

**SCCA—Conference Call**  
**Federal Economic/Stimulus Legislation**  
**COVID-19**

**April 3, 2020**

**INTRODUCTIONS**

Gerald W. Mouzis

Gary Howard

**PRELIMINARY COMMENTS**

**Title**

“Coronavirus Aid, Relief, and Economic Security” Act or the “CARES Act.”

**Historical Context**

Not since WWII has the country and the world been focused on a singular cause

- There, eradicating tyranny throughout the world
- Here, eradicating an invisible enemy that is highly contagious without personal contact

**Summary**

- \$2.2 Trillion Relief Package
- Not really an economic stimulus package
  - Need production of goods and services
- More emergency financial relief.

Purpose: “Providing emergency assistance and health care response for individual, families and businesses affected by the 2020 coronavirus pandemic.”

## **HIGHLIGHTS OF LEGISLATION**

### **Preliminary Comments**

- Legislation is extensive.
- Providing member contractors with potential options
- May need further professional advise from accountant, financial advisor, attorney, etc.

### **Small Business Interruption Loans—Approximately \$349 Billion**

#### **Eligible Entities**

- Companies with less than \$15 million in equity
  - Companies with less than \$5 million in net income after taxes
- OR
- 500 or fewer employees
  - Includes small businesses, non-profits (except those that receive Medicaid reimbursements), and veterans' organizations
  - Sole proprietors, independent contractors and other self-employed individuals
  - Business, like restaurants or involved with hospitality, with more than one physical location and no more than 500 employees per location

### **Requirements**

- Business must be operational on February 15, 2020
- Business paid employees' salaries and payroll taxes, or paid independent contractors
- Business was "significantly impacted" by COVID-19
- Borrowers certify to the lender, in good faith, to use the funds to retain workers, maintain payroll and other obligations, e.g. mortgage payments, rent, and utilities

### **Loan Terms**

- Maximum Loan is the Lesser of:
  - \$10 million, OR
  - The average monthly payroll for the prior 12 months times 2.5, OR
  - The outstanding amount of certain SBA loans made on or after January 31, 2020
- Maximum Maturity is 10 years
- Interest rate cannot exceed 4%
- Any canceled indebtedness will not be included in taxable income.

### **Application Documentation Required**

- Application with number of full-time equivalent employees on payroll and other allowable costs
- Payroll tax filings

- State income, payroll, and unemployment insurance filings
- Financial statements verifying payment on debt incurred before February 14, 2020

### **Allowable Use of Funds**

- Employee salaries (up to \$100,000 in annual salary), payroll support, paid sick or medical leave, group healthcare benefits
- Mortgage payments on debt obligation or rent pursuant to a lease existing before February 15, 2020.
- Utilities
- Insurance premiums
- Other debt obligations

### **Loan Forgiveness**

- Maximum forgivable amount is equal to the amount spent in the 8-week period after the loan origination date on the following items:
  - Payroll costs
  - Interest payment on mortgages held prior to February 15, 2020
  - Rent payments, if lease in effect prior to February 15, 2020
  - Utility payments, if service began prior to February 15, 2020
- Reduction in amount forgiven
  - Proportionately to any reduction of the number of employees retained to the number of employees existing at loan origination

If there is a reduction in any employee's wages of greater than 25% during the most recent full quarter

- Borrowers that re-hire employees previously laid off will not be penalized for reduced payroll
- Amount of the loan not forgiven can be repaid over 10 years at a rate not to exceed 4%

### **Other Items**

- Collateral and personal guarantees will be waived during the covered period
- Borrower and lender fees will be waived.

## **Individuals**

### **Recovery Cash Rebates—Eligibility**

- Any individual with a Social Security Number
- Nonresident aliens are not eligible

### **Recovery of Cash Rebates—Terms**

- Credit of \$1,200 (\$2,400 for joint filers), plus \$500 for each qualifying child for 2020 [not adjusted to match a regional cost of living]
- A phase out of payment begins for adjusted gross income level at \$75,000 for single filers and \$150,000 AGI for joint filers
- The credit phases out entirely at \$99,000, or \$198,000 for joint filers

### **Required Minimum Distribution Rules**

- At 72, required to take minimum distributions annually from a retirement plan or IRA
- Requirement waived for 2020

### **Tax Favored Withdrawals from Retirement Plans**

- Removes the early withdrawal 10% tax penalty if the distribution from a qualified retirement plan made in 2020 is considered “coronavirus-related distribution.” (See below.)
- Aggregate amount of such distribution cannot exceed \$100,000.
- The income from the distribution is spread ratably over 3 years.
- The income can be avoided if the distributions are repaid within 3 years of the date of receipt.

### **What is a “coronavirus-related distribution?”**

Applies to an individual who:

Is diagnosed with the COVID-19 virus

Whose spouse or dependent is so diagnosed

Who experiences financial hardship as a result of being quarantined or other factors.

