

COVID-19 Stimulus: The “CARES” Act

Yesterday evening, the Senate passed an updated version of the Coronavirus Aid, Relief and Economic Security (CARES) Act (Stimulus Phase III). The bill is intended to be a third round of federal government support for individuals and businesses and is the product of negotiations between Democrats and Republicans for a bipartisan response to the crisis. Please note that at this time it has not been enacted into law but is expected to be by Friday, March 27th.

We are fielding a number of questions from our business owner clients, who have already been significantly impacted by COVID-19, regarding their options for access to short- and long-term liquidity to minimize business disruption. If this applies to you, please feel free to read ahead to the “business” section of this letter.

Key provisions for individuals and businesses include:

Individuals

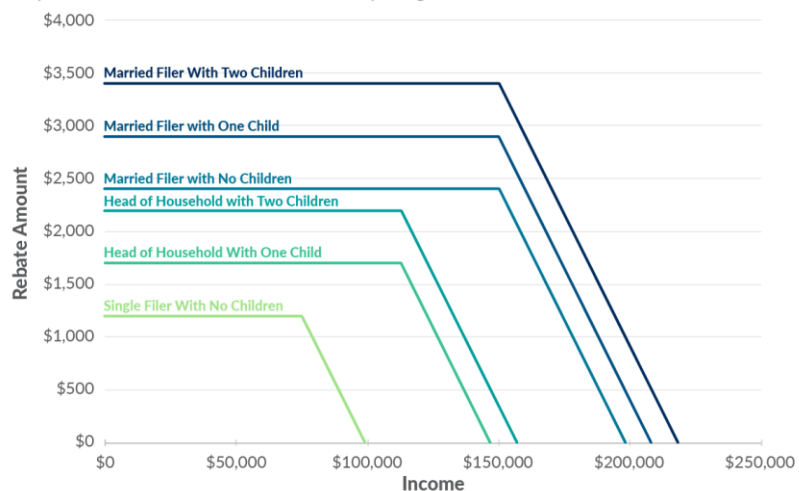
The bill would provide a **\$1,200 direct cash payment to individuals** (\$2,400 for joint taxpayers). Additionally, taxpayers with children will receive a flat \$500 for each child. The rebates are based on AGI and would not be counted as taxable income for recipients. The chart below shows how the benefits are phased out for individuals making more than \$75,000 and completely for those making \$99,000 or more.

The 10 percent early withdrawal penalty on retirement account distributions for taxpayers facing virus-related challenges would be waived. Withdrawn amounts are taxable over three years, but taxpayers can recontribute the withdrawn funds into their retirement accounts without affecting retirement account caps.

Unemployment insurance provisions now include an additional \$600 per week payment to each recipient for up to four months, and extend UI benefits to self-employed workers, independent contractors, and those with limited work history with no waiting period. (Virginia Employment Commission: www.vec.virginia.gov/unemployed). In Virginia, the current maximum weekly benefit amount is \$378.

Proposed Relief Rebate in the CARES Act

Proposed Individual Economic Relief Rebate By Filing Status



Source: "Coronavirus Aid, Relief, and Economic Security Act"

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Businesses

Employer-side Social Security payroll tax payments may be delayed until January 1, 2021, with 50 percent owed on December 31, 2021 and the other half owed on December 31, 2022.

The Families First Coronavirus Response Act (Stimulus Phase II) was passed last week and it **requires employers with between 50 and 500 employees to provide 10 days of paid sick leave and up to 12 weeks FMLA** to employees forced to miss work because of COVID-19 or care for their children whose school or daycare has closed. There is a cap on paid sick leave and FMLA benefits at \$511 per day for sick leave (up to 10 days) and \$200 per day for FMLA (up to 12 weeks), and employers who pay this leave may receive a refundable tax credit against FICA taxes equal to 100% of the wages paid under this requirement.

Small Business Administration (SBA) Loans

The next section highlights the programs available through the SBA. An SBA lender is your best resource for the varying benefits and eligibility requirements. **We anticipate many bankers who have not done SBA loans in the past will begin offering SBA loans given the overwhelming demand, so our advice to you is to contact your business banker for more information and have all of your financial information (tax returns, profit/loss statements, loan statements, etc.) compiled so that you are able to streamline the application process.**

Below we have highlighted the two key programs: (1) Paycheck Protection Program (potential loan forgiveness) and (2) Economic Injury Disasters Loans.

Option 1: Paycheck Protection Program (*Potential Loan Forgiveness*)

As part of the CARES act, \$350 billion has been allocated for the **Paycheck Protection Program**, Section 7(a) loans, which is meant to help small businesses impacted by the pandemic and economic downturn to make payroll and cover other expenses. Businesses may borrow up to \$10 million (based on your business needs) and can cover employees making up to \$100,000 per year.

Allowable uses are expanded to include:

- Payroll support (including paid sick or medical leave);
- Employee salaries;
- Mortgage, rent and utility payments;
- Insurance premiums; and
- Other debt obligations.

Loans may be forgiven if a firm uses the loan for payroll, interest payments on mortgages, rent, and utilities. At this juncture, and with each business's unique circumstances, it is impossible to say how much a business will receive under the Paycheck Protection Program and which businesses will receive full loan forgiveness.

Loans must be made by SBA Section 7(a) approved lenders, who will also decide whether to accept a borrower's application for loan forgiveness. We know that the SBA has lessened the underwriting for these loans, including eliminating the personal collateral requirement.

Option 2: Economic Injury Disaster Loans

Economic Injury Disaster Loans (EIDLs) are low-interest working capital loans to small businesses that have experienced a substantial economic injury as a result of the Coronavirus. The application may be done online: <https://disasterloan.sba.gov/ela/>

Loan terms are generally as follows:

- Interest rates at 3.75% or lower,
- Principal amounts of up to \$2 million, and
- Repayment terms of up to 30 years

Importantly, under the CARES Act, a borrower that receives a 7(a) loan for employee salaries, payroll support, mortgage payments and/or other debt obligations would not be able to receive an EIDL for the same purpose, or co-mingle funds from another loan for the same purpose. Currently there is not a forgivable component to EIDLs.

Again, the best option is to speak to your banker about your business needs and the options for meeting those needs through the SBA or finding a lender through the SBA: <https://www.sba.gov/funding-programs/loans/lender-match>. The application process has been streamlined a bit, but please know that it is a process and will take several weeks for approval and funding.

As always, please do not hesitate to reach out if you have any questions or if we can provide support.

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