FISCAL POLICY SUPPORT IS FOCUS OF U.S. ADMINISTRATION AND CONGRESS

Both the Trump Administration and Congress are developing fiscal policy packages to address the economic fallout from the coronavirus. Congressional leaders are in close contact with the Administration and both agree that it is imperative to enact legislation quickly. There are differences in what they are proposing. We expect that in this emergency these differences will be sufficiently resolved and legislation will be enacted quickly.

Whether the economic relief provided by the eventual legislation is "sufficient" depends entirely on the magnitude and character of the economic destruction generated by the coronavirus in the U.S. and globally. We all face a health emergency; fiscal policy is capable of addressing and, to some extent, mitigating its economic fallout, but it is incapable of addressing the source of the pandemic. At this stage, in general, proposals by the Trump Administration and Congress are significant and reasonable. We all have to see what unfolds. Treasury Secretary, Mnuchin, wisely stated "this is round one".

The Trump Administration has proposed a fiscal package that provides three categories of assistance: subsidies to individuals and those economically affected by the virus, financial relief and subsidies to small businesses, and deferral of taxes for individuals and small businesses. To date, the Administration has provided ballpark figures of the top-line magnitudes of the proposals, but pragmatic specifics are not available.

Proposals for income support include payroll tax relief, subsidies for sick leave, paid family leave, and subsidies for those impacted by the virus. The Administration proposes payroll tax cuts for workers. The payroll tax cuts would immediately increase take home pay for employees. Currently, a majority of lower-income workers pay more in payroll taxes than in income taxes; this is particularly true when considering the refundable earned income tax credit that offsets the income tax paid by many lower income workers. These proposed tax cuts and subsidies would amount to $200 billion. In addition, under current law, select fiscal automatic stabilizers are in place, including unemployment compensation for employees who lose their jobs; this extends for 26 weeks.

We note that currently there are over 50 million workers who operate as "independent contractors" (those in the so-called GIG economy) who are not considered as "employees". They pay self-employment payroll taxes and file Form 1099s for their income taxes rather than the W-2 Forms filed by employees of businesses, and as such they do not have access to unemployment compensation. The Administration is well aware of these workers and part of the fiscal package provides support for them.

The Administration's proposed subsidies of small businesses, which would be administered through the Small Business Administration (SBA), would provide low interest liquidity to small businesses. The Administration proposes the cost of this initiative to be $50 billion. We note that nearly one-half of all workers in the U.S. work for smaller partnerships, proprietorships, and Subchapter S Corporations (so-called "pass-through" businesses as opposed to larger C Corporations that include all publicly held businesses). These subsidies to small businesses provide indirect help to their workers.

The Administration is considering deferring tax filing past the April 15 deadline for

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most individuals and small businesses in order to avoid short-term financial distresses.

House Democrats have introduced the “Families First Coronavirus Response Act (H.R. 6201)” that:

1) Creates a new federal emergency paid leave benefit program, requires all employers to provide an additional 14 days of paid sick leave available immediately in the event of any public health emergency and reimburses small businesses (50 or fewer employees) for the costs of this additional leave;

2) Requires private health plans, Medicare part B, Medicare Advantage, and Medicaid to provide coverage for COVID-19 diagnostic testing at no costs;

3) Provides states with access to interest-free loans to help pay regular unemployment insurance benefits through December 31, 2020 and provides 100% federal funding for Extended Benefits, if necessary;

4) Expands funding for food and nutrition programs, and provides emergency SNAP (food stamps) assistance to households with children that usually benefit from school meal programs.

At this point, there are no estimates of the costs of this proposal; the Congressional Budget Office will be providing the official estimates in due course.

Congressional Republicans are requesting a more tailored response legislation and are unlikely to support the bill in its current form. Given the immediacy of this situation, we expect Congressional Democrats, the White House, and Republicans to negotiate and agree on a bipartisan solution soon.

**From proposal to enacted legislation.** Any tax proposal must be proposed by the House Ways and Means Committee of Congress, approved by that Committee, the full House, and then the Senate Finance Committee and the full Senate. The passed legislation is then signed into law by the president. Both the Administration and Congress on both sides of the political aisle understand that the health crisis will hit the economy and workers, and the immediacy of the situation. We expect they will quickly compromise on differences and legislation will be enacted and signed into law. Last week’s speedy enactment of the $8.3 billion funding for the CDC, prevention and distribution of supplies is an encouraging sign of political cooperation. The current fiscal proposals for income and financial support for individuals and small businesses are much larger and involve many more moving parts in terms of magnitude, focus of the subsidies, and implementation. Nevertheless, legislation is expected to be enacted fairly quickly.

We will keep you posted on events as they unfold.
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