

US Businesses Navigate Multiple Government Support Programs

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Original post [here](#).

In response to the COVID-19 pandemic, the United States has adopted multiple programs providing support to businesses, specifically targeting job retention, while at the same time expanding unemployment insurance benefits and eligibility. Programs to support businesses vary across types of benefit and eligibility criteria. This post summarizes government support options available to businesses in the United States and some potential considerations for employers and employees.

Available programs include the following; however, the list is non-exhaustive, as state and local governments have also announced programs:

- Paycheck Protection Program
- Employee Retention Tax Credit
- EIDL Loans and Grants
- Short-time Compensation
- Main Street Lending Program
- Unemployment Insurance

In determining how to respond to the COVID-19 pandemic, firms may evaluate the following:

- What support is the firm eligible to receive?
- When will the business receive support and how easily can it be accessed?
- How do wages compare to unemployment insurance benefits?
- What are the restrictions on using the support?
- When will the business be able to reopen and how will operations change upon reopening?

Available Programs

Paycheck Protection Program

On March 27, Congress passed the [CARES Act](#) which established the Paycheck Protection Program (PPP). Under the program, small businesses apply for SBA-guaranteed loans from eligible lenders, and the government forgives up to 100% of the value of the loan if it is used primarily for payroll expenses. The PPP will cover up to \$100,000 in annualized salary or wages per employee, and the maximum loan amount is \$10 million.

The program incentivises small businesses to maintain their payroll, as a decrease in the payroll numbers proportionally decreases the amount of the loan that can be forgiven. If an employer rehires an employee it laid off earlier, the payroll expenses can be forgiven. [If an](#)

[employer](#) attempts to rehire an employee and the employee declines, the amount of forgiveness will not be reduced.

The SBA exhausted the \$349 billion in appropriations by [April 16](#), but Congress allocated an additional \$310 billion in funding through emergency legislation on [April 23](#). The SBA began accepting applications again on April 27. The Small Business Administration and Treasury have released [multiple](#) interim final rules, clarifying eligibility criteria and operations.

Employee Retention Tax Credit

The [Employee Retention Tax Credit](#) (ERTC) is a refundable tax credit to employers that are required to fully or partially suspend operations in 2020 (during any calendar quarter) due to a government mandate or that experience a 50% decline in gross receipts compared to the same quarter in 2019. The credit amount is determined based on the number of employees. For firms with more than 100 full-time employees, only the wages paid to employees who are not working are considered qualified wages. For firms with fewer than 100 employees, all employee wages are considered qualified wages. Only wages paid between March 13 and December 31, 2020 are eligible. Employers will receive a fully refundable tax credit of 50% of up to \$10,000 in qualified wages per employee. Firms borrowing under the PPP cannot claim the ERTC.

EIDL Loans and Grants

The SBA has another lending program for small businesses, the Economic Injury Disaster Loan program (EIDL), which provides grants of up to \$10,000 and loans on favorable terms. Similar to the PPP, initial appropriations were expended in mid-April, but the emergency legislation made additional funds available. The [SBA announced](#) on May 4 that EIDL loans and grants would only be available to eligible agricultural businesses going forward. Applications that were submitted prior to the temporary suspension of application submissions will be processed in the order received.

Short-time Compensation

The [CARES Act](#) also provides federal funding for short-time compensation (STC) programs. States with new or existing short-time compensation programs will receive [100% federal funding](#) for payments under these programs through December 31. Short-time compensation is a program within the unemployment insurance system that provides benefits to workers whose hours are reduced. Employers can reduce hours of work for employees rather than laying off some employees, and those whose hours are reduced will be able to collect a percentage of unemployment compensation benefits to replace some of their lost wages.

Twenty-six states currently have operational programs, but there is variation across state administration and requirements. For example, [Connecticut](#) allows for a 10-60% reduction in work hours, while [Michigan](#) allows for a 15-45% reduction.

In order to receive support, an employer must submit the work plan to the responsible state agency and obtain approval. Employers are required to maintain health, retirement and other benefits for employees in the program. During the covered period, an employer cannot lay off employees who are receiving short-time compensation.

Short-time work schemes are common in Europe, and the [European Commission](#) announced a temporary initiative to support short-time work schemes in Member States.

Main Street Lending Program

The Federal Reserve Board announced the Main Street Lending Program on [April 9](#) and updated terms on [April 30](#). Under the program, the Federal Reserve will purchase participations (either 85 or 95%) in eligible loans to companies with up to 15,000 employees or less than \$5 billion in revenue.

Unlike the PPP, these loans are not forgivable and will carry a higher interest rate. [Borrowers must](#) make “commercially reasonable efforts” to maintain payroll and retain employees. However, the program only requires borrowers to undertake “good-faith efforts” and allows firms that have already laid off or furloughed workers to apply for Main Street loans. The Federal Reserve Board has not yet announced the start date of the program.

Unemployment Insurance

Some employers are laying off or furloughing workers in response to COVID-19. The CARES Act expanded unemployment insurance in the United States through three components.

- The [Pandemic Unemployment Assistance \(PUA\)](#) makes benefits available to individuals who are self-employed, seeking part-time employment, or who otherwise do not qualify for unemployment insurance benefits under state or federal law.
- The [Federal Pandemic Unemployment Compensation \(FPUC\)](#) program provides an additional \$600 in unemployment benefits per week to eligible individuals through July 31, 2020.
- The [Pandemic Emergency Unemployment Compensation \(PEUC\)](#) program allows individuals to receive 13 additional weeks of benefits.

The [Bureau of Labor Statistics](#) reported in the April employment report that the unemployment rate increased by 10.3 percentage points to 14.7%. Temporary layoffs accounted for 18.1 million of the 20.5 million job losses in April.

