



**Water And Shark**  
*Quality is our Stability*

*COVID-19*

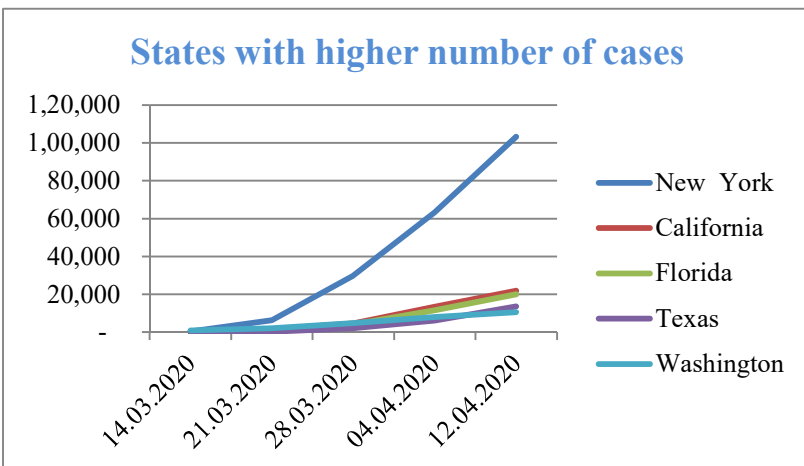
*BACKGROUND, GENERAL  
IMPACT ON USA ECONOMY &  
MEASURES UNDERTAKEN BY  
GOVERNMENT*



## ORIGIN & BACKGROUND

Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2), a virus responsible for Coronavirus Disease 2019 (COVID – 19) previously also known as “2019 novel coronavirus” has created havoc worldwide. The Virus whose origins have been linked to a “Wet market” in Wuhan, China has been declared as a Pandemic by the World Health Organization (WHO) on 11<sup>th</sup> March, 2020. The Virus has caused unprecedented Social, Economic & Financial crisis worldwide.

In USA the first case of Covid-19 was confirmed on 21<sup>th</sup> January, 2020 when a 35year old man returned from Wuhan, China. Thereafter the cases increased manifold with major rise in the mid-March. As on 26<sup>th</sup> March 2020 United States had more cases than any



Source: Wikipedia

other country in the world. New York was found to be the epicenter of the Virus.

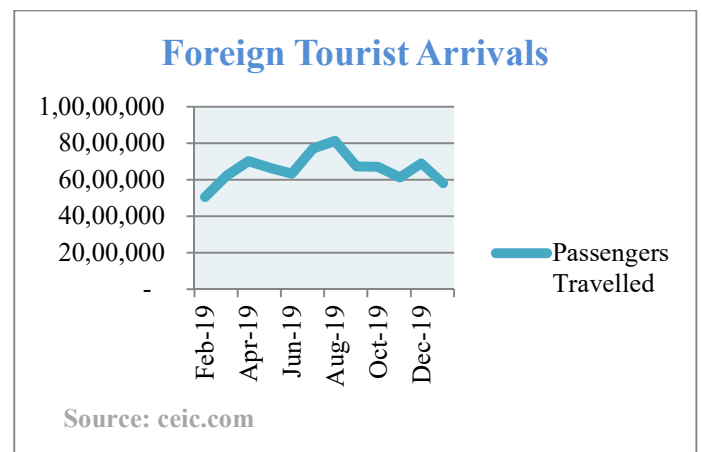
As on 11<sup>th</sup> April 2020 United States reported more than 50,000 cases with 30,000 to 35,000 cases being reported every day. 32,634 patients were reported to have been recovered and at least 21,936 people have died due to the Covid-19 epidemic. A number of cities and states especially California, NewYork, Illinois, Texas, Nevada, NewJersey & Florida have imposed stringent lockdowns which limits where people can travel, work and shop away from their homes. As of 12<sup>th</sup> April 2020 at least 90% of the United States population is under some form of lockdown.

