



The Chehardy Sherman Williams Healthcare Practice Group is constantly monitoring the way the COVID-19 Pandemic is affecting the industry.

Protecting Your Business from the Financial Impact of Business Interruption



Most property insurance policies offer business interruption coverage and/or civil authority coverage, providing a way for your business to recoup lost profits during a period of suspension of operations. Additionally, some insurance policies may also contain a provision for contingent business interruption losses, which may allow your business to recover lost profits if damages to a supplier or customer harms your business. Whether or not your business has business interruption, civil authority, and/or contingency business interruption insurance coverage is an important question right now to determine possible relief from the impact of the Coronavirus (“COVID-19”).

In almost all cases, these coverage provisions require that the suspension of operations be caused by “direct physical loss or damage” to the business’ property. Currently, there are no published cases in Louisiana or elsewhere that address whether these provisions provide coverage due to COVID-19. There are, however, two bills (House Bill No. 858 and Senate Bill No. 477) currently in the Louisiana legislature to extend business interruption coverage to COVID-19 claims.

Although we expect that filing a claim right now is likely to result in a quick denial of coverage, doing so is an effective way to secure your business’ rights as circumstances and governing law continue to evolve. Additionally, filing a proof of loss is usually required under these policies. Regardless of whether a claim is denied or not, the proof of loss should be filed. Under Louisiana law, if an insurer does not pay the claim within 30 days of submission of the proof of loss, the insurer could be liable for bad faith penalties should your business ultimately be found to have coverage.

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COVID-19 Business Financial Relief Options



Paycheck Protection Program Loan (PPPL)

The Basics:

- Provided for by the cares act.
- Modified 7(a) loan.
- Eligible businesses: fewer than 500 employees (includes both for profit and nonprofit)
- Sole proprietors, independent contractors and eligible self-employed individuals are eligible (est. Eligibility by payroll tax filings, 1099's and income and expenses from the sole proprietorship)
- Bank funded and administered (rather than the SBA)
- Forgivable (if certain employee and salary-related requirements are met)
- 1% interest rate / 2-year term for unforfeitable portion
- All payments will be deferred for a minimum of 6 months
- Maximum loan amount is the lesser of \$10 million or 2.5-times business's average monthly payroll amount for 12 months from loan date or 2019.
- Personal guarantee, collateral requirements, SBA fees and costs, prepayment penalties are all waived
- Allowable uses of loan funds up to June 30, 2020:
 - Payroll costs (salary, wages, commission, PTO, benefits and taxes)
 - Payments on interest on mortgage obligations (not any prepayment of or payment of principal on a mortgage obligation) in place as of February 15, 2020
 - Rent for leases in place as of February 15, 2020
 - Utilities
 - Interest on any other debt obligations incurred before February 15, 2020 – not forgivable but allowed use

The Practical:

