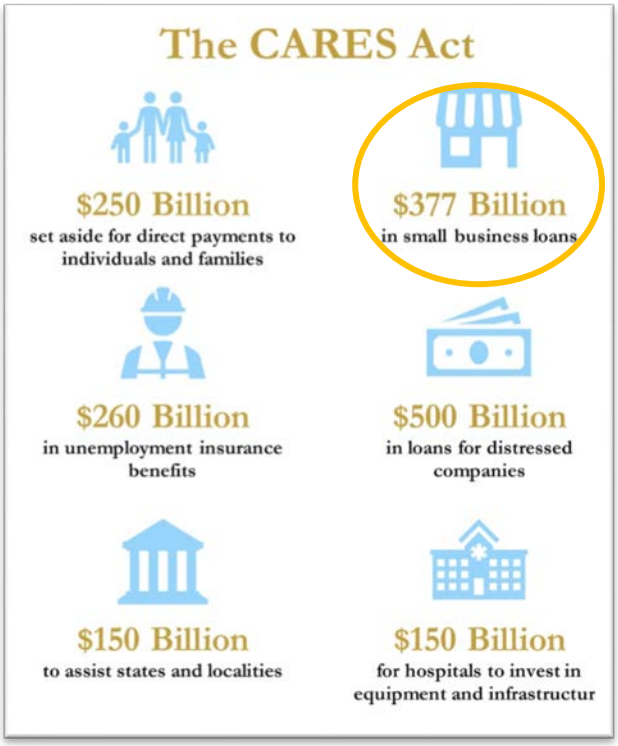
Engage PEO Client Alert:
COVID-19: Economic Relief
The CARES Act – Programs for Small Businesses

Federal relief to business is on the way.

A $2 trillion+ stimulus package has been signed into law, aimed at combating the economic consequences of the coronavirus pandemic. **The Coronavirus Aid, Relief, and Economic Security Act (CARES Act)** includes $377 billion to **help small businesses retain their employees and stay afloat through this challenging period.**

Below is a summary of the small business relief elements of the CARES Act, including:

- **Employer Tax Credit for Employee Retention**
- **Employer Social Security Tax Deferment**
- **Loans for Small Businesses**
- **Loan Forgiveness**



Employer Tax Credit for Employee Retention

This tax credit is available for employers who experience full or partial operation suspension due to a COVID-19 government shut down order, or employers whose gross receipts decline more than 50% when compared to the same quarter in the prior year. This tax credit is not available to employers that receive a small business "paycheck protection" loan.

- Tax credit based upon qualified wages paid to employees or incurred between March 13, 2020 and December 31, 2020.
- **Employers with 100 or fewer full-time employees:** All employee wages will qualify for credit regardless of whether employer is open or subject to COVID-19 shut-down order.
- **Employers with greater than 100 full-time employees:** Wages paid to employees will qualify for credit only if employees were not providing services due to COVID-19 related circumstances.
- **Maximum credit per employee:** The maximum credit is $5,000 per employee. It is based upon the first $10,000 of compensation, which includes health benefits paid to an eligible employee.

Employer Social Security Tax Deferment

Employers may defer their share of Social Security tax deposits (i.e., the 6.2% tax paid on employee wages) for 2020 over the next two years.

- 50% of employers' Social Security tax will be due on December 31, 2021.
- 50% of employers' Social Security tax will be due on December 31, 2022.
- Clients directing Engage to make these deferments shall remain solely liable for their payment.
- Deferral is not available if employer has had loan forgiveness under the CARES Act's new SBA loan forgiveness provisions described below.

Loans for Small Businesses

The CARES Act increases the availability of loans under the Small Business Act ("SBA") through the **Paycheck Protection Program (PPP)**. Find more information on this program **here**.

Covered loan period: February 15, 2020 to June 30, 2020.

Deferment: Complete deferment available on both principle and interest for six months, which may extend to one full year.

How to apply: The SBA has directed businesses to the website linked **here** for information on how to apply and other details.

Eligible Businesses:

Business with no more than 500 employees ("Small Business Concerns" and "Other Business Concerns" as defined by the SBA)
Hospitality or food service companies [with no more than 500 employees at each separate physical location]
Franchises – all sectors - with no more than 500 employees
Sole-proprietors, independent contractors and other self-employed individuals
Non-profits [(501(c)(3); 501(c)(19) Veterans Organizations, Tribal business concerns]

Loans can be used for the following purposes during the 8-week period that begins on the date of the origination of the loan:

- **"Payroll costs" including:**
  - Employee salary, wages, commissions or similar compensation (generally capped at $100,000/employee)
  - Cash tips or equivalents
  - Costs related to continuation of group health care benefits during periods of paid sick, medical or family leave, "and "insurance premiums"
  - Allowance for dismissal or separation
  - Retirement benefits
  - State or local tax assessed on the compensation of employees
  - Certain sole proprietor and independent contractor compensation
- **Rent or lease costs, and mortgage interest payments (not prepayments), and utility charges**.

Loan Forgiveness

- The CARES Act allows for some forgiveness of the SBA loans used to pay qualifying expenses.
- Qualifying Expenses: As outlined above - payroll costs; covered mortgage payments; covered utility payments and rent payments. Mortgage, utility and rent payments must be for obligations and debts in effect prior to February 15, 2020.
- Forgiven loan amounts are not taxable.
- Reduction of Forgiven Loan Amounts: Forgiven loan amounts will be proportionately reduced by any reduction in employees retained compared to the prior year and/or any reduction in pay of an employee exceeding 25% of his or her compensation during the most recent full quarter during which the employee was employed before the covered period.

IMPORTANT NOTES

Employers must choose between (i) applying for the Employer Tax Credit for Employee Retention or (ii) the Loans for Small Businesses described above.

- Employers will *not* be able to take ***both*** the CARES Act tax credit and an SBA loan.
- Employers should consult with their tax advisers as to whether the CARES Act Employer Tax Credit for Employee Retention or the SBA loan will be more advantageous for them.
- For purposes of an SBA loan, employer size is considered without regard as to whether the employer utilizes a professional employer organization.

The COVID-19 crisis is extremely dynamic. More information on these programs will follow as the SBA, IRS and other federal agencies define their procedures and processes. Your Engage Account Manager will be available to provide general guidance and direct clients to the appropriate resources based upon the information provided by federal, state, and local agencies.