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Manufacturing and Distribution

Spring 2020

Looking Ahead

CARES Act, Family First, and Implications for Your Business

These are challenging times for manufacturers and distributors, and our team continues to navigate these extreme uncertainties as they pertain to tax, accounting, audit, and other implications for your business.

Knowing that U.S. Treasury, IRS, and Department of Labor guidance is in flux, we will continue to share timely information on our website and via email, as well as in this newsletter, about ongoing manufacturing and distribution topics of interest. We are available to consult with you about any issues, so please don't hesitate to reach out to us with your questions or concerns.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act is a $2 trillion emergency spending package that Congress passed to provide immediate relief to companies via access to capital and tax credits.

The Family First Coronavirus Response Act is a package of provisions aimed at providing emergency relief and support to employees, with tax relief provisions for employers.

These relief efforts involve many agencies and different timelines, with refinements and changes happening almost constantly. If you have questions about how these programs apply to your business, we can answer them for you.

Taxpayer Relief

The following are programs that may be applicable to your business:

PPP: The Paycheck Protection Program (PPP) provides Small Business Administration (SBA) loans of up to $10 million. Borrowers can receive loans of up to 2.5x their average monthly payroll, capped at $10 million per loan.

As long as the loans are used to keep employees on payroll or to cover certain overhead costs like rent, mortgage interest, or utilities during the eight weeks after the PPP loan is originated, the loan will be forgiven.

While the general guidance for the PPP indicates that loans are available to companies with fewer than 500 employees, there is a long list of exceptions to the employee limit for many types of manufacturers. Do not hesitate to inquire about PPP, even if you have more than 500 employees.

Payroll tax credit: The CARES Act created a temporary refundable payroll tax credit to help businesses retain their employees. The credit is equal to 50 percent of the first $10,000 of wages (including health benefits) paid from March 13, 2020 through December 31, 2020.

Eligible employers are those whose operations have been fully or partial-

Continued on page 3

2 Staying Smart Against Scams
3 Considering Coronavirus in Your Tax Strategy
4 Accounting Standards Update Compliance

Word to the Wise

Avoiding a Fraud Epidemic

The COVID-19 pandemic has brought an unfortunate uptick in scam attempts against manufacturers and distributors.

Many of these scams are surprisingly easy to fall for. Professional fraudsters know exactly what to say or do to motivate recipients to send funds or give away personal information. These types of crimes can have devastating effects on already fragile businesses.

Anxiety is high right now, with people fearing for their health, their jobs, and their financial security. Not only do these circumstances increase the motivation to commit fraud, they also increase the likelihood of being defrauded because anxiety can lead to a sort of "brain fog" and lack of attention to detail.

Increased Vulnerability

High anxiety increases vulnerability to scams. Even careful employees might overlook questions, requests, or actions that would normally raise a red flag.

According to the Association of Certified Fraud Examiners (ACFE), fraudsters are seizing this opportunity in a number of ways, including:

Executive spoofs: A hacker posing as the CEO or other executive requests that an employee make an urgent wire transfer. The request looks legitimate because the hacker "spoofs" the executive's email or phone number.

IT scams: A hacker posing as an IT department employee—again, spoofing the email or phone number of a legitimate work colleague—requests that another employee download certain software or change a password.

Public health scams: Emails seemingly from an organization such as the Centers for Disease Control (CDC), World Health Organization (WHO), or state or local health departments ask recipients to click a link, download a file, log into an email account, or provide employee Social Security numbers.

Stimulus scams: Phone calls, emails, or texts request information "required" to get your government stimulus checks.

Investment or charity scams: Fake companies or nonprofit organizations request funds or donations to support their research for a COVID-19 cure or vaccine, or request cash, wire transfers, or gift cards be sent to those in crisis.

Product fraud: Emails links lead to offers of fake cures or treatments, or high-demand products are offered by third-party sellers on legitimate websites such as Amazon, Walmart, or eBay.

Protect Your Company

The ACFE recommends several ways to avoid falling victim to these frauds.

Verify messages: Insist that all emails, voicemails, and texts requesting financial action or release of personally identifiable information (PII) be verified with a phone call, fresh email thread, or newly initiated text. Do not "reply" to whatever you received.

This applies to contact from banks and credit unions, government entities such as the IRS or Department of Labor, and other ostensibly credible organizations—as well as bosses and coworkers.

Don't click or download: Employees should not click any links, download files, or cut and paste URLs from unknown sources. In fact, even "known" sources can be spoofed by clever hackers. Again, call the supposed source—using a number you know to be legitimate—to confirm the email's legitimacy.

Fact check: Donate via your established charitable relationships or check out any new ones via a reliable source like Charity Navigator. Do not send cash or gift cards or use wire transfers or bitcoin. Do not buy high-demand items from unverified sellers.

Give your team a quick reminder about how to avoid fraud. It's important to not let your guard down, especially in these unusual times.

Call on our team to help you with fraud deterrence, including internal controls.

Relief Efforts Amid COVID-19

Continued from page 1

ly suspended in response to government orders or those who have experienced a significant decline in gross receipts, defined as 50 percent or more in qualified receipts compared to the prior year quarter. (Note that this tax credit is not available to companies participating in the PPP.)