- Businesses apply for a 7(a) loan with an SBA approved bank. Banks began accepting applications on April 3, 2020 (April 10, 2020 for sole proprietors and independent contractors). The application and information materials can be found here.
- Banks will consider, among other things, whether you were in business on February 15, 2020 and whether salaries and payroll taxes were paid.
- Maximum loan amount calculation is as follows:
 - Calculate the business' average total monthly payroll costs (salary, wages, commission, PTO, benefits, and taxes, excluding individual employee annual compensation in excess of \$100,000, and excluding qualified sick or family leave wages for which a payroll tax credit is allowed under 7001 of the FFCRA) incurred by the business during the 1-year period before the date on which the loan is made or 2019.
 - Multiply the average total monthly payroll costs by 2.5; and
 - Add any outstanding SBA loans made during the period beginning January 31, 2020 and ending on the date in which the loan is made.
- Loan forgiveness:
 - If the loan funds are used for the specific allowable uses during the 8-week period from the loan origination date, then forgiveness will be granted up to the amounts paid for the allowable uses subject to the reductions described below. An allowable use is payroll costs (salary not in excess of \$100,000 per employee, wages, commission, PTO, benefits, and taxes), mortgage interest payments, rent and utilities payments.
- Reductions in the amount of forgiveness take place in two instances:
 - 1. A reduction of workforce during the during the 8-week period from the loan origination date. To determine percentage of reduction:
 - Divide the average number of full-time equivalent employees per month during the 8-week period from the loan origination by
 - The average number of full-time employees per month (determined by calculating the average number of full-time employees for each pay period falling within a month) during the period beginning on February 15, 2019 and ending June 30, 2019 or January 1, 2020 and ending February 29, 2020.
 - Finally, multiply the percentage by the amounts incurred for the allowable uses of the loan.
 - 2. A reduction of salaries during the 8-week period from the loan origination date.
 - Loan forgiveness is reduced by the amount of reduction in total salary or wages of an employee during the 8 week period following loan origination that is in excess of 25% of the total salary or wages of the employee during the most recent full quarter during before the 8 week period from loan origination. Excluding employees who earned in excess of \$100,000.
- Exemption for re-hires:
 - The amount of loan forgiveness shall be determined without regard to a reduction in the number of full-time employees or a reduction in the salary employees during the period beginning on February 15, 2020 and ending on April 26, 2020 as long as the reduction in workforce or salary is eliminated by June 30, 2020. For those businesses that released or furloughed employees soon after the covid-19 economic impacts, these employees can be rehired to preserve forgiveness eligibility.
 - In determining loan forgiveness, financial institutions will require the following documentation:
 - Payroll tax filings, state income, payroll and unemployment insurance filings, cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments. Forgiveness cannot be granted without proof and support.

SBA Economic Injury Disaster Loan (EIDL)

The Basics:

- Provided for by a disaster declaration
 - Eligible businesses: fewer than 500 employees (includes both for profit and nonprofit)
 - SBA funded and administered directly (rather than a bank)
 - Not forgivable (as of now)
 - 3.75% interest rate (2.75% non-profits) and up to 30-year term
 - All payments are deferred for 1 year
 - Maximum loan amount is \$2 million

The Practical:

- Begin the application [here](#).
- Once a SBA loan officer is assigned (estimated to be with 45 days of submission of application), additional documents may be required, such as most recent tax filings, schedule of liabilities, personal financial statement, request for transcript of tax return, and other documents deemed necessary by the assigned SBA loan officer.

Emergency EIDL Grant

The Basics & The Practical:

- Businesses may request a loan advance (grant) of up to \$10,000, which will be paid within 3 days of submitting your EIDL application.
- SBA funded and administered (rather than via a bank).
- The funds can be used for providing sick leave to employees who are unable to work due to covid-19, maintaining payroll to retain employees, meeting increased costs due to supply chain interruptions, making rent or mortgage payments, or repaying obligations that cannot be met due to revenue losses.
- Repayment is not required even if you do not qualify for the EIDL.
- If the business receives this grant and also is approved for the PPPL, the PPPL amount will be reduced by the amount of this grant.



COVID-19 Business Financial Relief Options

Recovery Rebates for Individuals

To help individuals stay afloat during this time of economic uncertainty, the government will send up to \$1,200 payments to eligible taxpayers and \$2,400 for married couples filing joint returns. An additional \$500 additional payment will be sent to taxpayers for each qualifying child dependent under age 17 (using the qualification rules under the Child Tax Credit).

Rebates are gradually phased out, at a rate of 5% of the individual's adjusted gross income over \$75,000 (singles or marrieds filing separately), \$122,500 (head of household), and \$150,000 (joint). There is no income floor or "phase-in"—all recipients who are under the phaseout threshold will receive the same amounts. Tax filers must have provided, on the relevant tax returns or other documents (see below), Social Security Numbers (SSNs) for each family member for whom a rebate is claimed. Adoption taxpayer identification numbers will be accepted for adopted children. SSNs are not required for spouses of active military members. The rebates are not available to nonresident aliens, to estates and trusts, or to individuals who themselves could be claimed as dependents.

