



WEEKLY WEBINAR SERIES

CORONAVIRUS

& its impact on people, process & profits

SESSION ELEVEN

May 29, 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
- 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 three 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, Ryan Hurst, Robin Alexander 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

PA Reopening Status and PPP Updates



RYAN HURST, ASA | *Partner, Business Consulting Services Group*

Ryan is a Partner in RKL's Business Consulting Services Group and an in-demand transaction consultant. Ryan's areas of expertise include advising clients on buying and selling businesses; succession planning; conducting valuations for a variety of transactions and structures; litigation support for shareholder disputes; and strategic alternatives analyses.

Legislative and Employee Retention Tax Credit Update



ROBIN ALEXANDER, CPA | *Manager, Tax Services Group*

Robin is a Manager in RKL's Tax Services Group. She specializes in C Corporation, pass-through and individual taxation. Robin's nine years of experience in public and private accounting includes leading roles on implementation teams and process development responsibilities related to complex regulations like Section 163(j) and the Qualified Business Income deduction.

Economic Update and Onshoring Analysis



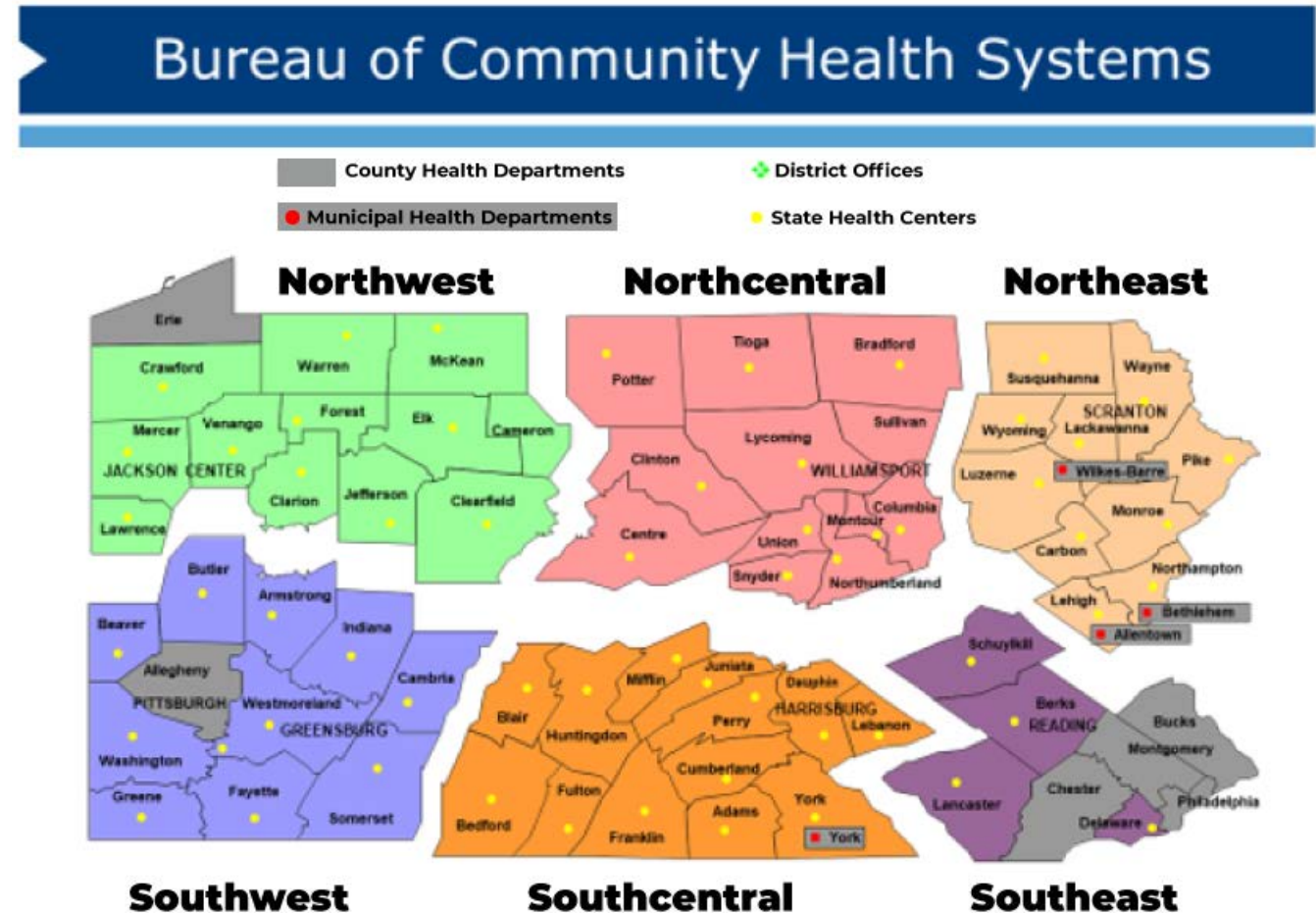
NICHOLAS BOYER | *Partner/Chief Investment Officer*

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.

PA REOPENING STATUS

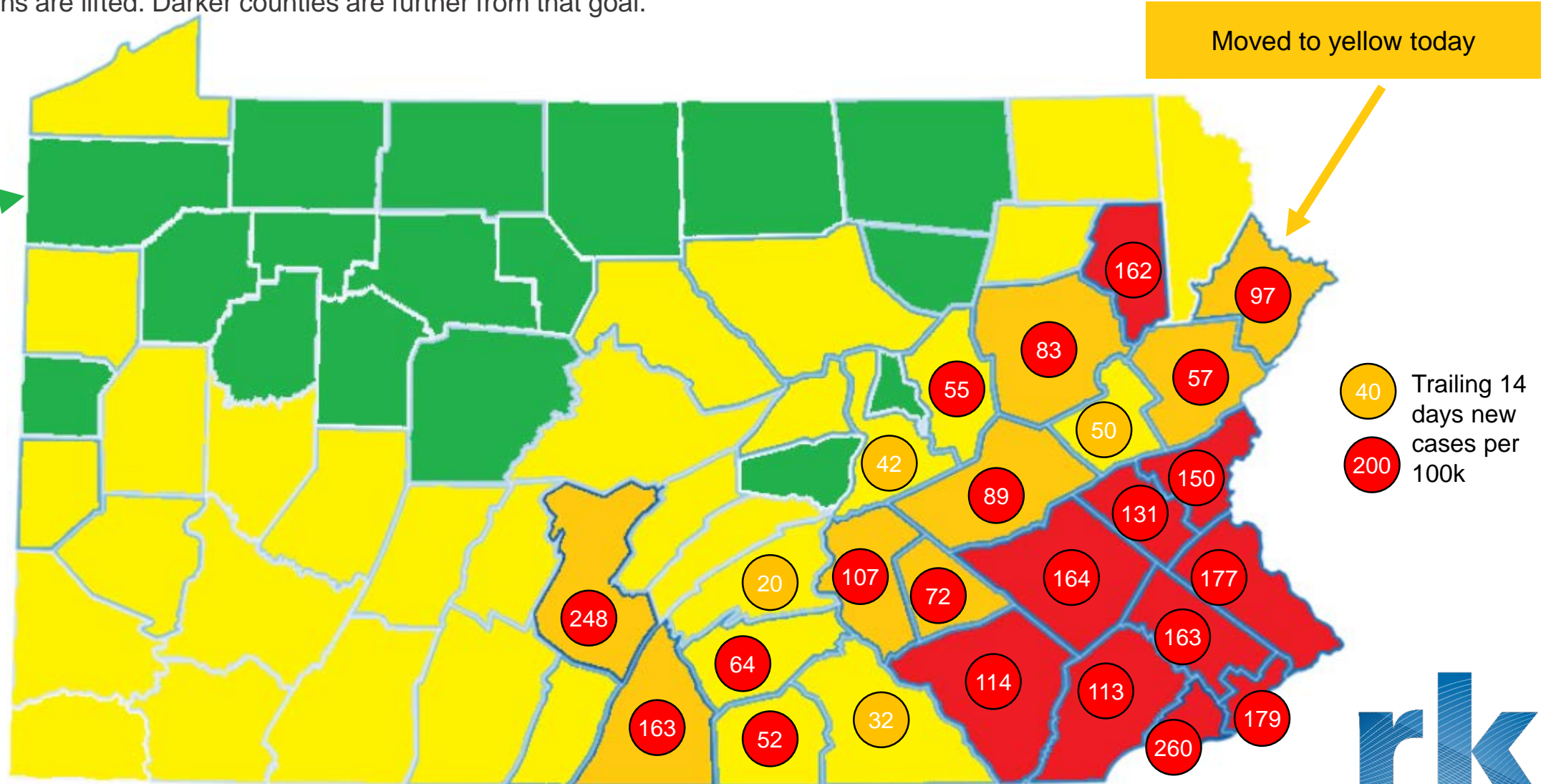
➤ Process to Reopen Pennsylvania

- Data driven “phased” approach
 - [Risk-Based Decision Support Tools](#) (Carnegie Mellon University)
- Target goal < 50 new confirmed cases per 100,000 population in previous 14 days
- Other
 - Sufficient testing
 - Robust case investigation and contact tracing
 - Safeguards at high-risk institutions
- Regional reopening
- Industry considerations (risk profiles and telework abilities)
- Personal protective equipment (PPE) availability and hospital stockpiles
- Limited outdoor activities resuming



➤ Pennsylvania Status by County

Governor Tom Wolf's reopening plan requires counties to report fewer than 50 new cases per 100,000 people over 14 days before restrictions are lifted. Darker counties are further from that goal.



* Figures current as of May 21, 2020

Map: Sara K. Satullo | Source: Pennsylvania Department of Health, Lehigh Valley Live, created by Datawrapper

> Phased Approach

Monitor for increased risk for 14 days



	Red Phase	Yellow Phase	Green Phase
Work and congregate setting restrictions	<ul style="list-style-type: none"> Life-sustaining businesses only Congregate care and prison restrictions in place Schools (for in-person instruction) and most child care facilities closed 	<ul style="list-style-type: none"> Telework must continue where feasible Businesses with in-person operations must follow business and building safety orders Child care open complying with guidance Congregate care and prison restrictions in place Schools remain closed for in-person instruction 	<ul style="list-style-type: none"> Continued telework strongly encouraged Businesses with in-person operations must follow updated business and building safety requirements All businesses operating at 50% occupancy in the Yellow Phase may increase to 75% occupancy Child care may open complying with guidance Congregate care restrictions in place Prison and hospital restrictions determined by individual facilities Schools subject to CDC and Commonwealth guidance
Social restrictions	<ul style="list-style-type: none"> Stay at Home orders in place Large gatherings prohibited Restaurants and bars limited to carry-out and delivery only Only travel for life-sustaining purposes encouraged 	<ul style="list-style-type: none"> Stay at Home order lifted for aggressive mitigation Large gatherings of more than 25 prohibited In-person retail allowable, curbside and delivery preferable Indoor recreation, health and wellness facilities and personal care services (such as gyms, spas and hair/nail salons), and all entertainment (such as casinos, theaters) remain closed Restaurants and bars limited to carry-out and delivery only 	<ul style="list-style-type: none"> Large recreational gatherings remain restricted Restaurants and bars open at 50% occupancy Personal care services (including hair salons and barbershops) open at 50% occupancy and by appointment only Indoor recreation, health and wellness facilities and personal care services (such as gyms and spas) open at 50% occupancy with appointments strongly encouraged All entertainment (such as casinos, theaters and shopping malls) open at 50% occupancy Construction activity may return to full capacity with continued implementation of protocols
Other notes	<ul style="list-style-type: none"> Reiterate and reinforce safety guidance for businesses, workers, individuals, facilities; update if necessary Monitor public health indicators, adjust orders and restrictions as necessary 	<ul style="list-style-type: none"> All businesses must follow CDC and PA Department of Health guidance for social distancing and cleaning Monitor public health indicators, adjust orders and restrictions as necessary 	<ul style="list-style-type: none"> All businesses must follow CDC and DOH guidance for social distancing and cleaning Monitor public health indicators, adjust orders and restrictions as necessary

POLLING QUESTION

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

PPP UPDATES

➤ Determining the Amount Eligible for Forgiveness

You are eligible for forgiveness in an amount equal to the following ***costs incurred OR paid*** during the eight-week covered period.

$$\begin{array}{c} \textbf{Total Expense for 8-Week Period:} \\ \\ \textbf{Payroll Costs Paid or Incurred} \\ + \\ \textbf{Payment on Mortgage Interest} \\ + \\ \textbf{Covered Rent Obligations} \\ + \\ \textbf{Covered Utility Payments} \\ = \\ \textbf{Total Maximum Eligible Forgiveness} \end{array}$$

Important Stipulations of PPP


- Forgiveness of non-payroll expense is limited to 25% of total forgiveness
- Covered period starts the day you receive your PPP funds
- For payroll, an Alternative Covered Period is available to better align with your pay dates

Your Maximum Eligible Forgiveness can be reduced by two haircuts, related to FTE headcount and salary reductions for employees making less than \$100k/year.

➤ PPP Loan Forgiveness

Qualified Payroll Costs - 75% of the amount forgiven must be spent on these items

Includes pay and certain benefits and taxes:

- Salaries, wages, commissions (gross pay)
- Tips
- Vacation, family, medical and sick leave
- Severance pay
- **Bonuses and hazard pay** 
- Health insurance premiums
- Employer match on 401(k)
- Employer portion of state unemployment taxes

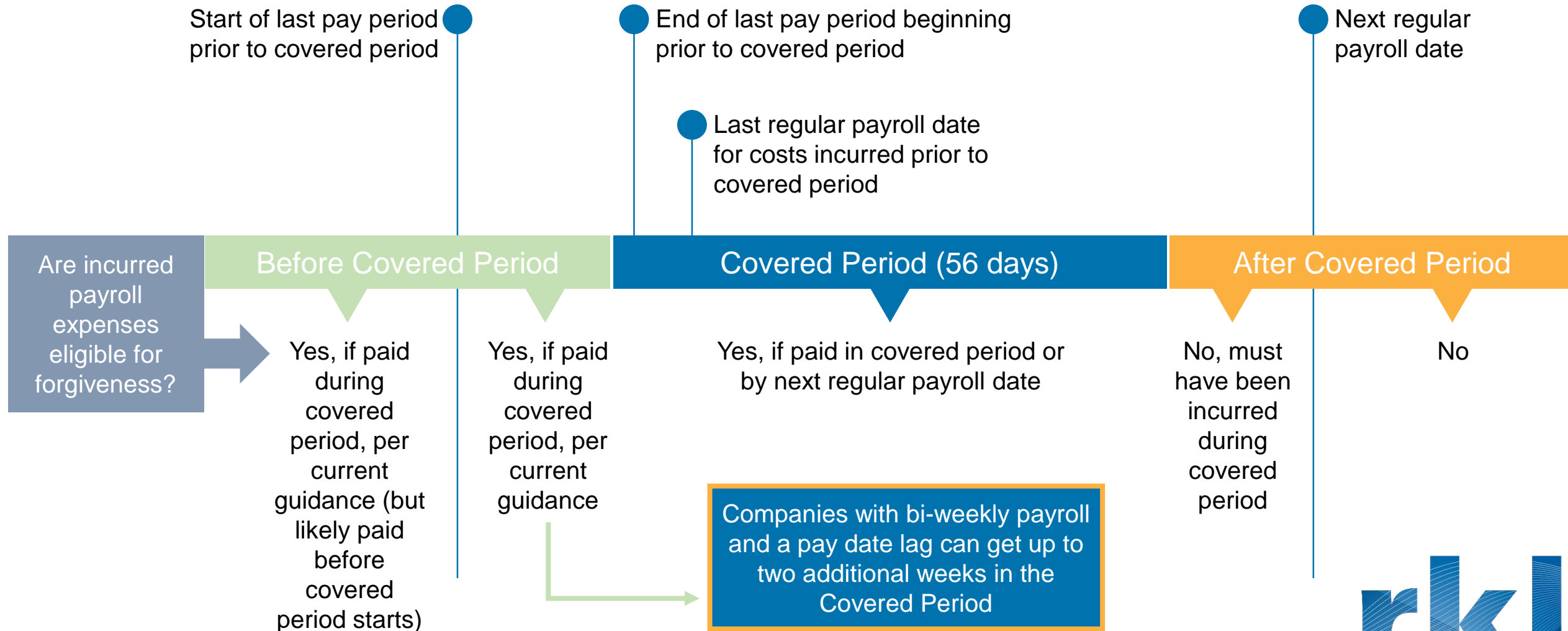
Notes: Cash compensation is limited to \$100,000 annualized (\$15,385 for the eight weeks) for employees. You do NOT need to limit any of the other items for those individuals.

