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Practice Group(s):
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COVID-19: Congress Set To Approve Historic Coronavirus Relief Package

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On Wednesday, March 25, a historic, bipartisan deal was reached in the Senate to offer \$2 trillion in health care and economic relief to Americans and businesses amid the ongoing novel coronavirus (COVID-19) pandemic. The Coronavirus Aid, Relief, and Economic Security (CARES) Act (H.R. 748) is a massive aid package containing a combination of funding for public health programs, tax benefits for businesses and individuals, appropriations for government programs supporting coronavirus relief efforts, and other items to help stabilize the economy.

Members worked through the bill at breakneck speed, negotiating the final package in just four days. Those talks took place at the highest levels, with Senate Majority Leader Mitch McConnell (R-KY), Senate Minority Leader Chuck Schumer (D-NY), and House Speaker Nancy Pelosi (D-CA) sharing proposals between each other and Treasury Secretary Steven Mnuchin on behalf of the Trump administration. While some senators objected to certain aspects of the bill, such as the provisions covering unemployment benefits or corporate stabilization, the massive relief package passed by a remarkable 96-0 vote. Prior to the vote, President Donald Trump gave his blessing to the package in a televised press conference.

The House will convene on Friday to consider the CARES Act, Majority Leader Steny Hoyer (D-MD) announced late Wednesday night. He said in a statement that he expects the bill to ultimately pass by voice vote, but not unanimous consent. While it is remarkable to consider a bill costing \$2 trillion passing the House without a roll call vote, several members have either tested positive for COVID-19, are suspected to potentially have the virus, or are in self-quarantine after coming in contact with someone who tested positive. That fact, coupled with the overwhelmingly bipartisan Senate vote, make passage by voice vote the likeliest outcome.

The K&L Gates Public Policy & Law practice group has been assisting clients with provisions in the bill and monitoring related policy developments, and the firm's lawyers and government relations professionals are working with clients on the implementation of government policies and legislation enacted to address the coronavirus pandemic. Should you have any questions regarding specific provisions in the bill, or other policies enacted

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by federal or state governments in response the pandemic, please email [Darrell Conner](#), [Karishma Page](#), [Lauren Flynn](#), or [Kathleen Nicholas](#).

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The CARES Act is divided into two sections. Division A focuses on the economic and health care provisions, while Division B includes supplemental FY 2020 appropriations. What follows is a high-level analysis of the titles in the bill.

SMALL BUSINESS RELIEF

Title I provides a number of new programs, changes to existing programs, and resources for federal agencies that are designed to help small business recover COVID-19-related losses. More specifically, the bill enables small businesses to tap into an assortment of loans and loan guarantees to help maintain ongoing operations during the crisis.

- **Paycheck Protection Program (PPP):** The PPP allows a special class of business concerns to qualify for forgivable Small Business Administration (SBA) loans. Loan funds can be used for several purposes including: payroll costs, medical or family leave, insurance premiums, mortgage, or rent, etc. Eligible borrowers during the covered period (ending on June 30, 2020) include business concerns, nonprofit organizations, or veterans' organizations that employ no more than 500 employees.¹ Other individuals/entities that are eligible include:
 - individuals who operate under a sole proprietorship or as an independent contractor;
 - certain self-employed individuals; and
 - businesses in the accommodations and food services sector with no more than 500 employees per physical location.

The maximum loan amount would be the lesser of \$10 million or an amount equal to a multiple of the business's monthly "payroll costs." While payroll costs are defined broadly and include a variety of expenses (vacation or family leave, payments for certain group health care, etc.), it does not encompass the compensation of employees whose annual salary is in excess of \$100,000.

- **Loan Forgiveness:** Under the PPP, borrowers would be eligible for forgiveness of the principal amount of the covered loan in an amount equal to the costs incurred and payments made during the covered period for payroll costs, payment of

¹ Or, if applicable, any size standard in number of employees established by the Small Business Administration for the specific industry.

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interest on any covered mortgage obligation or rent obligation, and any covered utility payment. The amount of the loan forgiveness would be reduced based on a formula that accounts for any reduction in the number of the borrower's employees during the covered period, as well as a formula that accounts for reductions in the total salary or wages of any lower paid employee.

