Last Hurdle Accomplished: CARES Act is approved

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act passed the House of Representatives by a voice vote. The President then signed the bill into law. The bill builds upon earlier versions 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, succeeding the $8.3 billion in public health support passed two weeks ago and the Families First Coronavirus Response Act. It is the product of negotiations between Democrats and Republicans for a bipartisan response to the crisis.

Key Updates:

- The proposed stimulus rebates will utilize 2019 tax returns (if the taxpayer has not filed in 2019, then 2018 return) to determine the aid amount. This will reconcile the rebate based on 2020 income. Essentially, it means that taxpayers who receive a smaller rebate than they are eligible for based on 2020 income will receive the difference after filing a 2020 tax return, but overpayments of rebates due to a higher income in 2020 will not be taken back.
- An additional $600 per week will be given to each recipient for up to four months for unemployment insurance provisions. However, the Act also extends unemployment insurance to self-employed workers, independent contractors, and those with limited work history.
- Employers will be eligible for a 50 percent refundable tax credit on payroll taxes for wages paid up to $10,000 during the pandemic.
- Employer payments of student loans on behalf of their employees will be excluded from taxable income. Employers may contribute up to $5,250 annually toward student loans.
- Americans living abroad are also eligible for the stimulus rebates under the adjusted gross income conditions. The rebate will be up to $1,200 per person plus an additional $500 per child.
- If taxpayers have received a direct deposit on their refunds in 2018, the checks should be received in the bank within 2-3 weeks.

- Federal student loans interest rate is automatically set to 0% for sixty days.
- Small businesses, including for Americans abroad, may qualify for SBA loans to continue payroll and owners' salaries.

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

- **Expanded unemployment insurance (UI)** for workers, including a $600 per week increase in benefits for up to four months and federal funding of UI benefits provided to those not usually eligible for UI, such as the self-employed, independent contractors, and those with limited work history. The federal government is incentivizing states to repeal any "waiting week" provisions that prevent unemployed workers from getting benefits as soon as they are laid off by fully funding the first week of UI for states that suspend such waiting periods. Additionally, the federal government will fund an additional 13 weeks of unemployment benefits through December 31, 2020 after workers have run out of state unemployment benefits.
- **$350 billion allocated for the Paycheck Protection Program**, which is meant to help small businesses (fewer than 500 employees) impacted by the pandemic and economic downturn to make payroll and cover other expenses from February 15 to June 30. Notably, small businesses may take out loans up to $10 million—limited to a formula tied to payroll costs—and can cover employees making up to $100,000 per year. Loans may be forgiven if a firm uses the loan for payroll, interest payments on mortgages, rent, and utilities and would be reduced proportionally by any reduction in employees retained compared to the prior year and a 25 percent or greater reduction in employee compensation.
- **Recovery Rebate for individual taxpayers.** The bill would provide a $1,200 refundable tax credit for individuals ($2,400 for joint taxpayers). Additionally, taxpayers with children will receive a flat $500 for each child. The rebates would not be counted as taxable income for recipients, as the rebate is a credit against tax liability and is refundable for taxpayers with no tax liability to offset. 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

with no children and $198,000 for joint taxpayers with no children (see Chart 1). 2019 or 2018 tax returns will be used to calculate the rebate advanced to taxpayers, but taxpayers eligible for a larger rebate based on 2020 income will receive it in the 2020 tax season. Taxpayers with higher incomes in 2020 will see the overpayment associated with their rebate forgiven. For example, a single taxpayer with $100,000 in 2019 income would not receive an advance rebate but would receive the $1,200 credit on their 2020 return if their income for the year fell below the phaseout. On the other hand, a single taxpayer with $35,000 in income receives a $1,200 advance rebate but would not have to pay the rebate back on the 2020 return if they make $100,000 this year. This is structurally similar to the 2008 rebate design. We estimate the rebate

will decrease federal revenue by about $301 billion in 2020, according to the Tax Foundation General Equilibrium Model. This credit is one-time, but policymakers may consider additional rebates if the downturn is prolonged.

Updated courtesy of The Tax Foundation