

## FINANCIAL PERSPECTIVES



**The following is a summary of the Coronavirus Aid, Relief, and Economic Security (CARES) Act:**  
March 30, 2020

This post summarizes the developments of the most massive stimulus bill in American history, the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act will provide billions of dollars of relief to individuals, businesses, state and local governments, and the health care system suffering the impact of the COVID-19 coronavirus in the United States. Reuters has a summary posted here. Even though the program passed as a \$2.2 trillion program, the impact is closer to \$7 trillion based on direct relief, grants, and government-supported loans. Some of the key provisions include:

### **Tax Cuts for business and individuals – approximately \$300 billion**

- A refundable 50 percent payroll tax credit for businesses affected by the coronavirus, to encourage employee retention. Employers would also be able to defer payment of those taxes if necessary. This retention tax credit is for eligible employers that continue to pay employee wages while their operations remain fully or partially suspended as a result of specific COVID-19-related government orders.
- Loosened tax deductions for interest and operating losses.
- Suspension of penalties for people who tap their retirement funds early.
- Tax write-offs to encourage charitable deductions and encourage employers to help pay off student loans.
- Businesses and other employers' programs.
- Over \$400 billion in grants for industry sectors include airlines and travel, hospitals, and education.
- Nearly \$400 billion to support American small businesses for essentials like salaries, occupancy costs, and utilities.



### **Provisions that impact small business most:**

- **Employee Retention Payroll Tax Credit**
  - Employers who are at risk for closure due to COVID-19 can receive a payroll tax credit against eligible payroll taxes for each calendar quarter equal to 50% of the qualified wages paid to each employee. The credit is available for an employer whose operations were fully or partially suspended due to a COVID-19 related shut-down order from an appropriate governmental authority, or if gross receipts declined by more than 50% when compared to the same quarter in the prior year.
  - The eligible wages for an employee are up to \$10,000 for all calendar quarters. Qualified wages include wages and health benefits paid to an eligible employee.
  - This credit is also available to nonprofit organizations.
  - Employers taking advantage of other credits or taking a small business interruption loan are not eligible for this credit.
  
- **Delay of Employment Tax Payments**
  - Deferral of the employer portion of payments of certain payroll taxes.
  - The Act allows employers and self-employed individuals to defer payment of the employer share (6.2%) of the Social Security tax on wages through the end of 2020. Fifty percent of the deferred tax payments will be due by December 31, 2021, and the remaining portion due by December 31, 2022. Businesses who have debt forgiven from Payroll Protection Program loans (covered below) are not allowed to delay their payments.
  
- **Net Operating Loss/Excess Business Loss Changes**
  - Modification of net operating loss (NOL) and limitation on losses rules and deduction limitation on business interest.
  - The Tax Cuts and Jobs Act limited net operating loss deductions. The CARES Act has amended those provisions to allow net operating losses incurred in 2018, 2019, and 2020 to be fully deductible, without the 80% limitation. The net operating losses from 2018, 2019, and 2020 are also allowed to now be carried back five years to allow businesses to claim refunds of taxes paid in prior years.
  - Owners of pass-through entities are no longer subject to excess business loss provisions for 2018, 2019, and 2020. They will be able to take full advantage of pass-through losses, as available.
  
- **Business Interest Deduction**
  - The Tax Cuts and Jobs Act had limited the deductibility of business interest to 30% of taxable income. The allowable deduction under the CARES act has been increased to 50%.



- **Qualified Improvement Property**
  - Businesses will be able to write off all of the costs of certain interior renovations as 15-year property and eligible for expensing in nonresidential real property instead of using straight-line depreciation over a 39-year period.
  - Qualified improvement property technical correction, allowing qualifying interior improvements of buildings to be immediately expensed rather than depreciated over 15 years.
  
- **Available SBA programs**
  - Economic Injury Disaster Loans (EIDL), some information below:
  - SBA Payroll Protection Program (PPP) under the CARES Act, covered next.
  - SBA Express Bridge Loan (EBL).
  - SBA Regular 7(a) Loan Program.
  
