

CARES Act Series: Relief for Small Business Owners – Small Business Loans

- **On March 27, 2020, the government passed the largest stimulus bill in our country’s history.**
- **Passed with bi-partisan support, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), will provide \$2 trillion of relief to individuals and businesses impacted by the COVID-19 pandemic.**
- **In addition to the CARES Act, other actions taken by the government related to tax filing deadlines hope to provide relief to those impacted by this economic shock.**
- **The broad elements of the CARES Act and other government actions as they pertain to relief for small business owners are highlighted below.**

“Paycheck Protection” Loans

Employers with less than 500 employees are eligible to apply for federal loans up to a maximum of the lesser of \$10 million or 2.5x average payroll expenses. Highlights include:

- The interest rates on these loans will be capped at 4% and are **available for both for-profit and non-profit businesses.**
- All payments (principal and interest) can be deferred at least six months and up to a year.
- The term of the loan can be up to 10 years, with no prepayment penalty.
- The loans may be forgiven if, within the first eight weeks after receiving the loan, the business uses the funds to pay for rent, interest on a mortgage, payroll costs for workers making less than \$100,000, health insurance premiums, and utility payments.

There are several requirements and restrictions that come along with this loan. If an employer lays off workers or reduces total wages and salaries by more than 25% during the covered period, the amount of the loan that is forgiven is reduced by that same amount. Further guidance on the loan program is expected in the coming days.

SBA Economic Injury Disaster Loan (EIDL) Program

The EIDL is another SBA loan program available for small businesses during the COVID-19 pandemic. Under the EIDL, businesses can receive loans for up to \$2 million for costs associated with operations, payroll, and debt. As part of the CARES Act, applicants for EIDL may be eligible for emergency grants that provide an advance of up to \$10,000 within three days of receipt of application. These emergency grants are not subject to repayment even if the business’s loan request is denied. If a business applies for this emergency grant and then gets approved for the Paycheck Protection loan (above), the advanced amount will be reduced from the loan forgiveness amount of the Paycheck Protection loan. The EIDL Program requires that the business has suffered because of the COVID-19 Pandemic. As such, the loan must be used to pay for ongoing payroll and other business expenses and not for business expansions. The term of the EIDL is up to 30 years with a 3.75% interest rate (2.75% for nonprofits).

Payroll tax credit

Under the CARES Act, employers who are not receiving SBA Loans as described above may be eligible for a tax credit for the employer’s share of the 6.2% Social Security tax. To be eligible, the business must have had operations suspended due to a shutdown related to COVID-19 or have gross revenue decline by more than 50% in the current quarter when comparing to the same time period in 2019. The amount of the tax credit is subject to limitations based on qualifying wages and the number of employees.

Deferral of payroll taxes

In addition to receiving the Social Security tax credit (above), businesses may also be able to defer the employer's share of the 6.2% Social Security tax paid on wages. This applies to wages paid beginning March 27, 2020 and ending on December 31, 2020. For self-employed individuals, a corresponding amount of the social security tax paid by those individuals is also permitted for deferral.

Net Operating Loss (NOL)

As a result of COVID-19 pandemic, a significant number of companies are expected to suffer substantial losses in 2020. Under prior tax rules, losses were only permitted to be used against income from the prior two tax years. Under the CARES Act, losses can now be carried back to the prior five years to offset prior year income to claim a tax refund of previously paid federal income taxes. This new rule applies to losses arising after December 31, 2017 and before January 1, 2021 and allows the losses to be carried back to each of the five taxable years preceding the taxable year of the loss. Additionally, prior tax laws placed an 80% income limitation on the use of NOL carryovers for taxable years beginning January 1, 2021 and allows 100% of any taxable income.

Corporate charitable contributions

The CARES Act increased the income limits on the deduction for corporate charitable donations from 10% of the corporation's taxable income to 25% of the corporation's taxable income. This is only applicable to cash contributions and cannot be used for stock donations. If applied, this increases the amount of deduction the corporation can take. The CARES Act also increases the limitation on deductions for contributions of food inventory from 15% to 25%.

Resources for further information

The CARES Act is a historic piece of legislation, as it aims to reduce the economic impacts that will likely result from this pandemic. There are many facets to the Act and more guidance is expected in the coming days and weeks. Until then, we recommend consulting with your accountant and Mesirow Wealth Advisor to see how any of this legislation may impact you. For additional resources, we recommend the following sites:

- <https://www.sba.gov/page/disaster-loan-applications>
- <https://www.sba.gov/funding-programs/loans/paycheck-protection-program>

CARES Act Series Sources:

Rollovers of Retirement Plan and IRA Distributions (<https://www.irs.gov/retirement-plans/plan-participant-employee/rollovers-of-retirement-plan-and-ira-distributions>)

COVID-19 Update – How the CARES Act Effects Tax Benefits Related to Charitable Giving (<https://www.bclplaw.com/en-US/thought-leadership/covid-19-update-how-the-cares-act-effects-tax-benefits-related-to-charitable-giving.html>)

CARES Act Expands SBA Loan Programs to Offer Relief for Small Businesses During the COVID-19 Pandemic

(<http://www.gouldratner.com/publication/CARES-Act-Expands-SBA-Loan-Programs-To-Offer-Relief-for-Small-Businesses-During-COVID-19-Pandemic>)

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CARES Act – Summary of Tax Provision (<https://www.foley.com/en/insights/publications/2020/03/cares-act-summary-of-tax-provision>)

CARES Act – Summary of Tax Provision (<https://www.foley.com/en/insights/publications/2020/03/cares-act-summary-of-tax-provision>)

PRESIDENT TRUMP SIGNS INTO LAW CARES ACT (<https://www.bdo.com/insights/tax/federal-tax/president-trump-signs-into-law-cares-act>)

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") Is Enacted Into Law

(<https://www.foley.com/en/insights/publications/2020/03/coronavirus-cares-act-enacted-into-law>)

What's Inside The Senate's \$2 Trillion Coronavirus Aid Package (<https://www.npr.org/2020/03/26/821457551/whats-inside-the-senate-s-2-trillion-coronavirus-aid-package>)

CARES Act Offers Relief, Support for US Healthcare Sector During COVID-19 Response (<https://www.natlawreview.com/article/cares-act-offers-relief-support-us-healthcare-sector-during-covid-19-response>)



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