Owners' compensation is limited to the lesser of \$100,000 annualized or 2019 compensation. Further guidance is needed for the treatment of owners' non-cash compensation.

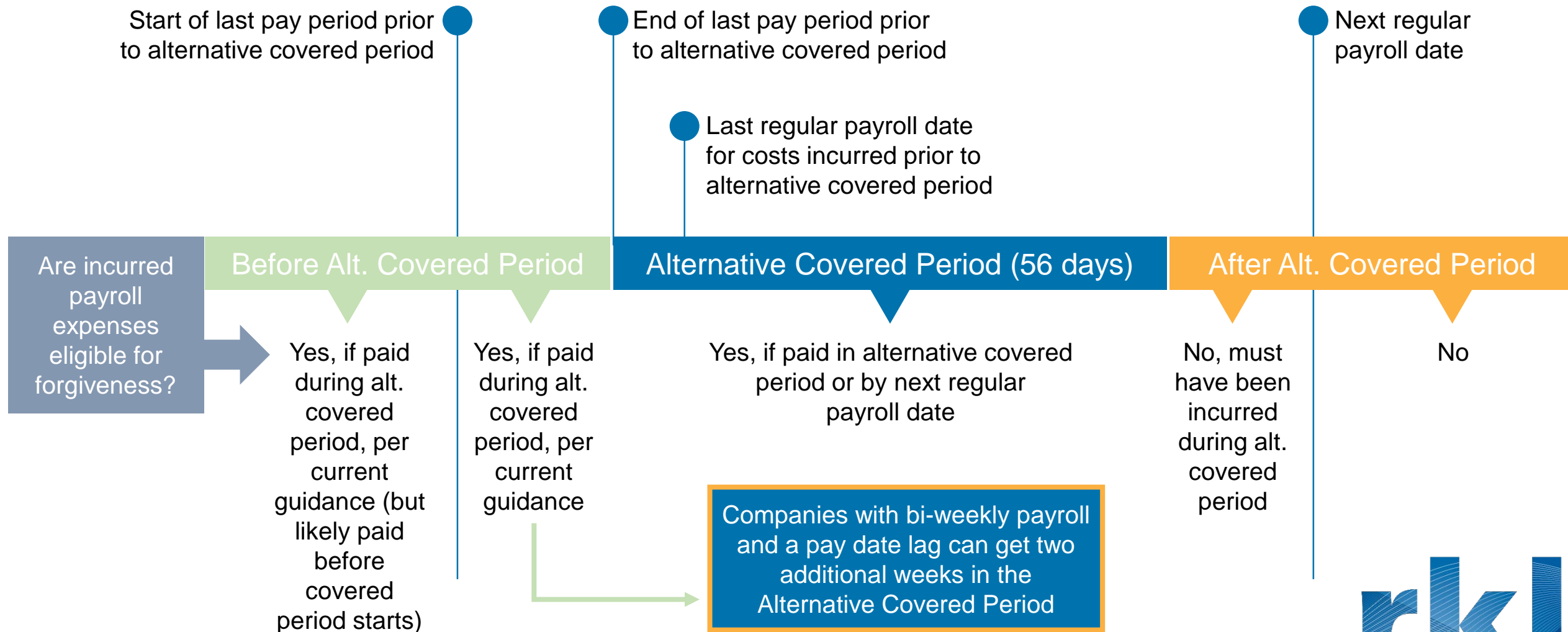
➤ Compensation of “Owners”

- The amount of loan forgiveness requested for owner-employees and self-employed individuals' payroll compensation can be no more than the lesser of 8/52 of 2019 compensation or \$15,385 (8/52x\$100,000).
 - **Owner-employees** are capped by the amount of their 2019 employee cash compensation and employer retirement and health care contributions made on their behalf.
 - *Should employer retirement and health insurance contributions for the owner-employee be included as part of PPP Schedule A Line 9 or Lines 6-7?*
 - **Schedule C** filers are capped by the amount of their owner compensation replacement, calculated based on 2019 net profit.
 - **General partners** are capped by the amount of their 2019 net earnings from self-employment (reduced by claimed section 179 expense deduction, unreimbursed partnership expenses and depletion from oil and gas properties) multiplied by 0.9235.
 - No additional forgiveness is provided for retirement or health insurance contributions for **self-employed individuals**, including Schedule C filers and general partners, as such expenses are paid out of their net self-employment income.

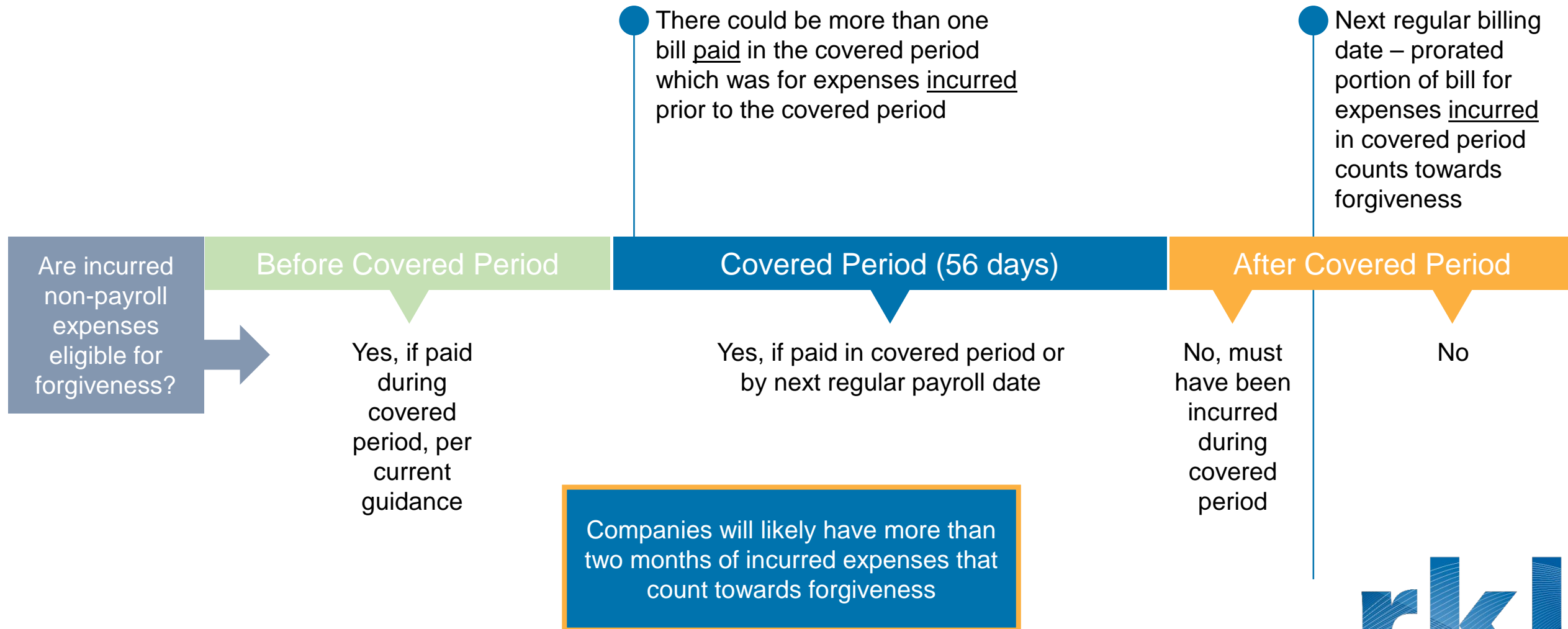
➤ Incurred or Paid – Payroll Costs (Covered Period)



> Incurred or Paid – Payroll Costs (Alternative Covered Period)



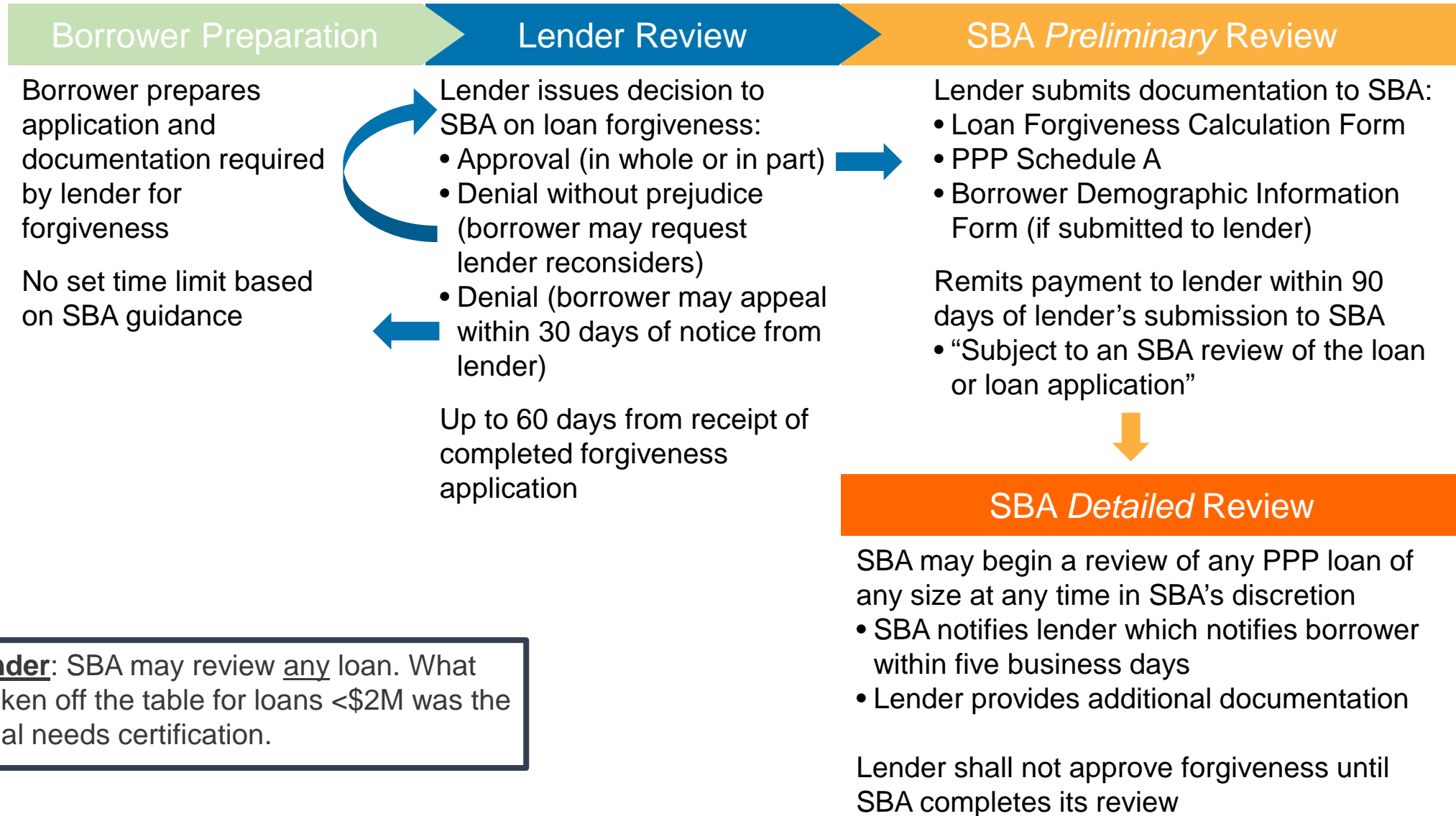
> Incurred or Paid – Non-Payroll Costs



➤ Non-Payroll Costs – Unknowns

- Still nothing clarifying use of “mortgage interest” on personal loans
- Still nothing on related party rents
- Still nothing clarifying transportation costs

> Forgiveness Timeline and SBA Review



> What Happens If Your Loan Is Not Forgiven?

For all portions of your loan that are not forgiven, loan terms are currently as follows:

- Two-year repayment term (deferred for six months from receipt of funds)
- No prepayment penalties associated with loan
- Bears 1% interest per annum
- Interest will accrue for the six month period of deferment

➤ Main Street Lending Program Update

- New FAQ and lender registration documents posted May 27
- Ready to start issuing loans and getting funds in hand by June 7
- Significant revisions made to the Main Street Lending Program on April 30, 2020
- Available to businesses with $\leq 15,000$ employees or $\leq \$5.0$ billion annual revenue in 2019
- Four-year term loan, which could be secured or unsecured
- One-year deferral of principal and interest; unpaid interest will be capitalized
- Rate = LIBOR (1 month or 3 month) + 3%
- Minimum loan size starting at \$500,000
- Public disclosure of names of lenders and borrowers, amounts borrowed and interest rates charged, and overall costs, revenues and other fees
- Generally less restrictive than PPP but does not feature loan forgiveness



<https://www.rklcpa.com/main-street-lending-program-overview/>

➤ Lancaster County Economic Recovery Plan

Approved May 27 by the Lancaster County Commissioners. The program is being led by EDC and the Lancaster Chamber.

Resources available to businesses include:

1. Personal protective equipment free to any Lancaster County business, nonprofit, sole proprietor or agricultural production operation with 100 or fewer employees.
2. Round #1 of monetary grants (max of \$35,000) to Lancaster County-based businesses with 20 or fewer employees. Future rounds of grants will be open to businesses with up to 100 employees.

[Additional details](#)

POLLING QUESTION

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

LEGISLATIVE AND ERTC UPDATE

The PPP Legislative Landscape

Consideration	CARES Act	Senate Version	PPP Flexibility Act of 2020 – H.R. 7010
Status	Law	NOT PROPOSED - SPECULATION	HOUSE PASSED, NOT LAW
Covered period	8 weeks	12 - 16 weeks	24 weeks
Date for rehiring	6/30/20	12/31/20	12/31/20
% of loan for payroll costs	75% (via SBA guidance)	Remains 75%	Reduces requirement to 60%
Removes PPP restriction on payroll tax deferral	<i>(not included)</i>	Unknown	Yes
Loan maturity	Act: No more than 10 years; Guidance: 2 years	Unknown	5 years
FTE Testing		Still Applies over duration of new covered period – No Change in Testing	Still Applies over duration of new covered period – No Change in Testing
FTE haircut		Unknown	Inability to rehire or inability to hire similarly qualified employees by 12/31/20. No penalty if able to demonstrate “an inability to return to the same level of business activity as such business was operating at before February 15, 2020” due to certain compliance requirements

➤ **HEROES Act** Legislative Update **(PROPOSED)**

- Passed the House – May 15, 2020
- Senate declares bill dead on arrival
 - Talks of starting over
 - Too many unrelated provisions
 - Too expensive - \$3 Trillion
- Provisions gaining traction
 - ERTC changes
 - Fixed Expense Tax Credit (FETC)

The ERTC Legislative Landscape (PROPOSED)

Consideration	CARES Act	HEROES Act – H.R. 6800 – NOT LAW
Credit amount	50% of qualified wages, quarterly wage limit of \$10,000 per employee	80% of qualified wages, quarterly wage limit of \$15,000 per employee
Eligible Employers	<ul style="list-style-type: none"> Fully or partially suspended operations during any calendar quarter in 2020 due to orders from an appropriate government authority due to COVID-19 <p>AND/OR</p> <ul style="list-style-type: none"> Significant decline in gross receipts during any calendar quarter of 50% or more 	<ul style="list-style-type: none"> Fully or partially suspended operations during any calendar quarter in 2020 due to orders from an appropriate government authority due to COVID-19 <p>AND/OR</p> <ul style="list-style-type: none"> Significant decline in gross receipts during any calendar quarter of 10% or more; 10% - 50% partial credit
Eligible Employees	<p>Average of 100 or less employees in 2019, ALL WAGES are qualifying wages</p> <p>Average 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</p>	<p>Average of 1,500 or less employees in 2019, ALL WAGES are qualifying wages</p> <p>Average of more than 1,500 full-time employees OR Gross Receipts Greater than \$41.5M in 2019, qualified wages are the wages paid to an employee for time that the employee is not providing services due to COVID-19</p>

