

HOW CAN THE CARES ACT HELP ME?

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Friday evening, President Trump signed into law the Coronavirus Aid, Relief and Economic Security (CARES) Act, a \$2 trillion emergency spending package that provides financial aid to individuals as well as businesses suffering from the Coronavirus pandemic. Here's how it will help individuals and small businesses.

Individuals and Families

- **Individuals:** Most people earning less than \$75,000 will receive \$1,200 from the government (either through direct deposit or check). The government will use your 2019 tax returns to determine your eligibility (or 2018 returns if you have not yet filed your 2019 returns). Additionally, if you receive a lower rebate amount than you are eligible for based on your 2020 income, you will receive the difference after filing your 2020 tax return. Individuals will not have to return any overpayments made based on a higher income earned in 2020. Individuals earning up to \$99,000 a year will receive reduced amounts (the government lowers the rebate by \$5 for every \$100 in income above \$75,000).
- **Married Couples:** Each married couple will receive \$2,400 if their adjusted gross income falls below \$150,000. Married couples will receive reduced rebate amounts on a sliding scale as long as they have not earned more than \$198,000. Married couples also will receive an additional \$500 for every minor child.
- **Heads of Household:** Individuals who file as a "head of household" (for example, single parents with children) will receive \$1,200 if they have an adjusted gross income up to \$112,500. Heads of household will receive reduced rebate amounts on a sliding scale as long as they have not earned more than \$136,500. Heads of household will also receive an additional \$500 for every minor child.
- **Unemployment Insurance:** The CARES Act expands unemployment insurance to include a \$600 per week increase in benefits for up to 4 months. The law also provides unemployment insurance for individuals who typically are ineligible (for example, self-employed individuals and independent contractors). The federal government will also:

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- Temporarily fund the first week of unemployment for states that repeal any waiting period requirements to receive unemployment insurance; and
- Fund an additional 13 weeks of unemployment benefits through 12/31/2020.

Businesses

Paycheck Protection Program

One of the biggest resources available to small businesses (less than 500 employees) is the Paycheck Protection Program (PPP) enacted by the CARES Act. Under the PPP, small businesses harmed by COVID-19 anytime from February 15, 2020, to June 30, 2020, will be able to apply to a local lender for a loan. A business must use these loan proceeds to pay for: worker compensation, payroll, healthcare costs, mortgages, rent, and utilities. Your business must have been in operation since at least February 15, 2020, and you must apply by June 30, 2020.

What kinds of businesses are eligible?

PPP loans are available for small businesses (with less than 500 employees), self-employed individuals, sole proprietors, independent contractors, non-profits (with less than 500 employees), veterans organizations, and certain tribal businesses. The PPP loan program seeks to expand assistance to businesses that typically do not meet small business qualifications for loans. Therefore, it is important to evaluate each small business to see if it may be eligible for this kind of loan.

Loan Amount and Use of Loan Funds

In all cases, the loan maximum is the lesser of either: a) 250% of your average monthly payroll costs; or b) \$10 million. The lender will determine your monthly payroll costs from 02/15/2019 – 03/30/2019 or, for seasonal employers, costs starting on 03/01/2019. For new employers, your lender will look at your average monthly payroll costs between 01/01/2020 – 02/29/2020. Payroll costs include items such as:

- Salary, wage, commission, tips, or similar compensation;
- Vacation, parental, family, medical, or sick leave payments;

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- Group health care benefits and retirement benefits; and
- State or local taxes payments based on employee compensation.

You may use loan proceeds to pay for:

- Payroll costs described above;
- Interest on any mortgage;
- Rent;
- Utilities; and
- Any other interest on debt incurred before 02/15/20.

Loan Forgiveness and Terms

PPP loans do not require a personal guarantee or collateral. You can apply to your lender to forgive the amount of payroll, mortgage interest, rent, and utilities payments made during the 8 weeks after you receive the loan. Your lender may forgive certain loan amounts as long as you keep the same number of employees from 02/15/2020 – 03/30/2020, as you did during either: a) the same period in 2019; or b) from 01/01/2020 – 02/15/2020.

Lenders may also reduce the loan forgiveness amount if you lower compensation by more than 25% for employees making under \$100,000. Your lender will not penalize you, however, if you rehire employees that you previously laid off or restore any cut compensation by 06/30/2020.