- **The Paycheck Protection Program will provide nearly \$350 billion in loans and loan guarantees for the covered period of February 15, 2020, through June 30, 2020. Note that the use of PPP eliminates the use of SBA Economic Injury Disaster Loan (EIDL) below.**
  - It will cover payroll costs (up to annual amounts of \$100,000); continuation of group health care benefits; employee salaries, commissions, or similar compensation; mortgage payments; rent; utilities; and interest on any other debt obligations incurred before the covered period.
  - It will extend eligibility to companies of 500 employees or less and 501(c)(3) nonprofits, veterans' organizations, and tribal small business concerns.
  - Sole-proprietors, independent contractors, and other self-employed individuals may also participate.
  
- **Loan forgiveness is available up to the principal amount of the financing**
  - Loan forgiveness would be reduced for employers who lay-off workers or reduce employee compensation except where employers rehire workers or pay additional wages to tipped workers.
  - Loan forgiveness is available for payroll costs, mortgage interest rent, and utility payments.
  - Forgiven loan amounts will not be included as gross income.
  - The general formula is the lesser of the average total monthly payments for payroll costs during the one year before the date the loan is made, multiplied by 2.5; or \$10 million.



- **The CARES Act includes a “Marshall Plan” for the health care system to help provide needed treatment during the pandemic and financial assistance to state, local, tribal and territorial governments, as well as to private nonprofits providing critical and essential services:**
  - \$150 billion for state, local and Native American tribal governments
  - \$100 billion for hospitals and other elements of the healthcare system
  - \$16 billion for ventilators, masks, and other medical supplies
  - \$11 billion for vaccines and other medical preparedness
  - \$4.3 billion for the U.S. Centers for Disease Control and Prevention
  - \$45 billion in disaster relief
  - \$30 billion for education
  - \$25 billion for mass-transit systems
  - \$10 billion in borrowing authority for the U.S. Postal Service
  - \$1 billion for the Amtrak passenger rail service
  - \$10 billion for airports
  
- **Economic Injury Disaster Loan**
  - \$4.5 trillion in loans to businesses, states and cities that can't get financing through other means.
  - The SBA Disaster program has been authorized and the SBA is actively taking applications at [www.sba.gov/disaster](http://www.sba.gov/disaster).
  - Expansion of the ways the Small Business Administration (SBA) can help small businesses, including allowing qualified SBA lenders to loan money directly to eligible customers, but there will be limited funding. Now is the time to call your qualified SBA lender and begin the process of gathering financial and tax records.
  - The loans are available to small businesses, small agricultural cooperatives, small aquaculture businesses, and most private nonprofits. The loans come directly through the SBA, not through banks.

The loans offer working capital loans for payroll, accounts payable, and other bills that could have been paid had the disaster not occurred; could be used to pay fixed debts. Applicants need to show they have suffered working capital losses due to the coronavirus disaster.

The SBA will do an internal test to determine eligibility, so applicants do not need to produce any bank documentation for their application 95% of the loans previously issued have been for \$500,000 or less but can go up to \$2 million. The SBA will determine the loan amount Loans up to \$2 million are to be repaid over 30 years at 3.75% fixed rate; payments deferred over the first 12 months. Must be small business per SBA size standards Loans > \$25,000 require collateral.



- **How to apply:** <https://disasterloan.sba.gov/ela/Information/EIDLLoans or sba.gov/disaster>.

Below are the high points on the Stimulus Loans/Grants only (Who, What, When, Where and How).

