



# Federal Coronavirus Relief Bill Summary:

## How it Helps Small Businesses

Phase III of the Federal Coronavirus Relief Legislation (also known as the CARES Act) passed late Wednesday night, March 25, and we have since been diligently reviewing the 880-page bill in an attempt to decipher what a majority of our clients, especially those classified as small businesses, need to know about the bill. Below is a summary which we have created for your convenience.

Though much of the content is original, we have also relied on other publications to date to assist us in creating this summary.

You can click each link below to be taken directly to a specific section.

- BRIEF SUMMARY..... 1**
- SECTIONS RELEVANT TO SMALL BUSINESS CLIENTS ..... 2**
  - SBA 7(a) Loans: Paycheck Protection Program ..... 2**
  - Loan Forgiveness ..... 2**
  - Normal Disaster Loans ..... 3**
- TAXES AND REBATES ..... 3**
  - Recovery Rebates ..... 3**
- ADDITIONAL FUNDING ..... 4**
  - RETIREMENT PLANS..... 4**
  - OTHER COVERED RELIEF EFFORTS ..... 5**
- PINE & COMPANY CPAs CAN HELP ..... 5**

### **BRIEF SUMMARY**

The measure, negotiated between the Senate and administration, includes:

- \$500 billion for loans and assistance to companies and state and local governments, including \$29 billion for loans to US airlines and related businesses; stock buybacks and executive compensation restrictions; additional funding for aviation workers;
- \$349 billion in low-interest small business loans that could be partially forgiven;
- Payments of as much as \$1,200 for individual taxpayers and an additional \$500 per dependent child. These payments are phased out when income exceeds \$75,000 for individual taxpayers (\$150,000 for married taxpayers filing jointly);
- An additional \$600 per week for those receiving unemployment benefits;
- \$150 billion for aid to state, local, and tribal governments;
- A suspension of Medicare sequestration through the end of the year and the extension of several health programs until December.

## SECTIONS RELEVANT TO SMALL BUSINESS CLIENTS

### SBA 7(a) Loans: Paycheck Protection Program

The Phase III legislation provides for a new “Paycheck Protection Program,” which allows small businesses, nonprofit organizations, and individuals to seek loans through the Small Business Administration’s 7(a) loan program.

- The bill also provides \$349 billion in total 7(a) lending from February 15 through June 30, where the allowance was previously \$30 billion for the 2020 fiscal year.
- **The bill would also provide \$349 billion for the SBA to fully guarantee loans** under the new program, compared with a 75% or 85% guarantee for standard 7(a) loans.
- **Loans would be available during the covered period for:**
  - Any business, nonprofit organization, veterans’ group, or tribal business with 500 or fewer employees, or a number set by the SBA for the relevant industry;
  - Sole proprietors, independent contractors, and eligible self-employed workers;
  - Hotel and food service chains with 500 or fewer employees per location.
- Eligible recipients could receive loans for as much as \$10 million or 250% of their average monthly payroll costs. Interest rates during the covered period would be capped at 4%.
- Funds received under the Paycheck Protection Plan may only be used to cover eligible payroll costs—including salaries, commissions, regular paid leave, and health-care benefits—as well as mortgage interest and utility payments. Recipients will have to make a “good faith certification” that they will use the funds to retain workers, maintain payroll, and pay for rent and similar expenses.
  - Employers may not use the funds to compensate individual employees at an annual rate above \$100,000 or to pay for emergency sick or medical leave under the second Coronavirus response package (Phase II of the legislation, which was recently passed).
- Rules requiring recipients to pay certain fees or provide collateral will be waived, and it is NOT required that recipients are unable to obtain credit elsewhere. (Under existing SB Disaster Loan rules, businesses were ineligible if they could obtain financing from somewhere else, but this new bill removes that requirement.) SBA rules on company affiliates used to determine small business size would be waived or franchises, food or lodging companies with 500 or fewer employees, and for businesses that receive financial assistance from a small business investment company.
- Approved 7(a) lenders may issue covered loans if they determine a business was operating with salaried employees or paid contractors as of February 15, 2020.
- The SBA will assume that all eligible loan applicants in operation as of February 15, 2020 have been adversely affected by the COVID-19 outbreak. Additionally, lenders will be required to allow loan recipients to defer payments for at least six months and as long as one year.
- Participating banks will be fully insured with these loans and will have more flexibility in the former due-diligence requirements in order to speed the likelihood of the issuance of such loans.

### Loan Forgiveness

- Recipients of loans under the Paycheck Protection Program will be able to apply for loan forgiveness over eight weeks for eligible payroll costs and for mortgage interest, rent, and utility payments.

***It will be interesting to see how the loan forgiveness portion of the legislation will be implemented. Once the guidance on this issue is released, we anticipate that we will be able to provide our clients with streamlined summaries of requirements, as well as support, to receive the provisioned loan forgiveness.***

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- Under the loan forgiveness portion of this legislation, the SBA will pay lenders for any canceled debt plus accrued interest. Lenders generally will not be subject to enforcement actions under the SBA related to loan forgiveness.
- Loan forgiveness will be reduced or businesses that terminate employees or issue pay cuts. Businesses may be eligible to receive additional forgiveness for wages paid to tipped employees.
- Covered loans will have a maximum maturity of 10 years following the borrower's application for forgiveness. The SBA will continue to guarantee remaining balances.
- A limit on SBA 7(a) express loans, which have a 36-hour turnaround, will be increased from \$350,000 to \$1,000,000 through the end of 2020.
- Non-federal fund matching requirements will be waived for three months for certain women and minority business centers.
- Canceled debt will be excluded from borrowers' gross income for tax purposes.