## GENERAL EFFECTS ON THE STATES ECONOMY

Many Economic Experts believe that the Covid-19 epidemic might lead to Recession. A survey was conducted by the University of Chicago to gather views of economists on recession, wherein at least 51% of the economists agreed that there would be a major recession. The impact of Covid-19 on Economy of USA is so large that a report from consultancy McKinsey & Company states that the US economy might take upto 3years to recover from the impact of Covid-19

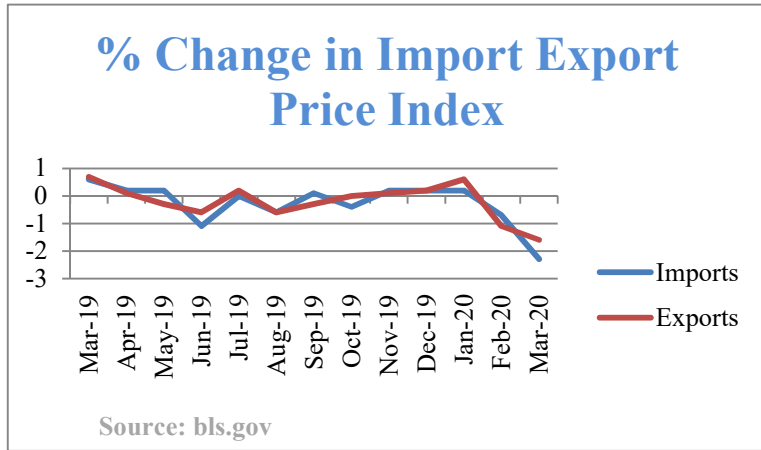
While Stores such as Walmart, Apple, Nike, Albertson’s and Trader Joe’s shortened their operating hours. Many retail stores also closed signaling an unprecedented disruption of Commerce due to Covid-19.

The Foreign Tourist Arrivals in United States has been on a declining trend due to Covid-19 and social distancing measures. In Dec the no of Tourists arriving in United States were 68, 83,132 and in Jan the no of tourists declined to 57, 96,272, the figures have shown continued decline in Feb and March as well.



Source: ceic.com

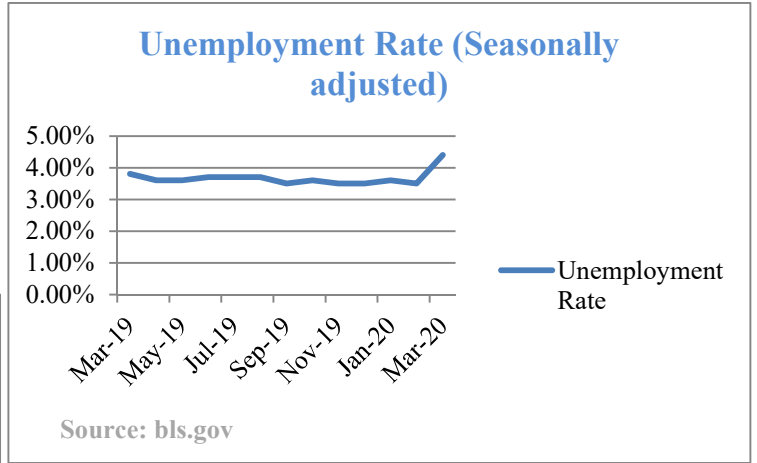
Prices for U.S. imports fell 2.3 percent in March, the U.S. Bureau of Labor Statistics reported, following a 0.7-percent decline the previous month. The March drop was driven by lower fuel prices. U.S. export prices decreased 1.6 percent in March, after falling 1.1 percent in February.



