
The Federal CARES Act

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Overview

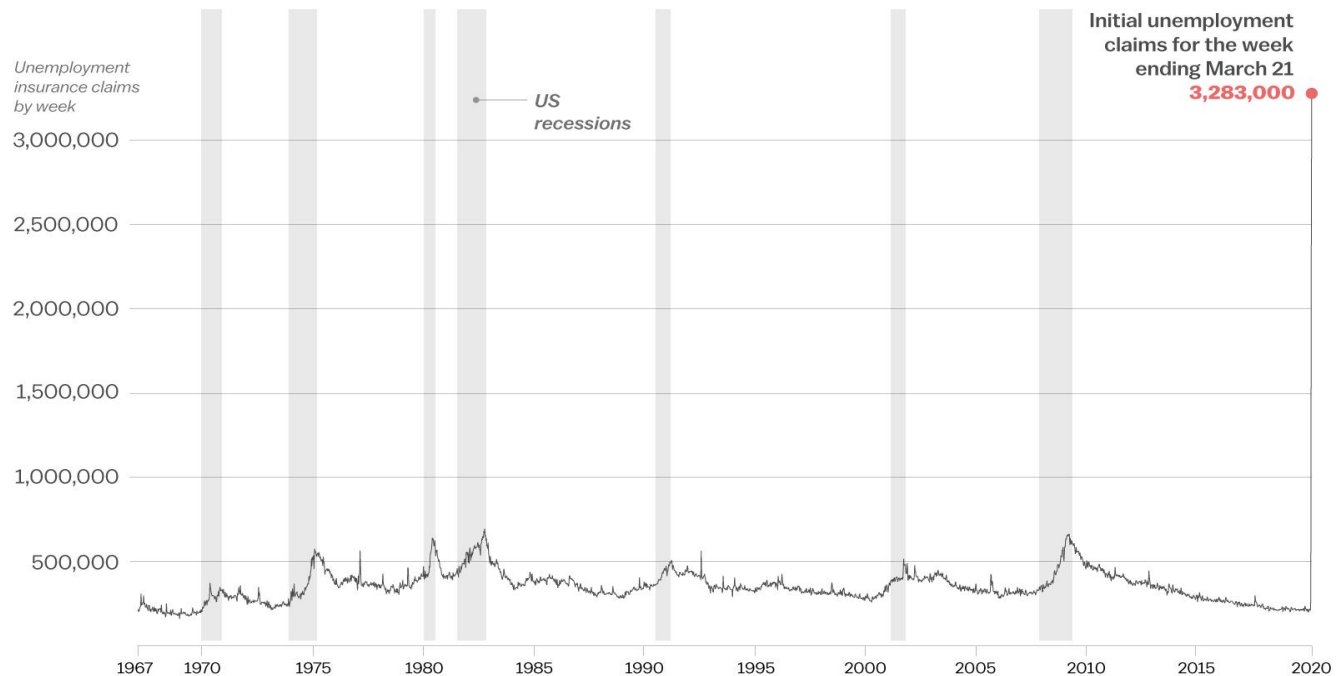
- **Public Policy Response to COVID-19**
 - Phase I, II, & III
 - Phase III: Individuals
 - Phase III: Employers
- **Major Business Lending Provisions**
 - Paycheck Protection Program
 - Mid-size to Large Business Relief
- **Tax Provisions**
 - Changes to Tax Cuts and Jobs Act
- **Agriculture Provisions**

Public Policy Response to COVID-19

Medical Emergency Transitioning to Economic Threat

- St. Louis Fed Reserve Chairman
Estimates 32% Unemployment,
\$2.5 Trillion Economic Loss
- 6.6 Million New Jobless Claims
This Week
- Pew Research Poll: 33% lost job
or Reduced Wages Due to Covid-19

An unprecedented rise in unemployment



Source: US Employment and Training Administration

Federal CARES Act

Congressional Response

- **Phase I: March 6th**
 - \$8 billion in Health Related Funding
- **Phase II: March 18th- Families First Coronavirus Response Act**
 - Mandatory Paid Leave, funding for health care providers, coverage for COVID-19 testing, increased UI funding, Refundable tax credit for FMLA & Sick Leave
- **Phase III: March 27th- Federal CARES Act**
 - \$2 Trillion Relief Package
 - Potential \$4 Trillion in Federal Reserve Economic Support
 - Individual, Employer & Tax Provisions