- **United States Treasury Program Management Authority:** Enables lenders (both non-bank and bank) to participate in the PPP. Allows the Department of the Treasury (Treasury) to issue guidance and regulations for these lenders regarding underwriting standards, maturity, interest rates, and lender compensation. Enables 7(a) lenders to participate in the PPP.
- **Entrepreneurial Development:** Authorizes the SBA to provide awards to Small Business Development Centers (SBDC) and Women's Business Centers (WBC) to provide technical training, counseling, and education to small businesses owners regarding SBA resources related to COVID-19. Allows the SBA to provide grants to: (1) establish an online platform that consolidates all of the federal government's small business resources related to COVID-19; and (2) create a training program to train counselors located at SBDC, WBC, Service Corps of Retired Executives, and Veteran's Business Outreach Centers on the federal resources available for small businesses.
- **State Trade Expansion Program (STEP):** Enables funds previously appropriated for STEP to remain available until FY 2021.
- **Waiver of Matching Funds Requirement under the Women's Business Center Program:** The non-federal matching requirement for WBCs is eliminated for a three-month period.
- **Minority Business Development Agency (MBDA):** Provides additional funds for grants to Minority Chambers of Commerce and MBDA Centers to provide training, counseling, and education on federal resources related to COVID-19. Removes the non-federal matching requirement for MBDA Centers for three months and allows these Centers to remove their fee-for-service requirements until September 2021.
- **Emergency Economic Injury Disaster Loans (EIDL) Grants:** Makes cooperatives, tribal businesses, covered ESOPS, independent contractors, and sole proprietors eligible under the program. The bill waives EIDL's credit elsewhere provisions and eliminates the personal guarantee requirement for advances and loans under \$200,000.

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During the covered period, the bill allows the SBA to approve EIDL loans based solely on an applicant's credit score or other method that is used to determine an applicant's ability to repay. It allows borrowers who have applied for an EIDL loan to request an advance of no more than \$10,000 on that loan. If the borrower's underlying loan application is denied, the applicant is not required to repay the advanced payment. Advanced payments may be used for a variety of purposes including rent, mortgage payments, payroll, paid sick leave, etc. Several changes to the EIDL program apply only to the covered period (January 31, 2020 to December 31, 2020).

- **Resources and Services in Languages Other than English:** Provides \$25 million to ensure that the SBA offers services and resources in languages other than English.
- **Subsidy for Certain Loan Payments:** Requires the SBA to pay principal, interest, and associated fees for a six-month period on existing 7(a), 504, Community Advantage, and microloans. If a covered loan is in deferment, the six months of payments will begin after the deferral period ends. Requires the SBA to encourage lenders to provide deferments.
- **Bankruptcy:** The CARES Act makes several COVID-19-related changes to the Bankruptcy Act. For example, the bill raises the eligibility threshold for businesses filing under chapter V of chapter 11 of the Bankruptcy Act from \$2,725,625 to \$7,500,000. Under chapters 7 and 13, the definition of income is changed to exclude COVID-19-related payments from the federal government. For individuals and families currently in chapter 13, the bill allows them to seek a payment plan modification if they can show that they are experiencing material financial hardship related to the COVID-19 pandemic. This provision allows for the extension of payments up to seven years after their initial plan payment was due. Several of these changes expire after one year.
- **Emergency Rulemaking Authority:** Requires the SBA to promulgate regulations no later than 15 days after enactment of the bill.
- **Direct Appropriations:** The bill appropriates funding for the following:
 - Secondary Market Guarantee sales: \$100 billion
 - Loan Subsidies: \$17 billion
 - Emergency EIDL grants: \$10 billion
 - SBA salaries and expenses: \$675 million

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- Loan Guarantees: \$349 billion
- Technical Assistance for SBDCs and WBCs: \$240 million
- Treasury salaries and expenses: \$25 million
- Online information and training provided by resource partners: \$25 million
- Officer of Inspector General: \$25 million
- Technical assistance to be provided by MBDA Centers: \$10 million

TAX INCENTIVES, RECOVERY REBATES, AND MORE

With respect to tax policy, the legislation includes a number of measures aimed at helping small and large businesses and individual Americans through the next several months of the economic crisis brought on by the spread of COVID-19, primarily by increasing cash flow.

