
# Understanding the CARES Act and its implications for individuals and businesses

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, provides emergency assistance to those affected by the coronavirus pandemic. Estimated to cost more than $2 trillion, this comprehensive emergency relief package seeks to stem the impact of the viral outbreak on individuals, businesses, and the health-care system.

## The bill includes:

- Emergency loans for small businesses
- Expansion of unemployment benefits
- Recovery rebate checks and other provisions to provide liquidity to individual taxpayers
- Payroll tax relief for employers
- Funding for health-care response to the viral pandemic
- Education provisions, including temporary relief for student loan borrowers
- Federal guaranteed loan facility for distressed industries

# Phased approach by the federal government to combat the COVID-19 crisis

MARCH ..... APRIL

**Phase 1 — March 6**

**Coronavirus Preparedness and Response Supplemental Appropriations Act**

$8.3 billion relief package for immediate coronavirus response including vaccine development, support for state and local governments, and emergency loan subsidies for small businesses

**Phase 2 — March 18**

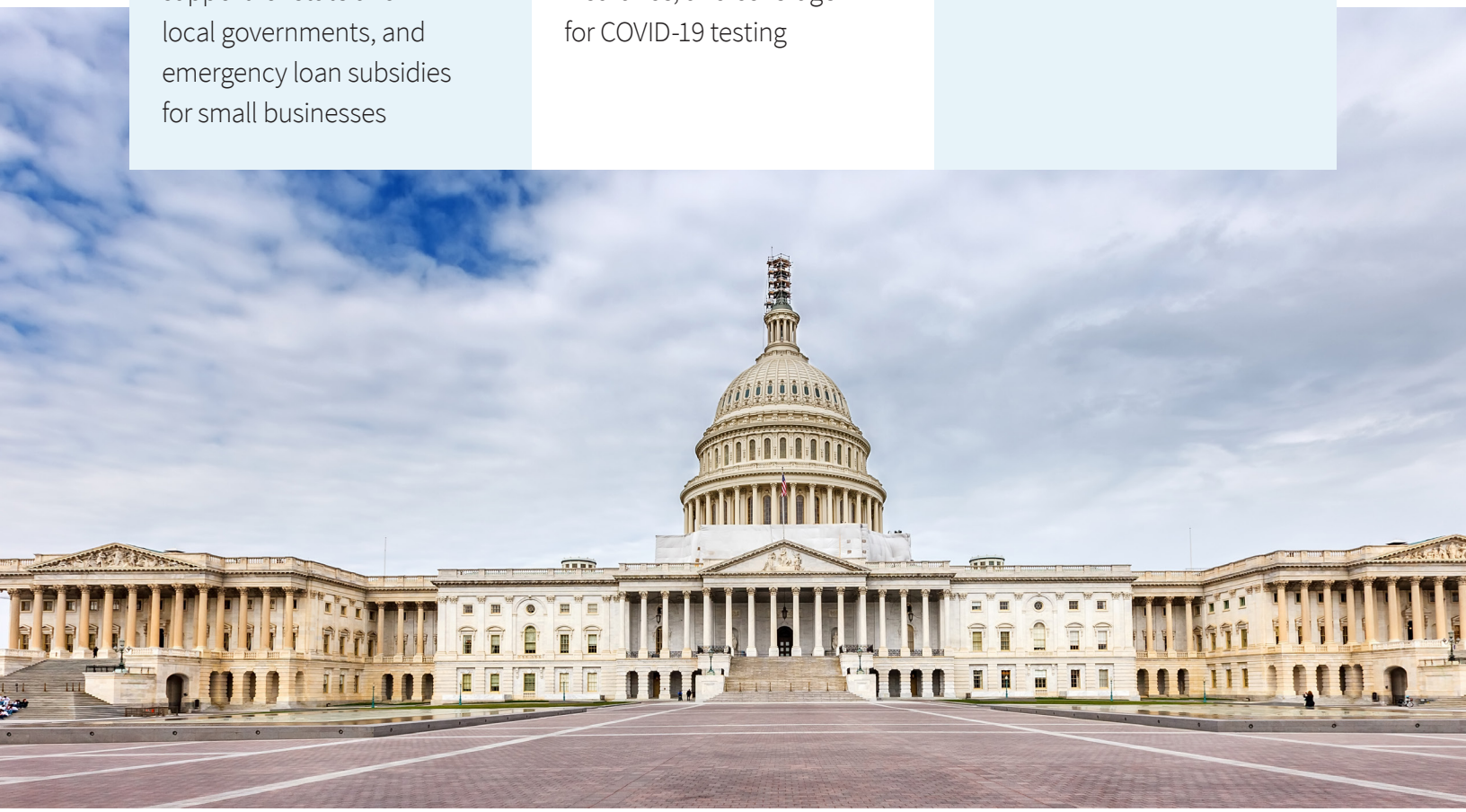
**Families First Coronavirus Response Act**

