



CARES Act, Payroll Protection Program and Expanded Unemployment Provisions

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The CARES Act, signed into law on March 27th, provides funding to small business owners and to employees as ways to support them and the economy during this public health crisis. See below for details about new loans and liquidity to enable small business owners to keep their employees on payroll and cover newly imposed paid leave requirements and expanded unemployment benefits.

NEW LOANS AND LIQUIDITY AVAILABLE TO SMALL BUSINESSES

On March 27th, the CARES Act (H.R.748) was signed into law. This law created a new Paycheck Protection Program and expanded other existing Small Business Administration loan programs so that employers with fewer than 500 employees could access funds to keep their employees on payroll and pay for any sick or family leave obligations that emerged from the *Families First Coronavirus Response Act* that became law on March 18, 2020.

Paycheck Protection Program (PPP)

The Paycheck Protection Program (PPP) will provide small employers who maintain their payroll during this emergency up to 8 weeks of cash-flow assistance by way of 100% federally guaranteed loans. The maximum loan amount is \$10 million or 250% of an employer's average monthly payroll over the last year—whichever is less. This amount is calculated based on number of FTEs in place before the crisis (either from February-June 2019 OR January and February 2020).

Who is eligible?

Small employers with 500 employees or fewer, those that meet the current Small Business Administration (SBA) size standards, and self-employed individuals (even if they have employees) are also eligible for the PPP loans. Businesses with more than one location are also eligible to use the PPP as long as they have fewer than 500 employees per location and are assigned a "[North American Industry Classification System](#)" code beginning with 72 at the time of the dispersal.

What can Payment Protection Program funds be used for?

PPP funds can be used to cover employer's payroll costs which include:

- salary (including those paid to independent contractors or 1099s), wages, and payment of cash tips
- employee group health care benefits, including insurance premiums
- retirement contributions
- covered leave

The payroll costs are limited per employee and capped at an annual rate of pay of \$100,000. PPP loans will be issued without any processing fees and are available immediately through existing SBA-certified lenders, including banks, credit unions, and other financial institutions. For PPP loans there is an automatic deferment of payments, interest, and fees for 6 months, but you can apply for a deferment for

up to a year. The balance of the loan can be paid back over a 10-year term, with a maximum interest rate of 4% and no prepayment penalties.

Part of PPP loan amount can be forgiven—tax free

If the employer maintains its payroll, the portion of the loans used for covered payroll costs, interest on mortgage obligations, rent, and utilities such as phone and internet would be forgiven. If you have reduced staff, the amount that will be forgiven will also be reduced to reflect your actual payroll costs during those 8 weeks. If you have laid people off since February 15th but bring them back before June 30, 2020, you can use this to pay their salaries too.

While the total loan can be for up to 250% of your payroll costs for the past two months—capped at \$10 million, a portion of the PPP loan can be forgiven. An amount equal to 8 weeks of payroll, mortgage interest, rent obligations and utility payments expenses could be forgiven. To get loans forgiven, you must submit and certify the correctness of IRS and state income, payroll, and unemployment documentation to your lender to verify the number of FTEs on your payroll and their payrates as well as receipts to verify mortgage, rent, and utility payments. For tax purposes, the loan amount forgiven shall be excluded from gross income.

Other loans available:

This law allows for expedited access to capital by establishing a program for small businesses who have applied for an EIDL loan to request an advance of up to \$10,000 on the loan to provide paid sick leave to employees, maintain payroll, and pay other debt obligations. If a borrower has an EIDL loan unrelated to COVID-19, they may apply for a PPP loan, with an option to refinance that EIDL into the PPP loan. The emergency EIDL grant award of up to \$10,000 would be subtracted from the amount (reflecting 8 weeks of payroll, mortgage/rent, and utilities) forgiven under the Paycheck Protection Program. Please note that borrowers may not use funds gained from other loans such as an EIDL and funds gained under a PPP loan for the same expenses.

Also note that the law increases the maximum loan amount for SBA Express loans from \$350,000 to \$1 million. Furthermore, the SBA is required to pay all principal, interest, and fees on all existing SBA loan products, including 7(a), Community Advantage, 504, and Microloan programs, for six months.

TEMPORARY INCREASE TO UNEMPLOYMENT BENEFITS

The CARES Act, signed into law on March 27th, expands the amount of money and total time an employee can receive unemployment benefits. These additional COVID-19 related benefits will be available through December 31, 2020.

Who is eligible?

In order to be eligible for this extended unemployment, an individual must be able and willing to work. Because COVID-19 has impacted those who would otherwise be employed, this law expands eligibility for unemployment to include those who are unable to work because they:

- have been personally diagnosed with COVID-19;
- have a family member who was diagnosed with COVID-19;
- are self-quarantined because of personal or household exposure to COVID-19;
- are taking care of quarantined family member who was diagnosed with COVID-19;
- have a child (or other individual for whom that individual has primary caregiving responsibility) at home because of school closure as a direct result of COVID-19;
- are unable to reach their place of work because of a quarantine—either government or personal—imposed upon them because of COVID-19;

- had to quit a job, their scheduled job was cancelled, or their place of employment closed because of COVID-19; or
- are now head of household because of a COVID-19 death in the family.

Self-employed persons in the same circumstances are also eligible for this expanded unemployment.

If a person is receiving regular compensation, can telework with pay, or are receiving extended paid sick or paid family leave benefits that are now available as a result of the *Families First Coronavirus Response Act* that became law on March 18, 2020, they are not eligible for unemployment.

What are the extra unemployment benefits?

The CARES Act increases the unemployment benefit by adding \$600/week onto the regular state rate (including dependents' allowances), for up to 4 months. Some states impose a week wait before unemployment kicks in, but this law removes that week wait. Furthermore, emergency unemployment (plus the \$600/week add on) is once again available (for a cumulative total of 39 weeks) to an individual who had previously exhausted all rights to regular compensation (since July 1, 2019). These emergency unemployment benefits are triggered by the federal public health emergency declaration on January 27, 2020 and are available for eligible individuals through December 31, 2020.

Will those with reduced hours have access to this emergency unemployment?

Some states have "short-time compensation" unemployment programs where employees with reduced hours receive a pro-rated unemployment benefit when their employers reduce employee hours instead of laying off workers. The law provides full federal reimbursement for those states who offer short-time compensation.

KEEP UPDATED

This article is intended to provide you a timely snapshot of the impact of the \$2 trillion economic stabilization package that was signed into law on March 27, 2020. In the coming days, additional regulations and guidance will be issued by the Departments of Treasury and Labor. When that happens, PPS will update its FAQs and resources accordingly.

PPS will also be working to produce valuable resources for our members such as examples of practice situations that illustrate applications to various types and sizes of practices and guidance for human resources and financial impact decisions. Keep checking back to the PPS Resource page for updated information.