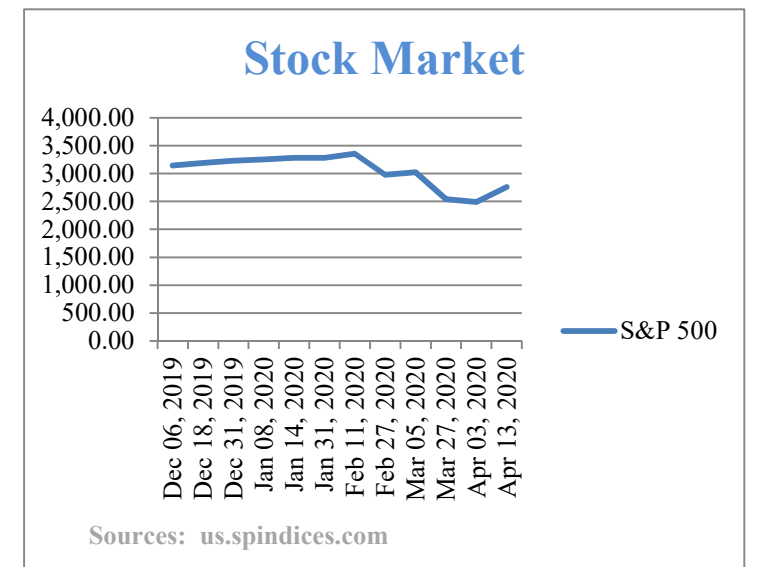
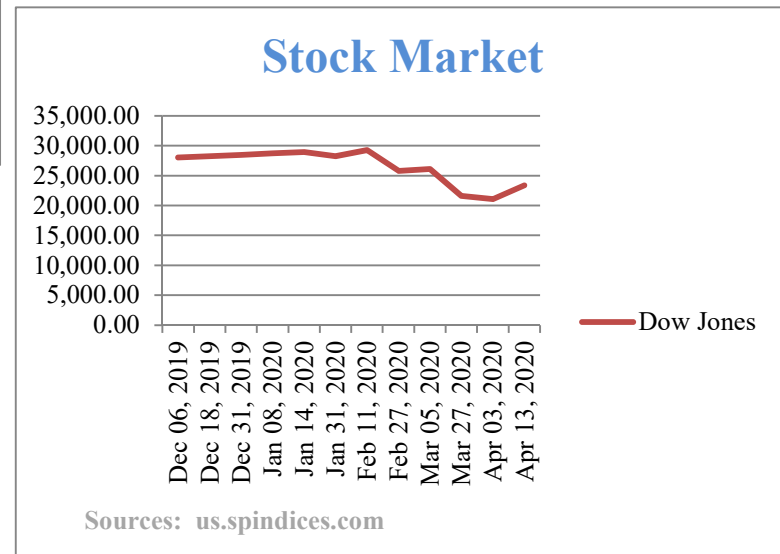
Various transport operators in the United States are suffering losses due to policies such as Work from Home and self-quarantines. A request has been raised by The American Public Transport Association to the federal government for \$13 billion as emergency funding to cover loss of revenue and other expense that's being suffered by transport operators due to the covid-19 situation.

On March 22, Federal Reserve Bank of St. Louis President James Bullard said the unemployment rate could hit 30 percent between April and June, worse than the situation during Great Depression. More than ten million Americans lost their jobs and applied for government aid since mid-March 2020. Unemployment rate varies from 3.5 to 3.7 but in February and March, 2020, rate increased to 4.4%. This is the highest unemployment rate from September, 2017 to March, 2020. The hardest hit masses are women, younger & less educated workers of which at least 65% work in the leisure and hospitality sector. More than 6.6. Million people filed unemployment claims for the week ending 4<sup>th</sup> April 2020.

The Dow Jones Industrial Average (DJIA) dropped by 1,191 points on 27<sup>th</sup> Feb 2020 which is the largest single-day point drop in the index's history at the time. The S&P 500 showed a 4.4% decline on the same day. Again on March 27, the Dow fell 3.5% and the S&P 500 fell 3.2% and the downward trend continued except a few

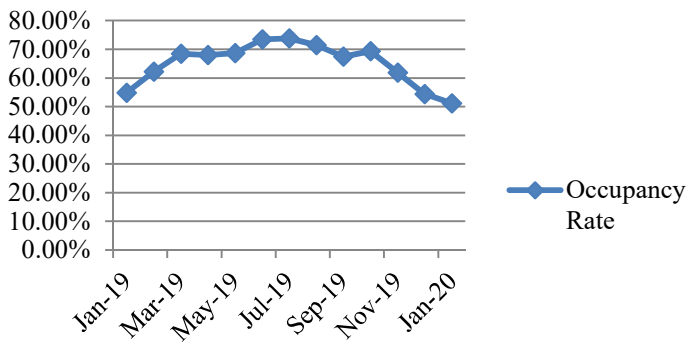


minor upward trends after some announcements made by the president.



