

Employer Relief May Be in Sight – Senate Bill Includes Forgivable Loans to Maintain Payroll for Next Four Months

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The Senate is currently considering a bill that could greatly increase the ability of employers to retain their employees. The Coronavirus Aid, Relief, and Economic Security Act or “CARES Act” is currently being considered by the U.S. Senate. While it has not yet passed and includes a number of provisions, perhaps the most important to companies with fewer than 500 employees is Section 1105.

Section 1105 allows companies with fewer than 500 employees to obtain loans of up to \$10 Million from local SBA lenders through the Small Business Administration’s existing 7(a) loan guarantee program. These loans can be used for rent expenses, mortgage expenses, and payroll expenses (including paid sick leave). To the extent the loan proceeds are used to fund payroll expenses during the period of March 1, 2020, to June 30, 2020, the loan can be forgiven. Any reduction in workforce will result in a reduction in the amount of forgiveness of the loan. All forgiveness is subject to taxation as cancelation of indebtedness income, but since many businesses needing this loan will suffer operating losses during the time period this tax burden is expected to be minimal.

Should the CARES Act pass, this could have a significant impact for employers seeking to retain their workforce and ensure that businesses are able to quickly rebound as the COVID-19 crisis dissipates in the coming weeks and months. This will also have a significant impact on local lenders as they have yet another tool to assist their customers.

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