

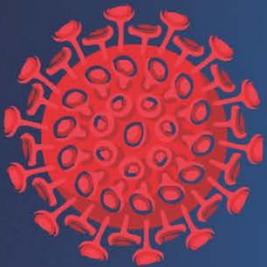
WEEKLY WEBINAR SERIES

CORONAVIRUS

& its impact on people, process & profits

SESSION FIVE

April 17, 2020 | 11:00 A.M. EST



› Housekeeping Items

- The webinar will be recorded and shared as soon as it is available via email
- All materials were emailed to you this morning – also available on RKL’s Coronavirus Resource Center at [rklcpa.com](https://www.rklcpa.com)
- All lines are muted
- NASBA CPE requirements – in order to receive CPE for this webinar:
 - Participants must be connected to the session (both audio and presentation) for its entirety
 - Participants must answer all questions/elements of engagement
 - One (1) hour of CPE in the field of business law will be granted if you meet these requirements

DISCLAIMER: The presenters, Eric Wenger, Tricia Richardson, Carrie Booth and Nicholas Boyer, and RKL LLP and its subsidiaries/affiliates are not held responsible for information that has changed or will change and makes no representation or warranty as to the ongoing accuracy of the information presented orally or in writing. Attendees should consult with legal, accounting and other advisors.

➤ Meet Your Team for Today's Presentation

PPP Status Update



ERIC WENGER, CPA, MST | *Partner, Tax Services Group*

Eric serves as Managing Partner of the Lancaster Office and as Chairman of the RKL Board of Directors. Throughout his more than two decades in public accounting, Eric has enjoyed the ongoing challenge of applying evolving tax and financial regulations for the benefit of his clients. As Partner in RKL's Tax Services Group, he primarily advises closely held and family owned companies regarding tax and general business matters, including succession planning.

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Payroll Tax Reporting in a Post-Coronavirus World



TRICIA RICHARDSON, CPP, SPHR, SHRM-SCP | *Consultant, Human Capital Management*

Tricia is a Consultant in RKL's Human Capital Management Practice. With expertise in payroll and human resources, she works with companies to align their HR policies with the final payroll product. Tricia also helps clients implement and adhere to payroll and human resource regulatory compliance and best practices.

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➤ Meet Your Team for Today's Presentation

CARES Act: NOL Carryback Procedures & Planning Opportunities



CARRIE BOOTH, CPA | *Partner, Tax Services Group*

Carrie is a Partner in RKL's Tax Services Group. Specializing in income tax accounting, Carrie taps into her expertise in federal and multi-state taxation to help clients across a wide range of industries – including manufacturing, distribution, construction and real estate – manage regulatory compliance and long-term planning.

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Investment Strategies During Turbulent Markets



NICHOLAS BOYER | *Partner/Chief Investment Officer*

Nick is an RKL Partner and Chief Investment Officer/Executive Vice President for RKL Wealth Management. He directs the firm's wealth management and financial planning services and plays a key role in business development initiatives. Nick oversees RKL Wealth Management's investment philosophy and portfolio strategy as leader of the firm's investment team and Chair of its Investment Committee.

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> PPP Status

- The PPP well has run dry:



The SBA is currently unable to accept new applications for the Paycheck Protection Program based on available appropriations funding. Similarly, we are unable to enroll new PPP lenders at this time.

- Will a PPP “refill” occur?

“ Both Democrats and Republicans want to add \$250 billion to the small-business aid program, but have been sparring for days over whether to add restrictions to the funds. Democrats want to expand access to the loans as well as include more money for hospitals, food assistance and state and local governments. Republicans, meanwhile, said they want to keep the bill focused on increasing small-business aid and defer other funding debates until the next, broader legislation is crafted. ” *Wall Street Journal, 4/15/20*

“ Democrats have insisted on attaching new restrictions to ensure the money flows to minority-owned businesses and other companies that are traditionally disadvantaged in the lending market. ” *New York Times, 4/16/20*

➤ Loan Forgiveness & Cash Flow Forecast

What we know...

PPP loans offer a potential for the entire loan to be forgiven, tax free. To be eligible for forgiveness, the loan proceeds must be used for:

- Payroll costs (capped at \$100k annualized cash compensation per employee)
 - Remember: At least 75% of total loan forgiveness must apply to employee compensation and benefits costs. Also remember haircut tests for FTE count and compensation levels.
- Payments of interest on any mortgage obligation that was incurred before 2/15/20
- Any payment of rent under a leasing agreement in force before 2/15/20
- Any utility payment for which service began before 2/15/20

➤ Loan Forgiveness & Cash Flow Forecast

What is still unclear...

Even with interim guidance to date, there are still many unanswered questions and ambiguity surrounding the forgiveness process, including **but not limited to:**

- FTE counts: How? Will the June 30 restoration of workforce hold? If so, what is to prevent employers from waiting to rehire until the last possible moment, bypassing the intent of the CARES Act to keep workers on payroll?
- Will there be rehiring limitations to attain the requisite FTE count?
- Can a business rehire in any position or does it have to be similar positions?
- What about interim pay periods in which workers were employed but payment is deferred until next normal pay date?
- How will the timing of non-payroll payments work for expenses incurred but paid after the eight-week period?

➤ Loan Forgiveness & Cash Flow Forecast

What is still unclear... (continued)

- What if a business is closed by Governor and doesn't *want* to use loan proceeds to pay people who are not working? When is the utilization of proceeds for unintended purposes risky or potentially fraudulent?
- Companies renting real estate from related entity/owner. Self-rent parameters?
- What about rents for personal property, i.e., vehicles or equipment?
- Will forgiven expenses be tax deductible?
 - Internal Revenue Code Sec. 265 – expenses allocable to tax-exempt income are not deductible. What will IRS/Congress do here?
- Will payroll costs be on a “gross” or “net” basis when calculating forgiveness?
- How will each bank interpret and apply the evolving guidance from SBA?