Individuals

- **Recovery Rebates:** The deal includes “recovery rebate” payments of \$1,200 for single filers and \$2,400 for married-filing-jointly (MFJ) filers, plus \$500 per child, with phase outs beginning at \$75,000 in income for singles and \$150,000 in income for MFJ filers. The rebates apply to tax filers and certain non-tax filers, including Social Security recipients.
- **Access to Retirement Funds:** The bill makes a number of temporary changes for certain retirement plans, including removing the 10 percent penalty for early withdrawals of retirement funds up to \$100,000 and waiving required minimum distributions for 2020.
- **Charitable Contributions:** The legislation allows for an above-the-line deduction for charitable contributions made in cash of up to \$300 for those who do not itemize their tax returns. Additionally, the bill lifts the limitation for individual charitable deductions and increases the corporate percentage limitation to 25 percent for 2020.
- **Employer Student Loan Payments:** The legislation allows employers to provide tax-free payments up to \$5,250 to employees for student loan payments for 2020.

Businesses

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- **Payroll Tax Deferral:** Employers can defer payment on their share of Social Security taxes through 2020. Half of the deferred taxes must be paid by December 31, 2021, and the other half by December 31, 2022.
- **Employee Retention Credit:** Employers are allowed a refundable credit against applicable employment taxes equal to 50 percent of qualifying wages up to \$10,000, for a maximum credit of \$5,000. Eligible employers include those forced to entirely or partially suspend operations because of COVID-19 or those experiencing a significant decline in gross receipts because of COVID-19.
- **Other Business Provisions:** The legislation provides additional relief to businesses to provide access to cash flow and reduce the cost of capital as businesses borrow in response to COVID-19 circumstances:
 - Allows net operating losses (NOL) arising in 2018, 2019, and 2020 to be carried back five years and temporarily suspends the 80 percent taxable income limitation. It also makes a technical correction to the 2017 Tax Cuts and Jobs Act (TCJA) that had caused the law's NOL changes to apply only to tax years *ending* after December 31, 2017, rather than *beginning* after that date, as was intended.
 - Allows refundability of unused alternative minimum tax credits.
 - Increases the limitation on the deductibility of interest expense that may be deducted for 2019 and 2020 from 30 percent to 50 percent of adjusted taxable income.
 - Includes a technical correction to the TCJA by fixing the qualified improvement property error (or “retail glitch”), which has inadvertently excluded certain investments from the TCJA’s full expensing allowance.

EXPANDED HEALTH CARE AND BENEFITS

Title III of the package covers a wide range of health care, education, and labor provisions. These range from ramping up the supply of prescription drugs and medical equipment, support for students impacted by COVID-19, and enhanced unemployment compensation benefits. The bill also makes clarifications to paid sick and family and medical leave provisions passed in the previous COVID-19 response package (H.R. 6201).

- **Health Care:** The deal increases payments to health care providers caring for Medicare beneficiaries by temporarily suspending the Medicare sequester from May 1 through December 31, 2020. It also provides a 20 percent Medicare add-on payment for treating patients admitted with COVID-19. The deal expands Medicare

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telehealth flexibilities and extends Medicare and Medicaid programs. It also expands the range of diagnostic tests that certain payers must cover and clarifies preventive services that must be covered. Moreover, in an effort to increase access to health care supplies, the deal further requires that certain medical supplies be included in the strategic national stockpile.