## Normal Disaster Loans

- This legislation will provide \$10 billion to expand the SBA's disaster loan program from January 31, 2020 through December 31, 2020 in order to cover businesses, cooperatives, employee stock ownership plans, and tribal businesses with 500 or fewer employees, as well as sole proprietors and independent contractors.
- The SBA will be required to waive certain eligibility rules during the covered period for disaster loans made in response to the COVID-19 outbreak.
- The legislation will also permanently expand the SBA's disaster loan program to cover small entities affected by emergencies for which the current President determines the federal government has the primary responsibility, as President Trump did for the COVID-19 outbreak.
- The SBA is required to issue regulations to implement the measure within 15 days of enactment.

## TAXES AND REBATES

### Recovery Rebates

- The legislation will provide refundable credits of as much as \$1,200 per individual taxpayers or \$2,400 for married taxpayers who file a joint return. An additional \$500 will be provided for each child.
- The credit will be reduced by 5% for the amount an individual taxpayer's income exceeds \$75,000 (\$112,500 for taxpayers filing as head of household and \$150,000 for married taxpayers filing jointly). The rebate will be phased out completely for income exceeding \$99,000 for individual taxpayers (\$146,500 for taxpayers filing as head of household and \$198,000 for married taxpayers filing jointly), according to a summary from the Senate Finance Committee.
- The rebate will be based on the taxpayer's 2019 tax return. For individuals who have not yet filed their 2019 tax return, the rebate will instead be based on the taxpayer's 2018 return or 2019 Social Security statements.
- Payments will be made through December 31, 2020 and will be delivered electronically to accounts where a taxpayer has previously authorized deposit of a tax refund or other federal payment on or after January 1, 2018. Notice will be sent to the taxpayer within 15 days of the payment being sent.
- A Social Security number will be required for each taxpayer in order to claim the credit; however, only one number will be required if one spouse is a member of the US Armed Forces.

## ADDITIONAL FUNDING

The legislation will provide funding to carry out the following rebates, which will remain available through the 2021 fiscal year:

- **Payroll Tax Deferral.** The legislation allows for deferral of employer and railroad retirement tax payments through the end of 2020; employers will have two years (during 2021 and 2022) to repay the deferred taxes. Deferral will not apply to employers who have had their small business loan debt forgiven under the legislation. Self-employed individuals may defer 50% of self-employed Social Security tax payments.
  - **Employee Retention Credit.** This legislation will establish a **refundable** credit against employer payroll and railroad retirement taxes for certain employers that are hurt by the COVID-19 outbreak but who retain their employees. The credit will be for 50% of eligible employee wages paid after March 12, 2020 and before January 1, 2021, up to \$10,000 of total compensation for each employee, including health benefits.
  - Employers may be eligible to receive the credit if a government order related to the pandemic requires them to partially or fully suspend operations, or if their gross receipts declined by certain thresholds. Alternate rules will apply for tax-exempt organizations.
  - Employers with more than 100 full-time employees in 2019 may be eligible to receive credits for wages paid to employees while they are not providing services. Employers with fewer employees may be eligible to receive credit for wages paid while operations were suspended or during any quarter in which the company had a significant decline in gross receipts.
  - Employers will **not** be eligible to receive this credit if they receive a loan under the SBA Paycheck Protection Program for 7(a) loans established by the legislation.
  - The credit will not apply to federal, state, or local government employers.

## RETIREMENT PLANS

Phase III of the Coronavirus legislation includes several retirement-plan allowances that are often provided in legislation after major disasters.

- Individuals may withdraw as much as \$100,000 from their retirement accounts in 2020 without being subject to the usually 10% penalty. Funds will be treated as a tax-exempt rollover contribution if repaid within the following three years. If funds are not repaid within that time, the unpaid funds will be taxed as income over the three years following the repayment period.
- This section of the legislation covers taxpayers where the taxpayer, spouse, or a dependent, is diagnosed with COVID-19, or where the taxpayer's finances are damaged, such as through layoffs or reduced work hours.
- Eligible individuals may be eligible to receive loans for the lesser of \$100,000 or the present value of their vested benefits in employer-sponsored retirement accounts in the 180 days following the bill's enactment. The limit is currently \$50,000 or half of the account's value.
- Individuals affected by COVID-19 who have retirement plan loans due by December 31, 2020, will have an extra year to repay the loan.
- The measure will modify certain retirement plan and account minimum distribution rules for 2020.

## **OTHER COVERED RELIEF EFFORTS**

There are significant items in the legislation which have not been covered in this summary, such as relief in the areas of:

- Charitable contribution deductions
- Student loans
- Business losses
- AMT relief
- Unemployment
- Medicare & Medicaid
- Drugs and medical devices
- Support for health providers
- Banking and accounting rules
- Student financial aid
- Mortgage deferrals for up to six months

## ***PINE & COMPANY CPAs CAN HELP***

If you have questions about a particular section of this legislation, please don't hesitate to reach out to us, and we will do our best to answer your questions. For clients interested in applying for loans under the Paycheck Protection Plan, we would like to assist you in any way you can, so please call our office at (817) 581-3223 or email us at [info@pinecopas.com](mailto:info@pinecopas.com) to schedule a phone call or video conference to discuss how we can best help you with your application.

We at [Pine & Company CPAs](#) are committed to supporting the success of small businesses throughout North Texas. While we are in the midst of a busy tax season, please don't hesitate to reach out to us if you need help strategizing ways to get through this situation, and we will be happy to schedule a phone call or video conference with you.