➤ Loan Forgiveness & Cash Flow Forecast

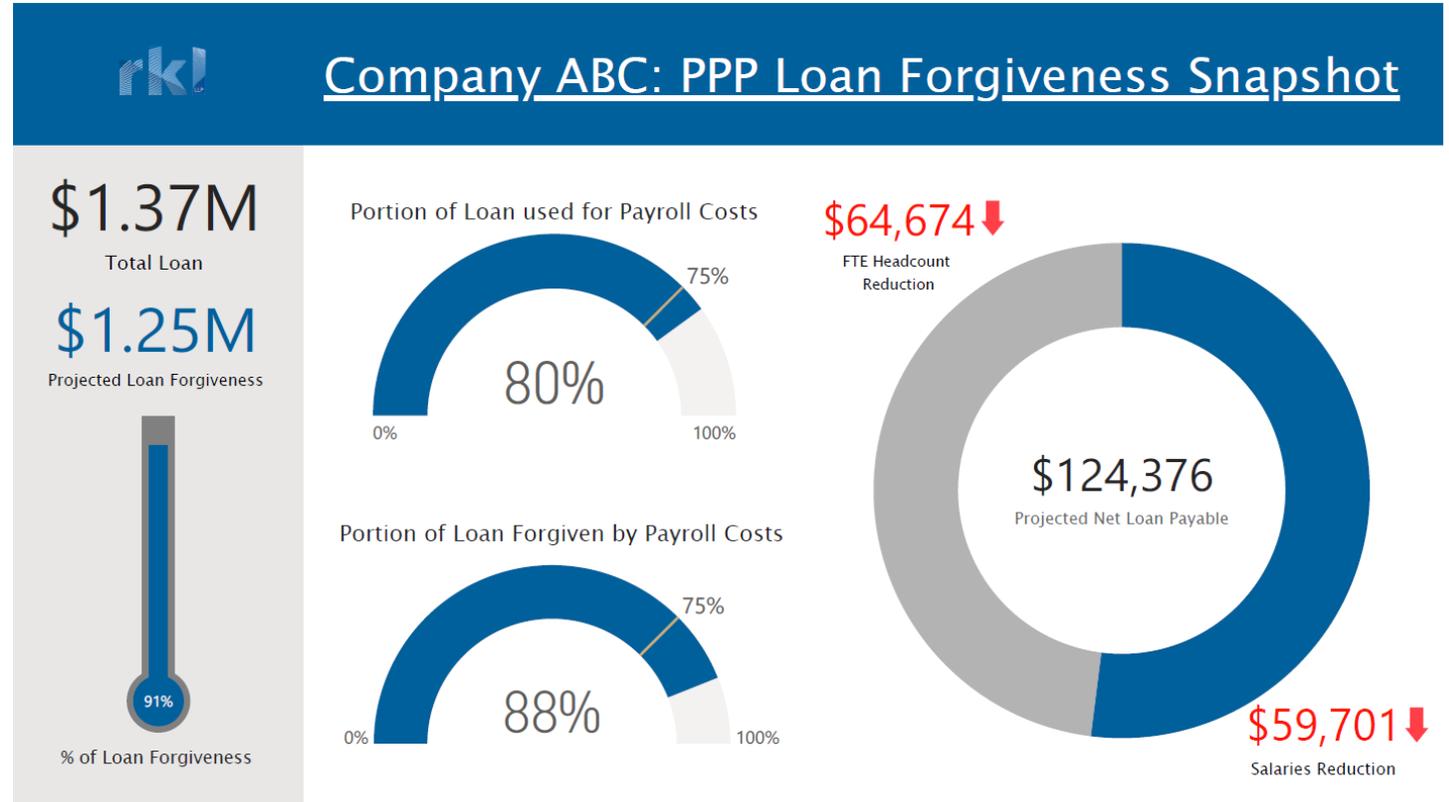
What you can do now...

- Despite the outstanding questions, PPP loan recipients should start keeping records to document how proceeds are spent to provide to the bank for loan forgiveness determinations.
- It is important to set up general ledger tracking mechanisms and be ready to prove how the loan proceeds were spent.
- Perhaps consider establishing a bank account that only gets used to fund eligible expenses (opening a bank account on short notice may not be necessary or viable in current environment).

➤ Loan Forgiveness & Cash Flow Forecast

How Can We Help?

RKL's **Loan Forgiveness & Cash Flow Forecast** uses various data points based on your unique financial and workforce plan. We will provide you insights through easy-to-understand visual projections that can be adjusted according to different scenario planning.



➤ Loan Forgiveness & Cash Flow Forecast

Loan Forgiveness & Cash Flow Forecast

- Be in the best possible position to maximize loan forgiveness amidst ambiguity and inconsistency
- Make informed business decisions based on reliable cash flow insights and data to protect your business over the long term
- Gain insights into how various changes in your workforce, operating expenses, revenue strategy and more will impact your bottom line
- Receive guidance on how to properly account for PPP funds for accounting purposes and reporting to your financial institution
- Work with RKL's trusted business advisors throughout the process to tap into their guidance on financial, workforce, operational and revenue planning

To learn more, visit our [Loan Forgiveness & Cash Flow Forecast](#) page on our website or contact your RKL advisor.

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

PAYROLL TAX REPORTING IN A POST-CORONAVIRUS WORLD

➤ Payroll Tax Credits

Families First Coronavirus Response Act (FFCRA)

- **Emergency Paid Family and Sick Leave (EPSL)**

Coronavirus Aid, Relief, and Economic Security Act (CARES)

- **Employee Retention Tax Credit (ERTC)**
- **Payroll Tax Deferral**
- **Payroll Protection Program (PPP) Loan**

➤ Qualified Health Plan Expenses

Included in

- Emergency Paid Family and Sick Leave (EPSL)
- Employee Retention Tax Credit (ERTC)
- Payroll Protection Program (PPP) Loan

What is included?

- The full invoice cost of all coverages in the Section 125 Plan (including the pre-tax deductions for the employee)
- Health Reimbursement Arrangements (HRA) and Health Flexible Spending Account (FSA) contributions

What is NOT included?

- Qualified Small Employer Health Reimbursement Arrangement (QSEHRA)
- Health plan expenses paid post-tax by employees
- Health Savings Account (HSA) employer contributions

➤ Families First Coronavirus Response Act (FFCRA)

Track the Earnings

Sample Earning Codes

- **EPSL100**: two-week period where they are paid \$511/day or \$5,110 in total
- **FFCRA10**: two-week period where they are paid 67% of their wages up to \$200/day or \$2,000 in total if they are quarantined or caring from someone with COVID-19
- **CHILDCARE10**: two-week period where they are paid 67% of their wages up to \$200/day or \$2,000 in total for childcare issues related to COVID-19
- **CHILDCARE50**: 10-week period where they are paid 67% of their wages up to \$200/day or \$10,000 in total for childcare issues related to COVID-19

Taxation Not subject to the Employer Social Security Match

➤ Families First Coronavirus Response Act (FFCRA)

Other considerations

- 401(k) eligible
- How is your payroll provider handling the credits?
- Going back and reclassify the payments:
 - Reclassify back to April 1 wages
 - Work with your payroll provider to make this adjustment
- Documentation

➤ Coronavirus Aid, Relief, and Economic Security Act (CARES)

Employee Retention Tax Credit (ERTC)

- For qualified wages (including qualified health plan expenses) paid after March 12, 2020 and before January 1, 2021: 50% of the wages paid in a calendar quarter (maximum credit \$5,000)