Federal CARES Act

Major Provisions for Individuals

- **Automatic Payments to Individual Taxpayers**
 - \$1,200 per individual (\$2,400 joint return) + \$500 per child
 - Phased out for incomes above \$75,000 (\$150,000 joint)
- **Expanded Unemployment**
 - Most restrictions on eligibility suspended if related to COVID-19
 - Additional \$600 per week on top of regular state benefit (through July 31)
 - Eligibility ends when individual can return to work
 - **Benefits provided through State UI offices**
 - Most States have Removed Waiting week and Extended Eligibility

Federal Cares Act

All Employers

- **Payroll Tax Delay**

- **Delay payment of employer payroll taxes (Social Security) from Enactment through 1/1/21**
- **50% due 12/31/21 and 50% due 12/31/22**
- **Unclear how Payroll Tax Delay Interacts with Payroll Tax Credits under Phase II**
 - **Waiting on Guidelines from Treasury**
- **Does not apply to businesses using Paycheck Protection Program**

Federal Cares Act

All Employers

- **Employee Retention Credit**

- **Eligibility: Employers fully or partially shutdown by government order, or with 50% drop in gross receipts in a quarter compared to prior year (until return to 80%)**
- **Refundable tax credit against Social Security Payroll Tax (March 12-January 1, 2021)**
 - 50% of the wages (including employers health plan expenses) paid by the employer up to \$10,000 per employee, i.e. Max credit of \$5,000/employee
- **Employers with more than 100 employees-applies to employees not providing services**
- **Employers with 100 or less employees-applies to all employees paid during the eligible period**
- **Does not apply to businesses using Paycheck Protection Program**

Federal Cares Act: Lending Provisions

Paycheck Protection Program-\$350 Billion

- **Eligibility:** Small Businesses Under 500 Employees (FT, PT, Seasonal)
- **Loan Amount:** Average Monthly Payroll x 2.5 (Capped at \$10M)
 - Prorated for wages over \$100,000, Excludes federal payroll tax & FMLA/sick leave
 - 2 year term @ .5%, Deferred Payment for six months
 - No personal guarantee or collateral
 - Loans by Local and National Lenders approved by SBA
 - First Come, First Serve-Application by June 30th (Processing Begins April 3rd)
- **Uses:** Payroll costs, group healthcare benefits, FMLA/Sick leave, insurance premiums, mortgage interest, rent, utilities, interest on other debt incurred before loan

Federal Cares Act: Lending Provisions

Paycheck Protection Program-Continued

- **Loan Forgiveness:**
 - Amounts used in 8-week period from loan origination date on:
 - Payroll Costs, Mortgage Interest, Rent, Utilities
 - Treasury Guidance: Not more than 25% used for non-payroll costs
 - Reduction for Employees Lost (Opportunity to Re-hire within 30 days/maintain to June 30th)
 - Reduction for Reduced Wages below 25%
- **Treatment of Loan Forgiveness**
 - Canceled Indebtedness, Excluded from Gross Income
 - Treasury Guidance on deductibility of expenses paid by loan proceeds

Federal Cares Act: Lending Provisions

SBA Economic Injury Disaster Loans

- **Eligibility: Small Businesses Under 500 Employees (FT, PT, Seasonal)**
 - Up to \$2 million working capital loan up to 30-year term; 3.75%
 - Payments deferred up to 1 year
 - Loans based on credit scores; no tax returns required
 - Up to \$200,000 without a personal guarantee
 - \$10,000 emergency grant within 3 days that does not have to be repaid
 - Interacts with Paycheck Protection Program

Federal Cares Act: Lending Provisions

Mid-Size and Large Businesses

- **\$454 Billion to the Treasury Department for loans, loan guarantees, or to support Federal Reserve Credit Facilities**
 - **Focus on Mid-Sized Employers (500-10,000)**
 - **Administered through Private Lenders**
 - **Interest Capped at 2%**
 - **Deferred Payments for six months**
 - **Retain 90% of workforce (at full compensation & benefits until September 30, 2020)**
 - **No outsourcing/offshore jobs for term of loan + 2 years**
 - **Treated as debt for federal income tax purposes**

Federal Cares Act: How it Works Together

Family Rebates

- Checks= \$1,200/adult & \$500/child
- Phase out for over \$75K/single & \$150K married
- Based on 2019 Return

Tax Provisions

- NOLs
- 163(j)
- QIP
- Loss Limitations, etc.

