payroll costs not normally paid on next payroll date (commissions, retirement, etc)
5. If not at 40% for “incurred”, consider accelerating other “covered” forgivable use expenses at end of 8 weeks (if selected) to capture “paid” – document position
6. Organized schedules and supporting information is key
7. Model and track all expenses in the covered period and project through end of period – what action/planning needs to be done now?
8. Always document assumptions & consult with legal counsel



Tips and Rumors

Tips

- If you haven't applied yet, get your loan application in before June 30 for PPP loan.
- If you haven't strategized how to maximize forgiveness, do it now.
- If your loan is over \$2 million, document reasons and evidence that current economic uncertainty made the loan necessary to support ongoing operations
- We advise against distributions to owners (non-coops) during the covered period.
- Avoid intercompany loans by the PPP recipient to related companies unless wholly owned.
- Document occasions when furloughed employees decline to return.
- Contractors and 1099 labor do not count as employees.
- Bank's will make the first call on most questions. Be in touch on critical points.

Rumors

- There are varying views on whether interest other than on real or personal property is forgivable
- Watch for revisions to the SBA's loan forgiveness application – several areas will need to be modified



Payroll Planning



CARES Act – Tax Credits & Deferrals

- Payroll tax credits
 - Employee retention credit (not available w/ PPP)
 - Paid family leave credit (no double dipping w/ PPP forgiveness)
 - Paid sick leave credit (no double dipping w/ PPP forgiveness)
- Employer portion of Social Security tax deferral
 - Can defer even if you received PPP loan
 - 50% due 12/31/21; 50% due 12/31/22



Research and Development (R&D) and Net Operating Losses / Loss Limitations

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Research & Development Tax Credit

- Significant federal tax savings: For every dollar deemed as a qualified expense ~ 6.5% can be captured as net federal credit
- Four-Part Test
 1. Technical Uncertainty
 2. Process of Experimentation
 3. Technological Nature
 4. Permitted Purpose
- Qualified Expenditures
 - Wages
 - Supplies
 - Contract Research



How to Identify Potential R&D

- Designing processes or techniques that result in increased efficiency, quality, or performance
- Prototyping, modeling, and trial-and-error testing
- Developing specialized machinery and tools
- Significantly improved processes – i.e. quality or performance enhancement
- Engineering/Product Development Departments
- Patents – intellectual property



Research & Development Tax Credit

- Grape Growing
- Crushing & Pressing
- Fermentation
- Post-Fermentation
- Aging & Bottling



CARES Act – Changes in Loss Rules

- Excess business losses
- Net operating losses
- Interest expense limitation
- Revisit all elections made on 2018 & 2019 filed returns



Tax Planning Cash Flow Opportunities

- Quick refund claim for C-Corp (estimated tax payments refunded early)
- NOL carrybacks/carryforwards & Excess Business Loss limitations (2018 – 2020)
- Electing to treat certain 2020 losses as 2019 deductions
- Inventory strategies
- Accelerating deductions for partially worthless bad debt
- Cost segregation studies & qualified improvements
- Tax accounting method changes
- Payroll tax planning opportunities
- Property tax (check local opportunities)
- Research & Development tax credit
- Tax credit for alternative fuels
- Considerations of any specific state & local tax opportunities (deferrals, grants, etc)



Balance Sheet Management





Maximizing Cash Flow

- Inventory
- Receivables
- Self-distribution
- Expense Control



We are here to help



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HELPING YOU ADAPT TO UNCERTAIN TIMES



Find more information and resources here: <https://mossadams.com/covid-19-implications>



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