➤ Fixed Expense Tax Credit (FETC) (PROPOSED)

- Tax credit against employment taxes – fully refundable
- 50% of qualified fixed expenses paid **OR** incurred during a calendar quarter
- Eligible employer:
 - Similar definition as ERTC
 - Partial credit for decline in gross receipts between 10 and 50%
- Qualified Fixed Expenses: Payment or accrual of any covered mortgage obligation, covered rent obligation or covered utility payment
 - Cannot exceed the lesser of:
 - The qualified fixed expenses paid by the employer in the corresponding 2019 calendar quarter
 - \$50,000
 - The greater of:
 - 25% of wages paid to employees for such calendar quarter **OR**
 - 6.25% of the employer's gross receipts in the corresponding 2019 calendar quarter

POLLING QUESTION

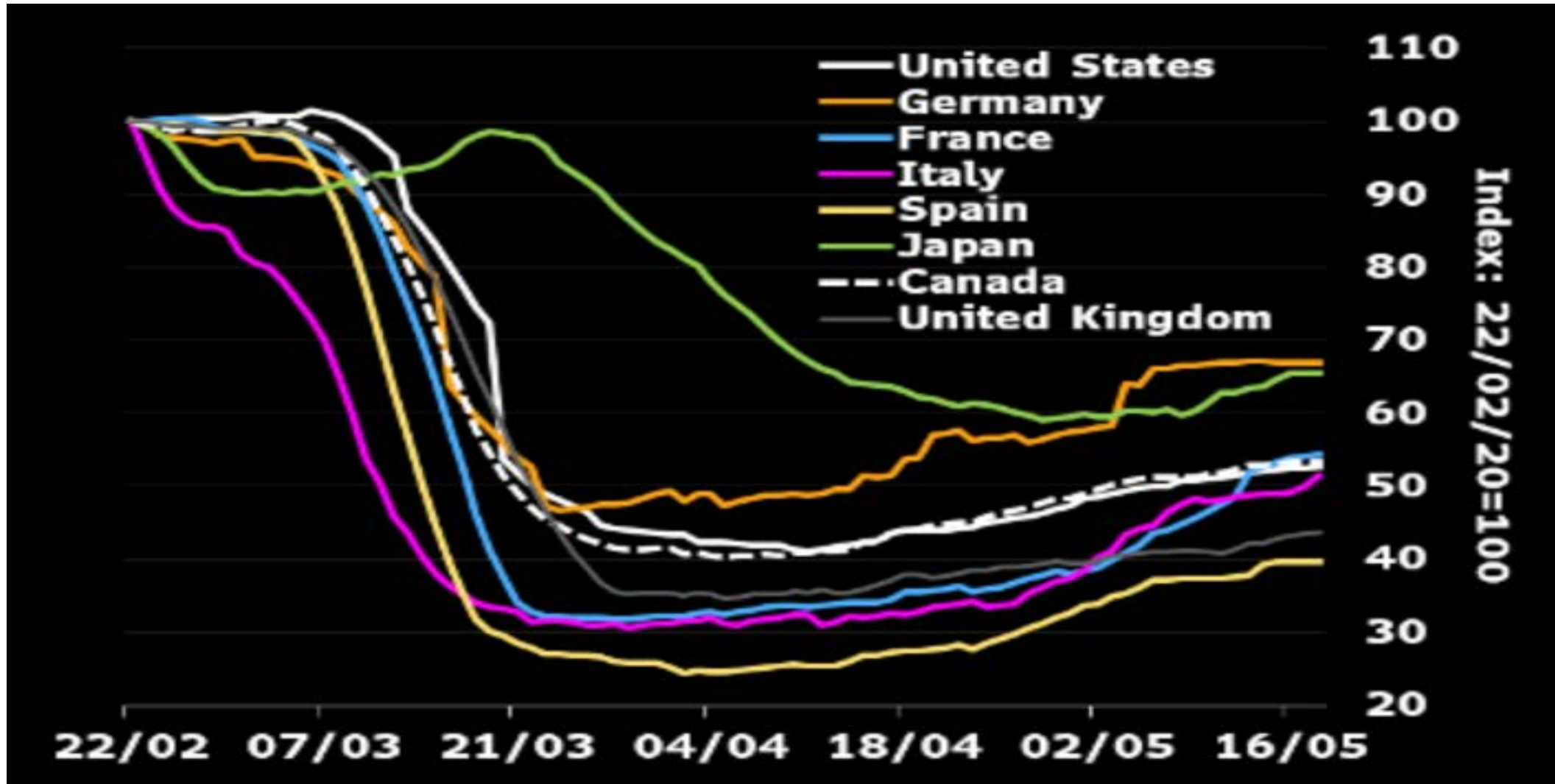
To be eligible for CPE, 3 polling questions must be answered.

ECONOMIC UPDATE AND ONSHORING ANALYSIS

> Agenda

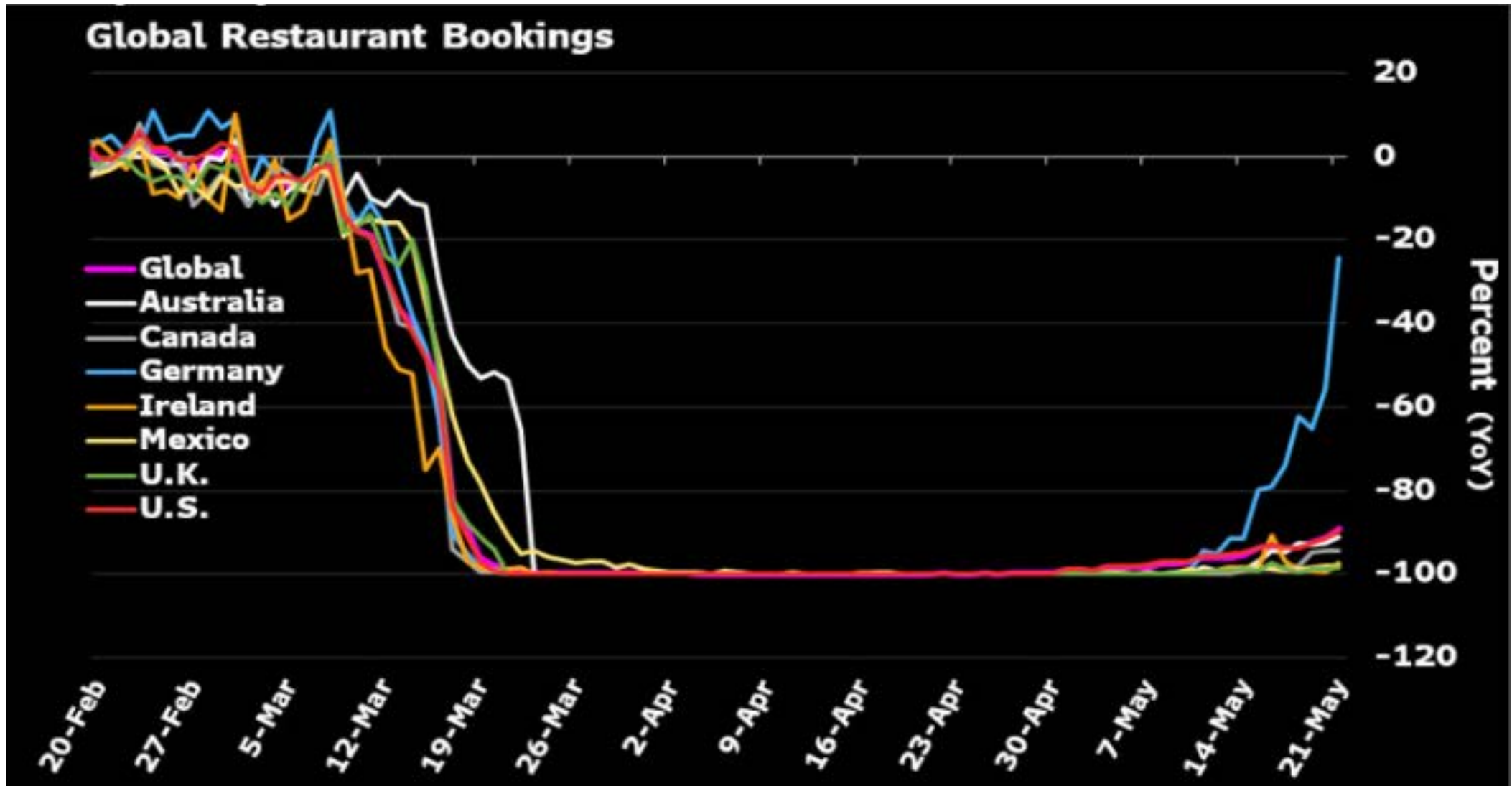
- Global Economic Activity
- U.S. Economy
- PA/Regional Economy
- Economic Trends: Onshoring

➤ Global Economy – Daily Activity Indices



(Source: Bloomberg Economics/TomTom.com/Indeed.com/Google.com/Apple.com/BNEF, as of 5/28/20)

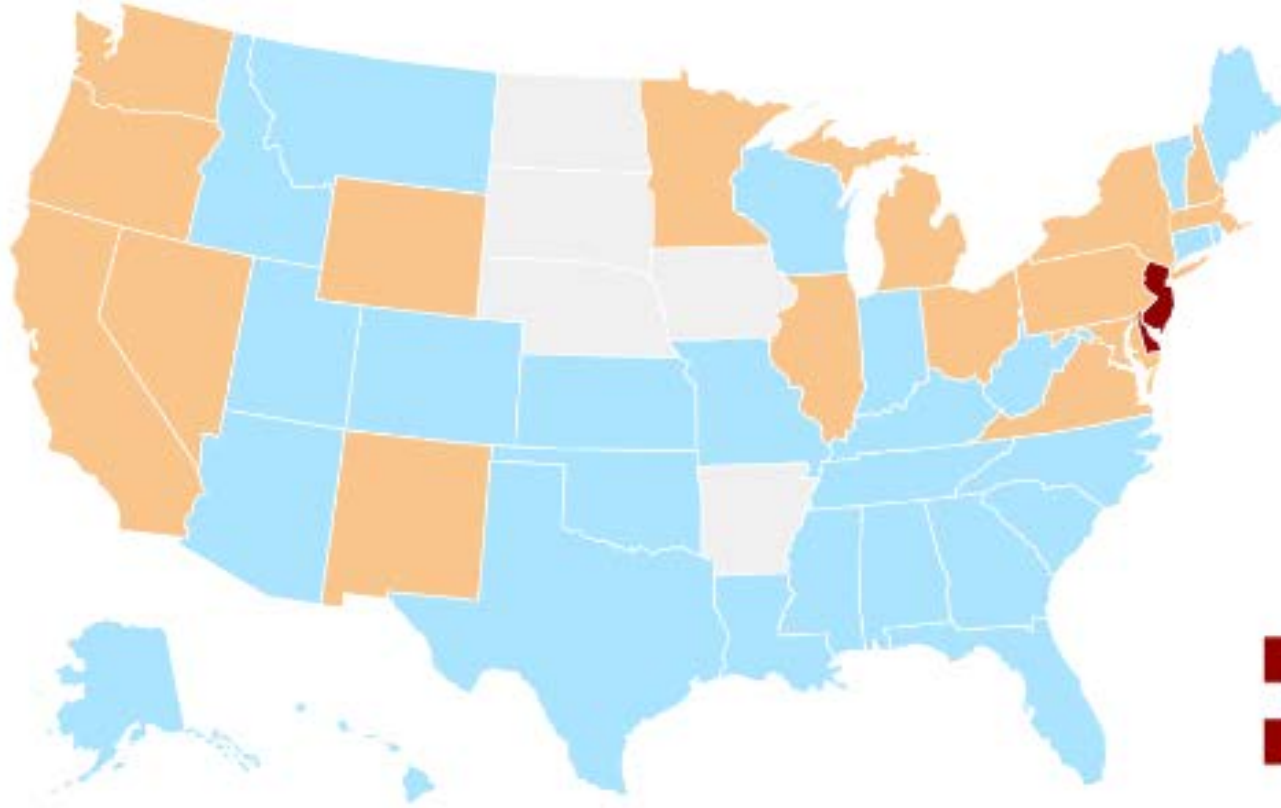
➤ “Green Shoots”



(Source: Bloomberg, as of 5/28/20)

➤ U.S. Status by State – 5/27

■ State-wide lockdown ■ Partial lockdown/reopen ■ State reopen



% of U.S. GDP*:

