

2020 Coronavirus Relief Bill (CARES Act)
Implications for Businesses
Updated March 26, 2020.

Congress is giving fully or partially forgive-able loans to small businesses with 500 employees or fewer (there are higher employee maximums for industries with a NAICS code that begins with 72) through programs created under Section 7(a) of the Small Business Act. They are defining the “covered period” as February 15, 2020, to June 30, 2020. Self-employed individuals are also eligible for such loans as well, as well as 501(c)(3) non profits.

Qualifying for a Loan:

The maximum amount that a business will qualify for is its average monthly payroll costs for the one-year period prior to the date of loan, multiplied by 2.5.

Example: A business gets a loan beginning April 1st. The average costs of its payroll from April 1st, 2019 to March 31st, 2020 was \$100,000 per month. Their maximum loan eligibility is \$250,000.

Payroll costs are defined as wages, tips paid, state and local payroll taxes, paid sick and family leave, retirement benefits paid, and healthcare costs for employees. This is limited to an annual salary of \$100,000 per employee, and employees who are not U.S. residents are disallowed as well.

The maximum loan amount is \$10,000,000.

These loans may be used to cover the costs of the following expenses incurred between February 15 and June 30, 2020:

- Payroll.
- Mortgage payments
- Rent payments
- Qualified utility payments
- Any other debt obligation that existed prior to February 15, 2020.

These loans will be originated by existing SBA approved lenders. The administration’s goal is to get same day origination and funding for businesses. No SBA approval will be needed before loans are approved by lenders.

The maximum loan term is ten years at a 4% interest, with automatic payment deferrals for a minimum of six months and up to one year.

No personal guaranty is required

Business can also receive an immediate advance of \$10,000 prior to being approved for the loan. This does not need to be paid back in the event they are denied for the loan.

Loan Forgiveness

Portions of the loan will be forgiven by the federal government for the following actual expenses incurred between February 15 and June 30:

- Payroll costs (same definition as above)
- Interest paid on mortgages for real property
- Rent obligations
- Utility payments for phone, internet, water, sewer, electricity and transportation

Businesses will have to show their lending bank documentation to prove the above expenses, and within 15 days, a decision will be made as to the forgiveness amount, and the lending bank will be paid within 90 days for the forgiveness amount. The amount forgiven is NOT considered income for tax purposes.

Emergency Economic Injury Disaster Loans

There are expedited emergency loan funds for businesses that are in declared emergency areas. Funds can be accessed quickly up to \$10,000 to help cover fixed costs like payroll and rent. A business can apply for an EEID and a Payroll Protection loan if they are for different expenses, such as if a business applied for an EEID to have working capital, while applying for a payroll protection loan for payroll expenses.

Entrepreneurial Development Programs

There is additional funding for women owned and minority businesses, including grants that do not have to be paid back .It also provides training and resources for impacted businesses who fit into this classification.

Tax Payment Delays

In addition to the forgive-able loan program, several tax deadlines are delayed:

- Q2 estimated tax payments for individuals and corporations are not due until October 15th.
- Federal employer taxes for Q2 are deferred—50% is due at the end of 2020, and the other 50% can be deferred until December 31, 2021.
- The personal tax filing deadline for 2019 is extended until July 15th.

Paying Employees While Closed

Businesses who continue to pay their employees while closed due to Coronavirus are eligible for a credit for the 6.2% portion of their payroll tax.

If a business' gross receipts are 50% of what they were in Q2 2019, the business is also eligible for this credit until receipts recover to 80% of their prior year.

This means that a business may defer payment of payroll taxes until December 2020 and 2021, and have the amount owed forgiven before the payment is due. **However, employers may not receive both the payroll loan forgiveness and the payroll tax credit.**

Other Tax Changes

- Individuals making less than \$75,000 or married couples making \$150,000 will receive in the near future \$1,200 per adult in the household, plus \$500 per child, as a future tax credit. This is phased out as income levels are higher—Most people making \$150,000/\$300,000 will receive nothing.
- 100% of charitable contributions for individuals for 2020 can be deducted (\$300 can be deducted above the line for those who do not itemize).
- 25% of corporate charitable contributions are tax deductible
- The limitation on business interest deductions is raised to 50% of AGI from 30%.
- Up to \$100,000 in retirement funds may be taken out tax-free with no penalty if they are used in relation to the coronavirus, including job interruption and infection with the illness. The income tax owed on such funds is still owed, but can be spread out over 2020, 2021, and 2022.
- Temporary pause on required minimum distributions from retirement accounts.
- Qualified improvement property is now depreciable over 15 years, instead of 39 years. This means that QIP is now eligible for 100% bonus depreciation. This is retroactive to 2018.
- Net operating losses from 2018, 2019, and 2020 can be carried back for up to five years.