



TRADITION ASSET  
MANAGEMENT



## CARES ACT OVERVIEW

On March 27, 2020, the President approved a bi-partisan congressional bill called the **Coronavirus Aid, Relief, and Economic Security Act** (the “CARES Act”). The bill went from draft to law in a week, and Trump signed it Friday. The bill allocates over \$2 Trillion in aid, with primary recipients being 1) Individuals, who will receive direct payment checks up to \$1200 each 2) Relief for large and small businesses, primarily in the form of loans, and 3) Support for government and healthcare sectors directly tied to fighting the virus. This summary will focus primarily on those large categories, as well as highlight some of the minor parts of the bill.

### 1) INDIVIDUAL PROVISIONS (~\$580B)

#### Direct Payments (~\$300 billion)

- Payments of \$1200 per individual for adjusted gross income up to \$75k, plus \$500 for each qualifying child. Those earning between \$75k and \$99k will receive a phased down, smaller check. Those earning greater than \$99k will not receive a check.
- These amounts are doubled for married couples filing jointly; i.e. a payment of \$2400 for those with AGI up to \$150k, phasing down to \$198k in AGI
- AGI is based upon 2019 returns if already filed, otherwise on 2018 tax return

#### Unemployment Insurance (~\$260 billion)

- Those filing unemployment will receive an additional \$600 per week from the federal government on top of whatever base amount a worker receives from the state. This boosted payment will last for four months.

### 2) BUSINESSLOAN PROVISIONS (\$837B)

#### Large Businesses (\$500B)

- Relief is primarily in the form of loans to industries that are unable to get loans elsewhere in the free market, and come with various restrictions and covenants, such as no stock buybacks for 1 year and various employee protections (i.e. no layoffs).
- Details are still unclear and being worked out.
- \$29B has been earmarked for airlines, and another \$17B for businesses critical to national security. The remaining \$454B may include a combination of direct loans and purchases of outstanding investment grade corporate bonds, in conjunction with the Federal reserve.

### **Small Business Association Loan Program (aka the Paycheck Protection Program)**

The SBA is dramatically expanding its loan programs to small businesses.

- Companies or non-profits with 500 employees or less are eligible
- Proceeds must be used for specific purposes, primarily tied to maintaining payroll
- Capped at the lesser of \$10 million and 2.5 times the average monthly payroll costs incurred in the one-year period before the date of the loan
- 10 years and at an interest rate of no more than 4%
- 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

### **3) STATE AND LOCAL GOVERNMENT SUPPORT (\$340B)**

The largest allocations go the following:

- \$117 Billion for Hospitals and Veterans Health Care
- \$45 Billion for the FEMA Disaster Relief Fund
- \$16 Billion for the Strategic National Stockpile
- \$4 Billion for the Centers for Disease Control
- \$11 Billion for Vaccines, Therapeutics, Diagnostics, & Other Medical Needs

### **4) OTHER PROVISIONS**

**Increased loan limit from Qualified Retirement Plans** (coronavirus-related distributions) increases the amount individuals can borrow from their plan from \$50,000 to \$100,000. The window begins March 27th and runs for 180 days.

**Waiver of Required Minimum Distributions for 2020** Most defined contribution plans, such as 401(k)s and IRAs, are eligible to not take RMDs for the duration of 2020.

**Temporary Relief for Federal Student Loan Borrowers** Interest accrual has been automatically paused, and borrowers may request deferral of payment until September 30, 2020.

**Net Operating Losses Modification** Losses from 2018, 2019 and 2020 can be carried back five years, without regard to a taxable income limitation, and so the losses can fully offset income.

**Delay of Payment of Payroll Taxes** Employers (for profit and not-for-profit) and self-employed individuals can defer the employer portion of payroll taxes with respect to their employees until December 31, 2020.

**Charitable Contribution Deductions** Up to \$300 of charitable contributions can be deducted by taxpayers who do not itemize.

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