

UNDERSTANDING THE CARES ACT

BREAKING DOWN THE \$2 TRILLION STIMULUS PACKAGE AND WHAT IT MEANS FOR YOUR BUSINESS

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The **Coronavirus Aid, Relief, and Economic Security (CARES) Act** is the largest relief package in U.S. history, providing a roughly \$2 trillion stimulus designed to combat the economic and health crisis from the COVID-19 pandemic. The Act includes a wide range of actions, including forgivable loans to small businesses that maintain payroll; expanded unemployment benefits; adjusted tax deadlines and provisions; direct payments to individuals and families; economic support for distressed industries; and significant financial support for hospitals and medical institutions, State governments, and Federal agencies.

Below is a summary compiled by JEDCO of the CARES Act's provisions that are most applicable to small businesses and workers. Please contact JEDCO with any questions or for general business assistance by calling (504) 875-3908 or emailing info@jedco.org.

PAYCHECK PROTECTION PROGRAM

The CARES Act's Paycheck Protection Program expands the SBA's 7(a) loan program to provide relief for small businesses, self-employed individuals, and non-profits affected by the coronavirus pandemic. **Such loans will be forgiven if a recipient business maintains payroll and/or rehires employees who were laid off due to the pandemic.**

- Forgivable loans will be based on a business' average monthly expenses related to payroll¹ during the 1-year period before the date on which the loan is made.
 - o For sole proprietors or independent contractors, the loan is based on any compensation based on wages, commissions, income, and net earnings from self-employment up to \$100,000 in one year as prorated in the covered period.
 - o If a business was not in operation between February 15-June 30, 2019, the average monthly payments for payroll costs would be during the period of January 1-February 29, 2020.

¹ Specifically: Salaries, wages, commissions, tips, vacation/sick/family leave, severance, payments of State or local tax assessed on the compensation of employees, and payments on group health care benefits and retirement benefits.

- If an applicant is a seasonal employer, the average total monthly payments for payroll shall be for the 12-week period beginning Feb. 15, 2019, or, at the election of the recipient, the period beginning March 1, 2019 and ending June 30, 2019.
- The maximum loan amount is the business' average monthly payroll payments x 2.5—essentially covering 2.5 months of payroll expenses.
 - E.g.: if a business on average had \$30,000 in monthly payroll payments over the previous 12 months, the maximum loan amount would be \$75,000.
- If the business maintains payroll or rehires employees who had been laid off due to the pandemic, loan recipients will be forgiven for the 8-week period after the loan origination date for the following expenses:
 - Payroll costs; health care benefits including paid sick/family leave and insurance premiums; mortgage interest obligations; rent; utilities; and interest on other debt obligations incurred prior to Feb. 15, 2020.
- The amount of the forgivable loan will be proportionately reduced if the business has reduced its employees as compared to the either same period one year prior (Feb. 15-June 30, 2019) or as compared to Jan. 1-Feb. 29, 2020, at the election of the recipient business.
 - E.g.: If your business has reduced your payroll by 30%, the forgivable amount of your loan will be reduced by 30%. The forgivable loan will also be proportionately reduced if salaries and wages of employees are reduced by more than 25% as compared to the most recent quarter of employment.
- Limitations on the forgivable loans include: a) the compensation of any individual employee's annual salary in excess of \$100,000; b) Federal taxes imposed during the covered period; c) compensation for any employee whose primary residence is outside the U.S., and d) qualified sick and family leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act.

Other key information:

- Loans will be issued by private 7(a) lenders, allowing more speed in issuance of funds. The Act also provides more authority to lenders on eligibility determinations without requiring them to go through usual SBA channels.
 - A list of GNO-area SBA lenders can be found here: <https://www.jedco.org/wp-content/uploads/2020/03/SBA-Lenders-1.pdf>
- The covered loan period begins retroactively on Feb. 15, 2020, and ends on June 30, 2020.
- The maximum loan amount is \$10 million.
- Eligible businesses must have fewer than 500 employees.
 - Those businesses in Accommodation and Food Services (NAICS code 72) with more than one physical location can receive loans as long as each physical location has fewer than 500 employees.

