Business Use of Tax and Other Provisions in the CARES Act and Other COVID-19 Legislation: Evidence from Surveys

June 22, 2020

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136) provided a range of benefits to businesses and their employees.

Provisions and Programs

Three of the act's major programs are mutually exclusive (overall, or at least with respect to a given employee) and require employers to decide about whether to retain workers and how to pay them.

- The Paycheck Protection Program (PPP) for small businesses allowed low-interest loans that could be forgiven if employees were retained.
- Expanded unemployment insurance (UI) benefits helped workers laid off or furloughed (as well as the small number of employees using work sharing under short-time compensation [STC]).
- The employee retention tax credit (ERTC) provided a credit for 50% of wages up to a ceiling for retained workers.

Numerous other provisions were enacted, including

- a deferral of payroll taxes through 2020, half paid at the end of 2021 and half at the end of 2022;
- liberalization of net operating losses (NOLs) for tax purposes;
- a relaxation of restrictions on business interest tax deductions;
- more immediate realization of tax credits from the corporate alternative minimum tax (AMT);
- withdrawals allowed from retirement plans (including employer plans and individual IRAs) without penalty and with delayed tax payment;

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IN11430

- expanded economic injury disaster loan (EIDL) eligibility for certain small businesses and nonprofit organizations and the establishment of Emergency EIDL grants; and
- a 100% emergency tax credit for Coronavirus Disease 2019 (COVID-19-) related illness and family care leave, enacted in the Families First Coronavirus Response Act (P.L. 116-127).

The PPP's popularity led to an expansion of the $349 billion initially authorized, with $310 billion added in the Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139). The Federal Reserve also instituted some additional lending programs, including the Main Street Lending Program to provide delayed and low-interest loans. The CARES Act includes a number of authorizations for funding for Treasury and the Federal Reserve.

Evidence on Use of Provisions and Programs

Direct evidence is available about the use of some of these programs: 30 million people claimed unemployment benefits in the week ending May 23 (these data are updated); the unemployment rate in May was 13.3%; 4.6 million PPP loans in the amount of $513 billion were approved by June 16; and $90.9 billion in EIDL loans and $10.7 billion in Emergency EIDL grants were approved by June 12.

Businesses may opt to take advantage of provisions such as the PPP and the ERTC directly by retaining workers, or they may take advantage of more generous unemployment benefits indirectly by furloughing or laying off workers. As discussed in a previous CRS Insight, for firms with workers not needed because current economic conditions have reduced demand, the PPP appears the most attractive choice for qualified smaller businesses, and furloughs or layoffs appear the better choice for larger businesses and for most of their workers. Many of these furloughs/layoffs would have occurred in any case, but under COVID-19-related provisions, lower-wage workers would experience little or no financial harm, and both employers and their workers would likely be better off. The ERTC would likely be attractive for some larger employers' higher-income employees with whom such employers want to maintain connections—likely a small share of firms. The evidence presented below is consistent with that analysis. (These preferred options are what survey data reveal, not what CRS necessarily recommends.)

The National Association of Manufacturers surveyed its members about economic operations and use of various provisions. Of the approximately 600 firms in the survey, 23% had fewer than 50 employees, 46% had between 50 and 499, and 31% had 500 or more employees. The survey results indicated that the most dominant actions taken (counting by share of firms, not employees) were PPP loans (61.2% of firms) and furloughs (39.8% of firms). Of the other programs, 15.6% delayed payroll taxes, 7.1% used the ERTC, 3.9% enhanced NOLs, 3.7% enhanced interest deductions, 2.9% used EIDL grants, and 1.5% accelerated AMT credits.

The American Institute of Certified Public Accountants, which surveyed a range of firm sizes and industries, received responses from 1,198 businesses. As with the previous survey, the most significant actions taken were PPP loans (56%), furloughs (20%), and layoffs (18%). Of the remaining programs, businesses indicated use of EIDL loans (8%), emergency tax credits (for leave) (3%), low interest borrowing facilities (2%), sector bailouts (2%), and other Small Business Administration (SBA) loans. Of the firms, 7% took advantage of one or more programs, among them payroll tax deferral and the ERTC.

The payroll processer Paychex has been reported as indicating that only 1% of its clients have used the ERTC.

Two surveys have been made of small businesses. A Census Bureau survey (regularly updated) indicated that for the week ending June 13, 11.2% of small businesses had decreased employees. Responses to a survey question about financial assistance received indicated that 71.6% received a PPP loan, 19.4% an

EIDL loan, 5.9% SBA loan forgiveness, and 2.2% other federal assistance. There were no inquiries about tax provisions. A survey by the National Federation of Independent businesses, with 619 responses, reported 71.6% received a PPP loan, 20% an EIDL loan, 17.4% an EIDL grant, and 3.9% a tax credit for mandated paid family leave. Businesses in this survey were relatively small; 60% had fewer than 10 employees. Only 1% anticipated applying for a main street loan, with 21% considering applying.

A survey of retirement plans by the Plan Sponsorship Council of America of 152 organizations reported that 45.4% of plans allowed distributions from retirement plans of up to $100,000, in accordance with the CARES Act. The shares rose with plan size, with 27.1% of plans covering fewer than 200 employees and 68.1% of plans covering 5,000 or more employees allowing withdrawals.

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