Norman J. Politziner's
Financial Planning

Second Quarter 2020 www.politziner.com (732) 296-9355

PPP Update For Business Owners

The Paycheck Protection Program Flexibility Act (PPPFA) of 2020 modified terms of forgiveness for loans to businesses under the Paycheck Protection Program (PPP) on June 5, 2020.

Since its enactment into law in late March, PPP has undergone two legislative revisions. Here's a short history a business owner needs to know about PPP:

Round 1. PPP is the principal federal financial aid program for business owners harmed by the epidemic. The program is run through the Small Business Administration and was part of the $2.2 trillion Coronavirus Aid, Relief & Economic Security Act (CARES Act) enacted March 27, 2020. PPP authorized $349 billion in aid to businesses, in the form of forgivable loans, but that ran out in less than two weeks.

Round 2. A second tranche of $310 billion in PPP aid was authorized by Congress and signed into law by President Trump a month later and it's now being distributed to qualified businesses.

Cleanup. PPPFA cleans up rules and requirements of qualifying PPP loans. For example, the criteria for a loan to be forgiven was softened considerably in two key ways:

Instead of requiring a business owner to spend 75% of the loan on employee compensation and only 25% on rent, utilities and other costs specified under federal law, a business owner can spend as little as 60% on compensation and still qualify for loan forgiveness. You must use the loan proceeds for payroll, health insurance, funding an employee retirement plan, and interest on a mortgage, rent, as well as utilities.

Another important easing of the

(Continued on page 4)

Second Quarter Blues

Well, the second quarter ended in June. Maybe we should declare a Thanksgiving Part II... Glad it's gone, welcome quarter three.

Like bears, most of us have been hibernating in our caves since March. And now, as summer progresses, we are starting to be out and about. The good news is that most of us have learned how to protect ourselves in public. Barring the need to eat in a restaurant or go to the theater, we have learned to be happy with a simpler lifestyle. Many of us have even been able to meet and be with our family members 24/7.

We were lucky. Dotty and I visited with our grandchildren often. Ethan and I played basketball a lot. He showed me where the fence was broken, and we were able to sneak onto the playground. Meg is teaching me a dance routine. If we are locked down for another six months, I will probably be able to learn it.

We never actually closed our office. At least one of us was present at least four days per week. Two weeks ago, we had our first in-office client meeting. So far, so good. I can't wait to get out and visit clients again.

More good news? I think that the third-quarter GDP growth will be very good. Fourth quarter? Also good. 2021? Very good. Can't wait to see it.

Norm

Business Owner Alert: Covid-19 Retirement Loans

Business owners are in a tight spot: Federal tax rules have eased restrictions to allow those harmed by the epidemic to borrow from their IRA or federally qualified retirement plan; but without careful planning, business owners taking a loan from your retirement savings to support your business could land you in an even worse personal financial position if you are unable to repay it. Here's what business owners facing challenges need to know now.

Emergency legislation passed on March 27, 2020 -- specifically, Section 2202 of the Coronavirus Aid, Relief & Economic Security (CARES) Act -- eased restrictions on borrowing from 401(k), 403(b) and other federally qualified retirement plans and IRAs. If you've been harmed by the Covid-19 epidemic, the maximum amount you can borrow was doubled to $100,000, and you will not face the usual 10% early-withdrawal penalty.

IRAs and employer-sponsored retirement plans normally impose a 10% penalty on withdrawals made by individuals before age 59½. The CARES Act broadly waives the early withdrawal penalty for individuals hurt by the epidemic. The waiver is extended if you have been diagnosed with SARS-CoV-2 or Covid-19, or if your spouse or dependent is diagnosed with SARS-CoV-2 or Covid-19. Waiver of the early-withdrawal penalty is also extended if you experienced adverse financial consequences as a result of being quarantined, furloughed, or laid off or if your work hours were reduced, or you are unable to work due to lack of childcare.

The CARES Act gives you three years to pay back the loan, which must be made in 2020. Repayment must be completed over three installments in each of the next three tax-years, but you can pay it sooner. However, business owners, especially those nearing retirement, need to weigh the risk carefully.

Assets in your personal federally qualified plan or IRA are beyond the reach of business creditors. If your business fails and must file for bankruptcy, your creditors generally cannot lay claim to your personal retirement accounts. Forfeiting that protection from creditors by investing retirement dollars in your business when you are near retirement may not be worth the risk.

