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Helping families & small business owners plan successful futures



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ALERT FOR SMALL BUSINESS CLIENTS

We hope this brief alert finds you and your loved ones healthy and well. On March 27, 2020, in response to the crisis caused by the COVID-19 pandemic, President Trump signed the largest economic stimulus package in American history called Coronavirus Aid, Relief, and Economic Security Act, or "CARES" Act. The CARES Act authorizes a total of \$500 billion for direct loans and guarantees. A pool of \$367 billion is available to assist small businesses. Relief measures also include, among others, deferral of the employer portion of payroll taxes and refundable payroll tax credit.

Payroll Tax Holiday

The CARES Act also permits all employers and self-employed individuals to defer payment of the employer portion of payroll taxes owed on wages paid. Any deferred payroll taxes must be paid over the next two years – with half of the owed amount to be paid by December 31, 2021, and the remaining half by December 31, 2022.

Employee Retention Tax Credit

The CARES Act provides a refundable payroll tax credit to eligible employers for 50% of "qualified wages" paid to employees during the COVID-19 crisis between March 13, 2020 and the end of the year. However, this tax credit is not available to employers that receive the small business loans discussed below.

Small Business Loans

The CARES Act expands the ability of small business concerns to obtain loans through a new Paycheck Protection Program modeled after the existing Small Business Administration 7(a) loan program. Under the program, small businesses, nonprofits and veterans organizations that generally have fewer than 500 employees, as well as self-employed individuals, sole proprietors, independent contractors, will be able to receive no-fee "small business interruption loans."

Here is a summary of the key provisions of the Paycheck Protection Program. SBA will be issuing further regulations under the program within the next 15 days.

- To be eligible for a loan, a borrower must be in operation on February 15, 2020 and have paid employee salaries and payroll taxes. The business must maintain its employment levels as of March 24, 2020, "to the extent practicable" and cannot reduce its workforce by more than 10% of the March 24 baseline.
- Proceeds of the loans can only be used to meet payroll and other employee-related costs. These include compensation to employees; payments for vacation, parental, family, medical or sick leave; severance payments; payments required for group health care benefits, retirement benefits, and state and local employment taxes. Interest payments on mortgage obligations, rent and utility payments also are eligible expenses. Compensation is capped for individual employees, independent contractors, or sole proprietors at an annual salary of \$100,000.
- The maximum loan amount per taxpayer is 2.5 times monthly "payroll costs," which are averaged over the 12 months preceding the loan, up to the maximum amount of \$10 million.
- The maximum interest rate will not exceed 4%.
- The loans can be prepaid without premium or penalty.
- Borrowers will not be required to post collateral, provide personal guarantees or pay fees customarily charged by the SBA. The CARES Act also waives the requirement for applicants to demonstrate that they are unable to obtain credit from other sources.
- Borrowers will be eligible for forgiveness of the loans in the amount equal to the sum of payroll costs, mortgage interest payments, rent and utilities incurred during the 8 weeks following the origination of the loan, provided the mortgages, rental agreements and utilities were in place or effect before February 15, 2020. The amount forgiven will be reduced proportionately to any reduction in the number of employees retained or salaries paid compared to the prior year. The amount forgiven will not be considered taxable income to the borrower.
- The deadline to apply is June 30, 2020.

Loans will be available immediately through SBA-certified lenders, which include banks, credit unions, and other financial institutions.

If you have any questions with respect to any provisions that could affect your business,

please don't hesitate to reach out to us.

Best regards,

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