Delayed payroll taxes: All employers can defer payment of the employer's share of payroll taxes for the period beginning on March 27, 2020 through December 31, 2020, or until your bank has notified you of your PPP loan forgiveness, if any. (At that point, you stop deferrals until the payment dates specified.) Employers can pay the taxes over the next two years, with half of the deferred amount due December 31, 2021 and the remainder due December 31, 2022.

Note that this deferral option is not available for employers who have PPP loan debts forgiven.

Note that eligible employers can participate in both the payroll tax credit and the payroll tax deferral programs.

Paid leave tax credit: The Families First Coronavirus Response Act (FFCRA) is administered by the U.S. Department of Labor. It provides a temporary refundable tax credit for employers with fewer than 500 employees providing required paid leave.

This credit covers paid sick leave (up to two weeks) and paid family and medical leave (up to 10 weeks) for a variety of scenarios related to COVID-19. For example, the credit applies to employees under isolation orders issued by federal, state, or local governments or health care providers and employees caring for such individuals or their children. It also applies to employees with symptoms of COVID-19.

The credit is available for leave occurring between April 1, 2020 and December 31, 2020.

SBA EIDL: The SBA's Economic Injury Disaster Loan (EIDL) program received $10 billion in resources from Congress's rescue package. EIDL provides low-interest loans to businesses impacted by declared disasters, including COVID-19. The loans are available to businesses with fewer than 500 employees and some businesses with 500+ employees in certain industries, including many types of manufacturing.

Borrowers can receive loans of up to $2 million, with emergency grants of $10,000 available within three days of applying for the loan. (Facing a shortage of funds, the agency limited businesses applying for grants to $1,000 per employee early in the program.)

EIDL funds can be used to pay overhead costs such as fixed debts and payroll, plus accounts payable and other bills. Note that EIDLs cannot be used for the same payroll and overhead expenses as PPP funds. However, businesses receiving funding from both programs can use EIDL funds for different purposes.

EIDL terms are determined on an individual basis, with a 3.75 percent interest rate for businesses. Like the PPP, Congress is expected to replenish EIDL resources as funds run low.

Income tax payments: All income tax payments, estimates, and filings normally due between April 1, 2020 and July 15, 2020 are not due until July 15, 2020. This applies to both calendar and fiscal year ends. Further extensions for federal income tax returns are available until October 15, 2020 using Form 4868.

The IRS has also extended filing certain tax petitions to the tax courts, Form 3115 for changes in accounting method, and claims for credit or refund of any tax, as well as other time-sensitive actions.

Tax Modifications

In addition to tax relief provisions, the CARES Act allows taxpayers to file amended returns to obtain tax refunds. The following are a few of the provisions to consider:

NOL modifications: Net operating losses (NOLs) can be carried back five years for tax years beginning January 1, 2019 through December 31, 2020. In addition, the 80 percent taxable income limitation has been removed until the tax year 2020.

QIP depreciation: The depreciation recovery period for qualified improvement property (QIP) has been significantly accelerated. Bonus depreciation of 100 percent is now available for QIP in 2018 and later years, providing immediate cash savings instead of extended depreciation.

Expanded interest limitation: For taxable years beginning in 2019 and 2020, the interest expense limitation under IRC Section 163(j) is increased from 30 percent of adjusted taxable income to 50 percent. Note that this change does not apply to partnerships.

AMT credit acceleration: Taxpayers with alternative minimum tax credits can claim the full refund in either 2018 or 2019 using Form 1139.

Tax Planning Opportunities

The details of nearly all these tax provisions are still being defined. However, the CARES and Family First Acts provide some good tax savings, deferral, and planning opportunities for manufacturers and distributors.

We are ready to help with a tax planning and tax filing strategy to meet your unique circumstances. Contact us today.

Revenue Recognition Standard Brings Challenges

Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)," requires you to follow a five-step process when recording revenue for financial statements.

These steps include identifying contract and performance obligations, determining transaction price and allocating it to performance obligations, and recognizing revenue when performance obligations are satisfied.

While privately held companies have had several years to comply with the standard, many are finding it difficult to manage. Compliance requires a significant amount of information gathering, estimating, and documenting. Among the challenges:

Accessing the right data. Accounting departments must gather input from many other departments and sources to properly identify performance obligations and transaction pricing. Many companies have underestimated the amount of time and effort required to collect and process this information.

Documenting decisions. For some companies, the new standard won't affect reported revenues. Even so, the company has to document its decisions about what it's reporting. This requires work and research by in-house accounting and financial teams.

Uncovering all the costs. It's not always clear what falls under a particular revenue stream. For example, customer-reimbursed preproduction costs, such as tooling, could fall into an identified stream, depending on circumstances. However, costs to obtain contracts should definitely be recognized, and the company must decide how and when to accurately account for them.

Dealing with complications. Meeting the new standard requires analysis. For example, promotional discounts might require splitting revenue based on standalone pricing versus material rights. Determining these allocations may take time.

Overall, the new rules require a change in thinking about contracts and revenue. Please consult your CPA for guidance.