

CARES Act March 27, 2020

(aka coronavirus stimulus bill)

Small Business Relief

Paycheck Protection Program (PPP) & Loan Forgiveness (Sec. 1103 & 1106)

The purpose of the loans is to provide relief for small businesses by providing working capital to meet payroll and other operating expenses. If certain qualifications are met during the covered period, then the loans could potentially be forgiven in part or in whole. Loans are administered under the section 7(a) of the SBA loan program and can be obtained through approved SBA lenders.

Overview of the Program

- Covered Period February 15, 2020 to June 20, 2020
- “Covered Loan” are loans made under the provisions outlined in the CARES Act
- **Max loan amount is 2.5 x the average monthly payroll cost** (lessor of trailing twelve months from date of loan or Jan-Feb 2020) plus any outstanding loan amount under subsection (b)(2) that were made beginning January 31, 2020. Capped at \$10m total loan value.
 - Payroll Costs = Salary, wage, commission, cash tips, vacation & sick pay, group health care costs, retirement benefits, state & local tax
 - Time period may differ for seasonal employers
 - Origination fees should be waived by the lenders
 - Interest rate is capped at 4%
- Loans will be registered by EIN (Employer Identification Number) to prevent double issuance of loans
- Potential to defer payment on the loan for a minimum of 6 months up to 1 year from date of enactment of the program
- No prepayment penalty

Who can qualify?

- All small businesses, Sole Proprietor, Independent/Freelance Contractors with less than 500 employees
 - “Employee” includes those employed on a full-time, part-time, or other basis.
- Those negatively impacted by the Covid-19 outbreak – guidelines given are that everyone is assumed to have been impacted

Loan Forgiveness

If funds are used for qualified expenses such as covered payroll, rent, utilities and mortgage interest obligations, then the applicant can submit those expenses (after the covered period) as supporting documentation to receive forgiveness of the loan.

- Amount of loan forgiveness is capped at the initial loan amount

- Employees whose annual compensation is over \$100k are excluded from having their payroll included in the portion eligible for loan forgiveness.
- Amount of forgiveness is reduced or eliminated if the employer:
 - Does not maintain the same number of full-time equivalent employees during the covered period as they had during the same time period in 2019.
 - Indications are that this will be calculated based the monthly average number of full-time equivalent employees over the covered period (February 15th – June 30, 2020)
 - Reduces employee’s compensation by more than 25% when compared to the prior year time period.
- Documents that will be used to validate the number of employees are:
 - Payroll tax filing reports to the IRS
 - State income, payroll, and unemployment insurance filings
 - Financial statements verifying payment on debt obligations incurred before the covered period
 - **CERTIFICATION** – An eligible recipient receiving loan forgiveness under this section shall make a good faith certification that the uncertainty of current economic conditions justifies the loan request to support the ongoing operations of the borrower, and acknowledge that funds will be used to retain workers and maintain payroll
- Loan Forgiveness is not taxable and is excluded from gross income

Emergency EIDL (Emergency Injury Disaster Loans) grants (Sec. 1110)

The primary purpose of the program is to quickly provide cash for small business to continue to meet their payroll and operating needs. An initial amount up to \$10k would be advanced to the borrower within days of applying and the barrower would not be subject to the typical loan approval requirements.

Overview of the Program

- Covered Period = January 31, 2020 and ending December 31, 2020
- All small businesses, Sole Proprietor, Independent/Freelance Contractors with less than 500 employees
 - “Employee” includes those employed on a full-time, part-time, or other basis.
- SBA loan under 7(b)(2)
 - Personal guarantee waived if loan is under \$200k
 - May be approved based on credit score without the need for tax returns
 - May request a \$10k advance on the loan from the administrator
 - Applicant is not required to repay any amount of the advanced payment
 - If applicant subsequently is approved for a loan under SBA section 7(a) the amount of the grant is reduced from the eligible loan forgiveness amount.

Payroll Tax Deferral (Sec. 2302)

- Deferral certain payroll taxes between the date of the enactment of the CARES Act and January 1, 2021.
 - 50% of the deferred amount is due by December 31, 2021 with the remainder due by December 31, 2022.
- You don't qualify if you receive loan forgiveness under another covered loan program

Short-Time Compensation Plans (Sec. 2109)

States may partner with the federal government to participate in a state administered "short-time" compensation program. This program is designed to provide temporary relief to employers and help absorb some of the cost of employee compensation.

- State will pay individuals under the short-time compensation program and the employer will pay the state one-half of the amount of short-time compensation paid under the plan

Subsidy for Certain Loan Payments (Sec. 1112)

- Some existing SBA loans may be eligible for subsidies and/or deferment

Businesses Required to Close Due to COVID-19 (Sec. 2301)

- Employer may be allowed a credit against applicable employment taxes for each calendar quarter
- Credit is up to 50% of the qualified wages with respect to each employee during the quarter. Wages may not exceed \$10,000 per employee for any calendar quarters
- Employer is not eligible for this credit if they receive funds under other covered loan programs

Multifamily Properties Mortgage Loan Forbearance (Sec. 4023)

- Federally backed mortgage that was current on payments through February 1, 2020
- 30-day forbearance period with ability to extend for 2 additional 30-day periods
- Borrowers must provide tenant protections, including prohibitions on evictions for non-payment or late payment fees

Individual & Family Relief Programs

2020 Recovery Rebates (Sec. 2201)

- Eligibility based on the individual's or couple's 2018 tax return, but if no return was filed in 2018 than 2019 tax year will be used.
 - Valid identification numbers will be used for taxpayer, spouse and children
 - \$1,200 (\$2,400 for eligible individuals who file jointly) and \$500 per child
 - Rebate phases out if adjusted gross income (AGI) is over \$150k for joint returns, \$112,500 head of household and \$75,000 for all other taxpayers
 1. If AGI is \$50,000 above these numbers, then the payout is zero (i.e. if a joint return as AGI above \$200,000)

- Rebate will be delivered electronically to bank accounts listed on your 2018 return or mailed to the address of record
- Taxpayers will receive a letter in the mail notifying them of the amount of the rebate and payment method used

Tax deferred Retirement Distributions (Sec. 2202)

- Max distributions that are coronavirus related is \$100k
- Taxes on distributions can be pro-rated over the next 3 years
- Treated as meeting the RMD requirements
- Must meet certain guidelines to qualify as a “coronavirus distribution”

Federal Pandemic Unemployment Compensation (Sec. 2102)

- An additional weekly benefit of \$600/week on top of any amount already being received from the state
 - Paid with your regular unemployment check or separately...determined by state
 - Currently set to expires June 30, 2020

Temporary Waiver of Required Minimum Distributions (RMD) (Sec. 2203)

If an individual is 70 ½ or 72 (depending on the timing of their birthday), they may be required to take distribution from certain retirement account. Under this provision there may be an opportunity to waive the required distribution of certain retirement accounts for a designated period of time.

Student Loans (Sec. 3508)

Allows the Department of Education to defer payments, principal, and interest for federal student loans for the next 6 months without penalty to the student. This applies to federal student loans, not private loans.

Forbearance of Mortgage Loan Payments (Sec. 4023)

- Up to 6 months grace period
- No penalties, fee or interest (other than normal interest on the loan) will be charged or accrue during the forbearance period.
- Loans need to be federally backed