

NOTE: This guide is intended for informational purposes. Interested businesses should carefully consult the guidance, regulations, and requirements issued by the administering federal agencies for authoritative information on eligibility, amounts of assistance, and other matters related to the programs outlined herein.

RESOURCES FOR HAWAII'S HOSPITALITY INDUSTRY

RECENTLY ENACTED FEDERAL LEGISLATION PROVIDES RESOURCES AND INITIATIVES TO ASSIST BUSINESSES IMPACTED BY THE COVID- 19 PANDEMIC.

THIS GUIDE PROVIDES SUMMARY INFORMATION ABOUT MAJOR PROVISIONS THAT COULD OFFER CRITICAL SUPPORT TO HAWAII'S SMALL BUSINESSES AND WILL BE UPDATED PERIODICALLY (CURRENT AS OF JUNE 17, 2020).



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U.S. SMALL BUSINESS ADMINISTRATION PAYCHECK PROTECTION PROGRAM (PPP)

Summary of Assistance: Congress created the PPP to provide forgivable loans for businesses and nonprofits that need assistance with payroll costs and related expenses due to COVID-19. Loan proceeds may be used for payroll, rent, mortgage interest, utilities, and certain other expenses. Due to high demand for these loans, Congress has had to act to replenish the funding. Congress also directed funding specifically to additional financial institutions (community banks, credit unions, and Community Development Financial Institutions (CDFIs)) to ensure that loans are as broadly available as possible. **Businesses interested in applying for these loans should contact their financial institutions before the June 30, 2020, deadline for loans to be processed.**

Responsible Federal Agency: U.S. Small Business Administration (SBA) and U.S. Treasury Department—(Note: Actual financial assistance provided through private sector banks and other financial institutions).

Type of Assistance: Loans that may be forgiven if certain requirements are met.

Eligibility Requirements:

- A business must have no more than 500 employees.
- Sole proprietorships, independent contractors, the self-employed, non-profits, and 501(c)(19) veterans organizations may also qualify.
- The business or entity must have been in operation on February 15, 2020.
- The program is also available to entities that fall under the North American Industry Classification System (NAICS) Sector 72, with more than one location that employs no more than 500 workers at each location.
 - NAICS Sector 72 is the “Accommodation and Food Services” sector which includes hotels and other traveler accommodations and other related businesses.

How to Apply: Given the high demand for these loans businesses, nonprofits, independent contractors, and self-employed individuals who are interested in applying for these loans should contact approved lenders as soon as possible as funding is available on a first-come, first-served basis.

- Current law dictates that the PPP will be available through June 30, 2020, though due to high demand Congress has already had to act to replenish funding, so **interested entities should contact their lenders as soon as possible**. More information is now available on the SBA’s website: <https://www.sba.gov/fundingprograms/loans/coronavirus-relief-options/paycheck-protection-program>, and the Treasury Department’s website: <https://home.treasury.gov/policy-issues/cares>.

Local Resources: Local businesses with additional questions about these SBA programs and others should reach out to Hawaii SBA: <https://www.sba.gov/offices/district/hi/honolulu> or Hawaii SBDC: <https://www.hisbdc.org/> for more information.

U.S. SBA ECONOMIC INJURY DISASTER LOAN (EIDL) PROGRAM

Summary of Assistance: Hawaii businesses are eligible for Economic Injury Disaster Loans (EIDL), and Emergency Economic Injury (EEI) Grants. These programs are available directly from the U.S. Small Business Administration.

Responsible Federal Agency: U.S. Small Business Administration (SBA)

Type of Assistance: Loans (Up to \$2 Million) and Grants (Up to \$10,000)

Eligibility Requirements: Eligible applicants must have no more than 500 employees. Businesses with more than 500 employees may still qualify, but must meet the SBA's industry specific small size standards, or is an individual who operates a sole proprietorship or as an independent contractor. Certain other entities may also be eligible.

Note: A business with more than 500 employees may be considered "small" if they meet SBA's size standards. For example, a hotel or motel with up to \$35 million in annual revenue or a full-service restaurant that earns up to \$8 million annually may still meet the SBA's standard. Please see the SBA's size standards for more details: <https://www.sba.gov/document/support--table-size-standards>.

How to Apply: This assistance is in high demand and Congress recently had to replenish funding for these programs, which is provided on a first-come, first-served basis, so interested entities should contact the SBA as soon as possible. More information about how to apply for EIDL loans and EEI grants can be found at: <https://www.sba.gov/page/disaster-loan-applications>.

Local Resources: Local businesses with additional questions about these SBA programs and others should reach out to Hawaii SBA: <https://www.sba.gov/offices/district/hi/honolulu> or Hawaii SBDC: <https://www.hisbdc.org/> for more information.

