VIEW CAPITAL ADVISORS, LLC

Panorama

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Forgivable Loans Under the CARES Act

In this Issue:

Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a $2 trillion emergency fiscal stimulus package with the aim of mitigating the economic damage created by the Coronavirus pandemic. This law introduces a wide range of provisions for individuals, businesses, healthcare entities, and state and local governments to help them meet their short-term cashflow demands. For small business owners (including self-employed individuals and independent contractors), one of the most compelling provisions of the Act is the Paycheck Protection Program, which authorizes up to $349 billion in forgivable loans, allowing small businesses to pay their employees during the crisis.

Eligible borrowers include small business owners who have 500 or fewer employees and self-employed individuals. These borrowers may be able to be able to request loans for up to 2.5 times their average monthly payroll expense (up to a maximum of $10M) over the previous year. Applicants must make a good-faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19.

Banks that provide SBA loans began taking applications on April 3, and for independent contractors and self-employed individuals, applications will be accepted on April 10, 2020. Loans will have a maturity of 2 years and a fixed interest rate of 0.5%. But the key feature of these loans is that amounts that can be documented as being spent payroll costs, rent and utilities during the 8 weeks following the loan's inception may be eligible for forgiveness. The Federal government guarantees these loans and will step in and pay the SBA lender the amount of any loan that is forgiven. And if that wasn't good enough, the amounts forgiven are excluded from the taxpayer's taxable income for the year.

There are certain rules that define the maximum amount of the loan and the amount of the loan that may be forgiven. The application form is relatively simple and straightforward, and many SBA lenders are set up to take applications online. The program is first-come, first-serve, so if you believe you may qualify for a loan to help your business through this crisis, you need to act soon, and in any event no later than June 30, 2020.

Integrity

Innovation

Character

A History of Bear Markets and Recoveries

The bad news about bear markets and recessions – history shows they are engrained into our normal economic cycles, and those cycles will undoubtedly repeat into the future. The good news – they always end. Since 1928, through 14 recessions and 21 bear markets, equity markets have never failed to regain a prior peak.

So now that we are officially in a bear market, what happens next? Most importantly, how long will it take for the economy, the markets, and your portfolio to recover? History can provide some insight, but will not precisely answer all of our questions. Consider these statistics:

- When market fear turns into panic, many feel compelled to sell their investments to stop the bleeding. Generally, this is not a good idea because it locks in your loss. Recoveries don't announce themselves so that you can buy your investments back at the optimal point. Consider that if you were invested in an S & P 500 index fund from January 2, 2000 through December 31, 2019, you would have made a 6.06% annualized return, including riding through two recessions. But if you simply missed the 10 best market up days during that same period, your return would be 2.44% annualized.
- In the previous four bear markets, equities including the S & P 500 developed and emerging markets were down an average of between 30 – 40% at the peak of the drawdown. But the following 12 month recovery saw those same equities up on average from 40% for the S & P 500 and developed international markets to over 60% for emerging markets.
- As the investment professional's disclaimer states, past performance is no guarantee of future results. But history is a good directional indicator of expectations during a recovery.

So what should you be doing? First, be patient and try not to make buying or selling actions based on emotions. Second, if you expect to need cash from your portfolio for your lifestyle expenses, try to have some level of cash set aside specifically for that purpose and leave it uninvested. Take dividends in cash instead of reinvesting for some period of time to replenish your cash reserves. If you have some consistent underperformers, now may be a good time to take out the trash and harvest the tax loss. Third, gradually rebalance your asset classes back to your original target allocation percentages. When you begin to invest in the equity markets after you believe the market has bottomed out, come back in gradually and in small amounts over the course of several weeks or even months.

Tax Loss Harvesting

So what do you do with lemons? Make lemonade. What do you do with tax losses on your investments? Harvest those losses and use them to lower your tax bill.

Here are some things to think about when it comes to harvesting tax losses. Tax loss harvesting only applies to investments held in taxable accounts. You don't get any current tax reduction benefit from selling loss positions in your IRA or 401(k). Losses, defined as a current value less than what you paid for the investment happen all the time. But it is only when you "recognize" or sell the position (called "harvesting" the loss) that it becomes a potential tax deduction in the year sold. The value of the tax deduction is greater for those in higher tax brackets. It also does not hurt to claim more losses than you can use this year to get a tax benefit. Capital losses that exceed current year deduction limits can carry forward indefinitely to be used in future tax years until you die, or use them up.