The rebates will be paid out in the form of checks or direct deposits. Most individuals won't have to take any action to receive a rebate. IRS will compute the rebate based on a taxpayer's tax year 2019 return (or tax year 2018, if no 2019 return has yet been filed). If no 2018 return has been filed, IRS will use information for 2019 provided in Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Social Security Equivalent Benefit Statement.

Rebates are payable whether or not tax is owed. Thus, individuals who had little or no income, such as those who filed returns simply to claim the refundable earned income credit or child tax credit, qualify for a rebate.

Waiver of 10% Early Distribution Penalty

The additional 10% tax on early distributions from IRAs and defined contribution plans (such as 401(k) plans) is waived for distributions made between January 1 and December 31, 2020 by a person who (or whose family) is infected with the Coronavirus or who is economically harmed by the Coronavirus (a qualified individual). Penalty-free distributions are limited to \$100,000, and may, subject to guidelines, be re-contributed to the plan or IRA. Income arising from the distributions is spread out over three years unless the employee elects to turn down the spread out. Employers may amend defined contribution plans to provide for these distributions. Additionally, defined contribution plans are permitted additional flexibility in the amount and repayment terms of loans to employees who are qualified individuals.

Charitable Deduction Liberalizations

The CARES Act makes four significant liberalizations to the rules governing charitable deductions:

1. Individuals will be able to claim a \$300 above-the-line deduction for cash contributions made, generally, to public charities in 2020. This rule effectively allows a limited charitable deduction to taxpayers claiming the standard deduction.
2. The limitation on charitable deductions for individuals that is generally 60% of modified adjusted gross income (the contribution base) doesn't apply to cash contributions made, generally, to public charities in 2020 (qualifying contributions). Instead, an individual's qualifying contributions, reduced by other contributions, can be as much as 100% of the contribution base. No connection between the contributions and COVID-19 activities is required.
3. Similarly, the limitation on charitable deductions for corporations that is generally 10% of (modified) taxable income doesn't apply to qualifying contributions made in 2020. Instead, a corporation's qualifying contributions, reduced by other contributions, can be as much as 25% of (modified) taxable income. No connection between the contributions and COVID-19 activities is required.

For contributions of food inventory made in 2020, the deduction limitation increases from 15% to 25% of taxable income for C corporations and, for other taxpayers, from 15% to 25% of the net aggregate income from all businesses from which the contributions were made.

Exclusion for Employer Payments of Student Loans

An employee currently may exclude \$5,250 from income for benefits from an employer-sponsored educational assistance program. The CARES Act expands the definition of expenses qualifying for the exclusion to include employer payments of student loan debt made before January 1, 2021.

Break for Remote Care Services Provided by High Deductible Health Plans

For plan years beginning before 2021, the CARES Act allows high deductible health plans to pay for expenses for tele-health and other remote services without regard to the deductible amount for the plan.

Break for Nonprescription Medical Products

For amounts paid after December 31, 2019, the CARES Act allows amounts paid from Health Savings Accounts and Archer Medical Savings Accounts to be treated as paid for medical care even if they aren't paid under a prescription. And, amounts paid for menstrual care products are treated as amounts paid for medical care. For reimbursements after December 31, 2019, the same rules apply to Flexible Spending Arrangements and Health Reimbursement Arrangements.

Employee Retention Credit for Employers

Eligible employers can qualify for a refundable credit against, generally, the employer's 6.2% portion of the Social Security (OASDI) payroll tax (or against the Railroad Retirement tax) for 50% of certain wages (below) paid to employees during the COVID-19 crisis.

