

Federal Government Announcing Stimulus Package to Support Small Businesses

By Jie Wang, LL.M. Candidate 2020 | April 16, 2020

On March 27, 2020, Congress approved an economic relief plan to stimulate small businesses severely affected by the shelter-in-place order, and the subsequent economic downturn, amid COVID-19. The relief plan is known as the [Coronavirus Aid, Relief, and Economic Security \(CARES\) Act](#), which incorporates expanded unemployment insurance, a paycheck protection program, a refundable payroll tax credit and deferring social security payroll tax payments for employers.

The paycheck protection program allocated \$350 billion as part of the \$2 trillion stimulus package to assist small businesses with less than 500 employees (or otherwise meet the size standard of the [Small Business Administration \(SBA\)](#)), sole proprietors, and independent contractors. The program is intended to help these businesses retain workers, maintain payroll, make mortgage payments, pay leases and utilities costs, and actively encourage their employees to take paid sick leave (or fulfill family obligations due to government-mandated shut-down order) all over an 8 week period. The CARES Act provides that these loans do not require [collateral](#), recourse to business owners, or personal guarantees. Even if the borrower is not granted loan forgiveness, small businesses are still entitled to a 1% low-interest loan with principle and interest deferred for 6 months.

The New York Times recently [reported](#) that the Treasury Secretary is considering expanding the small-business loan program by supplementing another \$250 billion funds from banks. Economists anticipate that funds claimed will be more than three times as much as that Congress originally approved in avoidance of overwhelming bankruptcies.

As of the last week, thousands of small businesses had submitted applications for more than [\\$40 billion loan forgiveness](#). At this point, SBA-approved lenders may heighten the bar for applications and specify additional requirements. Wells Fargo declined to lend more money after it reached [the \\$10 billion lending cap](#). A similar practice is expected to exist for other lenders, allowing them to figure out how to handle applications and wait for further SBA guidelines.



Along with PPP loans, small businesses have access to [Economic Injury Disaster Loans](#) (EIDL) (granted by the SBA) to overcome economic frustration, since all states have declared the pandemic a disaster. EIDL is also accessible for sole proprietors or independent contractors, with eligibility determined solely by credit score and self-certification.

In terms of taxation policies, the CARES Act allows employers to defer paying [social security tax](#) incurred in 2020 over the next two years. Half of the amount is required to be paid by December 31, 2021 and the other half by December 31, 2022. The law also provides that employers are eligible for a 50% [refundable tax credit](#) between March 12, 2020 and January 1, 2021 for those whose operations were fully or partially suspended due to the coronavirus outbreak.

With an array of financial efforts, the federal government is trying to stabilize the economy and strengthen small businesses amid the COVID-19 pandemic. According to Rebeca Romero Rainey, president of Independent Community Bankers of America, the Federal Reserve is also considering additional funds and alternative financial solutions for small business relief, such as buying the loans in a [secondary market facility](#).