Taking a loan from your retirement savings to boost your business, under the new Coronavirus tax rules in the CARES Act, is not just a business decision. It's a family and financial planning decision.

Nothing contained herein is to be considered a solicitation or research material. It is subject to change without notice. Strategies referenced herein do not take into account your personal objectives, financial situation or particular needs of any specific person. The material represents an assessment of financial, economic and tax law at a specific point in time. The sources are thought to be reliable but could be wrong about important facts.

The U.S. Government's response to the Coronavirus crisis implements new regulations and their precise impact may not be available at the time this was written or could be subject to change by U.S. Government agencies, such as the Internal Revenue Service or Small Business Administration. ●

Coronavirus Tax Planning Alert

As mandated by the Coronavirus Aid Relief & Economic Security (CARES) Act on March 27, individuals harmed by the epidemic may make withdrawals from an IRA, 401(k) or 403(b) account before age 59½ without facing the usual 10% federally-imposed early withdrawal penalty.

On May 4, the IRS published an 1800-word statement which identified those individuals eligible for this special tax break and they subsequently promulgated special rules implementing Section 2202 of the massive CARES Act financial relief legislation.

A key section of the lengthy IRS statement says you are qualified for special tax treatment if:

- You are diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention;
- Your spouse or dependent is diagnosed with SARS-CoV-2 or with COVID-19 by a test approved by the Centers for Disease Control and Prevention;
- You experience adverse financial consequences as a result of being quarantined, being furloughed or laid off, or having work hours reduced due to SARS-CoV-2 or COVID-19;
- You experience adverse financial consequences as a result of being unable to work due to lack of child care due to SARS-CoV-2 or COVID-19; or
- You experience adverse financial consequences as a result of closing or reducing hours of a business that you own or operate due to SARS-CoV-2 or COVID-19.

If you pay yourself back within three years, the new rules effectively enable you to give an interest-free, tax-free loan to yourself using your retirement savings. However, there is a major caveat: Borrowing from your retirement account at any time before

Amid The Coronavirus Crisis, Nine Tax And Investment Tips

The stock market had recently lost about a third of its value before rebounding 9.4% on news that Congress was closer to an agreement on a $2 trillion economic stimulus package. The coronavirus crisis has reshaped the financial economic landscape and the situation is changing fast. Here are nine financial focal points for your immediate consideration.

CARES Act. Coronavirus Aid, Relief and Economic Security (CARES) would include direct payments of $1,200 to many American adults and $500 to children. It would pay for $850 billion in loan and assistance for businesses, states and cities. It also allocates large spending increases for unemployment insurance, as well as for hospitals and health-care providers.

Immediate Issues. Hunkered down across the country, practicing social distancing, you may not be at all ready yet to talk about the financial implications of the epidemic. However, if your family is in the throes of a medical crisis and has any tax or financial planning issues, please do not hesitate to contact our office.

What's Ahead. The pending CARES Act will, if enacted, allocate hundreds of billions of dollars to individuals as well as businesses. Once the new law is signed by the President, its impact on your personal situation will be clearer. There will be no shortage of questions about qualifying for tax relief in specific situations.

Virus-Related. CARE waives the 10% early withdrawal penalty on retirement account distributions for taxpayers facing virus-related economic challenges. According to The Tax Foundation, withdrawals are taxable over three years, but you can recontribute for three years without affecting retirement account maximums.

Business Owners. CARES allocates $350 billion for Small Business Interruption Loans, to help small businesses (fewer than 500 employees) make payroll and other expenses, according to The Tax Foundation, a non-partisan tax policy research group with a business-friendly reputation. "Notably, small businesses may take out loans up to $10 million and cover employees making up to $100,000 per year," according to the group. "Loans taken for this purposes are forgiven if the business does not lay off its employees (forgiveness is scaled down as layoffs rise)."

- Employer Social Security payroll tax payments may be delayed until January 1, 2021.
- Companies with tax credit carryforwards and previous alternative minimum tax (AMT) liability can claim larger refundable tax credits than they otherwise could.

Charity Encouraged. CARE creates a $300 above-the-line charitable deduction, even for filers taking the standard deduction and expands the limit on charitable contributions for itemizers.

Education Loans. The Department of Education today announced that all borrowers with federal loans will have their interest rates automatically set at 0% for at least 60 days, giving borrowers with federal loans the option to suspend payments for at least two months without accruing interest.

