The IPMI Legislative Affairs Committee

Presentation

The Federal Government’s Economic Response to COVID-19 Pandemic

May 1, 2020
Today’s Discussion

- **COVID-19 Stimulus Relief - Phase 1-3**
  - Referred to as the CARES Act
  - Family, Medical Sick Leave changes as of April 1, 2020
  - Unemployment benefits
    - How much am I eligible to receive
    - State vs. federal
  - Tax credits
    - Individual rebate checks
    - Employer student loans
    - Employer retention credit
    - Delayed payroll taxes
    - Net operating loss
    - Limitations on business interest changes

- **COVID-19 Stimulus Relief – Phase 4**
  - Small Business Loans

- **Paycheck Protection Program**
  - Loan program amount
  - What are they
  - How do I qualify
  - How much can I get
  - Uses and restrictions on funds
Today’s Discussion

- **Economic Injury Disaster Loans**
  - What are they?
  - How are they different than PPP loans
  - How do I qualify
  - How much can I apply for
  - Status of the EIDL loan program

- **Phase 5 – What we might see**
  - PPP loans
  - Infrastructure programs

- **Restarting the economy**
  - State vs federal roles
  - How much or too soon?
COVID-19 Relief Funding

PHASE 1: $8.5B

- President signed into law (PL 116-123) March 6, 2020.
- Senate passed by a vote of 96-1 on March 5, 2020.

- Title II. Financial Services and General Government
  - Small Business Disaster Loans –
    - Allows $1 billion in loan subsidies to be made available to help small businesses, small agricultural cooperatives, small aquaculture producers, and non-profit organizations which have been impacted by financial losses as a result of the coronavirus outbreak.
    - This funding could enable the Small Business Administration to provide an estimated $7 billion in loans to these entities.
    - In addition, provides $20 million to administer these loans.

_Phase 1 was really focused on initial healthcare sector and cutting strings for government agencies._
PHASE 2

- H.R. 6201 — Families First Coronavirus Response Act
  - President signed March 18, 2020.
  - Senate passed 90-8 on March 18, 2020.

- Took effect April 1 and runs through December 31, 2020.

- **Section 3102. Amendments to the Family and Medical Leave Act of 1993.** This section provides employees of employers with fewer than 500 employees and government employers, who have been on the job for at least 30 days, with the right to take up to 12 weeks of job-protected leave under the Family and Medical Leave Act to be used for any of the following reasons:
  - To adhere to a requirement or recommendation to quarantine due to exposure to or symptoms of coronavirus;
  - To care for an at-risk family member who is adhering to a requirement or recommendation to quarantine due to exposure to or symptoms of coronavirus; and
  - To care for a child of an employee if the child’s school or place of care has been closed, or the child-care provider is unavailable, due to a coronavirus.

- Does not apply to corporations over 500 employees.
- For FTE they are eligible for two weeks (80 hours) of leave at full salary.
- Part-Time employees you calculate the average number of hours they work per week.
- After the two weeks of paid leave, employees will be eligible for up to another 10-weeks of leave from their employers that will be no less than two-thirds of the employee’s usual pay.
- Employers with fewer than 50 employees may apply for exemption if they can show compliance with this law would jeopardize their business.
Unemployment Benefits

- Employees who have been furloughed will be eligible for their state unemployment benefits (levels vary among states).

- Prior to pandemic, furloughed employees were eligible for 26 weeks of state paid unemployment benefits.

- Phase 2 extends unemployment benefits another 13-weeks for furloughed employees.

- Furloughed employees will be eligible for their state benefits, plus an additional $600 per week from the federal government. Ex: In VA if I receive $378 per week in unemployment benefits, under Phase 2, I would receive $978 per week in benefits.

  - This has been a problem for a lot of people because for a large segment of workers, we are paying them more to stay home versus continue to work if they can.

- If a state reached an unemployment level of 10%, they would be eligible for another 13 weeks of federally funded unemployment benefits. Meaning, a furloughed employee could receive 52 weeks of unemployment benefits.

  - Under current law, unemployment benefits are split 50-50 between state and federal government. Under the 10% unemployment scenario, the federal government would cover those additional 13 weeks at a 100%.

  - Over 30 million people unemployed.
Individual Rebate Checks

- All U.S. residents with adjusted gross income up to $75,000 ($150,000 married), who are not a dependent of another taxpayer and have a work eligible social security number, are eligible for the full $1,200 ($2,400 married) rebate.

- In addition, they are eligible for an additional $500 per child. This is true even for those who have no income, as well as those whose income comes entirely from non-taxable means-tested benefit programs, such as SSI benefits.

- For the vast majority of Americans, no action on their part will be required in order to receive a rebate check as IRS will use a taxpayer’s 2019 tax return if filed, or in the alternative their 2018 return.
  - This includes many low-income individuals who file a tax return in order to take advantage of the refundable Earned Income Tax Credit and Child Tax Credit.
  - 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.
  - IRS has set-up special website for people to input their information so that they can get a direct deposit.
  - As of Friday, April 24th the Administration noted 88 million people had received their checks.
  - Hold up had been due to President wanting to have his name on the checks and letter.
Student Loan Tax Break

Exclusion for certain employer payments of student loans

• The provision enables employers to provide a student loan repayment benefit to employees on a tax-free basis.