- Payments are deferred for six months; however, interest will accrue over this period. Loans are due in two years. There are no prepayment penalties or fees for those who pay loans earlier than two years.
- The Act waives requirements for collateral, loan fees imposed by the lender and the SBA, tests for credit worthiness or repayment ability, and personal guarantees.
- Interest is 1.00% fixed rate.
- Businesses seeking loan forgiveness should submit the following to the lender servicing the loan: (1) documentation verifying employee numbers and pay rates, including payroll tax filings reported to the Internal Revenue Service and State income, payroll, and unemployment insurance filings; (2) documentation, including cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments; (3) certification stating that the documentation is true and correct and the amount requested for forgiveness was used to retain employees, make payments on mortgage or rent, and make utility payments; and (4) any other documentation the Administrator determines necessary.
- More info, including the application, can be found on the SBA's website: <https://www.sba.gov/funding-programs/loans/paycheck-protection-program-ppp>

EXPANDED UNEMPLOYMENT ASSISTANCE

The CARES Act expands unemployment insurance benefits for anyone who has experienced unemployment, partial unemployment, or the inability to work due to COVID-19 between January 27 and December 31, 2020. Most notably:

- Unemployment benefits are extended to independent contractors and “gig” workers who have lost work due to the pandemic, as well as those who are ordinarily able to work but are sick or caring for a sick family member with COVID-19.
- The CARES Act extends the length of time benefits are available, from 26 to 39 weeks.
- Payments are increased by \$600 through July 31, 2020, in addition to existing state benefits.
- Those who are working the same hours and telecommuting/working from home are not eligible.

DIRECT PAYMENTS TO INDIVIDUALS AND FAMILIES

The CARES Act provides rebate payments to American taxpayers in the amounts of \$1,200 to individuals (or \$2,400 to joint filers), and \$500 per dependent child. The rebate begins phasing out

when incomes exceed certain amounts—specifically \$75,000 for individuals, \$112,500 for heads of households, and \$150,000 for joint filers—by 5% of the amount that the taxpayer’s adjusted gross income exceeds those limits. The amount of rebate a taxpayer receives is based on their 2019 tax return, or 2018 if the taxpayer has not yet filed a 2019 return.

CHANGES TO CORPORATE TAX OBLIGATIONS

The CARES Act takes a number of tax measures to protect and support businesses who are experiencing losses due to the pandemic, including but not limited to:

- Businesses are eligible for an employee retention tax credit if 1.) business operations were fully or partially suspended due to a COVID-19 shut-down order; or 2.) gross receipts declined by more than 50% compared to the same quarter in the prior year. Eligible businesses can get a refundable 50% tax credit on wages up to \$10,000 per employee. The credit can be obtained on wages paid or incurred from March 13, 2020, through December 31, 2020.
- Businesses and self-employed individuals can delay their payroll tax payments. These payments, the employer share of Social Security tax owed for 2020, can instead be deferred and paid over the next two years. Fifty percent must be paid by the end of 2021 and 50% must be paid by the end of 2022. (Note: The ability to defer these taxes does not apply to a business that has a Paycheck Protection loan forgiven.)
- Businesses that have net operating losses (NOLs) have some limitations relaxed. If your business had an NOL in a tax year beginning in 2018, 2019, or 2020, that NOL can now be carried back five years instead. This may improve cash flow and liquidity for some businesses. Pass-through businesses and sole proprietors will also be able to take advantage of the relaxed NOL limitations.
- Businesses that were due to receive corporate alternative minimum tax (AMT) credits at the end of 2021 can instead claim a refund now, in order to improve cash flow during the COVID-19 emergency.
- Businesses will be able to increase their business interest expense deductions on their tax returns. For 2019 and 2020, the amount of interest expense businesses are allowed to deduct on their tax returns is increased to 50% from 30% of taxable income.
- Businesses, especially those in the hospitality industry, will be able to immediately write off costs associated with improving facilities, increasing cash flow.