Paid sick and emergency leave benefits, additional funding for federal nutrition programs, emergency funding for federal unemployment insurance, and coverage for COVID-19 testing

**Phase 3 — March 27**

**Coronavirus Aid Relief, and Economic Security Act (CARES)**

Massive emergency relief response package to address the economic and health-care related impact of the viral pandemic



# Provisions impacting individuals

| Temporary financial assistance | |
|---|---|
| **Recovery rebate payments** | Payments to individuals through a refundable tax credit of up to $1,200 ($2,400 for married couples filing jointly) and an additional $500 payment per "qualifying child," defined as under the age of 17. Payments are phased out beginning at an income level of $75,000 ($150,000 for joint returns).* |
| **Expanded unemployment benefits** | Additional payment of $600 per week for weeks ending on or before July 31, 2020. An additional 13 weeks of standard unemployment benefits through the end of 2020 to help those who remain unemployed after state benefits are no longer available if the individual is otherwise available for work. |

* Income phase-out is based on adjusted gross income (AGI), generally for 2019. If 2019 tax information is not available, 2018 income will be applied. The rebate amount is completely phased out for single filers with incomes exceeding $99,000 and $198,000 for joint filers with no children. The refundable tax credit may be adjusted once the 2020 tax return is filed. Taxpayers who receive a smaller rebate payment than they are eligible for based on 2020 income should receive the difference after filing a 2020 tax return, but overpayments of rebates due to a higher income in 2020 are not expected to result in an adjustment.

| Retirement accounts | |
|---|---|
| **Waiver of required minimum distributions (RMDs) for 2020** | Applies to owners of IRAs and defined contribution plan accounts, as well as beneficiaries who have inherited an account. Account owners who have already taken a distribution for 2020 may be able to roll the distributed amount back into an IRA or retirement account if completed within 60 days of the distribution. |
| **Penalty-free retirement distributions** | The 10% early withdrawal penalty is waived for distributions up to $100,000 in 2020 for those diagnosed with the coronavirus, or whose spouses or dependents are diagnosed, or those who have experienced adverse financial consequences, such as being laid off or quarantined due to the pandemic. Income attributed to the distributions is taxed equally over 2020, 2021, and 2022 or may be contributed back into a retirement account within three years of the distribution(s). Mandatory 20% withholding is waived for distributions from qualified retirement plans. |
| **Expansion of retirement plan loans** | Until September 23, 2020, the maximum loan from a qualified retirement plan can be increased from $50,000 to $100,000, and the loan amount may equal the full vested value of the account (rather than be limited to 50% of the vested value). Additionally, new and existing retirement plan loan payments between March 27, 2020, and year-end can be delayed for one year. |

| Charitable giving | |
|---|---|
| **New charitable deduction for non-itemizers** | Taxpayers utilizing the standard deduction in 2020 can claim an above-the-line deduction of up to $300 of cash contributions to qualified charities (does not include donor-advised funds, supporting organizations, or private grant-making foundations). |
| **Temporary increase in charitable deduction limit** | For 2020, the limit on cash contributions to qualified, public charities increases from 60% of AGI to 100%. |

| Student debt | |
|---|---|
| **Student loan payment delay** | Payments on federal student loans can be delayed through September 30, 2020, without penalty or interest accual to the borrower. Each month in which a federal student loan payment is suspended under the CARES Act is treated as a month in which payment is made for purposes of various student loan forgiveness programs. |
| **Certain employer-provided benefits excluded from income** | An employer may contribute up to $5,250 annually toward an employee's qualified education loan(s) and that amount is excluded from the employee's income. The $5,250 cap applies to both the new student loan repayment benefit as well as other educational assistance (e.g., tuition, fees, books) provided by the employer under current law. The provision applies to student loan payments made between March 27, 2020, and December 31, 2020. |