- **WHO is eligible:** Businesses with less than 500 employees. Multi-location restaurants with more than 500 employees, but no single location with more than 500 employees will be eligible.
- **WHAT:** Loan Amount: 2.5 times your average monthly payroll costs limited to \$10 million. 10-year loan with an interest rate of 4.0% or lower. No prepayment penalties. (Further definition of payroll costs will be defined, but 1099 contractors are included in this calculation). Loan Forgiveness is included: the amount of the loan used to pay for payroll, rent, utilities, and mortgage interest from February 15, 2020, through June 30, 2020, will be forgiven. The debt forgiven will not be considered taxable income.
- **WHEN:** Mnuchin said in a press conference that these loans should be available Friday, April 3, 2020.
- **WHERE:** Any FDIC insurance bank or federally insured credit union will be able to provide these loans. These loans will be SBA loans, but you do not need to go through an SBA bank or the SBA website to access these loans.
- **HOW:** We don't know what documentation will be required precisely but be prepared to have payroll tax returns and payroll reports from 2019 and YTD 2020 available to calculate your eligibility and the amount of the loan. We recommend that you start getting your payroll records together so you can get in front of the line once this program starts.
- Additionally, there is no personal guarantee required on any of the loans. They are 100% insured by the Federal Government.

#### **Individuals:**

Recovery rebates of up to \$1,200 for singles, \$1,200 for heads of households, and \$2,400 for married couples filing jointly — families with children under 17 will also receive an additional \$500 per qualifying child. Payments would be phased out for those earning more than \$75,000 a year. Those earning more than \$99,000 would not be eligible. These phase-out numbers double for married couples. The only people excluded are those who are behind on child support payments.

- Expansion of unemployment benefits, including for self-employed and gig-economy workers.
- Jobless workers receive an extra weekly boost from the federal government of \$600/week in addition to state aid. Self-employed workers, independent contractors and those who typically don't qualify for unemployment benefits would be eligible.
- Unemployment benefits, which run out after six months in most states, will be extended for an additional 13 weeks.
- Waiver of the 10% penalty on COVID-19-related early distributions from IRAs, 401(k)s and specific other retirement plans.
- Expansion of charitable contribution tax deductions.
- Exclusion for certain employer payments of student loans.



- **Federal Tax Filing and IRA Contribution Deadline Extended**
  - On March 20, Treasury Secretary Steven Mnuchin announced the tax-filing deadline for 2019 federal income tax returns has been extended from April 15 to July 15, 2020 (IRS Notice 2020-18). Taxpayers may still need to file state income taxes. State filing and payment deadlines vary and are not always the same as the federal filing deadline, this extension also postpones the deadline for making 2019 prior-year contributions to traditional and Roth IRAs to July 15, 2020.
  - Careful monitoring of these contributions is essential. Individuals must be sure that all contributions made after April 15 are clearly designated as tax year 2019 contributions. Individuals should follow up and be sure these prior-year contributions are correctly handled by the IRA custodian.
  
- **The CARES Act**
  - Coronavirus Aid, Relief, and Economic Security (CARES) Act. This legislation includes a waiver of required minimum distributions (RMDs) for 2020; it applies to company savings plans and IRAs, including both traditional and Roth inherited IRAs.
  - An RMD waiver is a huge help for clients who would have had to take a 2020 RMD based on much higher account values at December 31, 2019. Now, clients can sit out a year and avoid the tax bill on their 2020 RMDs, if they wish.
  - The CARES Act impacts 2019 RMDs having a required beginning date of April 1, 2020. Any 2019 RMD amount remaining and not withdrawn by January 1, 2020 is waived.
  - Another provision of the CARES Act waives the 10% early distribution penalty on up to \$100,000 of 2020 distributions from IRAs and plans for affected individuals. The tax would be due but could be spread evenly over 3 years, and the funds could be repaid during those 3 years.
  - The new law also affects company plan loans taken by affected individuals. First, the law increases the maximum amount of plan loans to the lesser of \$100,000 (reduced by other outstanding loans) or 100% of the account balance. (The usual limit is the lesser of \$50,000, reduced by other outstanding loans, or 50% of the account balance.) This rule applies to loans taken within 180 days from the bill's date of enactment. Second, any loan repayments normally due between date of enactment and December 31, 2020 could be suspended for one year.

The FMA ADVISOR is published quarterly for the exclusive use by clients and associates of Financial Management Associates, LLC. The information herein was obtained from sources that we believe are reliable, but we do not guarantee its accuracy. Neither the information, nor any opinion expressed, constitutes a solicitation of the purchase or sale of any securities, commodities, or funds. Please note that past performance is no guarantee of future results.