Note on employee count:

- 100 or less employees in 2019, ALL WAGES (to include healthcare costs) are qualifying wages
- For employers with an average employee count of more than 100 full-time employees in 2019, qualified wages are the wages paid to an employee for time that the employee is not providing services due to COVID-19

EXCEPTION: If you received a PPP, you cannot also utilize the ERTC

➤ Employee Retention Tax Credit (ERTC) Example

Employee A	Q2 2020	Q3 2020	Q4 2020
Eligible Wages	\$4,000	\$3,000	\$5,000
Credit (50%)	\$2,000	\$1,500	\$1,500
Total Eligible Wages YTD = \$7,000 Total Credit YTD = \$3,500			Total Eligible Wages Q4 2020 = \$3,000 (\$10,000 - \$7,000) Total Credit Q4 2020 $\$3,000 \times 50\% = \$1,500$

➤ Receiving the Credits

Emergency Paid Family and Sick Leave (EPSL)	Reduce the 941 payment by all credits available
Employee Retention Tax Credit (ERTC)	<p>If the credit is more than the 941 payment, you can either:</p> <ul style="list-style-type: none">▪ Complete Form 7200 https://www.irs.gov/forms-pubs/about-form-7200▪ Reconcile on the 941
Payroll Tax Deferral	<p>No Tax Credit – only OPTIONAL DEFERRAL of payments</p> <ul style="list-style-type: none">▪ Employer portion of Social Security Tax from 3/27/2020-12/31/2020▪ Remit 50% by 12/31/21; Remit remaining 50% by 12/31/22
Payroll Protection Program (PPP) Loan	<p>No credit – loan forgiveness</p> <p>Note: Even if work is not available at the time, you can pay Employees based on your PPP Loan approval</p>

> “Thank You” Pay Options

Add an additional per hour rate

For example: employee regular rate is \$15 per hour, create a “Thank You” rate and add it to the employee’s hourly rate

Ad Hoc Bonus

For example: a discretionary bonus (an amount not expected or promised)

Bonus of % of Wages

For example: provide a non-discretionary bonus (the employee expects to receive it) as a % of regular and overtime earnings

> “Thank You” Pay Options

Flat Amount Bonus

For example: provide a non-discretionary bonus (the employee expects to receive it) as a flat dollar amount

Note: *To remain compliant with U.S. Department of Labor regulations, these bonus types require additional weekly overtime pay rate calculations*

Bonuses can be included in the PPP to calculate loan forgiveness

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

THE CARES ACT

**NOL CARRYBACK
PROCEDURES &
PLANNING
OPPORTUNITIES**

➤ NOL Rules Under the CARES Act

- Under the Tax Cuts and Jobs Act, the ability to carryback a net operating loss (NOL) arising in tax years beginning after December 31, 2017 was eliminated.
- In addition, an NOL carryover can only be used to offset 80 percent of current taxable income.
- The CARES Act lifts the carryback and taxable income restrictions for NOLs generated in tax years beginning after December 31, 2017 and before January 1, 2021 (i.e. 2018, 2019 and 2020 losses) permitting a five-year carryback of NOLs arising in those tax years.
- The CARES Act also temporarily eliminates the 80 percent limitation, reinstating it for tax years beginning after 2020.

> NOL Rules Summary

Tax Year NOL Generated	NOL Rules	NOL Limitation
Pre TCJA – NOL generated in tax years before 12/31/2017	Carryback 2 years and carryforward 20 years	No limitation, 100% of taxable income
Under the CARES Act – NOL generated in tax years beginning after 12/31/2017 and beginning before 1/1/2021	Carryback 5 years and carryforward indefinitely	100% of taxable income (prior to 2021) 80% of taxable income (after 2020)
Post TCJA – NOL generated in tax years beginning on or after 01/01/2021	NO carryback but carryforward indefinitely	80% of taxable income

➤ Procedures for Claiming NOL Carrybacks

- The IRS issued Rev. Proc 2020-24 and Notice 2020-26 on April 9, 2020 which both provide guidance on how to take advantage of the NOL provisions.
- Tentative refunds may be claimed on Form 1139, Corporation Application for Tentative Refund (corporations) or Form 1045, Application for Tentative Refund (taxpayers other than corporations).
- Taxpayers filing an application for tentative refund to carryback an NOL incurred during calendar year 2018 or at fiscal year-end June 30, 2019 must:
 - Add “Notice 2020-26, Extension of Time to File Application for Tentative Carryback Adjustment” to the top of Form 1139 or 1045; and
 - File the form no later than the six-month extended deadline for NOLs incurred either during calendar year 2018 or during a fiscal year that ended on or before June 30, 2019.
- Election may be made to waive carryback for NOLs incurred in tax years beginning in 2018 or 2019.

➤ Planning Opportunities to Maximize Cash Refunds

- 163(j) business interest expense limitation
- Depreciation
- 263A uniform capitalization rules
- Prepaid payment liabilities
- Rebates and allowances
- Self-insured medical accruals
- Deferred revenue & accelerated deductions
- Form 4466 – Corporation Application for Quick Refund of Overpayment of Estimated Tax

➤ NOL Carryback Planning Example

- Facts:
 - Emerson Co., a domestic C Corp, will have \$6,000,000 of a taxable loss in 2019 before utilizing any tax planning strategies.
 - Emerson generated \$10,000,000 of taxable income in 2014 and has had taxable income ever since.
 - Emerson does not presently have any tax deductions or credits that will be limited by taxable income, nor did it in the past.
 - After doing a thorough review of the trial balance and evaluating its tax accounting methods, Emerson identified several opportunities by which it can file automatic accounting method changes to accelerate deductions to generate an additional \$1,000,000 of NOLs in 2019.
- How does the use of tax planning strategies impact the NOL carryback cash benefit?

➤ NOL Carryback Planning Example Cont.

In \$000's	As Originally	No Method		With Method	
	Filed	Changes	(Refund)	Changes	(Refund)
2014 Taxable income before NOL	10,000	10,000	0	10,000	0
2019 NOL carryback	0	(6,000)	(6,000)	(7,000)	(7,000)
2014 Taxable income after NOL	10,000	4,000	(6,000)	3,000	(7,000)
2014 Federal tax rate	35%	35%	35%	35%	35%
Total tax liability	3,500	1,400	(2,100)	1,050	(2,450)

- By claiming additional deductions by filing for automatic accounting method changes, the taxpayer will get an additional \$350K of tax savings.
- In addition as a result of the rate differential between the years, each \$1 of deductions generated at 21% is actually worth 35% when carried back to a pre-TCJA year.