- **Student Loans:** The deal includes provisions that address work-study and student loan relief provisions. Students that are not able to work due to closures related to COVID-19 may be able to continue receiving work-study payments from their institution. Additionally, if a student receiving a Federal Pell Grant or subsidized loan had to drop out of school because of COVID-19, the term is excluded from their lifetime eligibility. Those students are also not required to return their Federal Pell Grant or student loan funds. Borrowers of federal student loans are eligible to have their student loan payments, principal, and interest deferred for six months through September 30, 2020, without penalty.
- **Paid Sick and Family and Medical Leave:** With respect to the Emergency Family and Medical Leave Expansion Act in H.R. 6201, the bill clarifies that an employer will not be required to pay more than \$200 per day and \$10,000 in aggregate to each qualifying employee. Further, with respect to the Emergency Paid Sick Leave Act in H.R. 6201, the bill explains that an employer will not be required to pay more than \$511 per day and \$5,110 in aggregate to an individual qualifying for sick leave and not more than \$200 per day and \$2,000 in aggregate when caring for a quarantined individual or child. If an employee is laid off after March 1, 2020, and later rehired, the bill provides access to paid family and medical leave under certain circumstances as long as the employee worked for the employer for more than 30 days prior to being laid off. Lastly, it allows employers to seek an advanced tax credit for payments made to employees under the paid sick and family and medical leave provisions in H.R. 6201.
- **Enhanced Unemployment Compensation Benefits:** The legislation increases the amount of unemployment compensation and lengthens its availability. Under Section 2104, the legislation increases the amount of unemployment insurance compensation an individual may receive under state law by an additional \$600 per week through the end of July 2020. Under Section 2107, the legislation would also provide an additional 13 weeks of unemployment compensation beyond the benefits provided under state law through the end of December 2020. The federal government would reimburse states for payments associated with these programs.

The legislation also covers those individuals not traditionally eligible for unemployment compensation, intended to cover those who are self-employed, independent contractors, gig-workers, and others who are limited in their ability to

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work as a result of COVID-19. More specifically, under Section 2102 of the legislation, which creates the Pandemic Unemployment Assistance program, eligible individuals include those who are not otherwise eligible for unemployment compensation, including those who have exhausted their rights to benefits, or are self-employed, seeking part-time employment, do not have sufficient work history, or otherwise would not qualify for unemployment compensation. These individuals would be eligible for up to 39 weeks of unemployment, through the end of December 2020. Similar to the programs noted above, the federal government would reimburse states for payments associated with these programs.

The legislation would also provide relief through December 2020 to states:

- Reimbursing governmental entities and non-profits to pay for unemployment compensation;
- That provide unemployment compensation to individuals upon unemployment, rather than waiting one week until eligible; and
- That have short-term compensation programs providing pro-rated unemployment compensation when employers reduce employee hours.

ECONOMIC STABILIZATION AND SUPPORT FOR CORPORATIONS

The package would direct capital to U.S.-based businesses (including passenger and cargo airlines and businesses whose operations are critical to national security), not-for-profits, States, and municipalities through loans, loan guarantees, and other investments through Treasury or the Federal Reserve's existing and to be established liquidity facilities.

- **\$500 Billion for the Exchange Stabilization Fund:** Treasury will provide up to \$500 billion in loans, loan guarantees, and other investments for eligible businesses, States, and municipalities. This amount will be distributed through two mechanisms:
 - **Direct Loans and Loan Guarantees by Treasury:**
 - **\$25 billion** may be allocated to passenger airlines and other businesses, such as those approved to perform inspections or overhaul services;
 - **\$4 billion** may be allocated to cargo air carriers; and
 - **\$17 billion** may be allocated to businesses whose operations are critical to maintaining national security.

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- **Federal Reserve Liquidity Facilities and Programs:** Of the \$500 billion authorized to Treasury, \$454 billion and any sums not provided as loans or loan guarantees to air carriers and national security-related businesses shall be used for loans, loan guarantees, and other investments for the loans and liquidity facilities provided by the Federal Reserve. The Federal Reserve will make collateralized loans and purchase obligations from eligible entities directly or through the secondary market.
- **Eligible Business Entities**
 - Direct loans and loan guarantees from Treasury are available to passenger airlines, cargo airlines, and national security businesses, provided:
 - Credit is not reasonably available to the applicant;
 - The intended obligation is prudently incurred;
 - The loan or loan guarantee is sufficiently secured or made at an interest rate that reflects the risk and is not less than the market rate for comparable obligations prior to the COVID-19 crisis;
 - The maturity is five years or less (and should be as short as possible);
 - The business agrees to restrictions on equity buybacks, dividends, and capital distributions
 - Recipients, and their affiliates, may not purchase an equity security of the recipient's or the recipient's parent company listed on a national securities exchange, pay dividends, or make capital distributions on common stock while the loan or guarantee is outstanding (absent a pre-existing contractual obligation to the contrary) or for 12 months after the loan or guarantee has been made.
 - The business maintains payroll at March 24, 2020 levels until September 30, 2020, and maintain no less than 90 percent of payroll;
 - The business certifies it is created or organized in the United States or under the laws of the United States, has significant operations in the United States, and a majority of its employees are based in the United States;

