

Navigating the Economic Relief for Businesses Within the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

On March 27, 2020, the House of Representatives passed the largest economic bill in U.S. history, and President Trump has signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") into law.

The CARES Act provides much-needed stimulus to individuals, businesses and hospitals in response to the economic distress caused by the coronavirus (COVID-19) pandemic.

While the scope of the CARES Act is wide ranging, this communication is limited to a high-level overview of several cash flow and tax relief considerations available to our valued customers.

SMALL BUSINESS LOANS

Paycheck Protection Loans (PPLs) and Economic Injury Disaster Loans (EIDLs) are available to companies that employ no more than 500 employees. The CARES Act expands the Small Business Act to authorize \$349 billion in additional lending to small businesses and certain nonprofits to allow such businesses to pay expenses such as salaries, health care benefits, sick leave, mortgage, rent, utilities, accounts payable, and interest on debt incurred before the coverage period. Depending on the loan program:

- All or a portion of the loan may be forgivable and debt service payments may be deferred for up to one year (subject to employee retention and compensation restrictions)
- Loan amounts range from 2.5 times the average monthly payroll up to \$10 million
- Interest rates not to exceed 4%
- Loan terms range from 10 to 30 years

ECONOMIC STABILIZATION LOANS

The CARES Act authorizes the Treasury Secretary to provide up to \$500 billion worth of loans and loan guarantees to eligible businesses, states and municipalities. No more than \$25 billion can be loaned to passenger air carriers, no more than \$4 billion to air

cargo carriers, and no more than \$17 billion to businesses important to maintaining national security.

The remaining \$454 billion is to support lending to eligible businesses, states and municipalities. The U.S. Treasury has until December 31, 2020, to deploy the capital. Any loans made shall be at a rate determined by the Secretary based on the risk and the current average yield on outstanding U.S. debt of comparable maturity.

In order to receive support, organizations must meet certain eligibility requirements that may extend beyond the term of the support:

- Only U.S. companies
- Limits on buybacks and dividends
- Limits on executive compensation
- Maintenance of employment levels

The loans will not exceed five years and will not be forgiven.

TAX RELIEF

The CARES Act provides \$275 billion in business tax provisions to provide critical cash flow and liquidity during the COVID-19 emergency:

- **Employee Retention Tax Credit** – Certain employers will be eligible for a payroll tax credit in each applicable quarter in an amount equal to 50% of the first \$10,000 of qualified wages paid to employees (including health benefits) from March 13, 2020, through December 31, 2020 (for businesses whose operations were suspended or receipts declined > 50%)
- **Employer Payroll Tax Deferral** – Delay on employer payment of 6.2% Social Security tax for 2020 (50% due on December 31, 2021, the remainder due on December 31, 2022)
- **Net Operating Loss Rules Expanded** – Losses from 2018, 2019 or 2020 can be carried back five years, and offset 100% of taxable income

- **The Families First Coronavirus Response Act (FFCRA)** – Requires private employers with fewer than 500 employees to provide special paid emergency family and medical leave (FMLA) and paid sick leave for qualifying reasons related to COVID-19 beginning on April 1, 2020, through December 31, 2020, to be offset by refundable payroll tax credits
- **Business Interest Deduction Relief** – Relaxes the limitation on deductible interest from 30% of adjusted taxable income to 50% of adjusted taxable income for tax years beginning in 2019 and 2020

The Internal Revenue Service will soon issue guidance for implementing the CARES Act. It is anticipated that additional stimulus legislation will be forthcoming as the COVID-19 pandemic continues.

NEXT STEPS

In regard to the CARES Act, companies should review the legislation, determine your eligibility and seek guidance from your accounting, tax and finance professionals. Please make sure you research state-specific programs through your state government website as well.

As your business partner, Penske will continue to monitor and provide timely updates on developments as they arise.

KEY WEBSITE LINKS FOR CORONAVIRUS FINANCIAL GUIDANCE

The CARES Act:

- <https://www.congress.gov/bill/116th-congress/house-bill/748>

The U.S. Chamber of Commerce for Coronavirus Loans, Small Business Guide and Amounts by State:

- <http://uschamber.com/sbloans>
- <https://www.uschamber.com/co/small-business-coronavirus>
- <https://www.uschamber.com/article/how-small-businesses-will-benefit-the-coronavirus-aid-relief-and-economic-security-cares-act>

U.S. Small Business Administration – Funding Programs, Loan Resources and Local Offices:

- <https://www.sba.gov/funding-programs/disaster-assistance>
- <https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>
- <https://www.sba.gov/local-assistance/find/?type=SBA%20District%20Office&pageNumber=1>

IRS Coronavirus Tax Relief:

- <https://www.irs.gov/coronavirus>

U.S. Treasury Department:

- <http://www.treasury.gov/cares>