➤ Additional NOL Carryback Considerations

- Must consider NOL carryback interaction with various other deductions and credits that may need to be recalculated and may impact the overall cash tax benefit:
 - Section 199 domestic production activities deduction (DPAD)
 - General business credits (R&Ds, FTCs, AMT)
 - Charitable contributions
 - Section 250 deductions (GILTI and FDII)
 - Section 965 transition tax
- Short tax years
- Mergers, acquisitions and liquidations
- Limitations on certain entity types (REITs)

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

INVESTMENT STRATEGIES DURING TURBULENT MARKETS

> Agenda

- Equity Markets
- Fixed Income Markets
- Asset Class Returns
- Market Opportunities

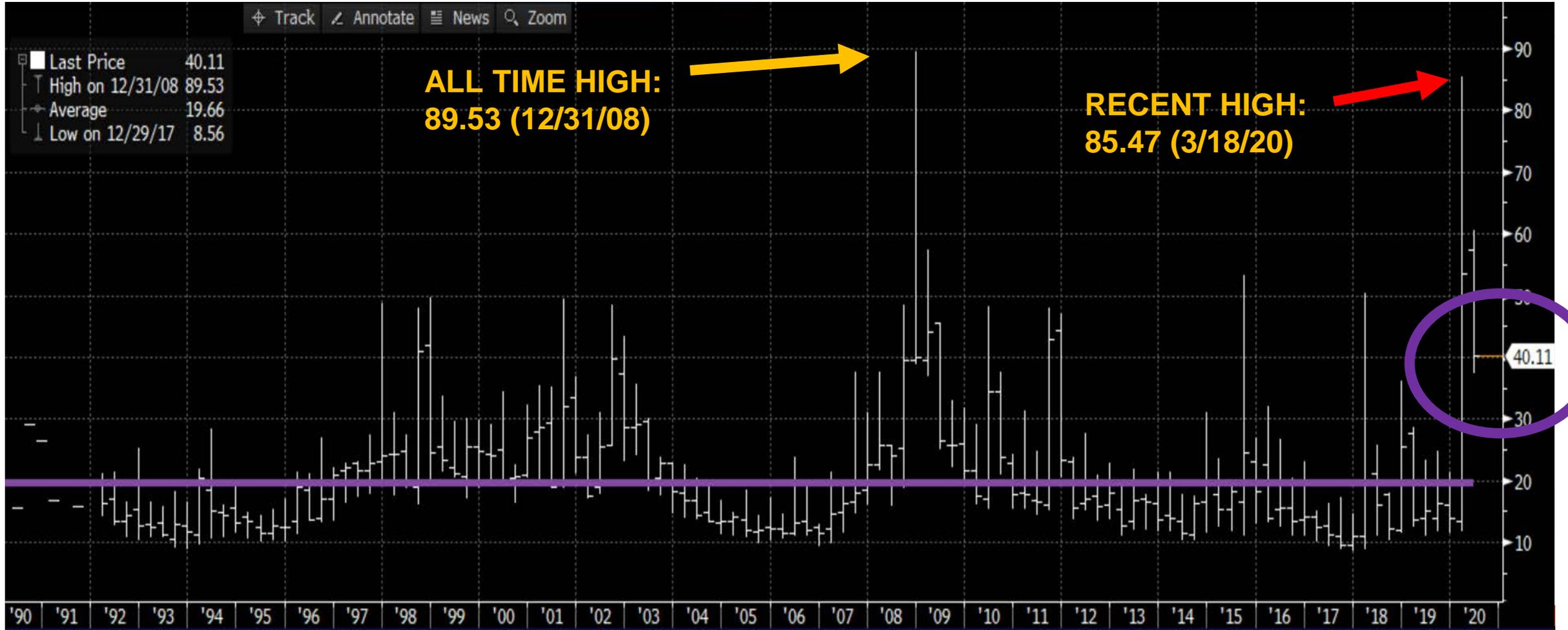
➤ Equity Market Activity

BULL MARKET RALLY



(Source: Bloomberg, as of 4/16/20)

➤ Equity Market Volatility (VIX)



(Source: Bloomberg, as of 4/16/20)

> S&P 500 Historic Daily Moves

Worst 15 Days

Dates	1 Day Change %
10/19/1987	-20.47%
10/28/1929	-12.94%
3/16/2020	-11.98%
10/29/1929	-10.16%
11/6/1929	-9.92%
3/12/2020	-9.51%
10/18/1937	-9.12%
10/5/1931	-9.07%
10/15/2008	-9.03%
12/1/2008	-8.93%
7/20/1933	-8.88%
9/29/2008	-8.79%
7/21/1933	-8.70%
10/10/1932	-8.55%
10/26/1987	-8.28%

Best 15 Days

Dates	1 Day Change %
3/15/1933	16.61%
10/30/1929	12.53%
10/6/1931	12.36%
9/5/1939	11.86%
9/21/1932	11.81%
10/13/2008	11.58%
10/28/2008	10.79%
6/22/1931	10.51%
4/20/1933	9.52%
3/24/2020	9.38%
3/13/2020	9.29%
8/8/1932	9.26%
10/21/1987	9.10%
11/14/1929	8.95%
6/19/1933	8.87%

(Source: Bloomberg, as of 4/16/20)

➤ Equity Valuations (U.S. Large / Mid / Small Cap)



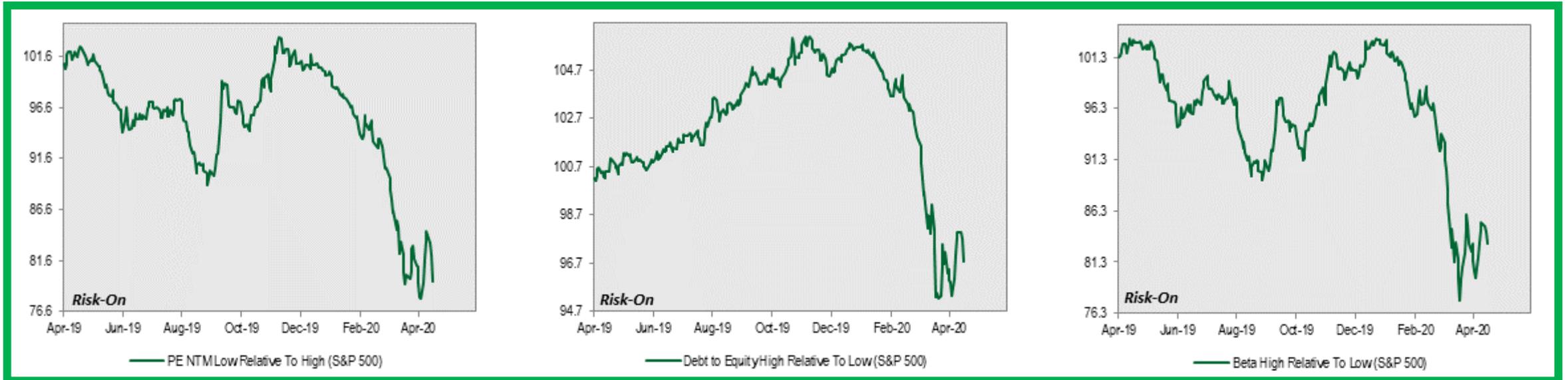
(Source: Bloomberg, as of 4/16/20)