Employee Retention Credit

- Refundable payroll tax credit for 50% of wages up to \$10k/Qtr
- Available to firms closed by virus
- <100=credit equal 50% of all wage

Reduce
Forgiveness

Increased UI Payments

- Standard + \$600/week for four months
- 13 Additional Weeks of UI through 12/31

PPP

- \$350b Small Business Loans
- Forgivable
- Payroll, Rent, MI, Utilities

Can't Do Both

No Loan
Forgiveness

Delayed Payroll Tax Payments

- Employer Share of Payroll Tax
- From 3/27 to 12/31
- Two year payback

Can't Do Both

Economic Stabilization

- \$500b Treasury Funds
- Mid-Size & Large business Lending
- State & Muni Funding

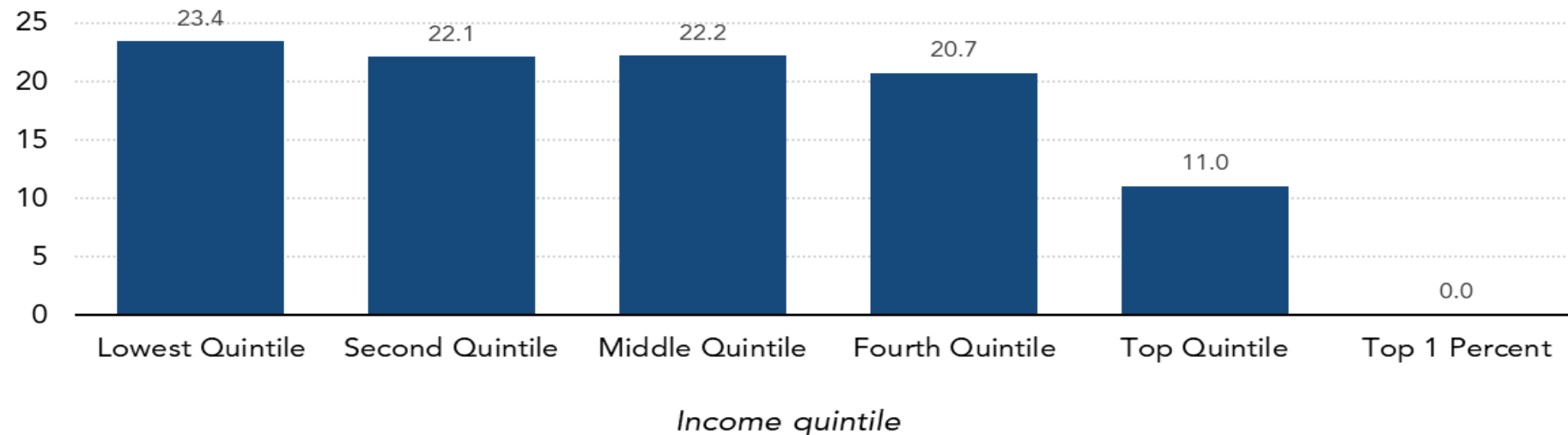


Federal CARES Act: Benefit Distribution

Senate Recovery Rebate

Distribution of Federal Tax Change by Expanded Cash Income Percentile

Share of total federal tax change



Source: Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0319-2).



Federal Cares Act: Tax Provisions

- **Tax Delay Until July 15th: both filing and all payments** (Most States)
- **Net Operating Loss Carryback:**
 - Retroactive and carried back five years
 - Corporations and pass-through businesses
- **Corporate Alternative Minimum Tax Credits**
 - Accelerate recovery of corporate AMT credits
- **Increase in Allowable Interest Deductions**
 - Increased for 2019 and 2020 from 30% of (EBITDA) to 50% of EBITDA
- **Qualified Improvement Property**
 - Retroactive to January 1, 2018

Federal Cares Act: Agriculture

- **Total \$34.5 Billion: Agriculture, FDA, Rural Development, and Related Industries**
 - **\$9.5 Billion to USDA/Office of the Secretary:** to support agricultural producers impacted by COVID-19, including producers of specialty crops, producers that supply local food systems, and livestock producers.
 - **\$25.06 Billion to USDA Food & Nutrition Services:** Additional food purchases and Increased SNAP funding
 - **\$14 Billion Commodity Credit Corporation:** Replenishes CCC borrowing authority
 - Third Tranche of MFP beginning of February, Possible 4th

Questions and Answers