The credit is available to employers carrying on business during 2020, including non-profits (but not government entities), whose operations for a calendar quarter have been fully or partially suspended as a result of a government order limiting commerce, travel or group meetings. The credit is also available to employers who have experienced a more than 50% reduction in quarterly receipts, measured on a year-over-year basis relative to the corresponding 2019 quarter, with the eligible quarters continuing until the quarter after there is a quarter in which receipts are greater than 80% of the receipts for the corresponding 2019 quarter.

For employers with more than 100 employees in 2019, the eligible wages are wages of employees who aren't providing services because of the business suspension or reduction in gross receipts described above.

For employers with 100 or fewer full-time employees in 2019, all employee wages are eligible, even if employees haven't been prevented from providing services. The credit is provided for wages and compensation, including health benefits, and is provided for the first \$10,000 in eligible wages and compensation paid by the employer to an employee. Thus, the credit is a maximum \$5,000 per employee.

Wages don't include:

1. Wages taken into account for purposes of the payroll credits provided by the earlier Families First Coronavirus Response Act for required paid sick leave or required paid family leave.
2. Wages taken into account for the employer income tax credit for paid family and medical leave (under Code Sec. 45S) or
3. Wages in a period in which an employer is allowed for an employee a work opportunity credit (under Code Sec. 51).

An employer can elect to not have the credit apply on a quarter-by-quarter basis.

The IRS has authority to advance payments to eligible employers and to waive penalties for employers who do not deposit applicable payroll taxes in reasonable anticipation of receiving the credit. The credit is not available to employers receiving Small Business Interruption Loans. The credit is provided for wages paid after March 12, 2020 through December 31, 2020.

Delayed Payment of Employer Payroll Taxes

Taxpayers (including self-employed) will be able to defer paying the employer portion of certain payroll taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021, the other at the end of 2022. Taxes that can be deferred include the 6.2% employer portion of the Social Security (OASDI) payroll tax and the employer and employee representative portion of Railroad Retirement taxes (that are attributable to the employer 6.2% Social Security (OASDI) rate). The relief isn't available if the taxpayer has had debt forgiveness under the CARES Act for certain loans under the Small Business Act as modified by the CARES Act (see below). For self-employed, the deferral applies to 50% of the Self-Employment Contributions Act tax liability (including any related estimated tax liability).

Net Operating Loss Liberalizations

The 2017 Tax Cuts and Jobs Act (the 2017 Tax Law) limited NOLs arising after 2017 to 80% of taxable income and eliminated the ability to carry NOLs back to prior tax years. For NOLs arising in tax years beginning before 2021, the CARES Act allows taxpayers to carryback 100% of NOLs to the prior five tax years, effectively delaying for carrybacks the 80% taxable income limitation and carryback prohibition until 2021.

The Act also temporarily liberalizes the treatment of NOL carryforwards. For tax years beginning before 2021, taxpayers can take an NOL deduction equal to 100% of taxable income (rather than the present 80% limit). For tax years beginning after 2021, taxpayers will be eligible for:

1. A 100% deduction of NOLs arising in tax years before 2018, and
2. A deduction limited to 80% of taxable income for NOLs arising in tax years after 2017.

The provision also includes special rules for REITS, life insurance companies, and the Code Sec. 965 transition tax. There are also technical corrections to the 2017 Tax Law effective dates for NOL changes.

Deferral of Noncorporate Taxpayer Loss Limits

The CARES Act retroactively turns off the excess active business loss limitation rule of the TCJA in Code Sec. 461(l) by deferring its effective date to tax years beginning after December 31, 2020 (rather than December 31, 2017). (Under the rule, active net business losses in excess of \$250,000 (\$500,000 for joint filers) are disallowed by the 2017 Tax Law and were treated as NOL carryforwards in the following tax year.)

The CARES Act clarifies, in a technical amendment that is retroactive, that an excess loss is treated as part of any net operating loss for the year, but isn't automatically carried forward to the next year. Another technical amendment clarifies that excess business losses do not include any deduction under Code Sec. 172 (NOL deduction) or Code Sec. 199A (qualified business income deduction).