Lockdown (Red): 4%

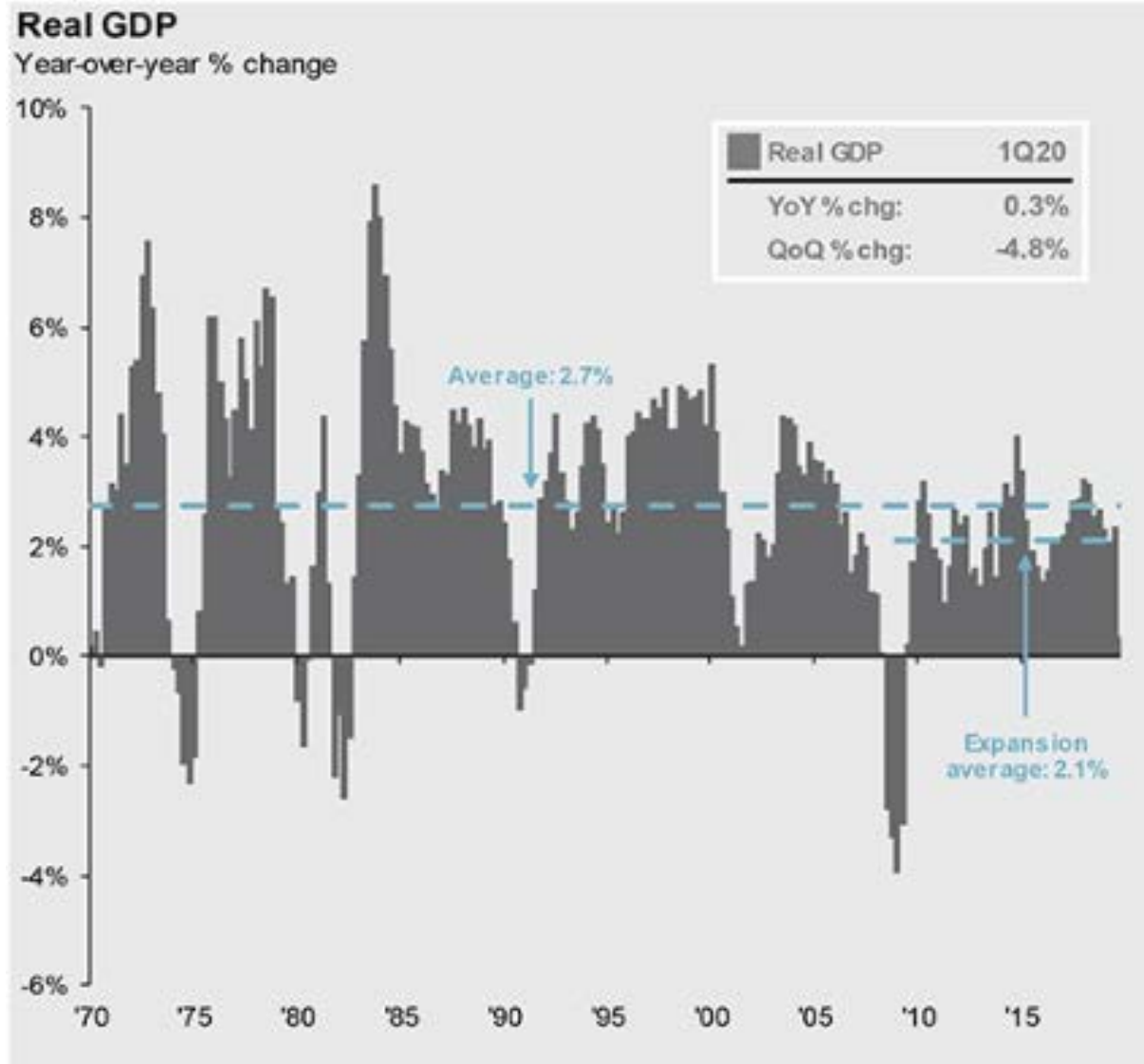
Partial lockdown (Tan): 61%

Open (White & Blue): 35%

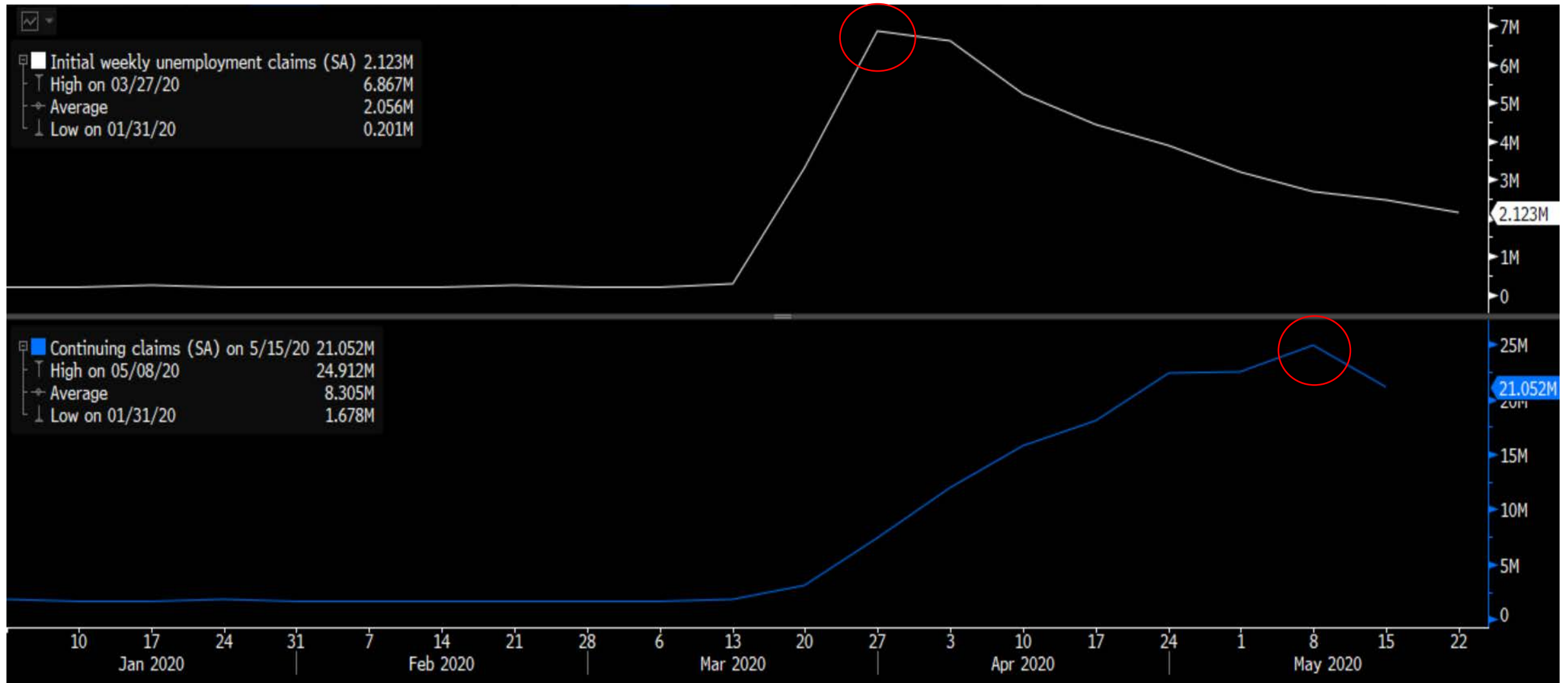
■ DC*
■ PR*

(Sources: Business Insider, businessinsider.com, updated as of 5/27/2020; *Bureau of Economic Analysis, YE2019)

➤ U.S. Economy

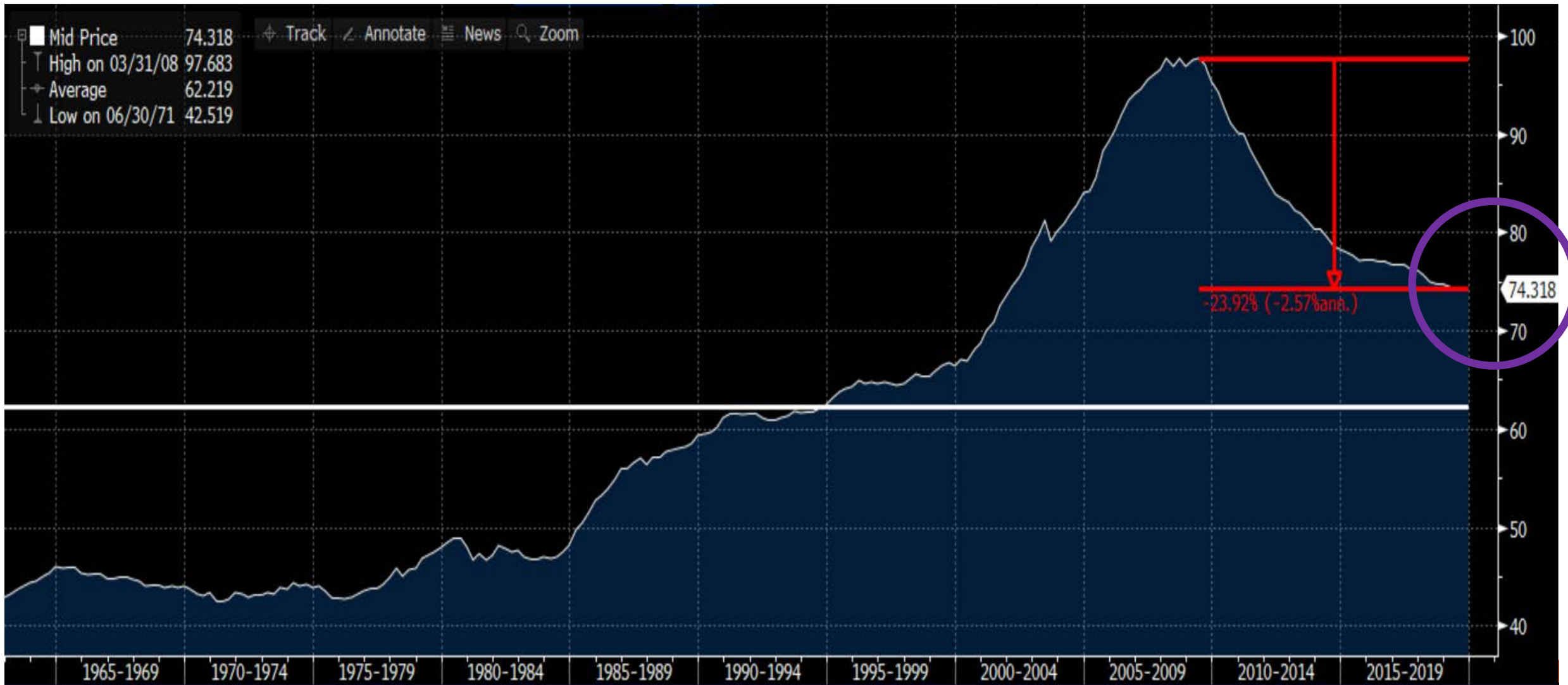


➤ U.S. Employment Picture



(Source: Bloomberg, as of 5/28/20)

➤ U.S. Household Debt, % of GDP



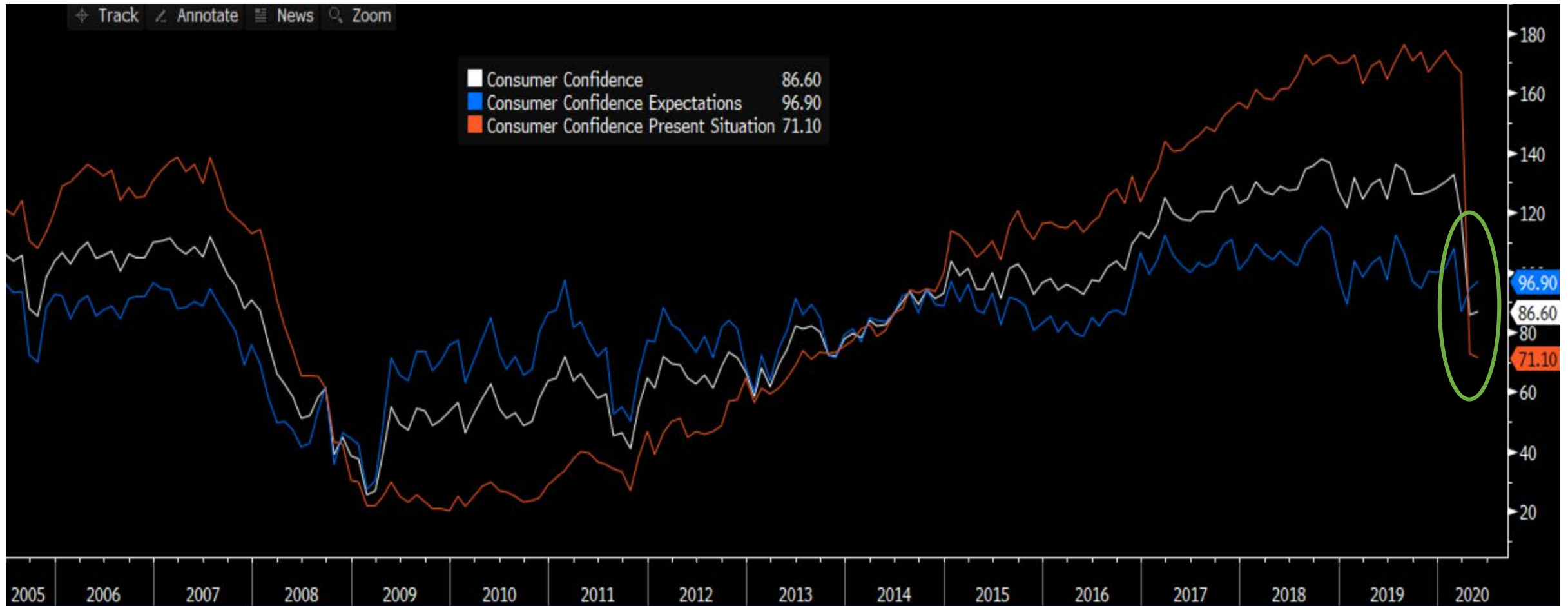
(Source: U.S. Household Debt as % of GDP, Bloomberg, as of 5/28/20)

➤ U.S. Consumer Savings



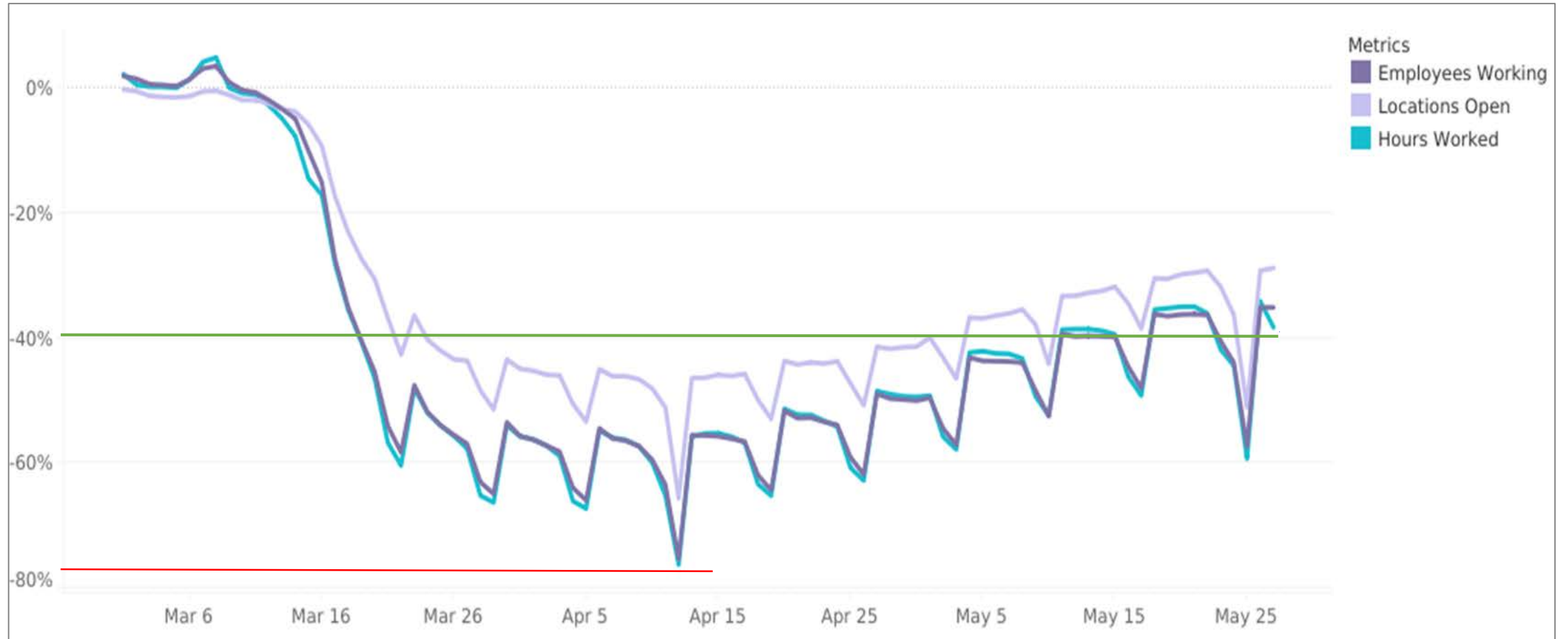
(Source: Federal Reserve Bank of Richmond/Bureau of Economic Analysis/Haver Analytics, as of 5/28/20)

➤ U.S. Consumer Confidence



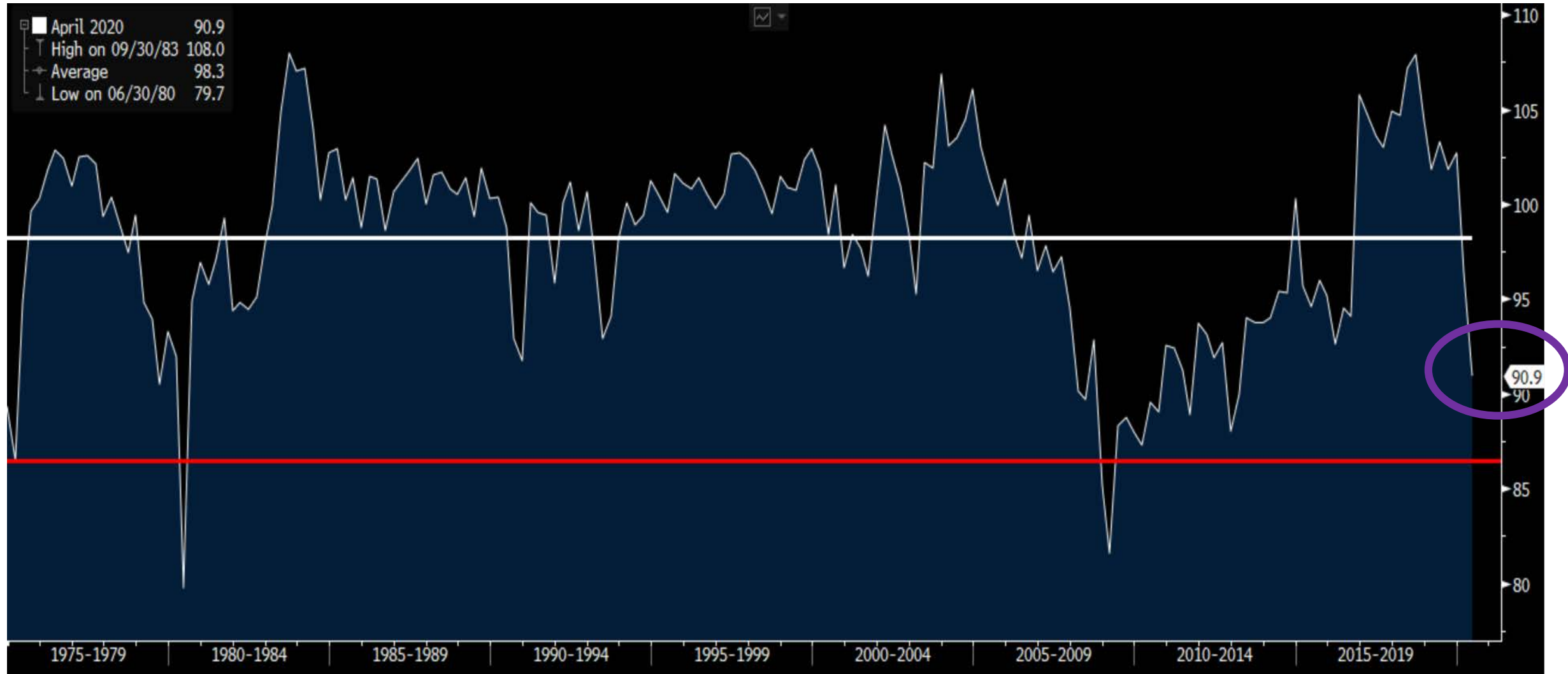
(Source: Bloomberg, Conference Board Consumer Confidence Survey, 5/28/20)

