Senate Releases Updated Economic Relief Plan (CARES Act) for Individuals and Businesses

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Key Updates

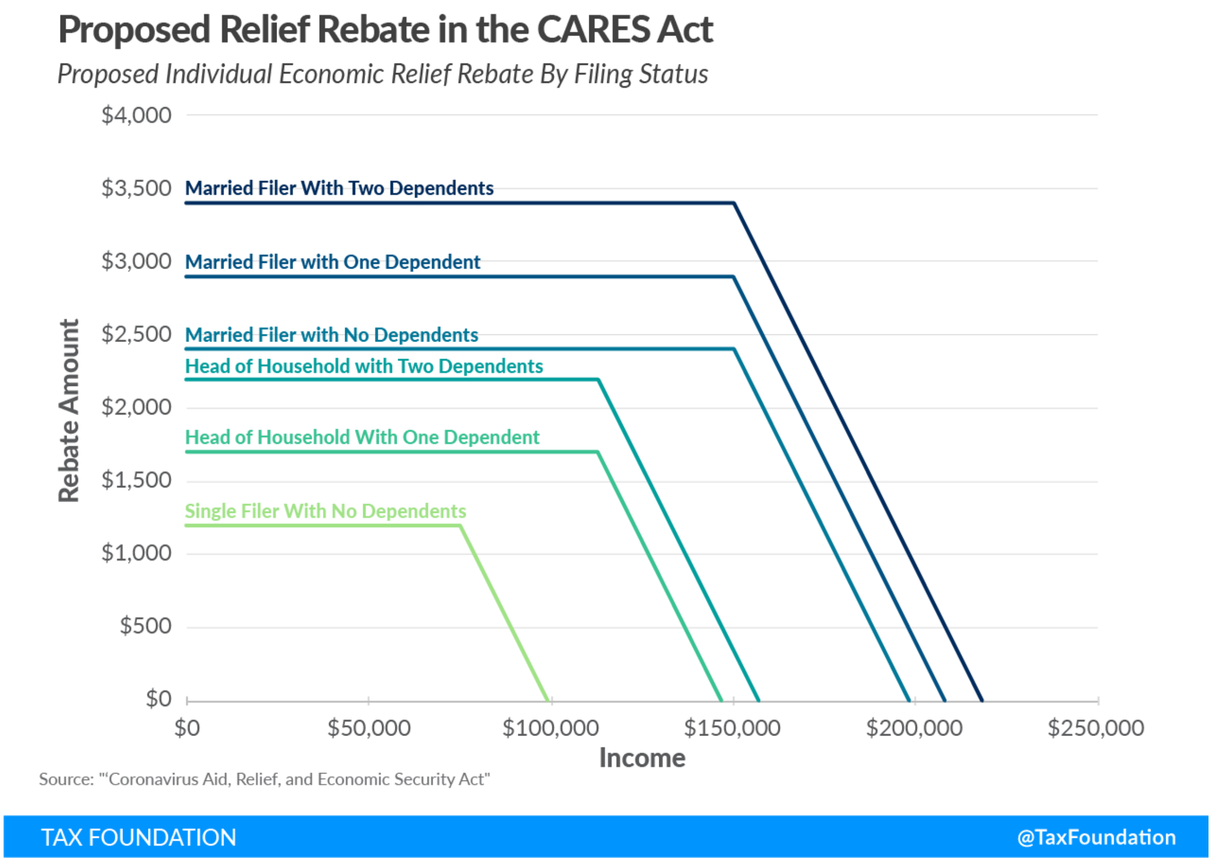
- The proposed recovery rebates have been modified by eliminating the $2,500 minimum qualifying income requirement and the phase-in rules. The rebate amount and phaseout rules remain the same. This raises the cost of the rebate to $301 billion, according to our estimate.
- The revised version of the bill waives required minimum distribution rules for certain retirement plans in calendar year 2020.
- The technical correction for downward attribution of stock ownership, which affected foreign subsidiaries of U.S. firms to excessive tax and reporting requirements, has been eliminated.
- Quarterly estimated payments are no longer delayed in this version of the bill.
- The new version modifies loss limitations for non-corporate taxpayers, including rules governing excess farm losses. Limitations on excess business losses are delayed until 2021. The proposed provision allowing corporations to delay making quarterly estimated payments has also been eliminated.
- Business relief has been increased to $500 billion, including $425 billion in loan guarantees. This relief would be administered through the U.S. Treasury.
- Small Business Interruption Loans have been expanded from $300 billion to $350 billion, making loan eligibility limited to firms that have maintained their payroll. Forgiveness eligibility is extended to firms that rehire employees by April 1, 2020.

