

Legislative Bulletin: The CARES Act and the Federal COVID-19 Relief Package



Congress has reached an agreement on Phase 3 of the COVID-19 relief package – a \$2 trillion fiscal stimulus plan aimed at offsetting the impact the global pandemic has had and will continue to have on the U.S. economy, healthcare system, and American workers.

How did we get here?

For the past few weeks, we have seen the numbers of reported COVID-19 cases and deaths rise exponentially in the U.S. and abroad. While there is no formal federal “shelter-in-place” notice in the U.S., several states and counties have issued their own, with about half of the American population currently asked to stay home in quarantine. The impact of these measures, along with looming uncertainty, has been felt in the economy both on a national and local level. The crisis has [led to a record-breaking spike in weekly unemployment insurance claims](#) as many businesses are faced with the harsh reality of indefinitely closing their doors or limiting their services. Recent market volatility is also unprecedented – within 8 days the Dow Jones Industrial Average experienced both its largest single-day point drop in history (-12.93%, March 16th) and its largest single-day point gain (+11.37%, March 24th). The Federal Reserve slashed interest rates on two different occasions since the outbreak in an attempt to encourage business and consumer spending (March 5th and March 15th) – but it became obvious monetary policy wasn’t enough. Congress has spent the last couple of weeks pushing through its fiscal support package in three separate bills.

Phase 1 – H.R. 6074 – Coronavirus Preparedness and Response Supplemental Appropriation Act, 2020 (Signed into law 3/6/2020)

- **\$8.3B** statute designed to treat and prevent the spread of the virus
- Extra funding for CDC, FDA, NIH, State Dept. U.S. Agency for International Development, and Small Business Administration.
- Provides funding for:
 - Development of vaccines
 - Testing for local communities
 - Additional laboratory equipment
 - Virus research
 - Staffing increases for state & local health departments
 - International containment efforts

Phase 2 – H.R. 6201 – Families First Coronavirus Response Act (Signed into law 3/18/2020)

- Approximately \$100B focused on individuals impacted by job loss & job absence due to the virus, some relief for businesses, and coverage for COVID-19 testing.
- Provides funding for:
- Mandatory 2 weeks of paid sick leave (Emergency Paid Sick Leave Act – EPSLA) and family leave (Emergency Family and Medical Leave Expansion Act – EFMLEA) for employees in self-quarantine or those being treated for the virus.
- Employer tax credits for paid sick & family leave
- Free coronavirus testing for uninsured
- Extended unemployment insurance benefits
- Increased federal funds for Medicaid and food security and assistance programs (TEFAP, WIC, Department of Health and Human Services, SNAP).

For information on the FFCRA, please visit the [FFCRA DOL Q +A page](#).

Phase 3 – H.R. 748 – Coronavirus, Aid, Relief, and Economic Security (CARES) Act (Signed into law 3/27/2020)

Phase 3 of the federal stimulus package is the largest relief bill in American history, estimated to cost over \$2 trillion. The massive bipartisan bill is broad in scope, as it hopes to offer financial assistance to distressed sectors, individuals, hospitals, and businesses impacted by COVID-19.

Accessing Retirement Funds for COVID-19 Costs:

- **Required Minimum Distributions:** The bill waives RMDs for 2020 for retirement plans and IRAs, pushing it out to 2021.
- **Retirement Plan Loans:** The CARES Act doubles the plan loan limit to the lesser of \$100,000 or 100% of the vested balance. Repayment of an outstanding loan with a due date between now and 12/31/2020 can be delayed for up to one year.
- **Hardship Withdrawals:** The CARES Act waives the usual 10% penalty tax on early withdrawals (up to \$100,000) from a retirement plan for an employee if they:
 - are diagnosed with COVID-19,
 - have a spouse or dependent who is diagnosed with COVID-19,
 - experience a negative financial impact after quarantine, furlough, lay off, a reduction in hours, or lack of childcare due to COVID-19.

Additionally, the income tax owed on the withdrawal amount can be spread over 3 years and the taxpayer has the choice to avoid any income recognition by repaying the distribution to the retirement plan within three years of receiving it.

These rules can be adopted immediately into your retirement plan, even if the plan currently does not allow for hardship distributions or loans.

Small Business Interruption Loans: Small businesses, private nonprofits, or public nonprofit organization (less than 500 employees) are eligible to receive Small Business Association (SBA) [7\(a\) loans](#) of up to \$10M to support employee paid sick and family leave, health care benefits, employee salaries, mortgage, rent, utilities and more. Payments on the loan are deferred up to 1 year with normal prepayment penalties waived. The Act also provides principal loan forgiveness for the amounts used for payroll and debt repayments, for organizations that maintain the average size of its full-time workforce – creating an incentive to retain workers. For more information on SBA loans, [visit their website](#).

Delay in Employer Payroll Taxes for Social Security: The bill allows employers to pay their share of the 6.2% Social Security payroll tax on 12/31/2021 (50%) and 12/31/2022 (50%), rather than in 2020. Note, this is not applicable for businesses that had indebtedness forgiven with respect to a 7(a) loan.

Direct Payments to Taxpayers: All U.S. residents making less than \$75,000, or \$150,000 for joint filers (based on 2018 or 2019 tax returns) are eligible for a \$1,200 direct payment (\$2,400 for joint filers), plus \$500 per child. This phases out for annual incomes above \$75,000 up to \$99,000 (or \$198,000 for couples) by \$5 for every \$100 of income.

Unemployment Insurance: The bill increases unemployment insurance by \$600 per week for four months – this is on top of the state’s base unemployment benefits and includes freelancers, gig economy, and furloughed workers.

Individual Tax Deadline Extended: The bill extends the tax deadline to July 15, 2020.

Distressed Sector Relief: The bill provides money to sectors and that have been majorly impacted by the pandemic such as the airline industry. The use of the loans is subject to public disclosure and oversight by an inspector general.

The bill includes several other provisions hoping to alleviate the impact of COVID-19 including funding to local and state governments, food security programs, temporary student loan relief, [healthcare, hospitals, and medical supplies](#), and more.

COVID-19 has impacted the way of life for all Americans, not only from a public health standpoint, but an economic one as well. While no one knows how long this pandemic will last, it is everyone’s hope that the CARES Act will provide the relief necessary to get through this volatile time while the U.S. is at a standstill. If you have any questions about how else the CARES Act will impact your organization or your retirement plan, please reach out to your ProCourse advisor.