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- The business agrees to restrictions on compensation and severance (described in Section 4004);
 - The business must have issued securities traded on a national securities exchange and Treasury must receive a warrant or equity interest in the business, or Treasury must be given a warrant or equity interest or senior debt instrument for recipients who have not issued securities traded on a national securities exchange;
 - The business has incurred or is expected to incur losses that would jeopardize continued operation; and
 - The business has not otherwise received adequate economic relief in the form of loans or loan guarantees provided under the bill.
- Loans, loan guarantees, or other investments by Treasury for a Federal Reserve program can be provided as direct loans to a business if the business:
 - Agrees to restrictions on equity buybacks, dividends, and capital distributions;
 - Recipients, and their affiliates, may not purchase an equity security of the recipient's or the recipient's parent company listed on a national securities exchange or pay dividends or make capital distributions on common stock while the loan or guarantee is outstanding (absent a pre-existing contractual obligation to the contrary) or for 12 months after the loan or guarantee has been made. The Secretary of the Treasury may waive this requirement for any liquidity facility if doing is "not necessary to protect" the federal government's interests.
 - Agrees to restrictions on compensation and severance (Described in Section 4004);
 - Was created or organized in the United States or under the laws of the United States, has significant operations in the United States, and a majority of its employees are based in the United States.
 - This restriction also applies to issuers of obligations in a Federal Reserve Board program or facility will purchase directly or on the secondary market, other than securities based on an index or are based on a diversified pool of securities.

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- Has not otherwise received adequate economic relief in the form of loans or loan guarantees provided under the Act.
- *Interest Rates and Maturity:* Treasury will set the interest rate and maturity may not exceed five years.
- *No Loan Forgiveness:* The government may not forgive the principal.
- **Potential for Additional Liquidity Facilities:** Treasury and the Federal Reserve will endeavor to establish a liquidity facility that will enable banks and other lenders to make direct loans to non-profits and businesses with 500 to 10,000 employees. The Federal Reserve also may establish a facility or lending program for “small and mid-sized” businesses. Additionally, the Secretary of the Treasury will endeavor to implement a program or facility to provide liquidity to financial systems that support lending to States and municipalities.
- **Money Market Funds Guaranty Program:** Any guarantee through a Money Market Funds Guaranty Program must be limited to the total value of the shareholder’s account at the close of business on the day before a guarantee is announced. Such a program must end by December 31, 2020.
- **NCUA Liquidity Facility:** The National Credit Union Administration (NCUA), on behalf of its central liquidity facility, may borrow from any source up to 16 times the total face value of the facility’s capital stock and surplus.

The package would also relax certain requirements for depository institutions and expand the Federal Deposit Insurance Corporation (FDIC) and NCUA’s insurance programs to further facilitate liquidity.

- **Debt Guarantee Programs:** The FDIC may guarantee obligations of non-interest bearing transaction accounts held with solvent depository institutions and their affiliates until December 31, 2020, and the NCUA may increase share insurance coverage to cover amounts in such accounts held by federally insured credit unions.
- **Temporary Lending Limit Waiver:** The Office of the Comptroller of the Currency may allow national banks to provide more than 10 percent of unimpaired capital and surplus in fully secured loans to one person and more than 15 percent for non-fully secured loans.
- **Temporary Relief for TDRs and Community Bank Leverage Ratio:** Community banks will have a grace period to achieve eight percent capital and will be deemed in compliance with this requirement during their grace period. Financial institutions

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can suspend Generally Accepted Accounting Principles requirements for loan modifications related to COVID-19 that would otherwise be troubled debt restructurings for loans not delinquent as of December 31, 2019.

- **Temporary Delay of CECL:** Depository institutions, federally insured credit unions, and bank holding companies and their affiliates may delay implementation of the current expected credit loss until December 31, 2020, or the end of the crisis, whichever is earlier.

