

The Coronavirus Relief Bill: Every Benefit for Small Businesses

Benco.co a company providing information for small businesses has provided informative highlights of the Coronavirus Relief Bill and the Paycheck protection program. Information from their website on these topics are provided in the balance of this document.

If your small business has been hit hard by COVID-19, there's hope: the federal government just passed a big financial relief bill—the CARES Act (Coronavirus Aid, Relief, Economic Security)—to help you get through this crisis. Here's everything you need to know.

The CARES Act provides for new direct SBA loan programs. Any “small business” (generally a business with less than 500 employees) can apply for loans up to the lesser of 2.5X their average monthly payroll costs or \$10 million. Loan proceeds must be used to pay for payroll costs, mortgage interest, rent and/or utilities and are made on a non-recourse basis with no personal guarantees. The interest rate is capped at 4%, and the loan is payable over no longer than 10 years

The highlights

- Expanded Family and Medical Leave Act benefits for employees who are unable to work due to COVID-19
- Forgivable loans and tax credits for business that keep their employees for the duration of the crisis
- Deferment of an employer's 6.2% share of Social Security taxes based on employee wages
- Expanded write-offs for improving property for retailers, restaurants, and hotels
- Expanding unemployment benefits for small business owners, self-employed individuals and gig workers
- Option to carry back net operating losses to offset taxable income in prior years
- Extension of time to file and pay 2019 taxes

Here's a breakdown of the relief measures that might apply to you.

Expanded Family and Medical Leave Act benefits

The federal government expanded Family and Medical Leave Act (FMLA) benefits to employees who are unable to work due to the COVID-19 crisis.

- **Employees sick or quarantined due to COVID-19** can receive up to two weeks (80 hours) of paid leave at 100% of their salary. The employer will receive a payroll tax credit for that paid leave, up to \$511 per day, for a total of 10 days.
- **Employees caregiving for someone impacted by COVID-19** can receive up to two weeks (80 hours) of paid leave. The employer must pay the employee two-thirds of the person's regular pay. The employer will receive a payroll tax credit for two-thirds of the employee's wages, up to \$200 per day for a total of 10 days. Employees who have worked for the employer for at least 30 days may also receive an additional 10 weeks of paid leave if they're unable to work because their child's school or child care provider is closed or unavailable.

The payroll tax credit can be claimed quarterly. For self-employed people, there will be a tax credit equal to the sick leave amount.

This applies to businesses with less than 500 employees. However, small businesses with fewer than 50 employees may qualify for an exemption if leave requirements would jeopardize the business.

Incentives for maintaining payroll

Businesses will get a tax credit for keeping idle workers on their payrolls during the coronavirus pandemic. The tax credit will be worth half of what the company spent on wages, up to \$5,000 per worker.

To qualify, the business must prove they took a 50 percent loss compared to the same quarter in years past. However, employers won't be able to get special SBA loans if they accept this tax credit.

Social Security tax break

Employers get to defer the 6.2% tax that is used to fund Social Security. Employers still need to collect the worker's share of Social Security and Medicare taxes and pass them on to the IRS. The employer's share of Medicare tax would still be due as usual.

Employers have to pay the deferred Social Security tax over the following two years: half by December 31, 2021, and the other half by December 31, 2022.

Qualified improvement property

Retailers, restaurants, and hotels will be able to immediately deduct from their taxes what they spend on property improvements. They were supposed to get the write-off as part of the Tax Cuts and Jobs Act (TCJA), but a glitch in the way the TCJA was worded made it unavailable to them.

The fix will help by letting businesses file amended returns for the 2018 and 2019, giving them an immediate tax refund. This tax benefit will last for at least three more years before gradually being phased out.

Distilleries

Many distilleries have been hit hard by the shutdown of bars and restaurants. Some have been using their facilities to produce hand sanitizer.

One hurdle these distilleries face is, if the sanitizer is made with alcohol meant for human consumption, the producers must pay a federal excise tax. The relief bill includes a temporary exemption from excise taxes on alcohol used to make hand sanitizer, as long as it's produced and distributed within FDA guidelines.

Unemployment benefits for independent contractors and self-employed people

The rescue plan significantly expanded unemployment by giving jobless workers an extra \$600 a week for four months on top of their state benefits and extending benefits by 13 weeks. Currently, state unemployment

checks last up to between 12 weeks and 28 weeks, depending on the state.

This includes self-employed people, independent contractors, and gig workers, who typically don't qualify for traditional unemployment benefits.

To apply for unemployment benefits, visit [your state's unemployment website](#).

Small business lending program

The CARES Act establishes a \$350 billion loan program for small businesses that keep their payrolls steady through the crisis. Small businesses that pledge to keep their workers would also receive cash-flow assistance in the form of a federally guaranteed loan. If the employer continues to pay its workers for the duration of the crisis, these loans will be forgiven. The company would only have to pay back the interest accrued.

These loans will only be available to companies with 500 or fewer employees.

The loans will be administered by banks and other lenders, so check with your bank or credit union to see what they're offering. The American Banking Association is also keeping a [running list of programs](#) being made available by banks around the country.

Businesses can receive loans up to \$10 million, based on how much the company paid its employees between January 1 and February 29. The loans will carry an interest rate of up to 4%. The bill also provides for an expedited origination process.

Relaxed net operating loss rules

When a company's tax deductions are greater than its taxable income, the result is a Net Operation Loss (NOL). A business can generally use an NOL to lower its taxable income in another tax year.

Prior to the TCJA, businesses could use an NOL by amending their tax returns for up to two years prior. Or, instead of carrying the loss back, a business could apply an NOL on up to 20 future tax returns.

The TCJA ended the option to carry NOLs back two years and added a rule that allows limiting the amount of taxable income that could be offset by an NOL.