Still another technical amendment clarifies that business deductions and income don't include any deductions, gross income or gain attributable to performing services as an employee. And because capital losses of non-corporations cannot offset ordinary income under the NOL rules, capital loss deductions are not taken into account in computing the Code Sec. 461(l) loss and the amount of capital gain taken into account cannot exceed the lesser of capital gain net income from a trade or business or capital gain net income.

Acceleration of Corporate AMT Liability Credit

The 2017 Tax Law repealed the corporate alternative minimum tax (AMT) and allowed corporations to claim outstanding AMT credits subject to certain limits for tax years before 2021, at which time any remaining AMT credit could be claimed as fully-refundable. The CARES Act allows corporations to claim 100% of AMT credits in 2019 as fully-refundable and further provides an election to accelerate the refund to 2018.

Relaxation of Business Interest Deduction Limit

The 2017 Tax Law generally limited the amount of business interest allowed as a deduction to 30% of adjusted taxable income (ATI). The CARES Act generally allows businesses, unless they elect otherwise, to increase the interest limitation to 50% of ATI for 2019 and 2020, and to elect to use 2019 ATI in calculating their 2020 limitation. For partnerships, the 30% of ATI limit remains in place for 2019 but is 50% for 2020. However, unless a partner elects otherwise, 50% of any business interest allocated to a partner in 2019 is deductible in 2020 and not subject to the 50% (formerly 30%) ATI limitation. The remaining 50% of excess business interest from 2019 allocated to the partner is subject to the ATI limitations. Partnerships, like other businesses, may elect to use 2019 partnership ATI in calculating their 2020 limitation.

Technical Correction to Restore Faster Write-Offs for Interior Building Improvements

The CARES Act makes a technical correction to the 2017 Tax Law that retroactively treats:

1. A wide variety of interior, non-load-bearing building improvements (qualified improvement property (QIP)) as eligible for bonus depreciation (and hence a 100% write-off) or for treatment as 15-year MACRS property or
2. If required to be treated as alternative depreciation system property, as eligible for a write-off over 20 years.

The correction of the error in the 2017 Tax Law restores the eligibility of QIP for bonus depreciation, and in giving QIP 15-year MACRS status, restores 15-year MACRS write-offs for many leasehold, restaurant and retail improvements.

Accelerated Payment of Credits for Required Paid Sick Leave and Family Leave

The CARES Act authorizes IRS broadly to allow employers an accelerated benefit of the paid sick leave and paid family leave credits allowed by the Families First Coronavirus Response Act by, for example, not requiring deposits of payroll taxes in the amount of credits earned.

Pension Funding Delay

The CARES Act gives single employer pension plan companies more time to meet their funding obligations by delaying the due date for any contribution otherwise due during 2020 until January 1, 2021. At that time, contributions due earlier will be due with interest. Also, a plan can treat its status for benefit restrictions as of December 31, 2019 as applying throughout 2020.

Certain SBA Loan Debt Forgiveness Isn't Taxable

Amounts of Small Business Administration Section 7(a)(36) guaranteed loans that are forgiven under the CARES Act aren't taxable as discharge of indebtedness income if the forgiven amounts are used for one of several permitted purposes. The loans have to be made during the period beginning on February 15, 2020 and ending on June 30, 2020.

Suspension of Certain Alcohol Excise Taxes

The CARES Act suspends alcohol taxes on spirits withdrawn during 2020 from a bonded premises for use in or contained in hand sanitizer produced and distributed in a manner consistent with FDA guidance related to the outbreak of virus SARS-CoV-2 or COVID-19.

Suspension of Certain Aviation Taxes

The CARES Act suspends excise taxes on air transportation of persons and of property and on the excise tax imposed on kerosene used in commercial aviation. The suspension runs from March 28, 2020 to December 31, 2020.

Ongoing information on the IRS and tax legislation response to COVID-19 can be found at www.irs.gov/coronavirus.

Should you have any specific questions or needs, please contact the

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