How does one go about picking investments to sell at a loss? Start by identifying investments whose value has dropped below your purchase cost. Generally, your monthly investment statements will give you that information. The best candidates to sell are:

- Small positions that you have owned for some time. If they go up, it won't really move the meter, and they seem to linger at a breakeven or loss position. Clean house on these positions and find a better place to invest your money, and take the loss.
- Today, almost everything is down so you have many choices to consider. Take energy for example, ETF's and individual stocks in the energy industry have suffered the biggest drawdowns. You may choose to permanently exit a position or the energy sector for a while, so selling some of these positions will capture the tax loss.
- But what if you don't want to exit the energy sector entirely – can you sell to claim your loss and immediately buy the same position back since you anticipate a big rebound? You can, but beware of the wash sale rule. Your loss is disallowed if, within 30 days of selling the investment (either before or after) you or even your spouse invests in something that is identical (the same stock or fund) or, in the IRS' words, "substantially identical" to the one you sold. Exxon Mobil and Chevron may sound similar, but they are not substantially identical stocks. So selling one to claim a loss and buying the other to stay invested in the energy space is allowed.
- How often should you harvest? You should be periodically rebalancing your portfolio as changes in the market will skew your allocation percentages. This is a good time to claim your losses and offset your rebalancing gains.
- Note that the wash sale rule referenced above does not apply to harvesting gains. So for example if you have a capital loss carryforward from a prior year, there is nothing wrong with selling some gain positions to utilize those losses. If you want to stay invested in that gain position, you can immediately buy it back with the effect of getting a tax free cost basis step up in those shares.

Perspective

Strength

Individual Tax Provisions

While the CARES Act is primarily a stimulus bill to help unemployed individuals and small and large businesses, the new law includes some important tax provisions that affect individuals for 2020:

1. The 10% penalty on early withdrawal of retirement funds won't apply for any coronavirus-related distributions, up to $100,000, through December 31, 2020 from tax-favored employer-sponsored plans and individual retirement accounts (IRAs).

   An eligible taxpayer includes either an individual:

   - Diagnosed with SARS-CoV-2 virus or COVID-19 disease or whose spouse or dependent has been diagnosed with SARS-CoV-2 virus or COVID-19 disease, or
   - Experiencing adverse financial consequences from being quarantined, furloughed, laid off, having reduced work hours, unable to work due to lack of

child care, or, in the case of a business owner, closing their business or experiencing reduced hours due to the virus

The amounts are exempt from the penalty, but generally will be included in taxable income. However, the taxpayer can elect to spread the income inclusion ratably over 2020 through 2022. Alternatively, the individual can repay the distribution within three years of receipt to avoid income recognition.

2. Required minimum distribution rules are suspended for calendar year 2020 for distributions from:
    - A defined contribution plan under Section 403(a) or 403(b)
    - Eligible governmental deferred compensation plans
    - IRAs

3. Charitable Contribution changes:
    - For tax years beginning in 2020, an individual who doesn't itemize may deduct against AGI up to $300 of qualified charitable contributions. The qualified charitable contribution must be made in cash during 2020 and can't be to a Section 509(a)(3) supporting organization or a donor-advised fund.
    - The act also increases the limit on charitable contribution deductions for contributions made during 2020. A qualified charitable contribution deduction is allowed up to 100% of AGI on the taxpayer's 2020 return, increased from the usual rate of 60%. Any excess contributions will be carried forward for five years and eligible to be deducted in future years under the normal carryforward rules. Eligible charitable contributions must be made in cash during 2020 and can't be made to a Section 509(a)(3) supporting organization or a donor-advised fund.

4. Filing deadline changes:
    - While not part of the CARES Act, the Treasury Department and Internal Revenue Service announced that the federal income tax filing due date is automatically extended from April 15, 2020, to July 15, 2020. Taxpayers can also defer federal income tax payments due on April 15, 2020, to July 15, 2020, without penalties and interest, regardless of the amount owed. This deferment applies to all taxpayers, including individuals, trusts and estates, corporations and other non-corporate tax filers as well as those who pay self-employment tax. *Taxpayers do not need to file any additional forms or call the IRS to qualify for this automatic federal tax filing and payment relief.* Individual taxpayers who need additional time to file beyond the July 15 deadline can request a filing extension by filing Form 4868 through their tax professional, tax software or using the Free File link on IRS.gov.

Wisdom

Discipline

Confidence

Contributing to this issue:

R. Craig Brubaker

2727 N Harwood, Suite 225

Dallas, TX 75201

214-855-2550

www.view-cap.com

View Capital Advisors, LLC was founded in 2004 by its principals with the mission of providing sophisticated investment asset management and financial and estate planning to our U.S. and Non-U.S. clients.

We seek to bring wealth planning best practices and a wide range of non-proprietary solutions to our clients. We also conduct our own research and diligence on world markets and investment alternatives.

For further information, please contact your investment representative or one of our wealth planning specialists:

R. Craig Brubaker 214-855-2556
cbrubaker@view-cap.com

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