



MEMORANDUM

TO: Interested Parties

FROM: The Franklin Partnership

DATE: March 26, 2020

RE: *Coronavirus Aid, Relief, and Economic Security Act*

Late on Wednesday, March 25, 2020, the U.S. Senate voted unanimously (96-0) to pass the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to provide relief to individuals, businesses and entire sectors of the economy such as healthcare impacted by COVID-19.

The “Phase 3” measure provides over \$2 trillion in aid, the largest rescue package in American history, and contains an array of programs including direct payments to Americans, an expansion of unemployment insurance, loans for small businesses and funding for state and local governments to help combat the virus. The House is set to take up the bill and pass it by voice vote on Friday, March 27.

The CARES Act builds on the first two “phases” of legislation passed by Congress to provide greater assistance to both individuals and businesses in the wake of the coronavirus public health crisis.

\$349 billion Paycheck Protection Plan 7(a) Small Business Loans through December 31, 2020

- Small business: fewer than 500 employees or as SBA determines based on NAICS code
- Size standard based on single physical location, not multiple sites
- Up to \$10 million in Small Business Administration guaranteed loans
- Size of the loans could equal 250 percent of an employer’s average monthly payroll
- Covered loan period: beginning on February 15, 2020 and ending on June 30, 2020
- Loan uses:
 - uses of the loan include payroll support, such as employee salaries (up to \$100,000), paid sick or medical leave, employee group health benefits, insurance premiums, retirement contributions, and mortgage, rent, and utility payments
 - Interest on debt accrued prior to February 15, 2020
- Loan forgiven in amount equal to sum of the below spent during first 8-weeks of loan:
 - Payroll costs
 - Mortgage interest
 - Rent
 - Utilities
- Amount of loan forgiveness reduced if lay off employees
- SBA within 90 days of the loan forgiveness will reimburse lender, plus any interest
- Any loan amounts not forgiven at the end of one year is carried forward as an ongoing loan with terms of a max of 10 years, at max 4% interest.
- Loans would be available immediately through more than 800 existing SBA-certified lenders, including banks, credit unions, and other financial institutions, and SBA would be required to streamline the process to bring additional lenders into the program

- Waives both borrower, lender fees for participation in the Paycheck Protection Program
- Waives collateral and personal guarantee requirements under this program
- Sets a maximum interest rate of four percent.
- Increases the government guarantee of 7(a) loans to 100 percent through December 31, 2020, at which point guarantee percentages will return to 75 percent for loans exceeding \$150,000 and 85 percent for loans equal to or less than \$150,000.
- Allows complete deferment of payments for at least six months and not more than a year
- SBA will provide a lender with a process fee for servicing the loan. Sets lender compensation fees at five percent for loans of not more than \$350,000; three percent for loans of more than \$350,000 and less than \$2,000,000; and one percent for loans of not less than \$2,000,000

SBA Economic Injury Disaster Loan Emergency Grant

- The bill would expand eligibility for entities suffering economic harm due to COVID-19 to access SBA's Economic Injury Disaster Loans (EIDL), while also giving SBA more flexibility to process and disperse small dollar loans
- The bill would allow businesses that apply for an EIDL expedited access to capital through an Emergency Grant—an advance of \$10,000 within three days to maintain payroll, provide paid sick leave, and to service other debt obligations
- \$10 billion would be provided to support the expanded EIDL program.

Loan Program for Businesses with 500 Employees or More

- \$500 billion for a loan program administered by the Secretary of Treasury for businesses, states, and local governments.
 - \$25 billion for passenger airlines
 - \$4 billion for cargo air carriers
 - \$17 billion for businesses that are critical to national security
- \$454 billion for all other eligible businesses, as well as states and local governments
- Loan should be as short as possible not to exceed five years
- Caps on compensation and severance payments for highly compensated employees
- Prohibition on reducing the workforce of the business by more than 10 percent
- Secretary of Treasury has ability to establish a program providing financing to lenders to make direct loans to mid-sized businesses, with between 500 and 10,000 employees
 - The loan, subject to an interest rate no higher than 2%, would need to be used by a business to retain at least 90 percent of the workforce and the business must through September 30, 2020, and, within 4 months after the end of the public health emergency, restore at least 90 percent of the workforce as it existed on February 1, 2020.

Employee Retention Credit

- Employee retention credit provides a refundable payroll tax credit for 50 percent of wages paid by the employer, up to \$10,000 per employee for wages paid after March 12, 2020 through December 31, 2020
- The credit is available to employers whose businesses were fully or partially suspended due to COVID-19 closures and shutdowns or have experienced at least 50 percent reduction in gross receipts.
- For employers with over 100 employees, the credit is only available for employees not working due to the coronavirus. All employee wages qualify for firms with 100 or fewer employees.

General Tax Provisions

- Payroll Tax Delay – Delay of the payment of 6.2% employer payroll taxes, to be paid over the next two years – half due December 31, 2021 and half due December 31, 2022
- Net Operating Loss – Corporations *and* pass-throughs may carry back five years net operating losses earned in 2018, 2019, or 2020
- Corporate AMT – Accelerates claiming AMT credits, allowing for refund now
- Interest Deduction – Increases the amount of interest paid businesses are allowed to deduct on their tax returns from 30% to 50% under TCJA for earnings before interest, tax, depreciation, and amortization (EBITDA) from 2019 and 2020
- An employer may contribute up to \$5,250 annually toward an employee’s student loans, and such payment would be excluded from the employee’s income
- Retail Glitch – allows immediate write off of costs associated with facilities instead of over 39 years
- Allows employers to receive an advance tax credit from Treasury instead of having to be reimbursed on the back end

Manufacturing, Education, and other Provisions

- \$50,000,000 be for the Hollings Manufacturing Extension Partnership (MEPs) to assist manufacturers to prevent, prepare for, and respond to coronavirus
- \$10,000,000 shall be for the National Network for Manufacturing Innovation (also known as “Manufacturing USA”) to prevent, prepare for, and respond to coronavirus, including to support development and manufacturing of medical countermeasures and biomedical equipment supplies
- Allows local workforce boards more flexibility to use Workforce Innovation Opportunity Act funds for online learning
- Does not count school term against timeline for Pell Grant eligibility if student drops out
- Forgives Pell Grants if drop out of school as a result of COVID-19
- Temporarily provides a nonbank financial company an exception to the OCC’s lending limits aligned with the exception for financial companies, and temporarily authorizes the Comptroller of the Currency to exempt any transaction from the lending limits, if the exemption is in the public interest
- Requires the Federal banking agencies by interim rule to temporarily reduce the Community Bank Leverage Ratio (CBLR) for qualifying community banks from 9 percent to 8 percent, and provide for a reasonable grace period if a community bank’s CBLR falls below the prescribed level

Provisions Related to Individuals

- Provides an additional \$600 per week payment to each recipient of unemployment insurance or Pandemic Unemployment Assistance for up to four months
- Pays the cost of the first week of unemployment benefits through December 31, 2020
- Provides an additional 13 weeks of unemployment benefits through December 31, 2020

Payments to Individuals

- All U.S. residents with adjusted gross income up to \$75,000 (\$150,000 married), who are not a dependent of another taxpayer are eligible for the full \$1,200 (\$2,400 married) rebate; \$500 per child.
- The rebate amount is reduced by \$5 for each \$100 that a taxpayer’s income exceeds the phase-out threshold.
- The amount is completely phased-out for single filers with incomes exceeding \$99,000, \$146,500 for head of household filers with one child, and \$198,000 for joint filers with no children