Potential Considerations For Employers and Employees

What support is the firm eligible to receive?

Eligibility criteria differ across programs. The PPP targets small businesses, though it has received heightened [press coverage](#) and [criticism](#) as [some larger companies](#) have received aid. The SBA and Treasury have released [interim final rules](#) regarding eligibility to attempt to limit larger companies with access to public financing from accessing the program. Private equity firms and hedge funds are explicitly excluded from the program.

The Main Street Lending Program is available to companies with up to 15,000 employees or \$5 billion in revenues, making it available to companies of larger sizes, though nonprofits are not eligible.

The ERTC does not have a size restriction, though companies with more than 100 employees can only claim the tax credit for employees who are paid but not working in the quarters it is applied. The ERTC is available to companies that experience a 50% decline in gross receipts compared to the same quarter of 2019, thus targeting firms that have experienced a significant decline in revenue.

The EIDL program is only available to agricultural businesses as of May 4.

When will the business receive support and how easily can it be accessed?

For many small businesses, containment measures have led to an urgent need for support.

According to a [recent survey of small businesses](#), approximately 25% of firms surveyed did not have enough cash to cover more than one month of expenses. Approximately 50% had enough cash to cover between one and two months of expenses. Recent Federal Reserve Bank of New York [research](#) found that less than 20% small businesses in the US can continue normal operations with their cash reserves if they experience a two-month revenue loss. Thus, the speed at which a program provides support to businesses is an important consideration.

A week after announcing the PPP, the SBA began administering the program. Businesses that are able to submit applications through their lenders and receive approval can quickly receive funds. However, in the first phase of the program, many borrowers were not able to receive funds due to the first-come-first-serve nature. The SBA has not yet announced details regarding the process for loan forgiveness.

For businesses that need immediate support, the Main Street Lending Program may not provide quick relief, as the Federal Reserve Board has not yet announced the start date.

The ERTC provides support through a tax credit, which can provide immediate benefits. Employers report the total qualified wages for the ERTC in quarterly federal employment tax returns. These employers can fund the qualified wages by accessing withheld federal employment taxes or requesting an advance for the credit from the IRS. Short-time compensation programs vary across states but an employer's plan requires approval from the responsible state agency.

How do wages compare to unemployment insurance benefits?

According to another [recent survey of small businesses](#), many firms surveyed had already laid off workers in response to the economic shock of COVID-19.

Reducing payroll can provide immediate relief to firms, and individuals who are laid off can apply for unemployment insurance, which is augmented by an additional \$600 per week from the federal government.

[Some have](#) noted that unemployment benefits exceed the prior earnings of some individuals, as the \$600 addition averages to \$15 per hour for a 40-hour work week, which is above [state minimum wages](#). It is important to note that [employees generally cannot](#) quit a job in an attempt to receive unemployment benefits. The Department of Labor released recent guidance that workers who quit a job without good cause in an attempt to receive UI will have [committed fraud](#). Additionally, some employers and employees may find that reduced hours as opposed to layoffs may be [preferable to unemployment](#) as relationships remain intact. Workers in job-protected leave or in partial unemployment status may be able to retain healthcare coverage or other benefits.

The CARES Act also waives the one-week waiting period for unemployment benefits, which is standard in many states. The speed at which individuals are able to receive unemployment benefits depends on the state unemployment system and infrastructure. Many systems are

overburdened in response to the more than [33 million](#) new claims since the start of the COVID-19 pandemic.

What are the restrictions on using the support?

Some programs place restrictions on how the funds can be used. For example, [75% of PPP](#) forgivable loans have to be used on payroll expenses. This has been criticized by firms with high non-payroll expenses, [such as rent](#). PPP loan forgiveness also decreases in proportion with reductions in the number of employees, which is designed to incentivize employee retention. [Some firms](#) are awaiting clarification on loan forgiveness from the Treasury and SBA.

The Main Street Lending Program is not targeted at microenterprises, as the minimum loan size is \$500,000. Under the Main Street Lending Program, payroll retention is encouraged but not required explicitly, as borrowers must make a good faith certification that they will attempt to retain employees.

PPP participants cannot claim the ERTC. Businesses that meet criteria for both the Main Street Lending Program and the PPP are able to use both. STC programs supplement an employee's wages through the unemployment insurance system, thus directly providing support to the individual.

When will the business be able to reopen and how will operations change upon reopening?

Uncertainty regarding the timeframe for reopening remains. The PPP provides eight weeks of payroll support, which some worry [may not be adequate](#) if current containment measures remain. Other countries, such as [Denmark](#), have already announced extensions of programs to support businesses and individuals.

UI benefits are available for an additional 13 weeks, but during the [Global Financial Crisis](#), the eligibility period was extended multiple times so that individuals could receive up to 99 weeks of UI benefits.

As the economy reopens, [some argue](#) that the increased unemployment benefits will make it challenging for businesses to rehire workers that are collecting more in unemployment insurance benefits than they would be working. However, workers that refuse a work offer generally will not be able to continue to collect unemployment insurance benefits.

Some companies may not be willing to take on debt given the economic uncertainty; thus programs that operate as grants may be more appealing. Given the likelihood of a long period of [economic recovery](#), businesses that reopen may not see an immediate return to pre-COVID-19 operations. This may impact an employer's ability to rehire all employees and may make borrowing unattractive.

STC programs may be attractive to employers who want to adjust operations in response to the COVID-19 pandemic while retaining employees and maintaining relationships. Businesses will also need to take safety precautions and modify operations in order to account for [government guidance](#) related to testing, sanitation, and physical distance.