➤ U.S. Small Business




(Source: HOMEBASE, as of 5/28/20)

> NFIB Small Business Optimism Index



(Source: NFIB U.S. Small Business Optimism Index, Latest Release April 2020, Bloomberg, as of 5/28/20)

➤ U.S. Economy



United States

Browse

Private

Official

Actual / Forecasts

Probability of Recession

100.0%

Indicator	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21
Economic Activity										
Real GDP (YoY%)	2.3	2.1	2.3	0.3	-9.7	-6.8	-5.2	-2.2	8.4	5.1
Real GDP (QoQ% SAAR)	2.0	2.1	2.1	-4.8	-34.2	15.0	7.9	5.0	4.1	3.6
Consumer Spending ...	4.6	3.1	1.8	-7.6	-37.0	14.7	9.0	4.2	4.0	3.2
Government Spendin...	4.8	1.7	2.5	0.7	2.6	3.3	2.0	1.5	1.5	1.4
Private Investment (...)	-6.3	-1.0	-6.0	-5.6	-39.1	-1.9	12.2	10.0	6.7	5.1
Exports (QoQ% SAAR)	-5.7	1.0	2.1	-8.7	-30.7	5.1	6.5	5.0	4.7	4.5
Imports (QoQ% SAAR)	0.0	1.8	-8.4	-15.3	-29.4	3.8	9.1	5.6	6.0	5.1
Industrial Production (Yo...	1.2	0.2	-0.7	-1.7	-13.2	-8.0	-6.1	-0.9	6.0	4.3

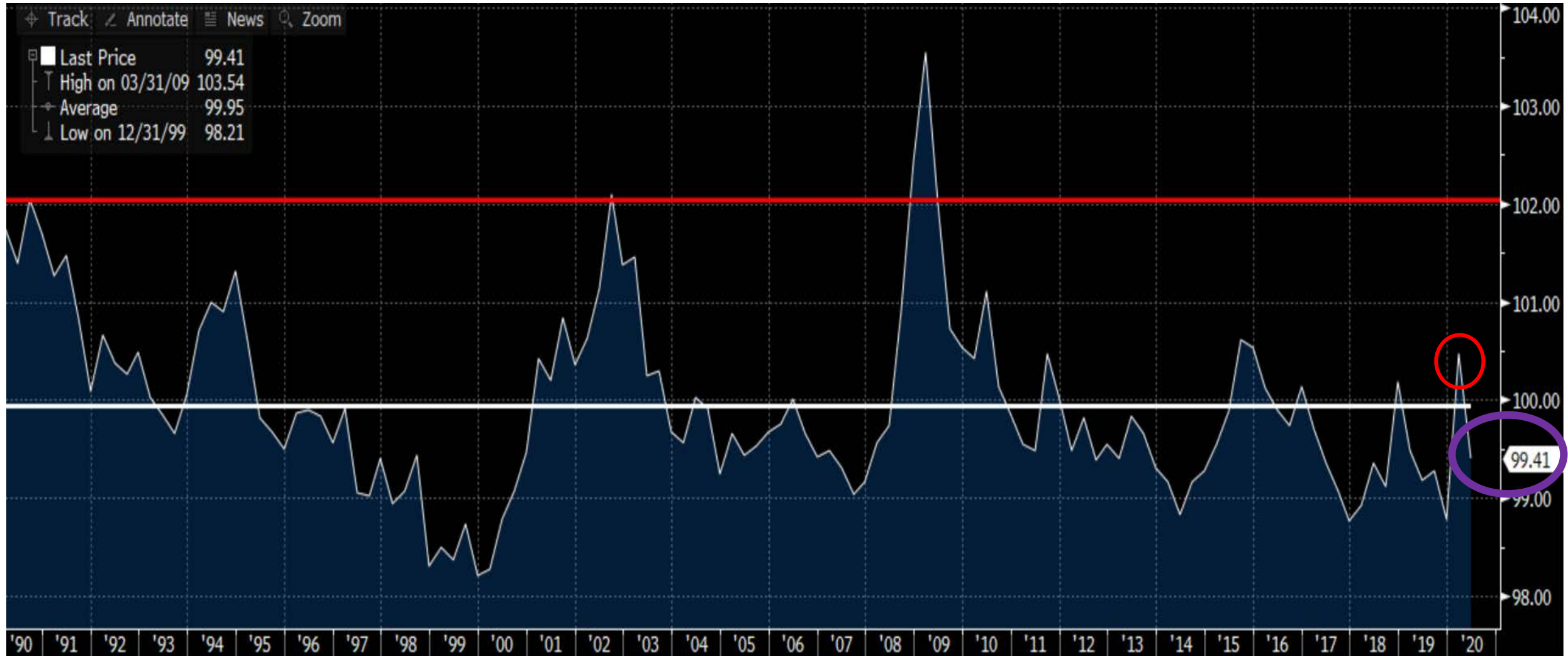
(Source: Bloomberg, Economic Statistics, as of 5/27/20)

➤ Monetary & Fiscal Stimulus

Global Monetary And Fiscal Stimulus To Fight COVID-19 Impact 2020 Feb to May (CSM)						
	Central Bank Potential Liquidity Injection		Govt Fiscal Stimulus		Central Bank Liquidity Injection and Govt Fiscal Stimulus	
	\$ Tln	% GDP	\$ Tln	% GDP	\$ Tln	% GDP
U.S.***	\$6.21	29.0%	\$3.30	15.4%	\$9.51	44.4%
Eurozone	\$1.10	8.3%	\$3.39	25.5%	\$4.49	33.7%
Japan**	\$1.03	20.0%	\$0.99	19.2%	\$2.02	39.2%
U.K.	\$0.25	9.0%	\$0.14	5.1%	\$0.39	14.1%
China	\$1.44	10.0%	\$0.71	5.0%	\$2.15	15.0%
Others*	\$0.68		\$2.35		\$3.03	
Total	\$10.70	12.4%	\$10.89	12.6%	\$21.59	24.9%

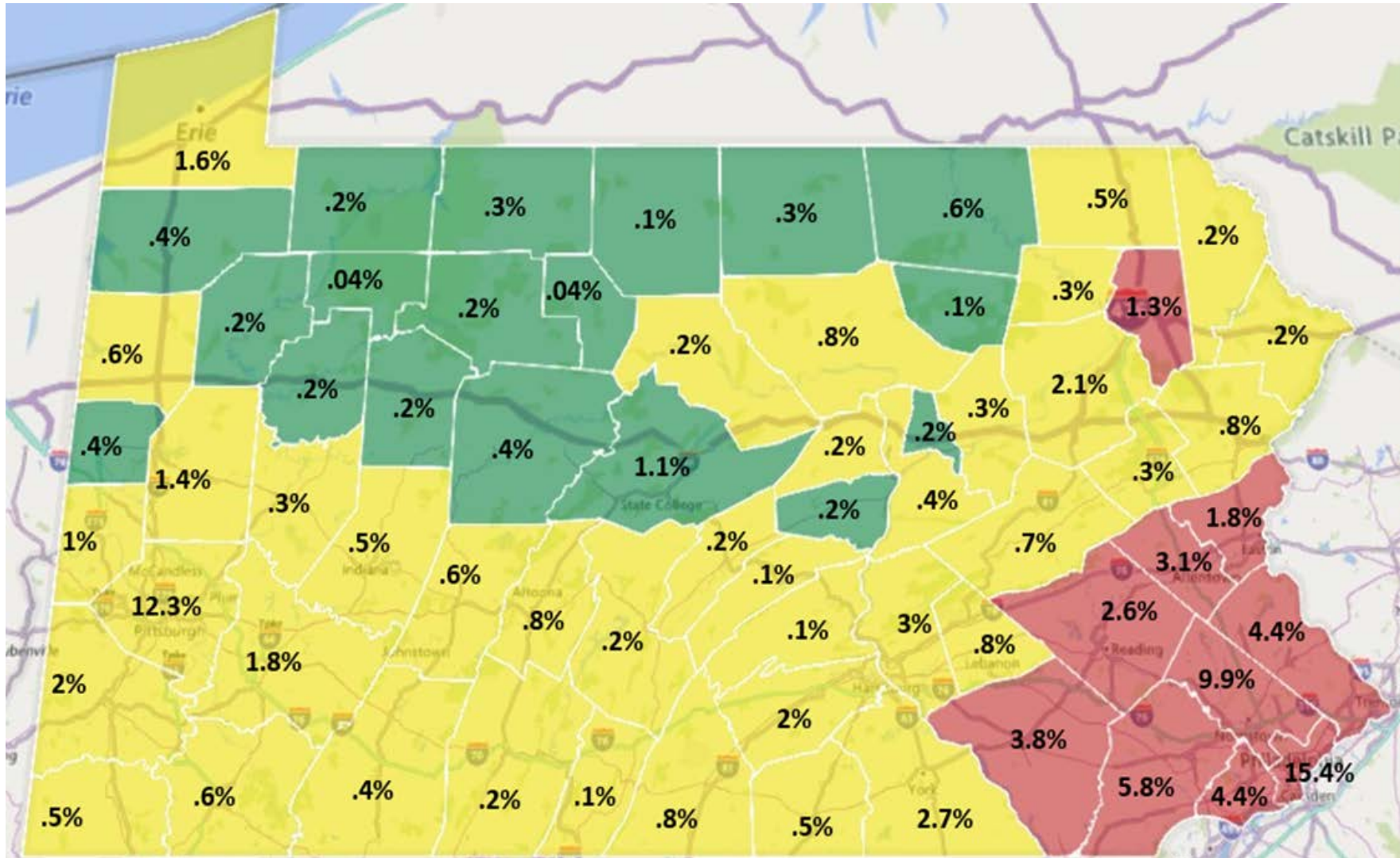
*incl RoW and ADB, IMF, WB

➤ U.S. Financial Conditions



(Source: Goldman Sachs U.S. Financial Conditions Index, Bloomberg, as of 5/28/20)

➤ PA Economy: GDP Share by County, % of PA Total



% of PA GDP:

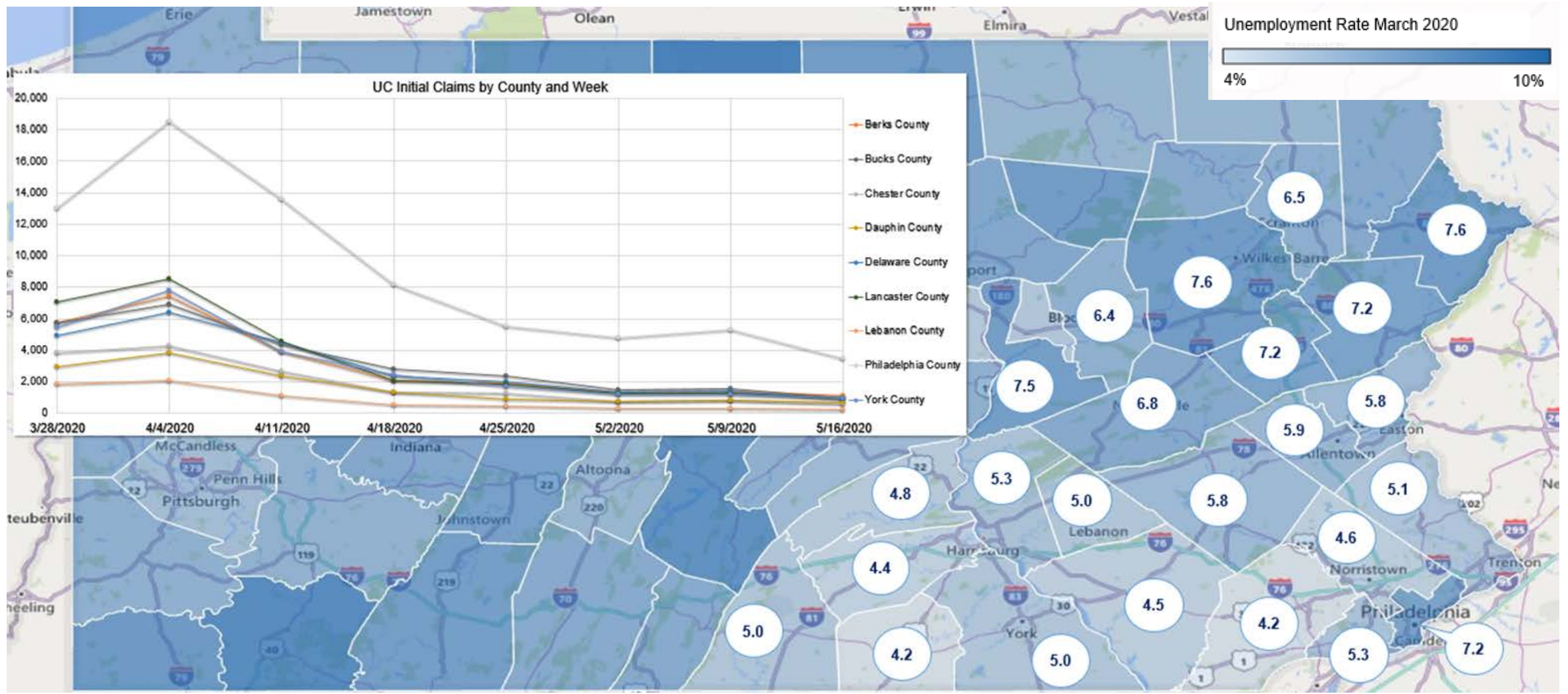
Red Phase: 52%

Yellow Phase: 42%

Green Phase: 5%

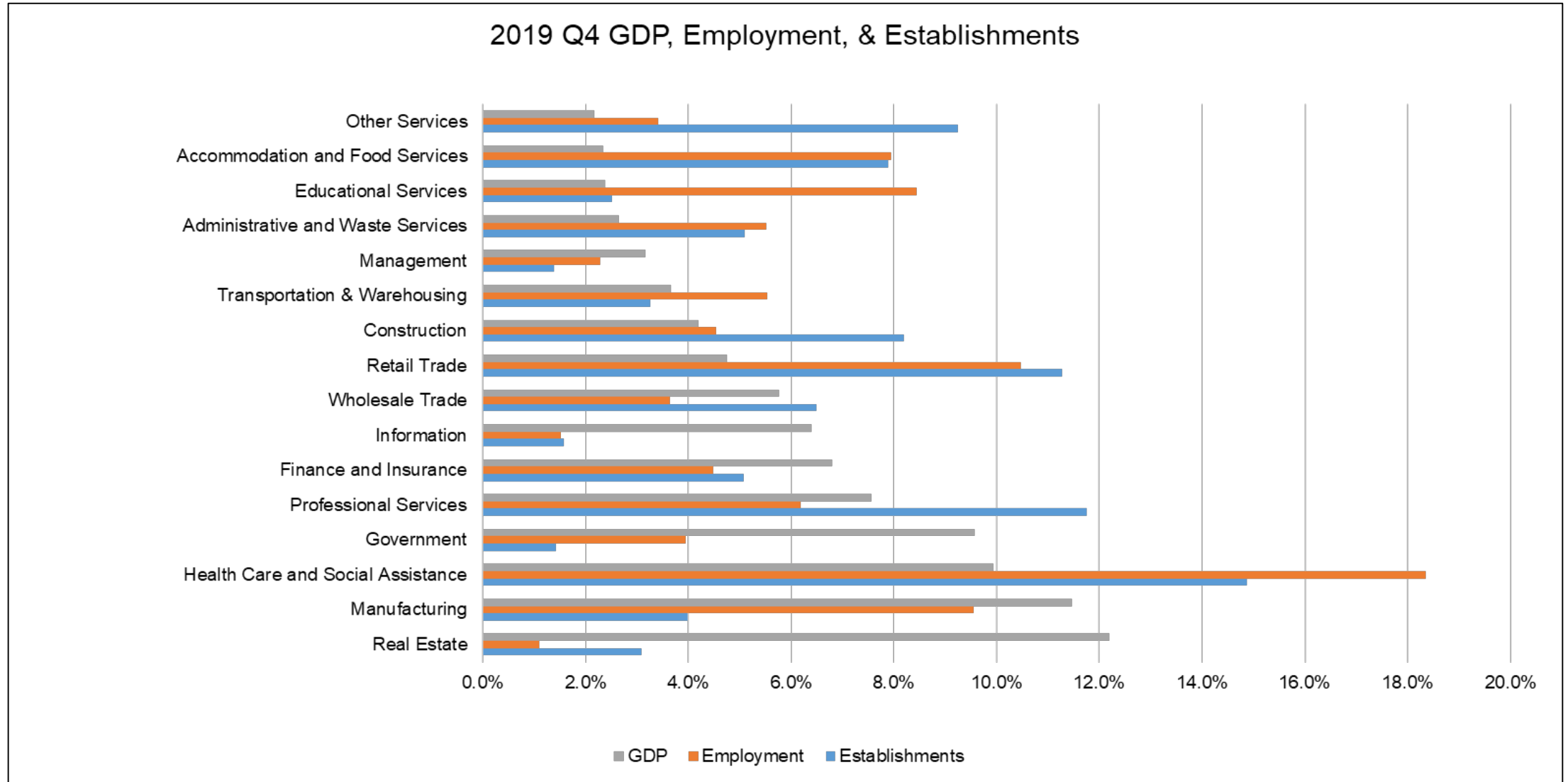
(Source: Phases as of 5/27/20; Bureau of Economic Analysis, share of GDP data as of 2018)