➤ Equity Valuations (International / Emerging Markets)



(Source: Bloomberg, as of 4/16/20)

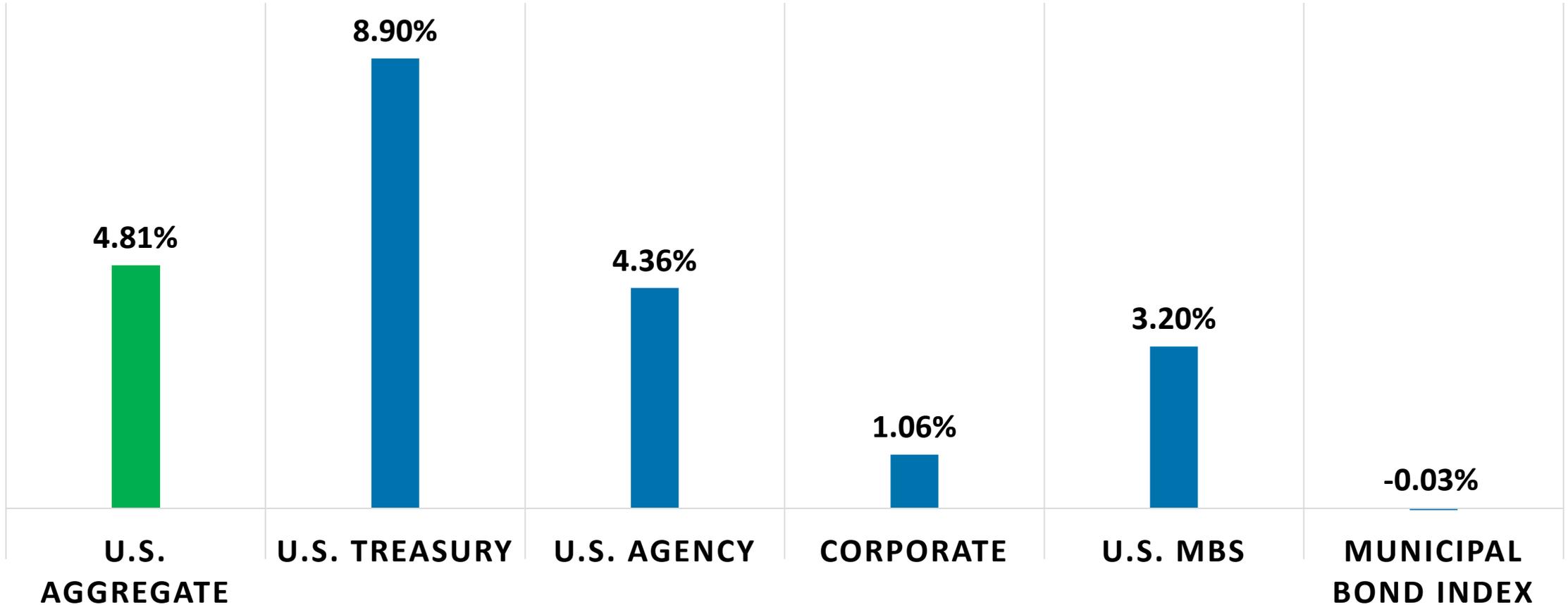
➤ Risk-On vs. Risk-Off (S&P 500)



(Source: Cornerstone Macro, Strategy Dashboard, 4/16/20)

➤ Good Diversification

CORE FIXED-INCOME ASSET CLASS PERFORMANCE (YTD)

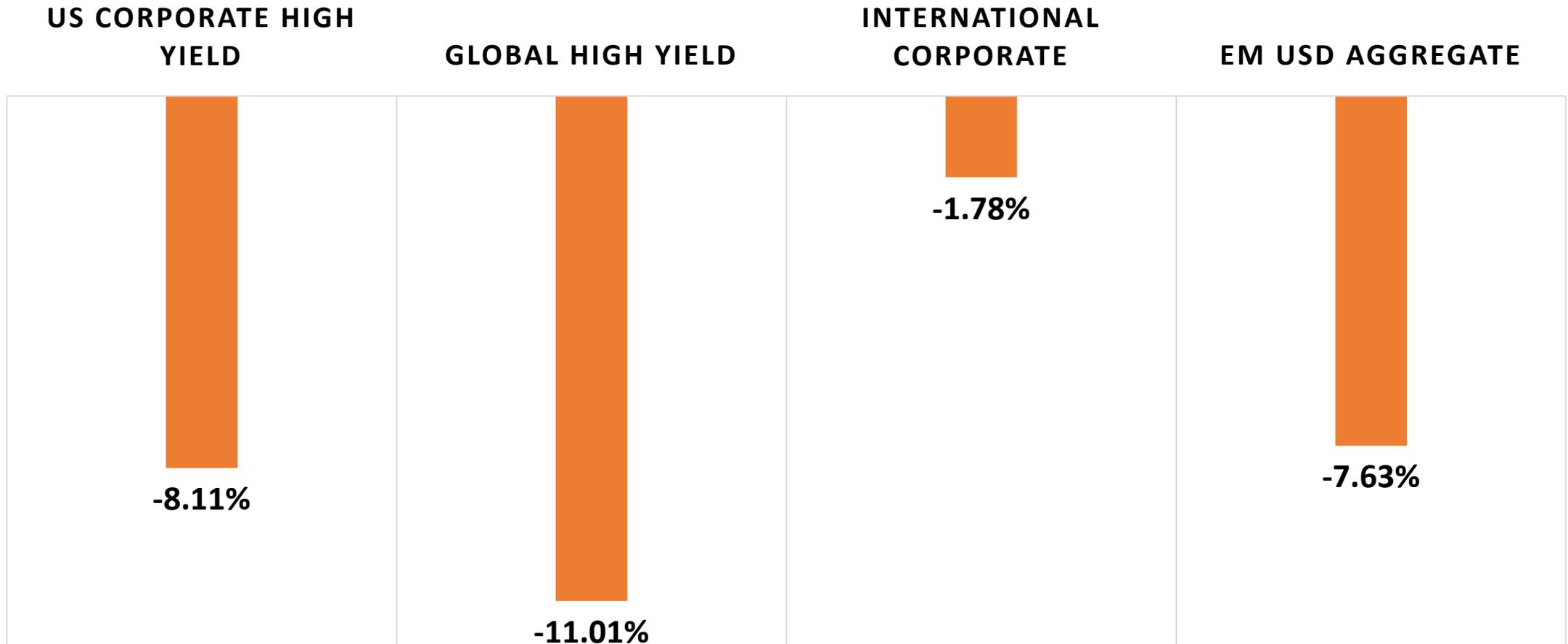


(Source: Bloomberg, as of 4/16/20)