MAIN STREET NEW, PRIORITY, AND EXPANDED LOAN PROGRAMS

Summary of Assistance: The CARES Act provides aid to small and mid-sized businesses who are too small to access corporate lending markets. To deliver this support, on April 9, 2020, the U.S. Treasury Department and Federal Reserve announced the Main Street Lending Program. This program provides three loan options to businesses with up to 15,000 employees or up to \$5 billion in 2019 annual revenues. All loans are for five years with principal payments deferred for two years and interest payments deferred for one year. The loan options are:

- Main Street New Loans support new loans, from \$250,000 to about \$35 million, depending on the business.
- Main Street Priority Loans support new loans, from \$250,000 to about \$50 million, depending on the business.
- Main Street Expanded Loans allow lenders to increase the size of an existing loan, with a minimum amount of \$10 million up to \$300 million, depending on a business' situation.

This program became operational on June 15, 2020. The Federal Reserve will cease purchasing eligible loans on September 30, 2020.

Responsible Federal Agency: U.S. Treasury Department and Federal Reserve administer the program, but actual financial assistance will be provided through banks and other financial institutions.

Type of Assistance: Loans. Unlike loans under the SBA's Paycheck Protection Program, these loans cannot be forgiven.

Eligibility Requirements: The U.S. Treasury and Federal Reserve has released information regarding eligibility and requirements. The following list is a summary of the main obligations for borrowers. This summary is not meant to be exhaustive and is subject to change. The guidance provided by the Federal Reserve to date can be found online at: <https://www.federalreserve.gov/monetarypolicy/mainstreetlending.htm>.

- Businesses must have significant operations and a majority of its employees based in the United States.
- Borrowers should make commercially reasonable efforts to maintain its employees and payroll during the life of the loan and commit to refrain from using the loan to pre-pay other loan balances.
- Borrowers may participate in only one of the Main Street Programs. In addition, the business cannot utilize the Primary Market Corporate Credit program described below.

Note: Small businesses are eligible for these loans, including companies that have a loan through the SBA's Paycheck Protection Program (PPP). Compared to the PPP, Main Street loans must be for at least \$250,000 and will have a higher interest rate.

How to Apply: Businesses apply for loans through participating federally-insured depository institutions, U.S. bank holding companies, U.S. savings and loan holding companies, a U.S. intermediate holding company of a foreign banking organization, or a U.S. subsidiary of those listed. In addition, the Federal Reserve and the Secretary of the Treasury may make adjustments to the terms and conditions described here.

Local Resources: Not applicable. Businesses with questions should consult the updated Frequently Asked Questions posted by the Federal Reserve at: <https://www.bostonfed.org/mslp-faqs>.

PRIMARY AND SECONDARY MARKET CORPORATE CREDIT

Summary of Assistance: The Federal Reserve is expanding its support to include large companies whose corporate debt has become riskier during the pandemic. On April 9, 2020, the U.S. Treasury Department and Federal Reserve announced an expansion of the Primary Market Corporate Credit program to buy the bonds of corporations who were investment-grade as of March 22. Another program, the Secondary Market Corporate Credit program allows the Federal Reserve Bank to purchase certain corporate bonds on the open market as well as exchange traded funds. Purchases will cease no later than September 30, 2020.

Responsible Federal Agency: U.S. Treasury Department and Federal Reserve.

Type of Assistance: Bond Purchases.

Eligibility Requirements: The U.S. Treasury and Federal Reserve has released information regarding eligibility and requirements. The following list is a summary of some of the requirements for bond issuers. It is not meant to be exhaustive and more information can be found online at

<https://www.federalreserve.gov/monetarypolicy/pmccf.htm> and at <https://www.federalreserve.gov/monetarypolicy/smccf.htm>.

- Businesses must be created or organized in the United States or under the laws of the United States.
- Businesses must have significant operations and a majority of its employees based in the United States.
- The corporate bond issuer was rated at least BBB-/Baa3 as of March 22, 2020, by a major nationally recognized statistical rating organization.
- Businesses must not be an insured depository institution or depository institution holding company.
- The company must not receive any other specific support from the CARES Act or subsequent legislation.
- The corporate bond issuer must satisfy the conflict-of-interest requirements of section 4019 of the CARES Act.

How to Apply: The Secondary Market Corporate Credit program began purchasing exchange traded funds on May 12 and corporate bonds on June 16. Initial corporate bond purchases will track a Broad Market Index developed for the program. The index will be recalculated every 4-5 weeks. The list of eligible bonds for purchase will be refreshed more frequently to ensure all eligible secondary market bonds are identified.