➤ PA Unemployment Rate & Claims by County



(Source: PA Department of Labor & Industry, paworkstats.geosolinc.com; Unemployment Rates as of March 2020)

PA Economy by Industry



(Source: PA Department of Labor & Industry, paworkstats.geosolinc.com)

ECONOMIC TRENDS: ONSHORING

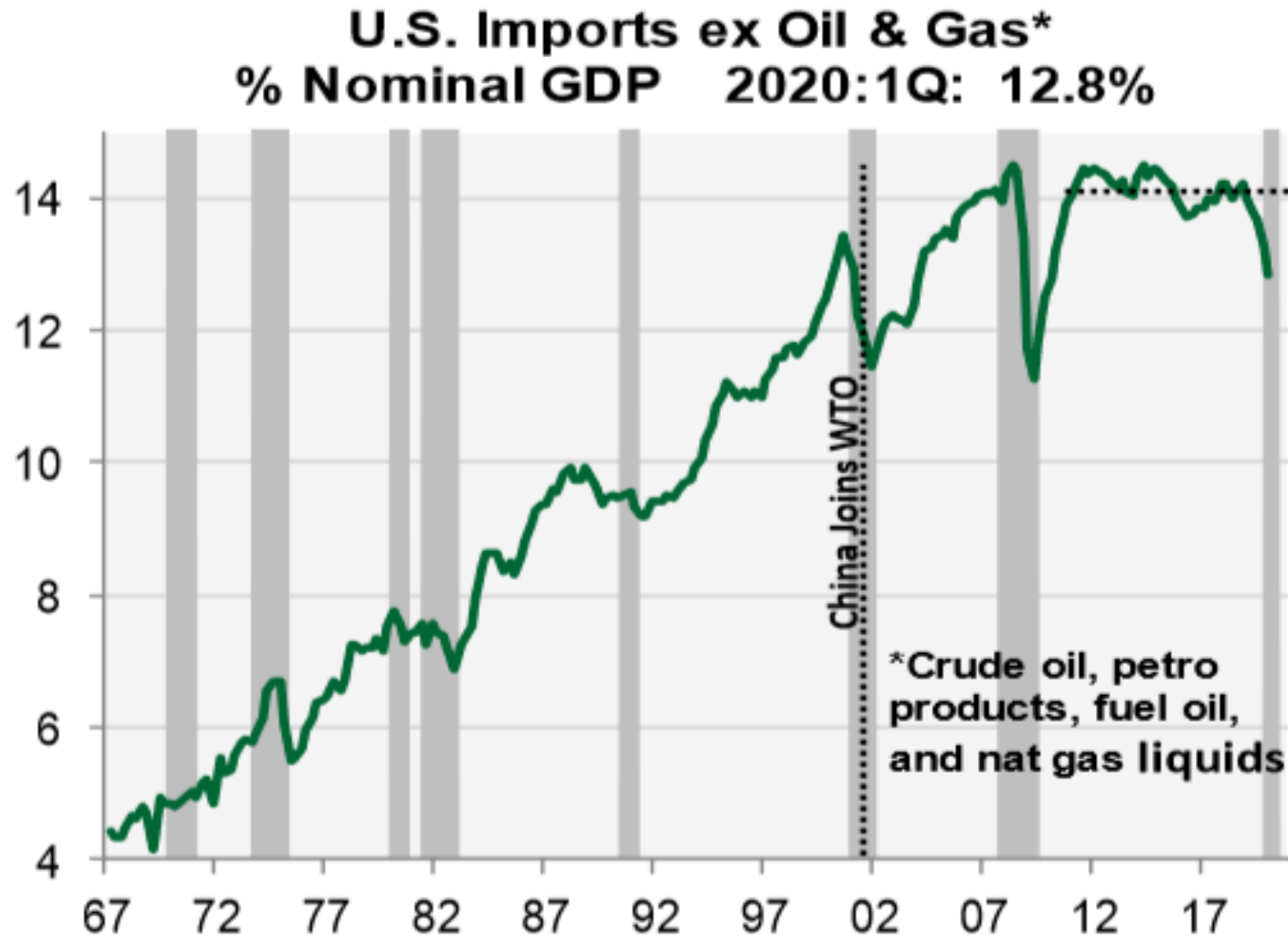
➤ Onshoring: Policy Environment

- ***“Trump signed an executive order that gave a U.S. overseas investment agency new powers to help manufacturers in the U.S.”***
– Reuters, May 14
- ***“Larry Kudlow floated lowering the tax rate for firms that ‘onshore’ their supply chains to 10.5% as one of a broader set of tax changes the administration is seeking for Congress’ next legislative package.”***
– Washington Post, May 15
- ***“Pentagon legislation aims to end dependence on China for rare earth minerals.”***
– DefenseNews, May 18
- ***“...Trump administration plans to pump millions of dollars into producing more medications in the U.S. as the coronavirus pandemic heightens longstanding concerns about the fragility of the global drug supply chain.”***
– Bloomberg, May 19

➤ Onshoring: U.S.-China Relations

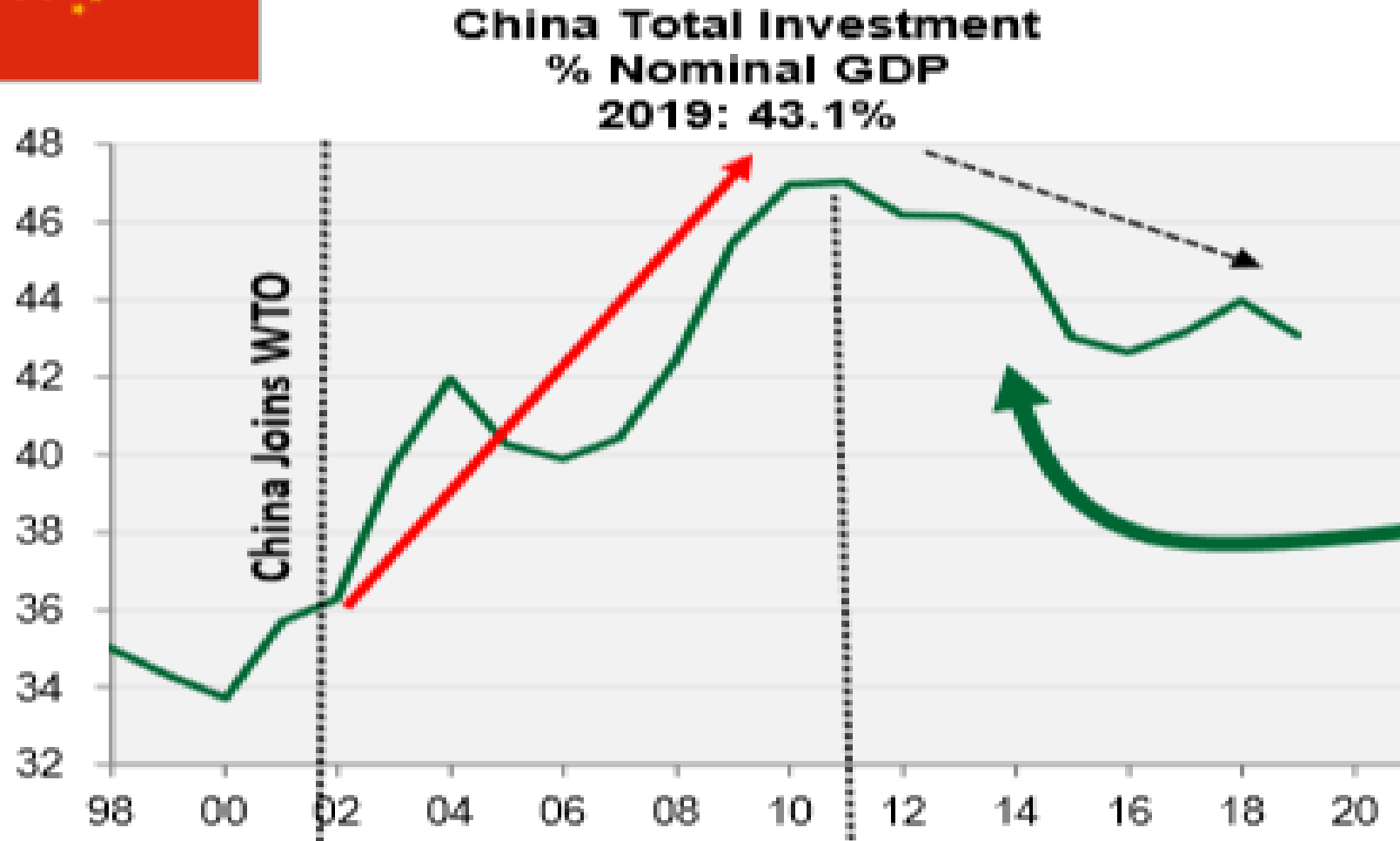
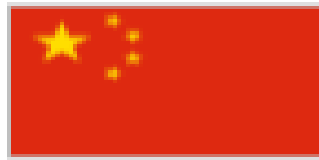
- ***“China approves plan to impose national security laws on Hong Kong.”***
– Financial Times, May 27
- ***“U.S. officially declares that Hong Kong is no longer autonomous.”***
– Wall Street Journal, May 27
- ***“U.S. considering suspension of Hong Kong’s special tariff rates.”***
– Reuters, May 27
- ***“House votes to authorize sanctions against Chinese officials over human rights abuses against Muslim minorities.”***
– Bloomberg, May 27
- ***“China buying Brazilian soybeans amid rising trade tensions with U.S.”***
– Bloomberg, May 27

➤ Onshoring: Imports as % of GDP



(Source: Cornerstone Macro, Economic Research, 5/26/20)