> Poor Diversification

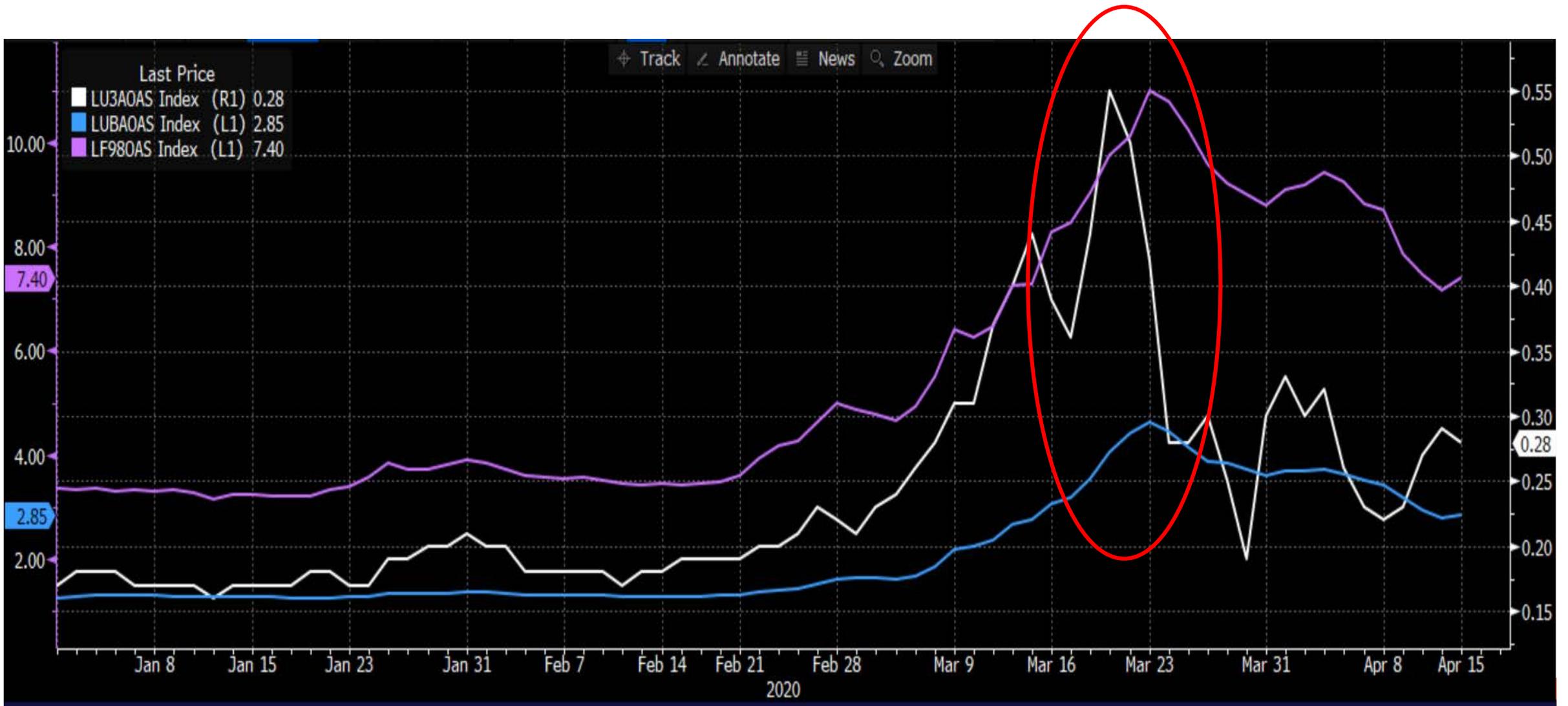
SATELLITE FIXED-INCOME ASSET CLASS PERFORMANCE (YTD)

■ YTD Tot Ret



(Source: Bloomberg, as of 4/16/20)

U.S. Corporate Credit Spreads



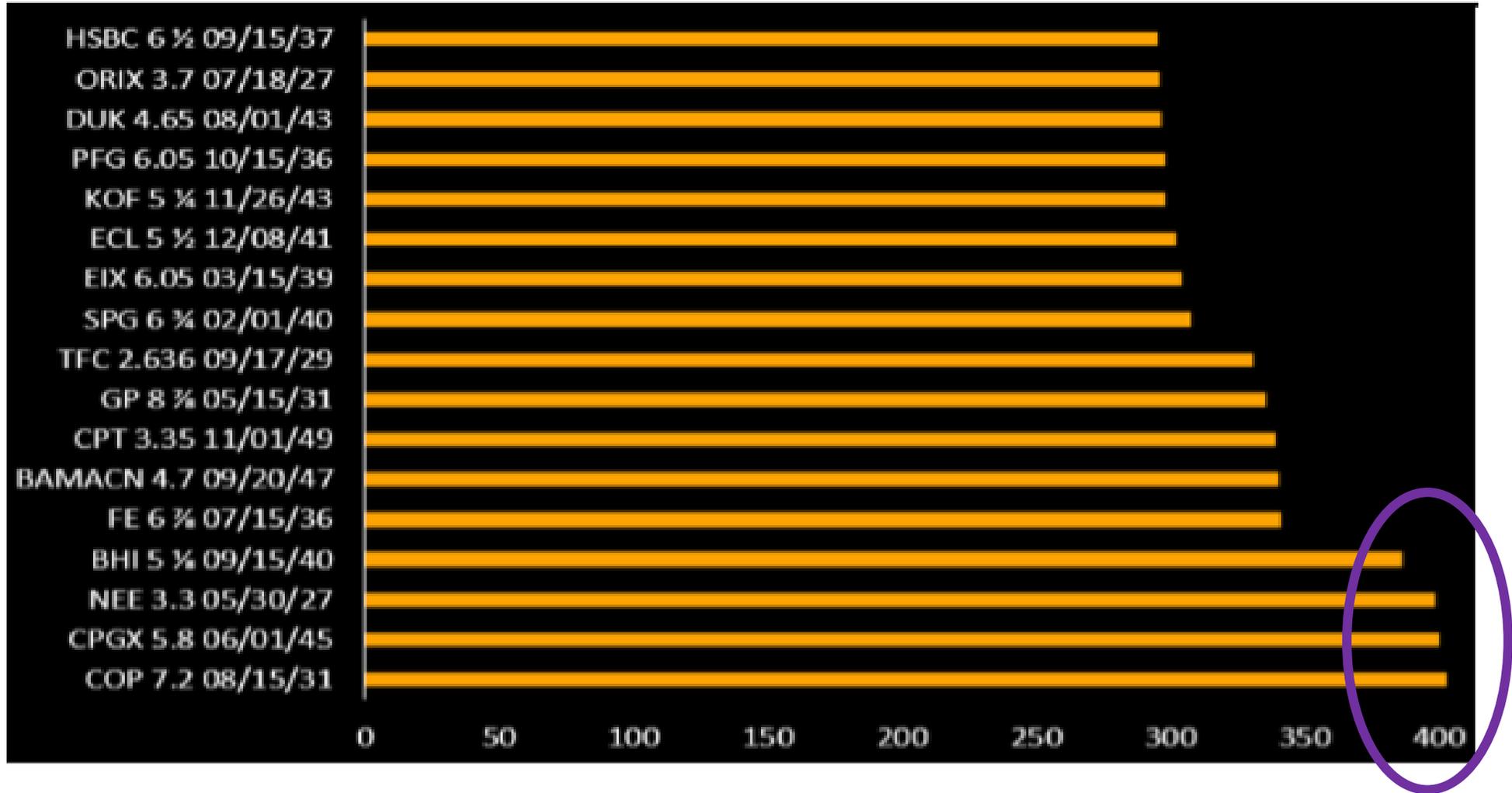
(Source: Bloomberg, as of 4/16/20)