The Primary Corporate Credit program is expected to become operational in the near future. Additional information will be forthcoming, including issuer certification requirements, detailed instructions, and operational details.

The Federal Reserve and the Secretary of the Treasury may make adjustments to the terms and conditions described here.

Local Resources: Not applicable. Businesses with questions should consult the updated Frequently Asked Questions posted by the Federal Reserve at:

<https://www.newyorkfed.org/markets/primary-and-secondary-market-faq/corporate-credit-facility-faq>.

TAX PROVISIONS

The federal Internal Revenue Service (IRS) will be issuing guidance and other information on both individual and business specific provisions included in the CARES Act online at <https://www.irs.gov/coronavirus>.

NOTE: *The following summaries are intended to provide general information about the key recent revisions to federal tax law enacted by Congress. It is not intended to be authoritative, or to supplant formal guidance from the IRS or tax professionals. For all tax matters interested businesses should consult their tax professionals.*

- **Federal and State Tax Filing Deadline Delay:** The federal government has delayed the deadline for filing and payment of 2019 taxes for individuals and businesses until July 15, 2020, and the State of Hawaii has delayed its filing and payment deadline until July 20, 2020.
- **Employee Retention Credit:** This provision provides a refundable payroll tax credit for 50 percent of wages paid by eligible employers to certain employees during the COVID-19 crisis. The credit is available to employers, including non-profits, whose operations have been fully or partially suspended as a result of a government order limiting commerce, travel, or group meetings. The credit is also provided to employers who have experienced a greater than 50 percent reduction in quarterly receipts, measured on a year-over-year basis.

Wages of employees who are furloughed or face reduced hours as a result of their employers' closure or economic hardship are eligible for the credit. For employers with 100 or fewer full-time employees, all employee wages are eligible, regardless of whether an employee is furloughed. The credit is provided for wages and compensation, including health benefits, and is provided for the first \$10,000 in wages and compensation paid by the employer to an eligible employee. This credit is available through December 31, 2020.

- **Payroll Tax Payment Extensions:** This provision would allow taxpayers to defer paying the 6.2 percent employer portion of certain payroll taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021, the other at the end of 2022. Payroll taxes that can be deferred include the employer portion of Federal Insurance Contributions Act (FICA) taxes, the employer and employee representative portion of Railroad Retirement taxes (that are attributable to the employer FICA rate), and half of SECA tax ("self-employment tax") liability.
- **Immediate Expensing for Improving Qualified Improvement Property:** Under the 2017 tax law, improvements to certain property (restaurants, etc.) are required to be depreciated over the 39-year life of the building. The CARES Act amends the 2017 tax law to allow the interior improvements of buildings to be:
 - a. Immediately expensed in the case of restaurant, retail, and most other property (classified as 15-year property), or;
 - b. Depreciated over 20 years in the case of a real property trade or business.

The CARES Act makes this change retroactive to the 2017 Tax Law, which means that companies could amend prior years' returns.

TAX PROVISIONS

- **Tax Credits for Employers for Coronavirus-Related Paid Leave:** This provision would authorize the U.S. Treasury to provide advance payment of tax credits that are available to private sector employers required to provide up to 12 weeks of coronavirus-related paid leave to those employees.
- **Single Employer Pension Plans:** This provision would delay the required quarterly contributions for 2020 for single employer pension plans to the end of the year. The provision would also allow plans to use 2019 funded status for purposes of determining funding-based limits on plan benefits for plan years that include 2020.
- **Modification of Net Operating Losses (NOLs):** NOLs rules allow taxpayers that experience losses to deduct those losses from past taxes paid (a “carryback”) thereby receiving a refund of those taxes, or to deduct from income earned in a future year (a “carry forward”). The CARES Act modifies current law primarily by:
 - a. Allowing taxpayers a five year carryback period for tax years beginning after December 31, 2017 and ending January 1, 2021 (calendar years 2018, 2019, and 2020), and;
 - b. Allowing taxpayers to use NOLs to fully offset taxable income (current law limits this to 80 percent) for tax years beginning after December 31, 2017 and ending January 1, 2021 (calendar years 2018, 2019, and 2020).
- **Modification of Limitation on Business Interest:** Current law allows businesses to deduct business interest up to the sum of the taxpayer’s business interest income for the tax year, 30 percent of the taxpayer’s adjusted taxable income (ATI) for the tax year, and the taxpayer’s floor plan financing for the tax year. The CARES Act allows businesses to elect to deduct up to 50 percent of business interest for 2019 and 2020 rather than 30 percent and allows a taxpayer to elect to use their ATI from either their last tax year (beginning in 2019) or their ATI in the 2020 tax year.