Sunday afternoon, the Senate released an updated version of the Coronavirus Aid, Relief and Economic Security (CARES) (https://www.politico.com/f/?id=00000171-0319-d8a3-a3f5-73bfe5b20000) Act. The bill builds upon an earlier version of the CARES Act and is intended to be a third round of federal government support in the wake of the coronavirus public health crisis and associated economic fallout, following the $8.3 billion (https://markets.businessinsider.com/news/stocks/congress-lawmakers-8-billion-funding-deal-fight-coronavirus-outbreak-2020-3-1028965749) in public health support passed two weeks ago and the Families First Coronavirus Response Act.

The CARES Act builds on the two former pieces of legislation by providing more robust support to both individuals and businesses, including changes to tax policy. The bill includes:

- $350 billion allocated for Small Business Interruption Loans, which are meant to help small businesses (fewer than 500 employees) impacted by the pandemic and economic turndown make payroll and cover other expenses. Notably, small businesses may take out loans up to $10 million and cover employees making up to $100,000 per year; loans taken for this purposes are forgiven (https://twitter.com/EamonJavers/status/1241000782121652226) if the business does not lay off its employees (forgiveness is scaled down as layoffs rise). In order to be eligible for a loan, a firm must maintain an average monthly number of employees during the covered period that is no less than the number it had before the crisis began.

- Firms that have laid off employees may qualify for forgiveness if employees are rehired by April 1, 2020.
- Recovery rebate for individual taxpayers. The bill would provide a $1,200 refundable tax credit for individuals ($2,400 for joint taxpayers). Unlike the previous version of the bill, the credit has no minimum qualifying income requirements and no phase-in (see Chart 1). The rebate phases out at $75,000 for singles, $112,500 for heads of household, and $150,000 for joint taxpayers at 5 percent per dollar of qualified income, or $50 per $1,000 earned. It phases out entirely at $99,000 for single taxpayers and $198,000 for joint taxpayers. Additionally, taxpayers with children will receive a flat $500 for each child. We estimate the rebate will decrease federal revenue by about $301 billion in 2020, according to the Tax Foundation General Equilibrium Model. This is higher than the previous credit design, as this credit is available to more people and offers a higher base amount for low-income households. This credit is one-time, but policymakers might consider additional rebates if the downturn is prolonged.



We estimate that the rebates would increase taxpayer after-tax income by about 2.59 percent, ranging from 16.33 percent at the lowest quintile and dropping to 1.89 percent for the 80th to 90th percentiles. The rebate is structured progressively, but does not include non-filers, who tend to have lower income. The rebate would be calculated using 2019 tax returns, swapping in 2018 returns if a taxpayer has not filed for 2019 yet. Additionally, Social Security Administration benefit information may be used for low-income taxpayers solely relying on Social Security benefits.

We estimate that nearly all filers below the 80th percentile will receive a rebate, but only 0.1 percent of filers above the 99th percentile will receive a rebate due to the phaseouts. The average rebate will be about $1,523, ranging from $1,436 for the 0 to 20th percentiles to $45 for the 95th to 99th percentiles.