➤ U.S. Corporate Credit Spreads

Spreads by Sector & Rating (maturity > 5 years)	AA			A			BBB		
	Average	High	Low	Average	High	Low	Average	High	Low
Industrial Sectors									
Basic Industry	98	98	98	176	336	98	312	598	127
Capital Goods		-	-	154	253	63	262	555	83
Communications		-	-	161	274	69	244	517	70
Consumer Cyclical	117	188	52	146	365	47	353	752	104
Consumer Non-Cyclical	145	253	32	152	298	43	226	503	60
Energy	139	248	100	270	427	92	490	1,508	214
Other Industrial	180	244	108	212	244	199	398	602	239
Technology	76	149	40	149	253	33	262	550	106
Transportation	454	552	254	243	1,083	79	218	1,120	92

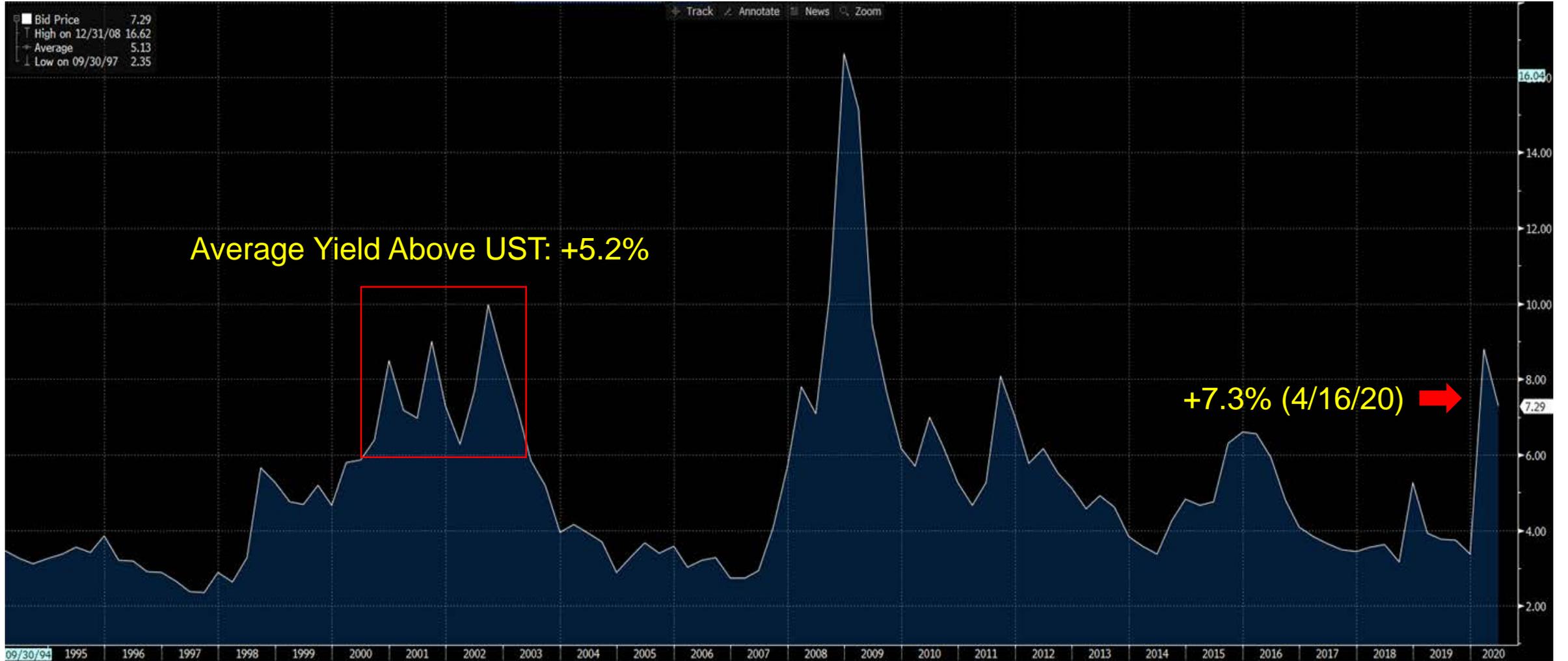
(Source: OAS, IG: Over 5 Yrs to Maturity; Bloomberg, as of 4/16/20)

U.S. Credit Spreads: Single A Corporates



(Source: OAS, IG: Over 5 Yrs to Maturity; Bloomberg, as of 4/16/20)

➤ U.S. Corporate High Yield



(Source: Bloomberg U.S. Corporate High Yield Average OAS; as of 4/16/20)

➤ Asset Class Returns: Core

Asset Class – Core	Total Returns				
	YTD	1 Year	3 Year (Ann)	5 Year (Ann)	10 Year (Ann)
<i>U.S. Large Cap (S&P 500 Index)</i>	-12.8%	-1.8%	8.4%	8.0%	11.2%
<i>U.S. Mid Cap (Russell Midcap Index)</i>	-22.0%	-15.2%	2.0%	3.0%	9.2%
<i>U.S. Small Cap (Russell 2000 Index)</i>	-29.1%	-24.5%	-3.0%	-0.2%	6.6%
<i>International Markets (MSCI EAFE Index)</i>	-21.2%	-14.7%	-0.4%	-0.4%	3.3%
<i>Emerging Markets (MSCI EM Index)</i>	-19.9%	-16.4%	0.2%	-0.6%	1.3%
<i>Fixed Income (US Aggregate Bond Index)</i>	4.8%	11.3%	5.0%	3.6%	4.0%
<i>Municipal Bond Total Return Index</i>	0.0%	4.7%	3.9%	3.3%	4.2%