SUPPORT FOR TRANSPORTATION OPERATIONS

In addition to the airline-related provisions in the economic stabilization section, other transit related appropriations in the package include:

- \$25 billion for Public Transit Infrastructure Grants
- \$10 billion in Airport Improvement Program grants for publically-owned, commercial airports
- \$56 million for the Essential Air Service program
- \$100 million for Transportation Security Administration, Operations and Support
- \$141 million for Coast Guard, Operations and Support
- \$1 billion for Amtrak; including \$492 million for Northeast Corridor Grants
- \$250,000 for Federal Railroad Administration, Safety and Operations
- \$150,000 for Federal Motor Carrier Safety Operations and Programs
- \$3.1 million for Maritime Administration Operations
- \$1 million for State Maritime Academy Operations

In addition to direct appropriations, the Phase III relief package includes the following transportation related provisions:

- **Continuation of Certain Air Service:** Authorizes the Secretary of Transportation to require, to the extent reasonable and practicable, an air carrier receiving loans and loan guarantees to maintain scheduled air transportation service as deemed necessary to ensure services to any point previously served by that carrier.

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- **Suspension of Certain Aviation Excise Taxes:** Establishes an “excise tax holiday period” on taxable transportation by air beginning after the date of the enactment, and ending before January 1, 2021.
- **REAL ID Implementation:** Extends the deadline for states to meet the requirements of the REAL ID Act to not earlier than September 30, 2021.
- **Highway Safety Grants Emergency Authority:** Permits states to issue special permits for overweight vehicles and loads to allow for the free flow of critical relief supplies for the duration of the fiscal year.
- **Critical Infrastructure Funding:** Provides \$9.1 million for the Cybersecurity and Infrastructure Security Agency for support of interagency critical infrastructure coordination.
- **Harbor Maintenance Trust Fund:** Modifies the treatment of discretionary appropriations derived from the Harbor Maintenance Trust Fund.

INCREASED FY 2020 APPROPRIATIONS

In addition to the numerous policy changes and new programs contained within the final Senate deal, the legislation would provide hundreds of billions of dollars in additional FY 2020 appropriations to help federal government departments and agencies responsible for addressing specific COVID-19 issues and relief and to help bolster specific sectors of the economy. Specific appropriations amounts within the legislation, many aimed at bolstering the nation’s healthcare system amid the COVID-19 crisis, include the following:

- \$100 billion in the form of reimbursements to hospitals and healthcare providers to ensure adequate support as they continue to face COVID-19 expenses
- \$45 billion for the Department of Homeland Security’s Disaster Relief Fund to assist state, local, tribal, and territorial governments with COVID-19 recovery efforts
- \$10 billion to commercial airports; \$1 billion to assist Amtrak; and \$25 billion to assist public transit operators as transportation demands decline and safety and operational needs evolve
- \$30.7 billion for an Education Stabilization Fund within the Department of Education, including \$13.5 billion for elementary and secondary education and \$14.2 billion for higher education, to assist school districts and institutions with coronavirus-related costs

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- \$16 billion for the Strategic National Stockpile to procure various supplies, including ventilators and personal protective equipment
- \$14.4 billion for coronavirus-related medical services for veterans through the Department of Veterans Affairs
- \$10.5 billion for the Department of Defense in order to protect members of the military and their families from the coronavirus, including \$1 billion for the Defense Production Act to assist the Department with manufacturing equipment needed to aid healthcare workers across the country
- \$4.3 billion for the Centers for Disease Control and Prevention to assist public health agencies in responding to the coronavirus, including \$1.5 billion to support laboratory testing, the combatting of secondary infections, and communications efforts
- \$850 million for the Byrne-Justice Assistance Grant Program, which allows state and local police departments to fund various local needs, including personal protective equipment for officers most exposed to the outbreak
- \$562 million for the SBA to provide Economic Injury Disaster Loans to small businesses impacted by the COVID-19 pandemic
- \$450 million for the Emergency Food Assistance Program to ensure that food banks are able to meet increased needs amid the COVID-19 crisis

In addition to the appropriations provisions to aid with the COVID-19 response, the legislation includes \$400 million for election assistance funding for state governments to prepare for the November 2020 election. The funding is intended to be used to increase voters' ability to cast ballots via mail, expand early voting, and ensure that in-person voting can be done safely.

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