Table 1. Conventional Distributional Effect of the Proposed Recovery Rebates (Revised) in the CARES Act

Income level	Percent Change in After-Tax Income	Average Rebate (Refundable and Non-Refundable Credit)	Share of Filers with a Rebate
0% to 20%	16.33%	$1,436	100%
20% to 40%	6.73%	$1,579	100%
40% to 60%	4.33%	$1,642	100%
60% to 80%	3.00%	$1,865	99.9%
80% to 90%	1.89%	$1,727	98.9%
90% to 95%	0.67%	$844	62.2%
95% to 99%	0.02%	$45	8.7%
99% to 100%	0.00%	$0	0.1%
Total	2.59%	$1,523	93.6%

Source: Tax Foundation General Equilibrium Model, November 2019.

- Creates a $300 above-the-line charitable contribution for filers taking the standard deduction and expands the limit on charitable contributions for itemizers.
- Waives the 10 percent early withdrawal penalty on retirement account distributions for taxpayers facing virus-related economic challenges. Withdrawn amounts are taxable over three years, but taxpayers can recontribute the withdrawn funds into their retirement accounts for three years without affecting retirement account caps. The bill also waives required minimum distribution rules for certain retirement plans in calendar year 2020.
- A variety of business tax provisions (https://www.finance.senate.gov/imo/media/doc/Section-by-Section%20Coronavirus%20Tax%20Relief%20Measures.pdf):
    - Employer-side Social Security payroll tax payments may be delayed until January 1, 2021, with 50 percent owed on Dec. 31, 2021 and the other half owed on Dec. 31, 2022. The Social Security Trust Fund will be backfilled by general revenue in the interim period.
    - Firms may take net operating losses (NOLs) earned in 2018, 2019, or 2020 and carry back those losses five years. The NOL limit of 80 percent of taxable income is also suspended, so firms may use NOLs they have to fully offset their taxable income. The bill also modifies loss limitations for non-corporate taxpayers, including rules governing excess farm losses. Limitations on excess business losses are delayed until 2021.
    - Firms with tax credit carryforwards and previous alternative minimum tax (AMT) liability can claim larger refundable tax credits than they otherwise could.

    - The net interest deduction limitation, which currently limits businesses' ability to deduct interest paid on their tax returns to 30 percent of earnings before interest, tax, depreciation, and amortization (EBITDA), has been expanded to 50 percent of EBITDA for 2019 and 2020. This will help businesses increase liquidity if they have debt or must take on more debt during the crisis.
    - Technical corrections to the depreciation treatment of qualified improvement property (QIP).
    - Aviation excise taxes on kerosene are suspended until January 1, 2021. We estimate this will reduce federal revenue by about $8 billion in 2020.
- $500 billion in emergency relief to businesses, states, and cities through the U.S. Treasury, including $425 billion in loan guarantees. This includes $50 billion for airlines, $8 billion for cargo air firms, and $17 billion for firms deemed critical to U.S. national security.
- Health provisions to address the coronavirus crisis, including provisions addressing supply shortages, coverage of diagnostic testing for the virus, support for health care providers, improving telehealth service access and flexibility, encouragement for the creation of drugs to treat the virus, and support for educational institutions.

The CARES Act is a positive step forward to provide economic relief to individuals and businesses facing hardship or economic ruin due to this crisis. However, several aspects of the proposal can be improved.

The recovery rebate design has improved since the last version of the bill, as both the minimum income requirement and phase-in have been eliminated. Using 2019 and 2018 returns is also an improvement over the previous bill, though policymakers could also use 2020 return information next spring (2021) to determine eligibility and implement the phaseout. This would ensure the relief is targeted as well as it can be in the current situation.

The business provisions improve a firm's ability to remain liquid and survive through the crisis, but more could be done given the scale of the challenge. In addition to providing NOL carrybacks for five years and suspending the net income limitation, policymakers could permit firms to accelerate the NOL deductions they currently hold, ensuring firms that did not make large profits in previous years also benefit. Additionally, the net interest limitation could be suspended entirely for this tax year.

We are optimistic that policymakers can build on this bill to ensure individuals and businesses can weather the storm and rebound effectively when the crisis abates.