(Source: Bloomberg, as of 4/16/20)

➤ Asset Class Returns: Satellite

Asset Class – Satellite	Total Returns				
	YTD	1 Year	3 Year (Ann)	5 Year (Ann)	10 Year (Ann)
<i>U.S. Corporate High Yield Index</i>	-8.1%	-3.2%	2.4%	3.6%	6.0%
<i>Global High Yield Index</i>	-11.0%	-6.7%	0.8%	2.9%	5.3%
<i>S&P Preferred Stock Index</i>	-10.6%	-8.1%	-4.4%	-3.2%	-1.2%
<i>FTSE NAREIT U.S. REIT Index</i>	-25.0%	-17.4%	-2.7%	0.8%	7.6%
<i>Alerian MLP Index</i>	-50.9%	-55.3%	-25.2%	-19.1%	-3.9%
<i>Dow Jones Commodity Index</i>	-24.6%	-23.4%	-5.7%	-3.0%	-6.0%
<i>ThomsonReuters Private Equity Index</i>	-22.9%	-11.9%	5.1%	6.2%	13.8%
<i>HFR Global Hedge Fund Index</i>	-5.1%	0.2%	0.1%	-0.5%	0.3%

(Source: Bloomberg, as of 4/16/20)

➤ Market Opportunities

- While we never invest on valuations alone, equity valuations in U.S. Small and Mid Cap look attractive relative to recent history
- International Developed and Emerging Markets also appear attractive, although valuation gap may persist due to structural economic issues
- We expect higher quality stocks to outperform in the near term, as “risk-on” trade remains on hold for now
- See opportunities in Investment Grade Credit given dispersion, but also want to consider being very selective in U.S. High Yield

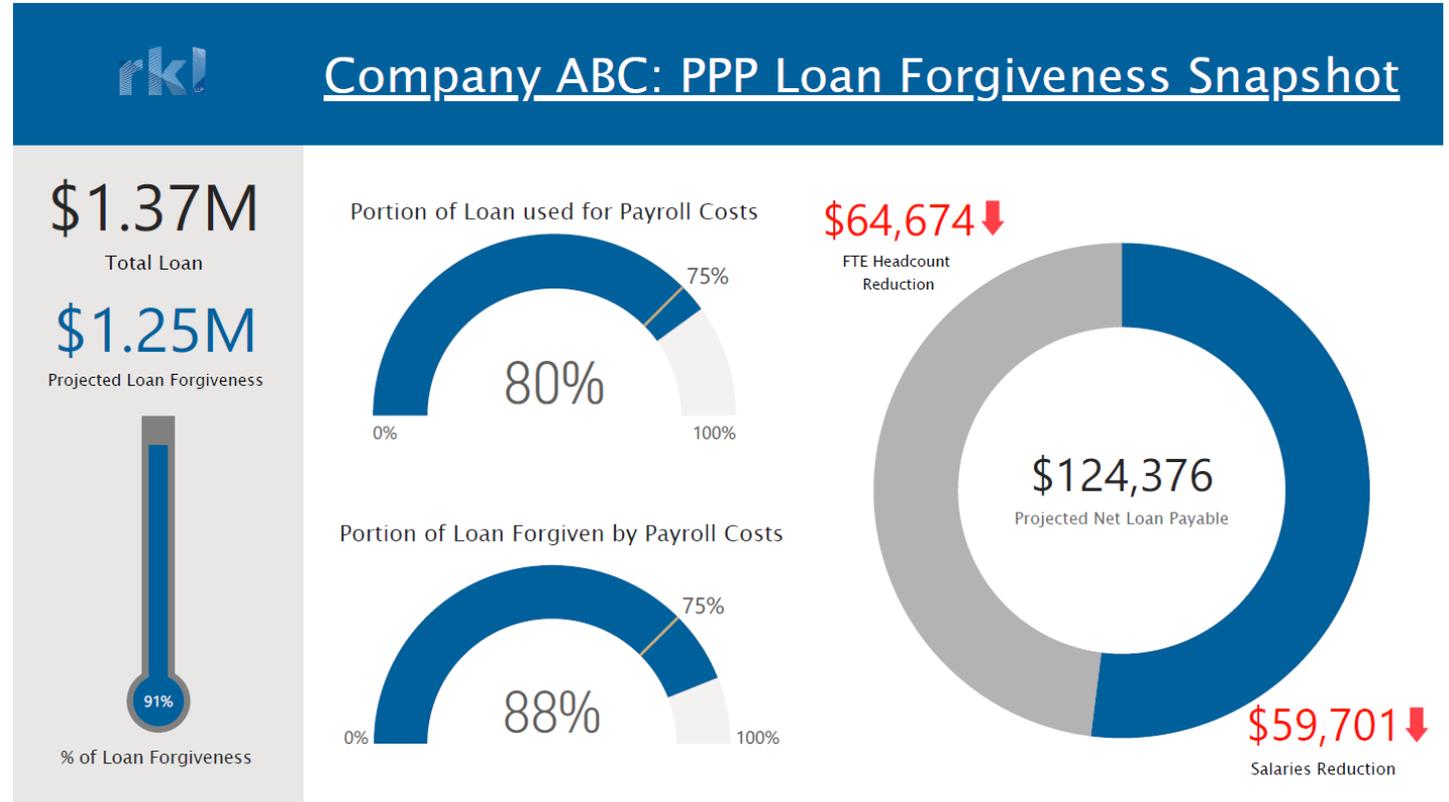
➤ Key Takeaways

- Always invest with a purpose – know what you own and why you own it
- Market is trading on sentiment, not fundamentals. Stay disciplined and don't try to time the market
- High quality bonds have served their purpose in preserving capital and providing good diversification
- Consider rebalancing your portfolio to right-size your positions and ensure your asset allocation reflects your long-term risk and return targets
- Financial conditions remain supportive of asset prices, but we do not see “risk on” until there is more clarity around economy and earnings

➤ Loan Forgiveness & Cash Flow Forecast

How Can We Help?

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POLLING QUESTION

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THANK YOU FOR PARTICIPATING

Questions? Contact today's presenters:

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Visit RKL's [Coronavirus Resource Center](#) for more updates and guidance.

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