# Provisions for business owners

| Lending programs to provide relief | |
|---|---|
| **Paycheck Protection Program (PPP)*** | A new guaranteed loan is being offered through the Small Business Administration's 7(a) loan program and is designed to help small businesses meet daily expenses including payroll (up to $100,000 per employee), retirement and health-care benefit costs, and payroll taxes. It may also be used for mortgage interest, rent, and utility payments. Borrowers must make a good faith certification that the loan is necessary due to the economic uncertainty caused by the pandemic crisis and to support ongoing operations that they will use the funds to retain workers and maintain payroll. Some or all of the loan may be forgiven if certain requirements are met (without tax to the business).<br><br>See "A closer look at the Paycheck Protection Program (PPP)" later in this document for additional information. |
| **Economic Impact Disaster Loans (EIDL)** | This existing low-interest loan program administered by the Small Business Adminstration (SBA) is enhanced by providing "Emergency EIDL Grants." These grants provide an advance (within three days of applying for the loan) of up to $10,000 to small businesses (not more than 500 employees), including private non-profits. These grants do not need to be repaid, even if the grantee is subsequently denied an EIDL. Borrowers may not be able to utilize an EIDL and a loan through the PPP to cover the same expenses. |
| **Debt relief for SBA borrowers** | The SBA will cover all 7(a), 504, and microloan loan payments for existing SBA borrowers, including principal, interest, and fees, for six months. Relief will also be available for new borrowers who take out such a loan within six months from the date the CARES Act was signed into law. |

| Expansion of unemployment benefits | |
|---|---|
| **Pandemic Unemployment Assistance** | This temporary program covers weeks of unemployment beginning on or after January 27, 2020, and through December 31, 2020.<br><br>The program provides unemployment benefits for up to 39 weeks to those not traditionally eligible for unemployment benefits (such as the self-employed, and independent contractors) who are unable to work as a direct result of the COVID-19 crisis. Coverage also includes individuals who have exhausted other unemployment benefits. |

* Eligible business owners can apply through any existing SBA lender or through any federally insured depository institution and federally insured credit union. Other regulated lenders will be available to make these loans once they are approved and enrolled in the program. You should consult with your local lender as to whether it is participating. Visit www.sba.gov for a list of SBA lenders. Loan proceeds must be used for payroll costs (including benefits); interest on mortgage obligations incurred before February 15, 2020; rent, under lease agreements in force before February 15, 2020; and utilities, for which service began before February 15, 2020.

| Tax relief | |
|---|---|
| **Employee Retention Tax Credit (ERTC)** | This is a refundable payroll tax credit for 50% of qualified wages paid by employers to employees during the COVID-19 crisis. The credit can be applied against the employer share of Social Security payroll taxes. To be eligible for this tax credit, an employer must be carrying on a trade or business in 2020 and meet one of these additional criteria:<br>• Business operations were fully or partially suspended due to a COVID-19-related government shut-down order<br>OR<br>• There is a significant decline in gross receipts, meaning gross receipts declined by more than 50% when compared with those of the same quarter in the prior year*<br><br>The ERTC applies to qualified wages paid after March 12, 2020, and before January 1, 2021. The maximum amount of qualified wages taken into account with respect to each employee for all calendar quarters is $10,000, so that the maximum credit for qualified wages paid to any employee is $5,000. For employers with an average of more than 100 full-time employees in 2019, only qualified wages paid to employees not providing services will be considered as part of the tax credit calculation. For employers with 100 employees or fewer, all qualified wages paid will be considered for the calculation. An employer may not claim the tax credit if receiving a guaranteed loan under the Paycheck Protection Program. |

* The significant decline in gross receipts ends once gross receipts for a quarter are greater than 80% of gross receipts for the same calendar quarter during 2019.

| | |
|---|---|
| **Delayed payment of employer payroll taxes** | Allows employers (and self-employed individuals) to defer payment of the employer share of Social Security payroll taxes for the rest of the year. The provision requires that the deferred employment tax be paid over the following two years, with half of the amount due for payment by December 31, 2021, and the remaining half by December 31, 2022. If an employer participates in the PPP, the deferred deposit relief ends upon receiving notice that a PPP loan is forgiven, although deferral continues with respect to pre-forgiveness wages. |
| **Modifications of net operating losses (NOLs)** | A net operating loss (NOL) arising in a tax year beginning in 2018, 2019, or 2020 can be carried back five years and applied to prior tax returns. Tax law changes in 2017 disallowed the carry-back of NOLs. The provision also temporarily removes the taxable income limitation to allow an NOL to fully offset income. Prior to this change, taxpayers were limited to applying an NOL against 80% of taxable income. The 80% limitation will apply again beginning in 2021. |