• Under the provision, 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.

• The $5,250 cap applies to both the new student loan repayment benefit as well as other educational assistance (e.g., tuition, fees, books) provided by the employer under current law.

• The provision applies to any student loan payments made by an employer on behalf of an employee after date of enactment and before January 1, 2021.
Employer Retention Tax Credit

• The provision provides a refundable payroll tax credit for 50 percent of wages paid by employers to employees during the COVID-19 crisis.

• The credit is available to employers whose (1) operations were fully or partially suspended, due to a COVID-19-related shut-down order, or (2) gross receipts declined by more than 50 percent when compared to the same quarter in the prior year.

  – The credit is based on qualified wages paid to the employee.

  – For employers with greater than 100 full-time employees, qualified wages are wages paid to employees when they are not providing services due to the COVID-19-related circumstances described above.

  – For eligible employers with 100 or fewer full-time employees, all employee wages qualify for the credit, whether the employer is open for business or subject to a shut-down order.

  – The credit is provided for the first $10,000 of compensation, including health benefits, paid to an eligible employee.

  – The credit is provided for wages paid or incurred from March 13, 2020 through December 31, 2020.
Delayed Payroll Taxes

• The provision allows employers and self-employed individuals to defer payment of the employer share of the Social Security tax they otherwise are responsible for paying to the federal government with respect to their employees.

• Employers generally are responsible for paying a 6.2-percent Social Security tax on employee wages.

• The provision requires that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022.

• The Social Security Trust Funds will be held harmless under this provision.
Net Operating Loss

- The provision relaxes the limitations on a company’s use of losses.

- Net operating losses (NOL) are currently subject to a taxable-income limitation, and they cannot be carried back to reduce income in a prior tax year.

- The provision provides that an NOL arising in a tax year beginning in 2018, 2019, or 2020 can be carried back five years.

- The provision also temporarily removes the taxable income limitation to allow an NOL to fully offset income.

- These changes will allow companies to utilize losses and amend prior year returns, which will provide critical cash flow and liquidity during the COVID-19 emergency.
Limitations on Business Interest Changes

- The provision temporarily increases the amount of interest expense businesses are allowed to deduct on their tax returns, by increasing the 30-percent limitation to 50 percent of taxable income (with adjustments) for 2019 and 2020.

- As businesses look to weather the storm of the current crisis, this provision will allow them to increase liquidity with a reduced cost of capital, so that they are able to continue operations and keep employees on payroll.

- Has become a controversial provision. Some believe this was a giveaway for the wealthy.
Tax Credits For Paid Sick And Paid Family And Medical Leave

• Payroll Credit for Required Paid Sick Leave. This section provides a refundable tax credit equal to 100 percent of qualified paid sick leave wages paid by an employer for each calendar quarter.

• The tax credit is allowed against the tax imposed by section 3111(a) (the employer portion of Social Security taxes). Qualified sick leave wages are wages required to be paid by the Emergency Paid Sick Leave Act.

• The section makes a distinction between qualified sick leave wages paid with respect to employees who must self-isolate, obtain a diagnosis, or comply with a self-isolation recommendation with respect to coronavirus.

• For amounts paid to those employees, the amount of qualified sick leave wages taken into account for each employee is capped at $511 per day.

• For amounts paid to employees caring for a family member or for a child whose school or place of care has been closed, the amount of qualified sick leave wages taken into account for each employee is capped at $200 per day.

• The aggregate number of days taken into account per employee may not exceed the excess of 10 over the aggregate number of days taken into account for all preceding calendar quarters.

• You cannot take a PPP loan and this tax credit. It’s one or the other, not both.
Small Business Administration Loan Program

• Focus on 2 types of SBA Loans
  – Paycheck Protection Program (PPP)
  – Economic Injury Disaster Loan (EIDL)

Paycheck Protection Program Loans (PPP)

• Added to the SBA current 7(a) loan program.

• Companies with fewer than 500 employees.
  • Los Angeles Lakers - $4.6 million
  • Ruth Chris Steakhouse - $20 million

• Includes sole proprietors and independent contractors.

• 100% guaranteed by the Federal government – no collateral needed.

  • Time starts when SBA assigns you a loan number.
  • Takes 10-days from being approved to funds deposited in your account.

• Max amount of loan $10 million.

• Loans are forgivable if used for:
  • Payroll
  • Health insurance
  • Interest on debt
  • rent/mortgages
  • Utilities
Small Business Administration Loan Program

How do I calculate the amount I need or can receive?

- Take your average monthly “payroll costs” over the last 12-months and multiple that by 2.5.

- Payroll costs defined as:
  - salary, wage, commission, or similar compensation;
  - payment of cash tips or equivalent;
  - Payment for vacation, parental, family, medical, or sick leave;
  - Allowance for dismissal or separation;
  - Payment required for the provisions of group health care benefits, including insurance premiums;
  - Payment of any retirement benefit
  - Payment of State or local tax assessed on the compensation of employees.

