

# The Paycheck Security Act

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Since the COVID-19 pandemic began, nearly 39 million workers have filed for unemployment<sup>1</sup>. More than 20 million people lost their jobs in the month of April alone, the most in a single month on record<sup>2</sup>. An estimated 27 million people have already lost their employer-provided health insurance coverage, and millions more could lose coverage before this crisis is over<sup>3</sup>. The unemployment rate is likely close to 20 percent and could exceed the depths of the Great Depression in the coming months.

The pandemic has also devastated small businesses and sole proprietors. A recent study found that more than 100,000 small businesses have already closed permanently as a result of the health and economic crisis<sup>4</sup>. A recent survey showed that 52 percent of small businesses expect to go out of business within the next six months<sup>5</sup>. Allowing millions of small and independent businesses to fail will have a devastating impact on the economy and will make the road to recovery longer and harder.

Other countries have avoided the massive job losses and corresponding high unemployment rates seen in the United States primarily because their governments have adopted programs to keep workers on payroll and attached to their employers until this crisis is over<sup>6</sup>. These programs not only provide greater certainty for the worker, they also position the economy to recover more quickly once the crisis abates.

The Paycheck Security Act would help keep workers attached to their jobs by leveraging the Employee Retention Tax Credit (ERTC) as the delivery mechanism to secure the paychecks and benefits of workers throughout the country and provide small businesses with the financial assistance they need to cover fixed operating costs over the next six months.

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<sup>1</sup> [“Unemployment Insurance Weekly Claims.”](#) Bureau of Labor Statistics. May 21, 2020.

<sup>2</sup> [“The Employment Situation – April 2020.”](#) Bureau of Labor Statistics. May 8, 2020.

<sup>3</sup> Claxton, Gary; Damico, Anthony; Garfield, Rachel; and Levitt, Larry. [“Eligibility for ACA Health Coverage Following Job Loss.”](#) Kaiser Family Foundation. May 13, 2020.

<sup>4</sup> Long, Heather. [“Small business used to define America’s economy. The pandemic could change that forever.”](#) *Washington Post*. May 12, 2020.

<sup>5</sup> [“Survey: COVID-19 Could Shutter Most Small Businesses.”](#) Society for Human Resource Management. May 6, 2020.

<sup>6</sup> Birnbaum, Michael. [“Coronavirus hits European economies but governments help shield workers.”](#) *Washington Post*. April 30, 2020.

The ERTC is an existing mechanism that can be scaled to efficiently deliver timely benefits to struggling workers and firms without the need for third party intermediaries.

The bill provides businesses experiencing significant financial hardship as a result of the virus with a refundable tax credit big enough to rehire and pay laid off and furloughed workers up to \$90,000 per year, including health care benefits. It will also provide small and mid-sized businesses with the funds they need to pay for rent, mortgages, utilities and other operating costs until they can reopen safely and sales begin to recover.

In the midst of this unprecedented economic crisis we must take to take unprecedented action to prevent a prolonged recession.

### **Who is eligible for this program?**

- All businesses that have experienced at least a 15 percent drop in revenues compared to the same quarter in 2019 will be eligible for a tax credit to cover payroll for laid off and furloughed employees.
- Additionally, eligible businesses with less than \$45 million in gross receipts in 2019 will also be eligible for a credit of 5 percent of 2019 gross receipts to pay fixed operating costs such as rent, mortgages, utilities, and debt service.
- Sole proprietors with less than \$1 million in gross receipts in 2019 will be eligible for an income credit of 30 percent of 2019 gross receipts, up to \$75,000.
- This program will last for two consecutive quarters, ending in December 2020.

### **How will it secure worker paychecks?**

- This legislation substantially expands the Employee Retention Tax Credit established in the CARES Act to cover the wages, salaries and health care benefits up to \$90,000 annualized for workers who have been laid off or furloughed.

## **What conditions apply to this program?**

- Companies receiving funds through this program must commit to:
  - Not buying back stock;
  - Not paying out dividends;
  - Protecting collective bargaining agreements;
  - Staying neutral in union organizing efforts;
  - Capping CEO compensation at 50 times the median wage of their workforce.

## **Implementation**

- The IRS will use the existing forms and mechanisms of the Employee Retention Tax Credit established in the CARES Act to carry out this program.
- The IRS will be instructed to prioritize the applications of businesses with fewer than 100 employees.

## **Oversight**

- The Treasury Inspector General for Tax Administration (TIGTA) will oversee this program.
- The TIGTA will disclose the names of the businesses that benefitted from this program and how many workers received a paycheck as a result of it.