## A closer look at the Paycheck Protection Program (PPP)

### Who is eligible?

Businesses and non-profits employing no more than 500 employees are eligible. Exceptions apply for businesses in certain industries (for example, hospitality) where the 500-employee limit applies on a location-by-location basis. Sole proprietors, self-employed individuals, and independent contractors are also eligible.*

* Alternatively, businesses can be eligible borrowers even if they have more than 500 employees, as long as they satisfy the existing definition of a "small business concern" under the Small Business Act. Moreover, complex affiliation rules apply in determining whether or not a business employs no more than 500 employees.

### How much can be borrowed?

The maximum loan is the lesser of (a) $10 million or (b) the average monthly payroll cost for the 12 months preceding the loan times 2.5.† Average payroll cost includes benefits, such as health and retirement benefits.

† Costs excluded from the payroll cost calculation include compensation above $100,000 per employee, the employer share of federal payroll taxes, payroll costs associated with non-U.S. employees, and sick leave wages eligible for paid sick and family leave related tax credits under the Family First Coronavirus Response Act.

### What are the loan terms?

The length of the loan is set at two years with an annual interest rate of 1%. Loan payments will be deferred for six months with interest accruing over this period. There are no borrower or lender fees imposed on the borrower, including no fee for prepayment of the loan. Businesses can apply through any existing SBA 7(a) lender or through any federally insured depository institution or federally insured credit union. Loan applications must be processed by June 30, 2020.

### How does the loan forgiveness provision work?

The amount forgiven is equal to eligible payroll costs (described above), rent, pre-existing mortgage interest, and utility payments incurred over the 8-week period beginning with the origination date of the loan.‡ The amount will be reduced proportionally by any decrease in the number of full-time employees relative to an applicable measurement period, generally within the prior year. The amount would also be reduced if compensation for certain employees declines more than 25% compared with the most recent full quarter. Employers may avoid a reduction in loan forgiveness by rehiring certain laid-off workers and/or restoring salary reductions for certain employees by June 30, 2020. Any amount forgiven is not considered taxable income. Business owners may want to consider designating a separate bank account to hold PPP loan funds to ensure use of those funds are matched with eligible expenses under the program.

‡ SBA interim regulations provide that payroll costs must account for at least 75% of the loan forgiveness amount. Additional provisions apply to self-employed individuals; consult with a tax professional for guidance.

## Additional relief: Tax deadlines delayed

In addition to these legislative changes, the Treasury Department announced that the filing and payment deadlines for 2019 tax returns and 2020 first- and second-quarter estimated tax payments are delayed 3 months — to July 15. Due to the change in the tax-filing deadline, IRA and HSA contributions for 2019 can be made up to July 15, 2020. Note that some states have also taken steps to delay filing.

### Resources:

H.R. 748, Coronavirus Aid, Relief, and Economic Security Act legislative text.

U.S. Senate, CARES Act section by section summary.

U.S. Department of Treasury, Paycheck Protection Program (PPP) information sheet for borrowers.

U.S. Department of Treasury, Paycheck Protection Program (PPP) frequently asked questions

U.S. Senate Committee on Small Business & Entrepreneurship, Small business owner's guide to the CARES Act.

Small Business Administration Interim Final Rules, Business Loan Program Temporary Changes; Paycheck Protection Program.

**Visit putnamwealthmanagement.com for the latest tax and financial planning ideas and resources from Putnam.**

For informational purposes only. Not an investment recommendation.

Many aspects of the CARES Act are subject to guidance from the Treasury Department and Small Business Administration, and that guidance may ultimately differ from current interpretations, including this material. This material has been prepared using available information, but there is no guarantee that final guidance will not introduce additional considerations or interpretations of the Act.

This information is not meant as tax or legal advice and is intended solely to provide an overview of the material presented. Please consult with the appropriate tax or legal professional regarding your particular circumstances, and for additional guidance on the CARES Act's application to you before making any investment decisions. Putnam does not provide tax or legal advice.

**Request a prospectus or summary prospectus from your financial representative or by calling 1-800-225-1581. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.**

Putnam Retail Management

**Putnam Investments | 100 Federal Street | Boston, MA 02110 | putnam.com**

II991 321367 4/20