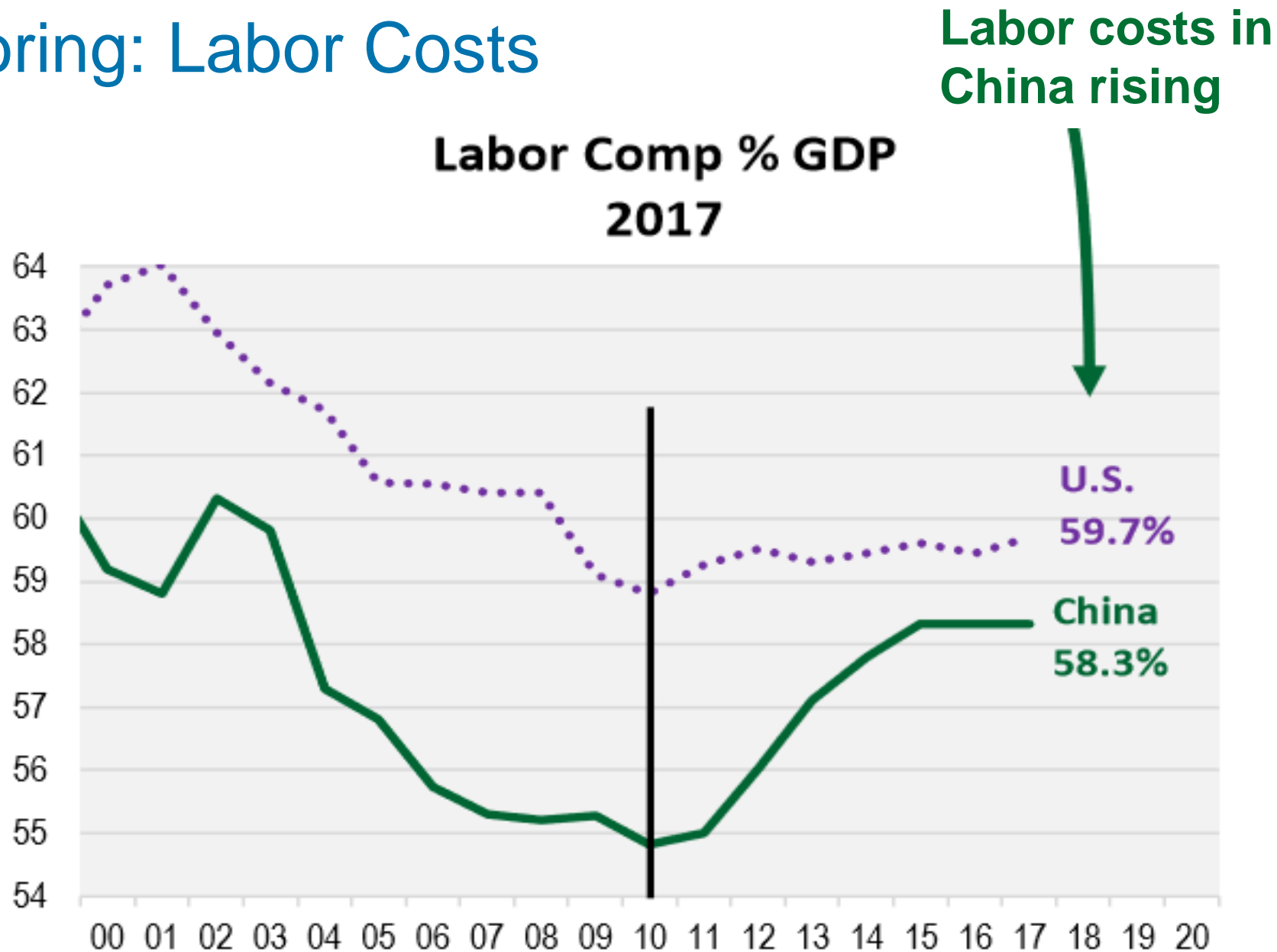
➤ Onshoring: China's Decade



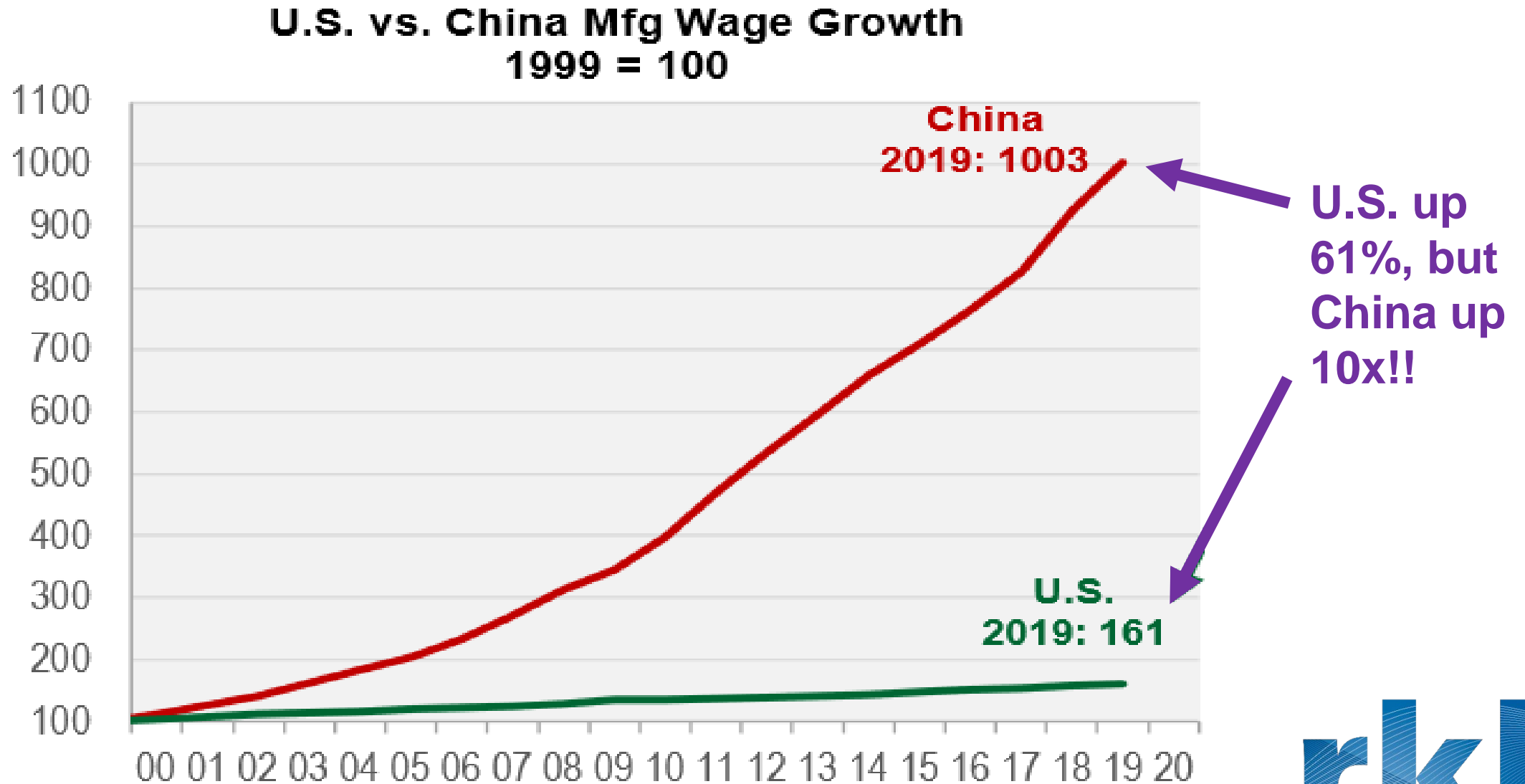
**Investment
boom is
over**

(Source: Cornerstone Macro, Economic Research, 5/26/20)