The amount that can be forgiven will be proportionate to maintaining your employees and their compensation. For loan forgiveness, you must provide your lender with documents showing:

- The number of employees on payroll, their pay rate, IRS payroll and state income tax filings, and unemployment insurance filings; and
- Mortgage interest, rent, utilities, and other debt payments.

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Any loan amounts not forgiven will have a maximum 10-year term with a maximum 4% interest rate. You may continue to defer principal and interest payments for a total of 6 - 12 months after you receive your loan.

As a business, you can only take out one PPP loan, but you may take out other loans available to you as long as you spend the money for different purposes.

Please note, the Small Business Administration (SBA) must still create the exact rules lenders must implement for PPP loans, so certain requirements remain unknown.

Economic Injury Disaster Loans & Emergency Economic Injury Grants

Small businesses also have the option to apply for the SBA's Economic Injury Disaster Loans (EIDLs). Businesses may qualify under this loan program if they suffered substantial economic injury from the pandemic.

The CARES Act has expanded the EIDL program to cover a wider range of entities and provides an emergency advance of up to \$10,000 within 3 days. The CARES Act also expanded EIDL eligibility for the period between 01/31/2020 – 12/31/2020.

What kinds of businesses are eligible?

To qualify, you need to have been in business by 01/31/2020. Under the CARES Act, eligible businesses include: small business (fewer than 500 employees), sole proprietors, independent contractors, cooperatives, and tribal small businesses. Applicants must follow SBA's affiliation rules governing financial assistance programs. Also, entities that were eligible to receive EIDLs before the pandemic remain eligible and can access the CARES Act's more beneficial terms.

Emergency Economic Injury Grants

The \$10,000 emergency cash grants allow businesses to pay certain working capital needs. The SBA will provide eligible businesses this advance within approximately 3 days. To access the advance, you must first apply for an EIDL and then request the advance. The advance does not need to be repaid, but you must deduct any advance amounts from any loan forgiveness amounts under a PPP loan.

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EIDL Terms

The loans have a maximum 30-year term and the maximum loan amount is \$2 million. Interest rates are: a) 3.75% for small business; and b) 2.75% for non-profits. You may defer first month's payments for 12 months after you receive your loan.

Unlike the PPP loans, no loan forgiveness provisions apply, however, you may refinance EIDL loans under the PPP to then opt into the PPP's loan forgiveness provisions. Please remember that if you also take out a PPP loan, you must use the different loan proceeds to cover different costs.

Applying

The CARES Act waived certain requirements such as: a) showing you are unable to obtain credit from other institutions; and b) personal guarantees for loans up to \$200,000 (personal guarantees are still required loans greater than that amount). It remains unclear whether the SBA will require collateral on EIDL loans greater than \$25,000.

Additionally, the SBA may approve a loan based solely on your credit score without the business having to submit additional documents such as tax returns. You may apply for EIDL loans directly at www.SBA.gov/disaster. There are no loan, guarantee, or prepayment fees. Be sure to apply for Economic Injury for the Coronavirus.

Businesses with Certain SBA-Loans

Under the CARES Act's Small Business Debt Relief Program, the SBA will cover for 6 months all loan payments (principal, interest, and fees) on 7(a) loans, 504 loans, and microloans. This relief will also apply to businesses that take out loans within 6 months of the CARES Act being signed into law. This relief does not cover disaster loans (including 7(a) loans made under the PPP).

Certain Small Business Tax Provisions

Please note that the following credits and deferrals are not available to businesses (including non-profits) that also receive a PPP loan.

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- Delay of Employer-Side Social Security Payroll Tax Payments: Employers and self-employed individuals may defer payment of their employer share of the Social Security tax. Half of the deferred payments must be paid by 12/31/2021 and the other half is due by 12/31/2022.
- Employee Retention Credit: The CARES Act created an employee retention credit for employers that must close because of COVID-19. Employers may be eligible for a 50% tax credit on qualified wages paid to employees from 03/12/2020 – 12/31/2020. The tax credit expires either when: a) the employer reaches the \$10,000 per employee maximum; or b) when revenue for a 2020 quarter is higher than 80% of gross receipts for the same quarter in 2019.
 - Businesses with 100 or fewer employees: the tax credit applies if the employer had to suspend its business because of a government order or its experienced a 50% revenue decrease for any calendar quarter in 2020 compared to the same quarter in 2019.
 - Businesses with over 100 employees: must meet the same requirements above, but the credit applies only to wages paid to those on payroll but who are not working.