- Payroll costs are limited to a maximum of $100,000 annualized salary per employee.

- Payroll costs will not include payroll paid on which a payroll tax credit was received under FFCRA (no double dipping).

- Covered period is February 15, 2020 through June 30, 2020
Small Business Administration Loan Program

Loan forgiveness

- 75% of the loan amount must be used for salaries.
- No more than 25% can be used for utilities.
- Non-forgiven portion of the loan can be repaid over 2-years with an interest rate of 1%.
- Loan payments can be deferred for a period of 6-months.
- If you rehire employees already laid off and restore pay to those employees that had salary reductions, by June 30, 2020, you still qualify and will not be penalized for having reduced payroll.
Small Business Administration Loan Program

Statistics for PPP loans

(As of April 16, 2020)

- 1.7 million PPP loans had been approved
- Totaling: $343 billion
- Total number of lenders: 4,975
- Average loan size: $239,152
- 70% of total number of loans were for less than $150,000
- More than 3,200 were for $5 million or more (Treasury now reviewing all loan applications over $2 million)
- Construction industry biggest winners with $34 billion in loans approved
- Texas had the most loans worth $21.8 billion
Small Business Administration Loan Program

Economic Injury Disaster Loan (EIDL)

• Provides businesses with less than 500 employees with working capital loans up to $2 million to help overcome temporary loss of revenue due to COVID-19.

• If you apply for an EIDL loan, you will be asked if you want a $10,000 advance while your application is reviewed. They say within 3-days of applying.

• Check the YES box. If your loan is denied, you don’t have to repay the $10,000. If you applied for a PPP loan and already received the $10,000 advance, you will need to deduct that from your PPP calculations. (Those rules have changed)

• You need to have collateral to apply for these loans.

• Need to have been in business at least a year prior to COVID-19.

• Greater flexibility of what loan can be used for.

• 30-year repayment with 3.75-4% interest rate.
EIDL Statistics

- Loan advance decreased from $10,000 to $1,000 per employee up to $10,000.
  
  - Demand was so great for EIDL loans.
  
  - Maximum amount you are able to receive is $25,000 versus the original $2 million guarantee.
  
  - 26,919 loans were approved
  
  - Total $ value: $5.6 billion
  
  - $10,000 advances processed: 755,476
  
  - Total $ value: $3.3 billion
Phase 4

- Political posturing continues.
- Republicans wanted clean PPP extension, while Democrats wanted more.
- Final deal consists of:
  - $321 billion for PPP loans.
  - $10 billion for EIDL loans.
  - $75 billion for hospitals.
  - $25 billion for COVID-19 testing.
- As of Monday at 3:30 p.m. more than 100,000 loans had been approved totaling $90 billion.
- JP Morgan submitted 225,000 loans for approval Monday-Wednesday.
- Bank of America submitted $250,000 loans Monday-Wednesday.
- This second stimulus is expected to run out this week.
Phase 5

- There will be a Phase 5.
- Question becomes when?

  - Timing would likely be closer to summer to give the Phase 1-4 time to work.
  - Republicans want to wait to see how the PPP loans worked or didn’t.
  - Democrats want a Phase 5 quickly that would be focused on infrastructure.
    - President Trump and Speaker Pelosi agree on need for infrastructure package.
    - Leader McConnell does not want to tie infrastructure to stimulus.
Restarting the Economy

State v. Federal

Federal

• **Phase 1**
  - Return to work “in phases”, but close common spaces
  - Minimal non-essential travel
  - Gyms and large venues can operate with strict distancing

• **Phase 2**
  - Continue to encourage telework
  - Resume non-essential travel
  - Schools and daycares can reopen
  - Bars can reopen with standing-room occupancy
Restarting the Economy

State v. Federal

Federal

- Phase 3
- Unrestricted staffing at worksites
- Resume visits to senior care facilities
- Bars can operate with increased standing-room capacity
- Criteria for each phase
- COVID and flu-like illnesses must trend downward for 14 days
- Positive tests must decrease for 14 days
- Hospital capacity to treat all COVID-related patients
Restarting the Economy

State v. Federal

State

• Differs state-to-state
• Georgia: Salons, barbershops, tattoo parlors
• South Carolina: Retail stores and public beaches reopened
• Montana: Retail stores and churches reopened; Bars and restaurants reopening May 4th

Pacts

• Midwest: Michigan, Ohio, Wisconsin, Minnesota, Illinois, Indiana, and Kentucky
• East: New York, New Jersey, Connecticut, Pennsylvania, Delaware, Rhode Island, and Massachusetts
• West: California, Oregon, and Washington
Grace Stockley  
FideliTrade  
IPMI Legislative Affairs  
Chair  
gstockley@fidelitrade.com

Larry Drummond  
Executive Director  
ljd@ipmi.org

Stephen Gardner  
IPMI General Counsel  
sgardner@kalbianhagerty.com

Paul A. Miller  
Legislative Affairs  
pmiller@mwcapitol.com

Michael Greenwald  
CPA  
mgreenwald@friedmanllp.com

Mitch Moonier  
Legislative Affairs  
mmoonier@mwcapitol.com