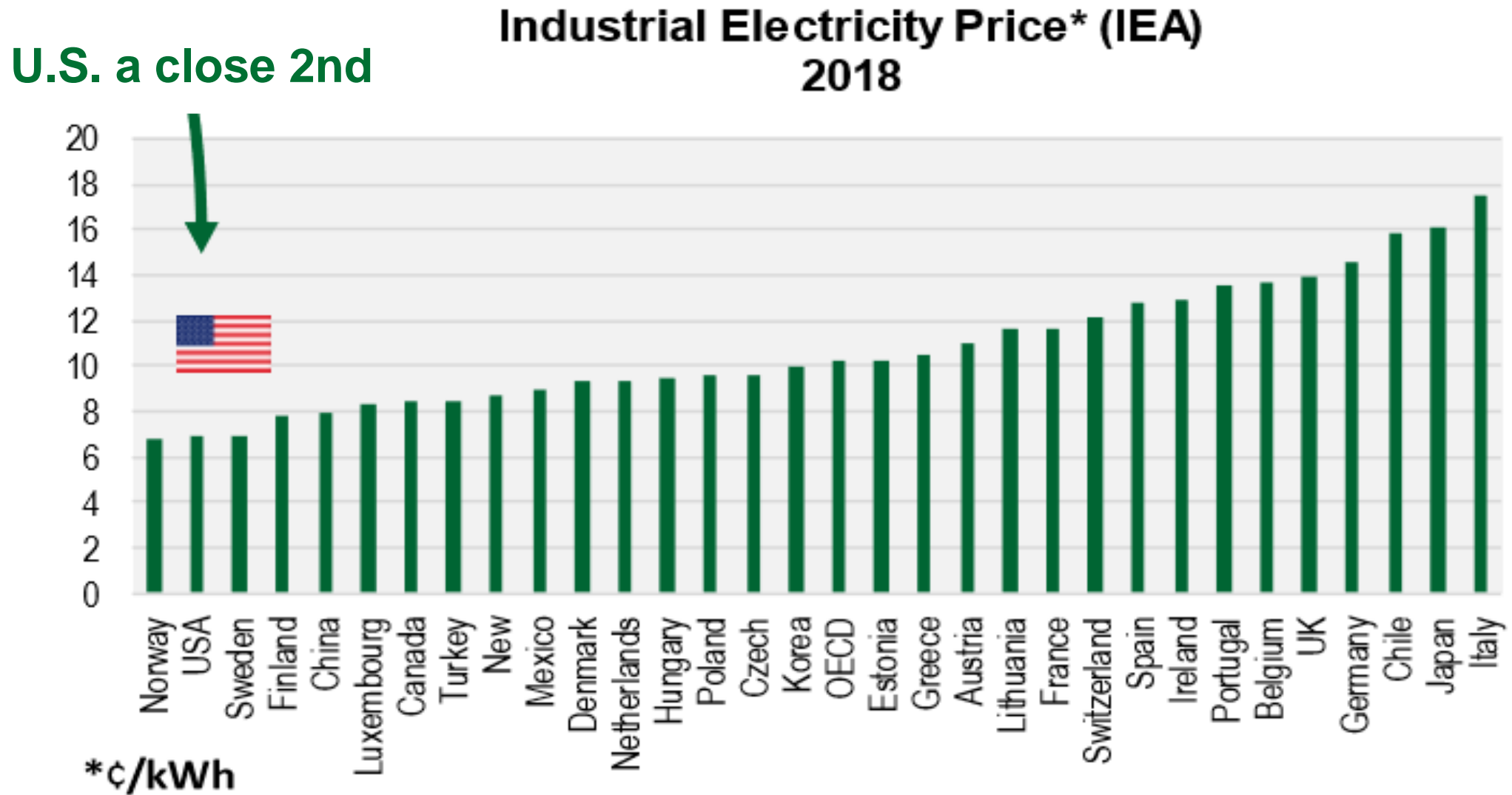
➤ Onshoring: Labor Costs



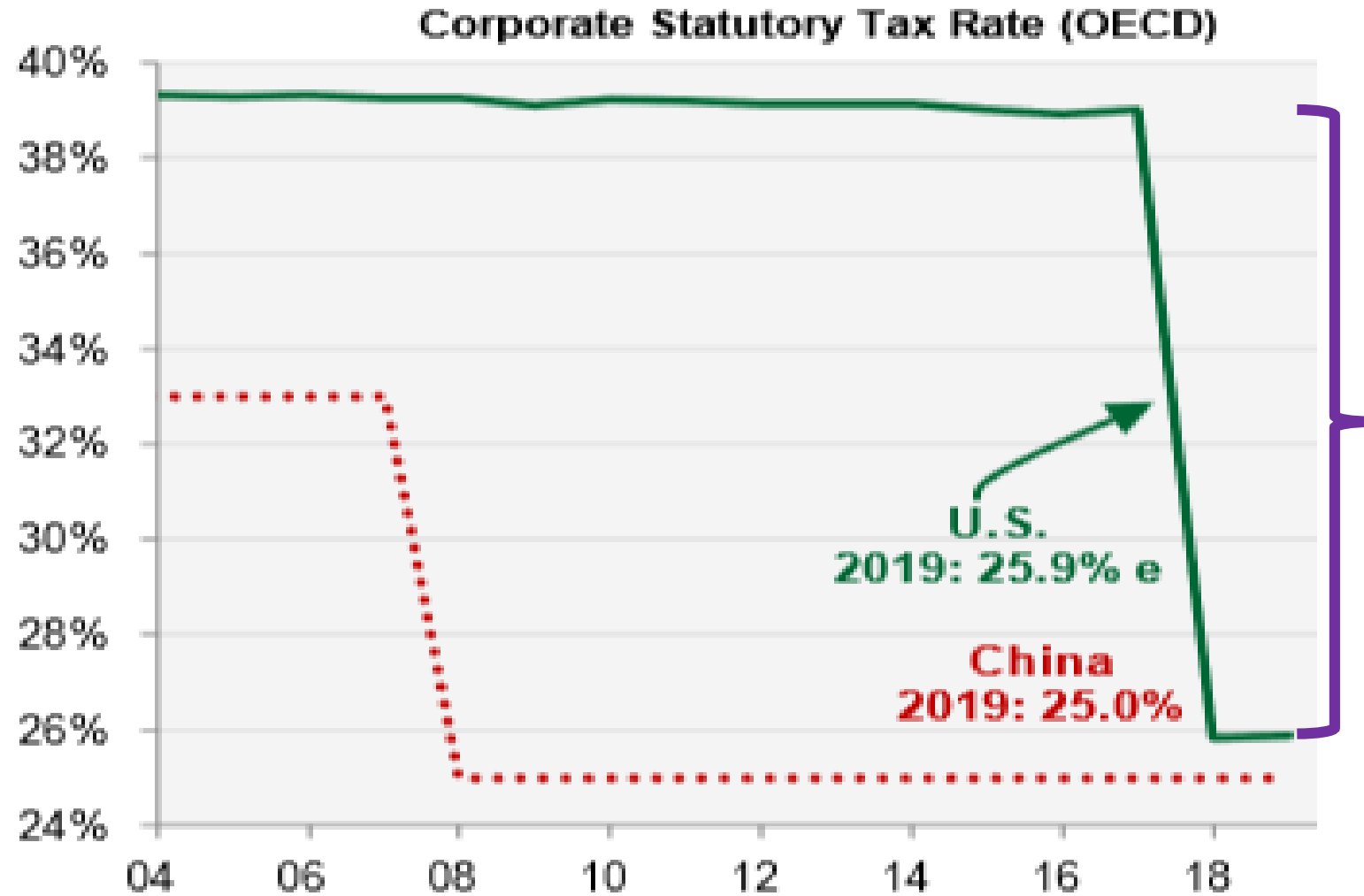
➤ Onshoring: Labor Costs



➤ Onshoring: Energy Costs

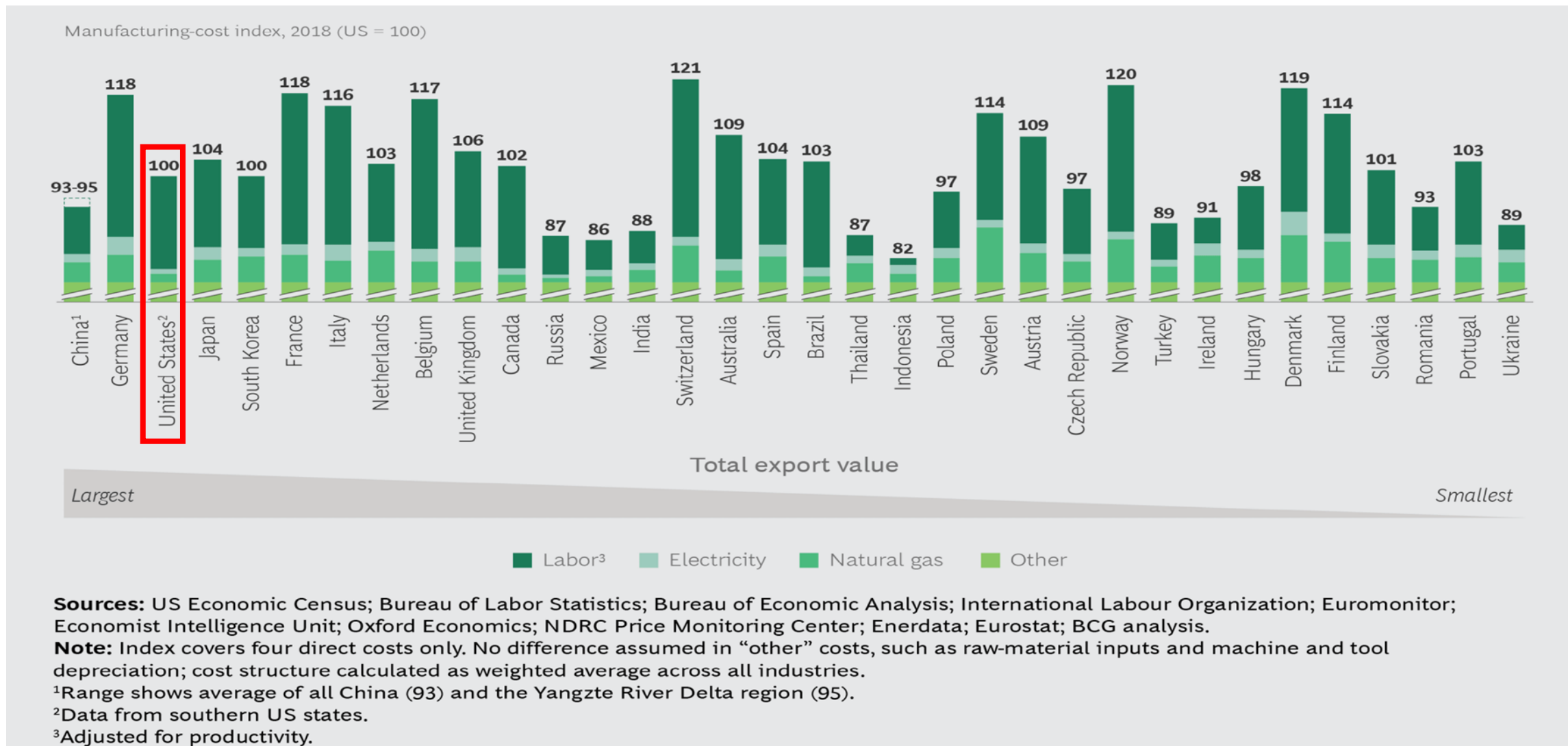


➤ Onshoring: Corporate Tax Rates



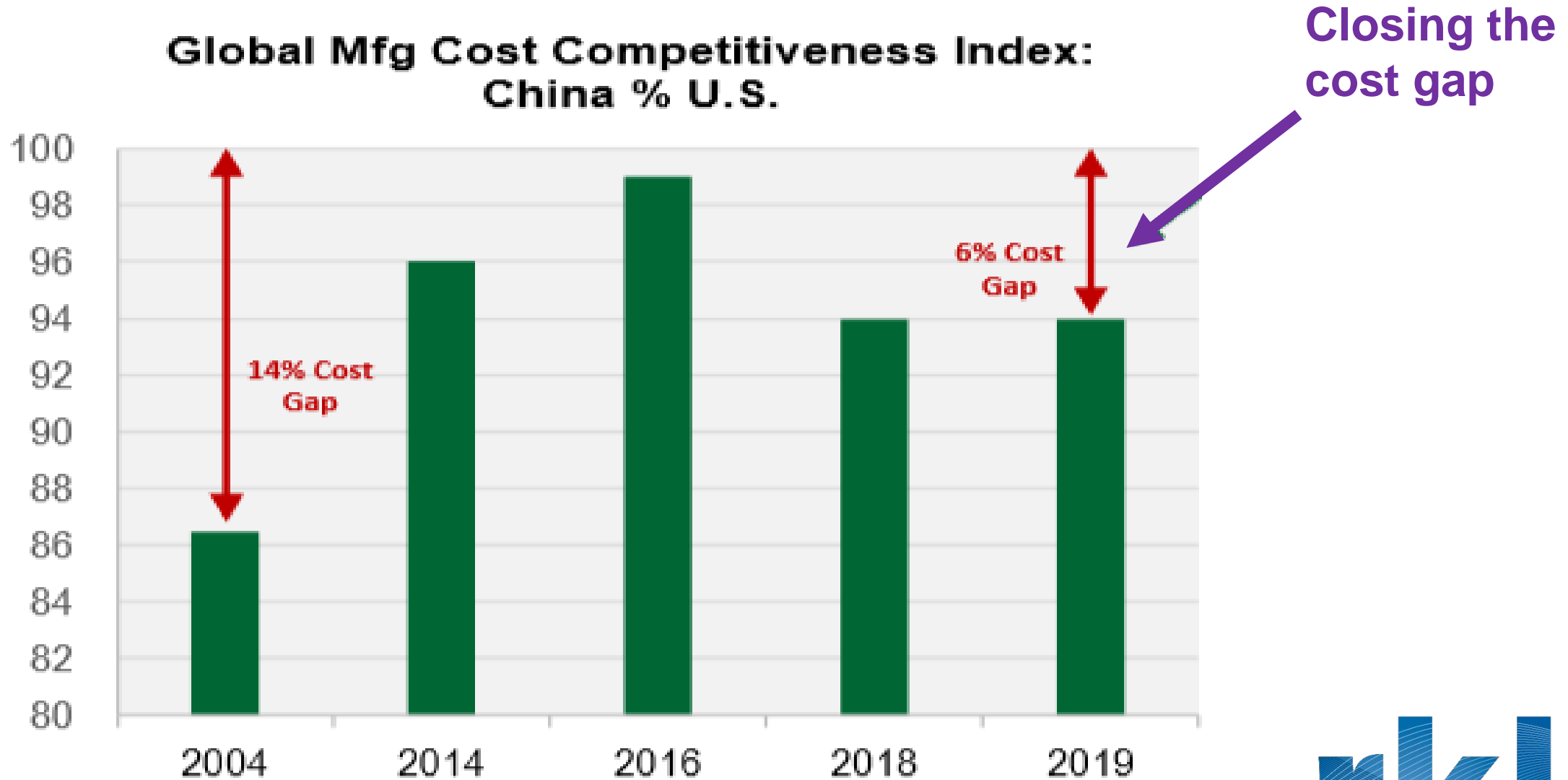
From 14%
differential
down to 1%

➤ 2018 BCG Global Manufacturing Cost-Competitiveness Index



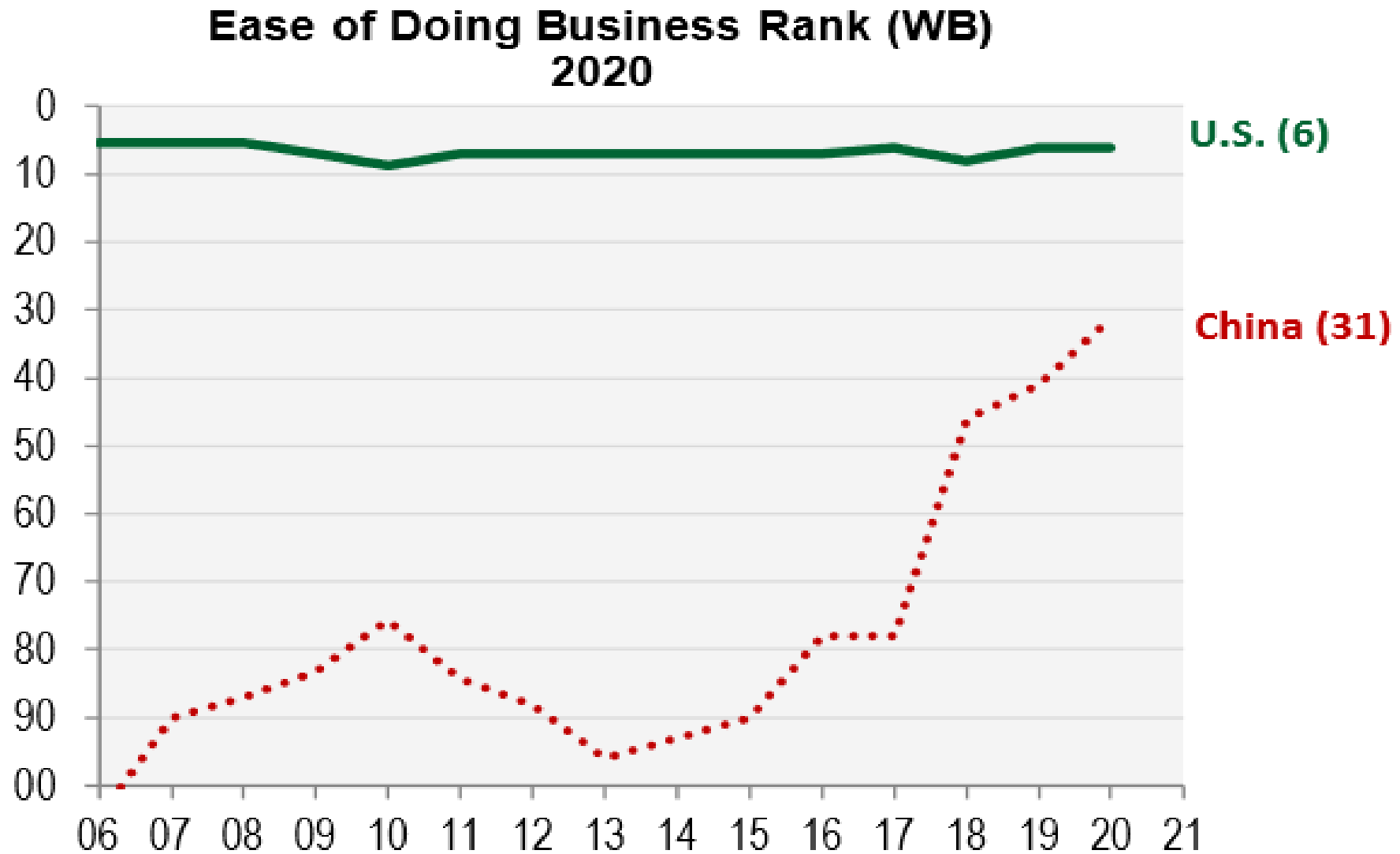
(Source: Boston Consulting Group, How Shifting Costs Are Altering the Math of Global Manufacturing, 12/11/18)

➤ Onshoring: Cost Differential



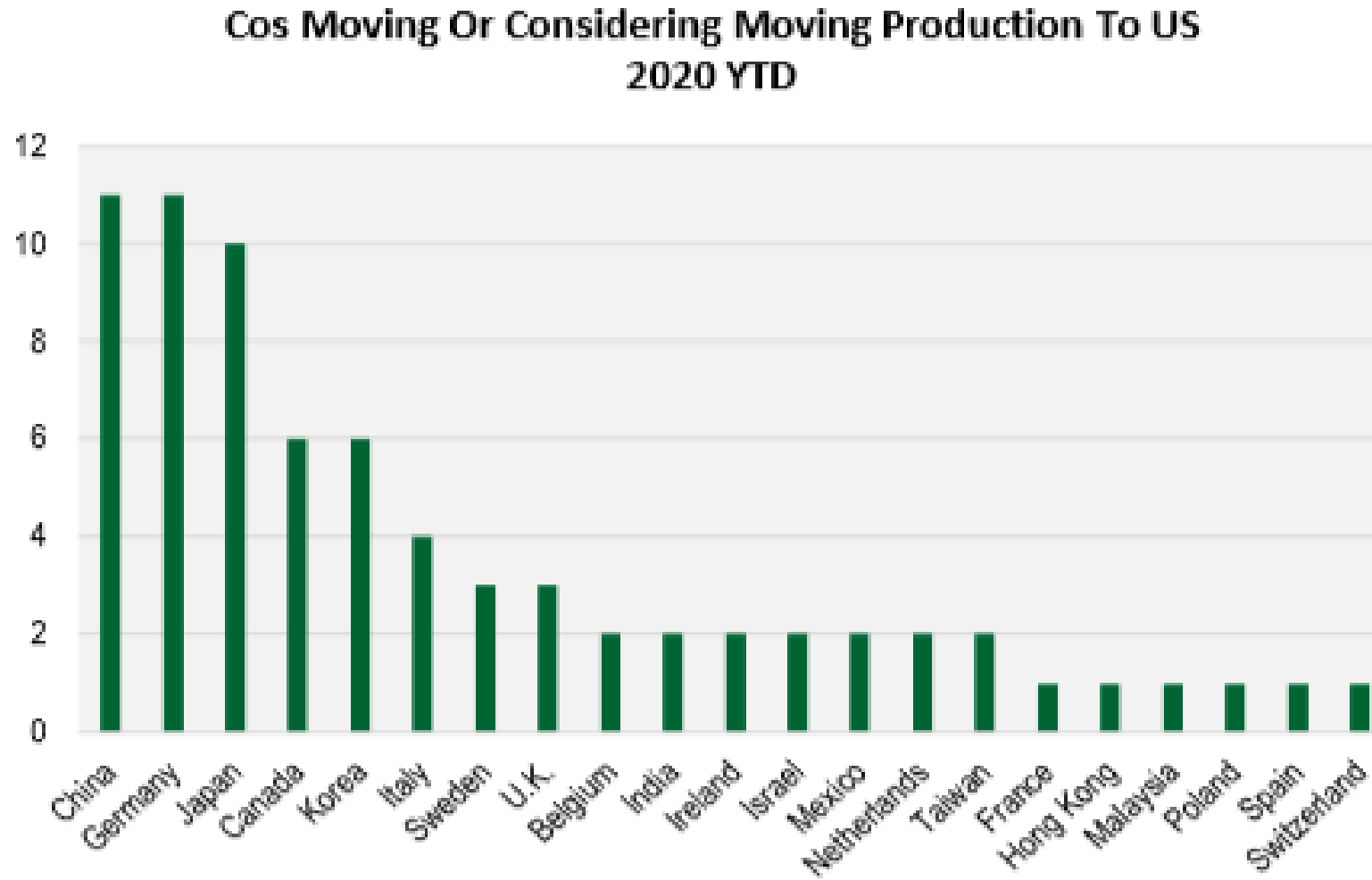
(Source: Cornerstone Macro/Boston Consulting Group, as of 5/26/20)

➤ Onshoring



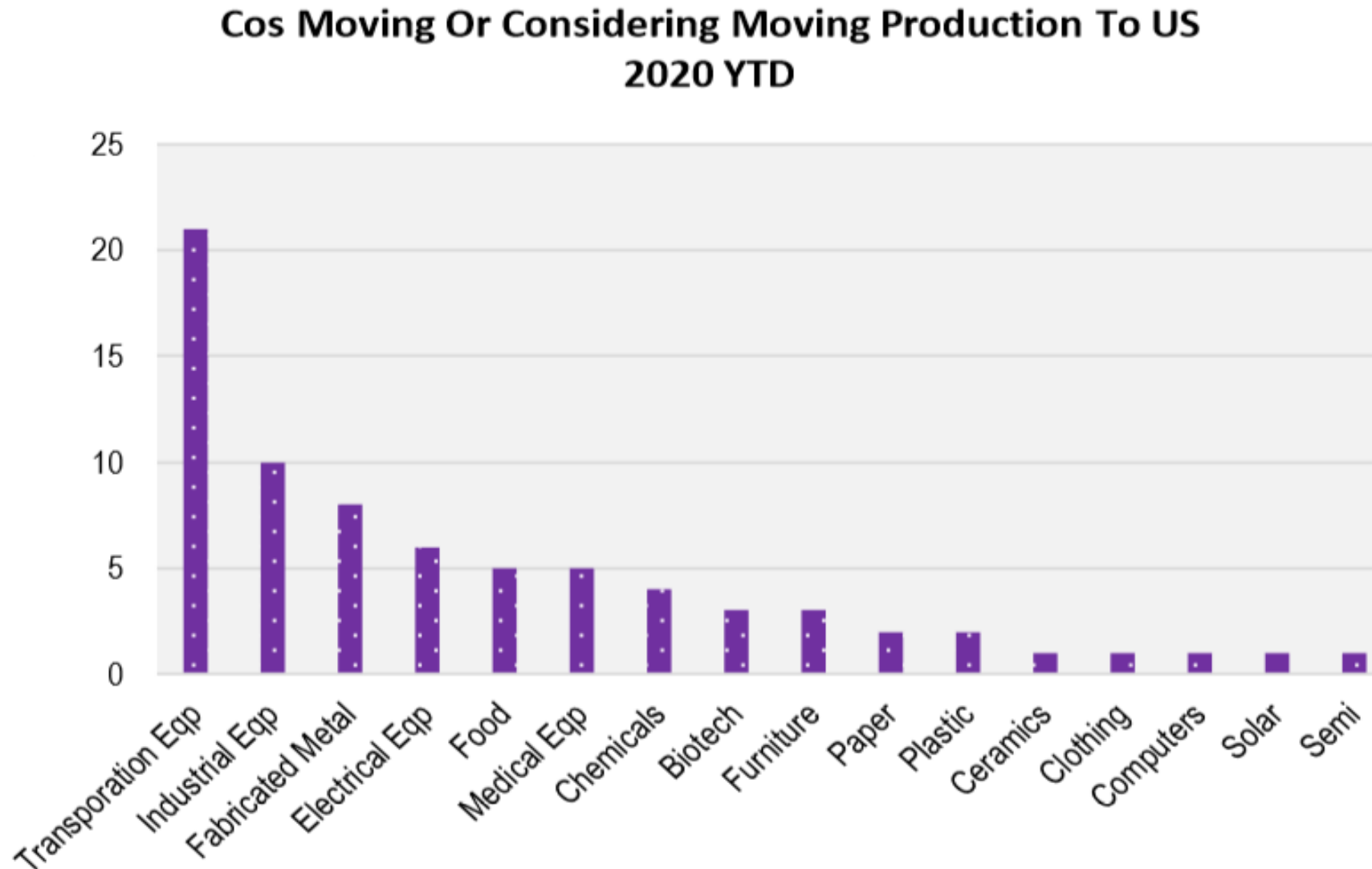
(Source: Cornerstone Macro, Economic Research, 5/26/20)

➤ Onshoring: Trend Has Begun



(Source: Cornerstone Macro, Economic Research, 5/26/20)

➤ Onshoring: Trend Has Begun



(Source: Cornerstone Macro, Economic Research, 5/26/20)

➤ Key Takeaways – Economic Update

- Global economic activity appears to have bottomed and green shoots are visible everywhere
- The U.S. economy continues to reopen swiftly. Pennsylvania is reopening at a more modest pace.
- U.S. economy will bottom out in 2Q. A V-shaped recovery remains possible, but we believe a U-shaped recovery remains the most likely outcome. Shape of recovery depends upon pace of reopening.
- Consumer spending and small business will remain key. Recovery will be asymmetric by region and industry group.
- Fiscal & monetary stimulus is unprecedented, but only cushions the blow – does not restart economic activity. We believe another stimulus deal is likely this summer.
- Financial conditions to remain supportive

➤ Key Takeaways – Onshoring

- The U.S. policy environment, coupled with a paradigm shift in U.S.-China relations, has become increasingly favorable for onshoring, or the return of businesses and productive capacity back to the U.S. following decades of “offshoring” and outsourcing.
- After China joined the WTO in 2001, it enjoyed a decade-long period of increasing investment, but the investment boom ended at the turn of the decade and China’s GDP growth peaked. Meanwhile costs for companies began to rise, including specifically labor costs.
- Meanwhile, in the U.S., capex followed the opposite trend peaking in early 2000s while bottoming a decade later. Capex in the U.S., driven by investment in technology, continues apace.
- Additionally, the U.S. has experienced an Energy Renaissance, driven by oil and gas, which has significantly reduced the cost of energy. More recently, the U.S. cut its corporate tax rate, and has begun to close the cost gap with China.
- Signs of onshoring are picking up now and it could continue for the next several years. However, U.S. regulatory and tax policy will need to remain accommodative for this trend to continue.

POLLING QUESTION

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

THANK YOU FOR PARTICIPATING

Questions?

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

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