The relief bill loosens some of these limitations by allowing taxpayers to carry net operating losses from 2018, 2019, and 2020 back five years. It also removed the limit on any carryovers from 2018 and 2019 tax returns.

Extension of time to file and pay 2019 taxes

The April 15 deadline for filing 2019 federal income tax returns has been pushed back 90 days, to July 15, 2020. That's also the new deadline to pay federal tax payments that would usually have been due on April 15, 2020. This includes any balance of federal income tax, self-employment tax owing for 2019 returns. Taxpayers don't have to file an extension by April 15, 2020, to take advantage of the extra time.

If you need more time than that, you can request an extension. This gives you until October 15th to file a return. You'll still have to pay any amount you owe by July 15, 2020. Otherwise, you'll owe late payment penalties and interest.

That extension applies only to income and self-employment taxes. It doesn't extend the due dates for any other type of federal tax, such as payroll or excise taxes.

If you owe back taxes, the IRS announced they will limit collection activities during the COVID-19 crisis.

What is the Paycheck Protection Program? (A Simple Guide)

What is the Paycheck Protection Program?

The Paycheck Protection Program is part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This is a nearly \$350-billion program intended to provide American small businesses with eight weeks of cash-flow assistance through 100 percent federally guaranteed loans.

Program highlights

- There is no cost to apply.

- The funding is meant to help retain workers, maintain payroll, and cover rent/mortgage/utility expenses.
- The loan covers expenses dating back to February 15, to June 30 2020
- The loan can be forgiven and essentially turn into a non-taxable grant.

Do I qualify for the program?

Likely yes! This program is more extensive than the SBA disaster loan. Small businesses, sole proprietorships, independent contractors, and self-employed individuals can all qualify.

- **Sole proprietorships** will need to submit schedules from their tax return filed (or to be filed) showing income and expenses from the sole proprietorship.
- **Independent contractors** will need to submit Form 1099-MISC.
- **Self-employed individuals** will need to submit payroll tax filings reported to the Internal Revenue Service.

How does this differ from the SBA disaster loan?

- **No personal or business collateral is required.** The [SBA disaster loan](#) may require collateral for loan amounts over \$25,000.
- **It's ok if you also have access to credit elsewhere.** To receive a SBA disaster loan you generally need to have no other source of credit.
- **The funding covers a more restrictive set of purposes (details below).** The SBA disaster loan can cover most operating expenses.
- **Your loan can be forgiven if you follow the terms.** The SBA disaster loan requires repayment.

How is this similar to the SBA disaster loan?

- You need to demonstrate your business was economically affected by COVID-19.
- It's free to apply.
- Your loan is long-term (maximum 10 years) and low-interest (maximum 4%).
- You have an extended deferment period (6-12 months, depending on your lender) before you begin repayment.

- There is no prepayment penalty.

What can I use the funds for?

You must acknowledge that the funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments. Funds you use for other purposes will not be eligible for forgiveness.

The funds can be used for:

- Payroll and commission payments
- Group health care benefits/insurance premiums;
- Mortgage, rent, and lease payments
- Utilities
- Interest on any other debt obligations that were incurred before the covered period.

How much funding can I receive?

The SBA will ask you to provide documentation on your business's payroll, mortgage, rent, and utility payments over the previous 12-month period. They will calculate the monthly average cost of those expenses. The maximum amount they can offer is 2.5 times that monthly average cost, but no more than \$10 million.

If you are a seasonal employer, the monthly average cost will be calculated differently. The SBA will use a 12-week period beginning either February 15, 2019 or March 1, 2019, and ending June 30, 2019.

If your business did not exist before June 30, 2019, the SBA will look at your costs in January and February 2020.

Note that if you receive a loan under the Paycheck Protection Program, you may no longer be eligible for an EIDL SBA loan for the same purpose of covering payroll

How can I get my loan forgiven?

In the 8 weeks following your loan signing date, all expenses related to the following can be forgiven:

- **Payroll**—salary, wage, vacation, parental, family, medical, or sick leave, health benefits
- **Mortgage interest**—as long as the mortgage was signed before February 15, 2020
- **Rent**—as long as the lease agreement was in effect before February 15, 2020
- **Utilities**—as long as service began before February 15, 2020

When submitting your application for loan forgiveness, you must provide the following documentation (no exceptions):

- (1) documentation verifying the number of full-time equivalent employees on payroll and pay rates for the periods described in subsection (d), including:
 - (A) payroll tax filings reported to the IRS
 - State income, payroll, and unemployment insurance filings
- (2) documentation to prove your mortgage, lease, or utility payments
 - cancelled checks
 - payment receipts
 - account statements
- (3) a certification from a representative of the eligible recipient authorized to make such certifications that:
 - (A) the documentation presented is true and correct; and
 - (B) the amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered rent obligation, or make covered utility payments; and
- (4) any other documentation the Administrator determines necessary.

The lender must make a decision within 60 days of your forgiveness application submission.

What are the conditions for loan forgiveness?

The purpose of the Paycheck Protection Program is to, well, protect paychecks. You must commit to maintaining an average monthly number of full-time equivalent employees equal or above the average monthly number of full-time equivalent employees during the previous 1-year period.

The amount that can be forgiven will be reduced...

- In proportion to any reduction in the number of employees retained.
- If any wages were reduced by more than 25%.

If you rehire employees that were previously laid off at the beginning of the period, or restore any decreases in wage or salary that were made at the beginning of the period, you will not be penalized for having a reduction in employees or wages, as long as you do this by June 30, 2020.

Note: These guidelines are based on the official 880-page bill. The SBA has been given 30 days to issue official guidance regarding loan forgiveness. We'll share updates as soon as we learn of them.