### **Charitable Contributions—Itemized Deductions**

- Increased deduction percentage limitation for cash charitable contributions from 60% to 100% of the taxpayer's AGI for the 2020 tax year.
- Are some limitations

### **Charitable Contributions—Standard Deductions**

- Can claim up to \$300 of charitable deduction to arrive at AGI on the 2020 tax return

### **Student Loans**

- Frozen until September 2020

### **Real ID's**

- Delayed

### **Homeowners**

- Protections against mortgage foreclosures
- State law bans evictions for 60 days

## **Unemployment Benefits—Expansion**

- Giving an extra \$600 a week for four months
- Providing an extra 13 weeks of compensation

Those benefits extend to independent contractors and gig economy workers, including construction workers, ride-hailing drivers, janitors

## **Employer/Business Changes**

### **Employee Retention Credit for Employers**

- Refundable payroll tax credit for 50% of wages paid by eligible employers to certain employees during COVID-19 crisis
- Credit is not available to employers receiving SBA Business Interruption Loans

### **Delay of Payment of Employer Payroll Taxes**

- Allows deferment of paying the employer portion of certain payroll taxes through the end of 2020.
- The deferred amount is payable one-half on December 31, 2021 and one-half on December 31, 2022.

### **Modification of Net Operating Losses Incurred in 2018 2019, and 2020**

- Repeals the 80% taxable income limitation for such losses.
- Losses for those years can be carried back 5 years.



### **Acceleration of Corporate Minimum Tax Credit**

- Act allows corporations to claim 100% of minimum tax credits in 2019
- Provides an election to take the entire refundable credit amount in 2018

### **Corporate Charitable Deductions**

- Limitation on such deductions increased to 25% of taxable income from 10%

## **Direct Government Assistance**

### **SBA Disaster Loans**

- \$562 million for administrative expenses and program subsidy
- Maximum loan is \$2 million
- Maximum unsecured loan is \$25,000
- Loan funds come directly from U.S. Treasury
- Borrower Collateral—business assets and other collateral of 20% plus owners must provide personal guaranty
- Interest Rates
  - Small Business—3.75%
  - Private, Nonprofits—2.75%

### **Investments for Distressed Businesses**

- \$500 Billion
- Companies cannot use that money for stock buy-backs or golden parachutes for executives

### **Transportation--\$36.1 Billion**

- Airline Industry--\$10 Billion—maintain operations at airports with drop in passengers
- Essential Air Service--\$56 Million—air service to rural areas
- Federal Highway Administration—Permits for overweight vehicles to provide supplies necessary to fight COVID-19
- Federal Transit Administration, Transit Infrastructure Grants--\$25 Billion—to state and local governments for distribution pursuant to existing formulas
- Amtrak--\$1.018 Billion—loss of ridership
- Administrative--\$1.1 million to DOT and Inspector General to administer programs

### **Hospital, Health Systems and Health Research--\$200 Billion**

- Expanding funding for personal protective equipment—masks, gowns, etc.
- \$100 Billion in additional emergency appropriations

California is slated to get

\$3.75 billion for transit agencies that have lost riders

\$237 million to help the homeless

\$348 million for child-care

\$75 million to help low-income families to pay heating and cooling bills

\$96.2 million to get protective equipment for law enforcement

\$36.3 million to help elections officials take precautions against the virus

**Others**

- FEMA Disaster Relief--\$117 Billion
- Department of Commerce--\$1.886 Billion
- Department of Justice--\$1 Billion
- NASA--\$60 Million
- Department of Defense--\$10.5 Billion
- Department of Homeland Security--\$45.9 Billion
- U.S. Forest Service--\$70.8 Million

**State and Local Funding**

- \$150 Billion for State and Local Coronavirus Relief Fund.

Estimated California will get about \$15.3 Billion from that fund

Cities with a 500,000 population can apply directly to the federal government for program funds

Others have to request the funds through Sacramento

Note: not one city in Orange County qualifies based on the 500,000-population standard to apply directly to the federal government

### **Add-Ons/Pork (?)**

- Initially, for airlines to get bail out money, had to meet certain environmental standards by 2024—was not included
- Kennedy Center, Washington D.C.--\$25 million  
[Argument was that the Center needs the funds to keep paying employees, utility bills and other costs to ensure it stays solvent through the pandemic]
- Smithsonian--\$7.5 million
- National Endowment for the Arts and Humanities--\$150 million

### **FUTURE LEGISLATION**

Assumption—Phase 3--short term relief

Additional federal relief bills being contemplated

- Substantial money for infrastructure projects (\$2 trillion+)
- Allow retired doctors and nurses to come back to assists without jeopardizing Social Security benefits
- Financial help for port workers.
- Internet access for people now trying to work or school their children remotely
- Rent deferral programs
- Comprehensive plan to help the homeless