Team Up. Your family and your business are likely to be impacted financially by Covid-19 and now is a good time to plan how you can efficiently communicate with your team. While clients can depend on our firm as part of their team, your team might also include members of your family as well as other professionals. If you own a business, your team might include key employees responsible for operations or accounting. Ideally, you have a way to meet and collaborate online.

Keep In Touch. The public health crisis is rapidly changing. So, too, is the financial, investment and tax planning situation. This update is a way for you to stay on top of the latest financial, tax and investment news. Please let us know the best way to keep in touch with you with updates. ●

you truly retire is a bad idea, and withdrawals which are taken but never paid back are an even worse idea. It's a giant financial step backward.

But if you have no other choice, tapping your retirement savings under the new law requires careful planning and forethought.

The IRS guidance implementing the CARES Act is effectively a newly enacted reform to U.S. tax law and we will keep you posted on itsimplementation in the weeks ahead.

This tax alert for individuals affected by the pandemic requires personalized tax and legal guidance beyond the scope of this article. If you have questions about CARES withdrawals from your retirement plan assets or IRA account, please contact our office with questions. ●

China Poses A Hidden Risk For Many 401(k)s

The coronavirus has focused renewed attention to the risk of investing in China, but China may pose a hidden risk to retirement investors holding emerging markets funds.

More than a third of emerging markets funds typically are comprised of Chinese stocks. For example, 35% of the holdings of the MSCI Emerging Markets Index, the widely used index against which emerging markets investments are benchmarked, are in Chinese stocks. Many 401(k) investors may be unaware that a third of their emerging markets investments are invested in China.

The longer-term risk posed by investing in China is reflected in this chart of the Standard & Poor's 500 performance versus an index representing emerging markets. Since Chinese stocks commonly dominate holdings of emerging markets investments, Chinese stock market returns have dominated the performance of emerging markets investments.

Although financial news headlines have focused on the risk to the Chinese economy posed by coronavirus, the outbreak is actually likely to be only a temporary negative. However, the longer-term risk of owning Chinese stocks is illustrated in the relatively poor performance of emerging markets versus U.S. stocks.

Since the China economic boom from 2003 to 2007, the MSCI Emerging Markets Index has gone sideways for 12 years. Meanwhile, U.S. stocks soared, more than doubling, in the longest bull market in modern U.S. history.

To be clear, since 2007, when the rate of growth of China's gross domestic product peaked at about 18%, the MSCI Emerging Markets index has not shown a net gain. That's for 12 years! That's the hidden risk of Chinese stocks.

If you have questions about emerging markets, investing in China, or about asset allocation of your portfolio, please contact our office. ●

PPP Update For Business Owners

(Continued from page 1)

loan forgiveness rules were enabled in the new cleanup law: You now have 24 weeks to spend PPP loans, instead of just eight.

PPPFA also fine-tuned how many employees you must retain to qualify for loan forgiveness and spells out more clearly whether you can hire different employees during the 24-week period and still be eligible to qualify for loan forgiveness.

Another enhancement in PPPFA: Loan recipients are able to defer their share of payroll taxes until 2021 when 50% of such taxes must be paid, with the remaining half due in 2022.

With businesses at risk due to the epidemic, PPP is a lifeline to business owners. However, PPP's three legislative iterations have complicated its implementation for business owners, who must certify that the loan is needed under penalty of civil and criminal fraud, while remaining cognizant of rules for loan forgiveness. It's beyond the scope of this article to offer personal advice or complete details of the series of PPP laws. If you have questions about PPP or how it impacts your long-term personal financial situation, please contact us.

Nothing contained herein is to be considered a solicitation or research material. It is subject to change without notice. Strategies referenced herein do not take into account your personal objectives, financial situation or particular needs of any specific person. The material represents an assessment of financial, economic and tax law at a specific point in time. The sources are thought to be reliable but could be wrong about important facts.

The U.S. Government's response to the Coronavirus crisis may implement new regulations and their precise impact may not be available at the time this was written or could be subject to change by U.S. Government agencies, such as the Internal Revenue Service or Small Business Administration. ●

Norman J. Politzner, MBA, CFP® 47 Raritan Avenue, Highland Park, NJ 08904 (732) 296-9355 Fax: (732) 296-9377