"We encourage restaurants to offer carryout or delivery service, but they would not be allowed to have people congregating in the businesses." Said Mike DeWine – Governor of Ohio and Amy Acton – Director of Ohio Health Department on 15<sup>th</sup> of March 2020. All bars and restaurants were ordered to close in order to slow the spread of virus. In response to same several restaurants removed seating and switched to mobile only payments to prevent the spread of virus. Dining rooms were closed and the restaurants operate now solely as take-out food service to further comply with the Social distancing recommendations.

### Hotel Occupancy Rate



Source: str.com

"The industry was already set for a non-growth year, now throw in this ultimate 'black swan' event, and we're set to see occupancy drop to an unprecedented low," said Jan Freitag, STR's senior VP of lodging insights. "Our historical database extends back to 1987, and the worst we have ever seen for absolute occupancy was 54.6% during the financial crisis in 2009. With roughly six of 10 rooms on average empty, already wavering pricing confidence will take a significant hit and drop ADR to a six-year low." This figure is rapidly accelerating with hotels currently on pace to lose more than \$500 million in room revenue per day based on current and future reported occupancy rates. This pace means a loss of \$3.5 billion every week and will only further escalate as the situation worsens.

Historically speaking healthcare is always immune from recessions, since people get sick in both good and bad times. However things are quite different in the case of Covid-19. Due to fear of spread of virus, visiting a health care is being less preferred. Also due to social distancing and self-quarantine measures people prefer

not to go outside which is affecting the healthcare industry. It is particularly true for those who have medical conditions that put them at higher risk—the type of individuals who use health care the most. Although there are no national data, some primary care practices are reporting reductions in use of health care services of up to 70%.

Covid-19 and the prevention measures of Social distancing has lead a movement towards cashless economy. As more and more people move towards digital means of payment there is positivity in the Fintech industry due to Covid-19. Although stocks of fintech companies have fallen because of the investors searching for liquidity in this global crisis, yet fintech has lot of potential to emerge as a innovative industry during this crisis.

Johnson & Johnson is aiming to produce between 600 million and 900 million doses of its potential coronavirus vaccine by the end of the first quarter of 2021 if human trials scheduled to begin in September go as planned. It plans to make 1 billion doses or more annually, J&J executives told investors during a post-earnings conference call on 14th April 2020.

The Silicon Valley, hub of entrepreneurs that showcases excellence of IT professionals, is bracing itself for a post coronavirus period with layoffs, pay cuts and freeze on new jobs. They are all making sure that they have enough cash in the company for 18 to 24 months. This is a bad time to raise money. Because if they go try to raise money now, they'll get very poor valuation," Rangaswami said reflecting on the mood among start-ups in the Silicon Valley. "So, I think over the next month, you'll hear a lot of unemployment picking up in the Bay Area, which has not happened since 2007, 2008. Even then, it didn't happen much. But this will be the first time you'll see. M Rangaswami, well-known venture capitalist and entrepreneur.

# MEASURES UNDERTAKEN BY GOVERNMENT



Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was introduced in the United States Senate by Mitch McConnell. It was introduced to address the economic havoc caused by Covid-19 in the United States. Originally the bill included \$500 billion as direct payments to Americans, \$208 billion as loans for major industries impacted by Covid-19 and \$300 billion for small businesses. After several negotiations the bill grew to \$2 trillion and was unanimously passed by the Senate on March 25, 2020. It was passed in the House via voice vote and signed by President Donald Trump on 27<sup>th</sup> March, 2020. CARES Act provides for both tax & non tax measures. It addresses and provides assistance in the following areas.

## 1) Individuals & Families

Individuals making less than \$75,000 will receive \$1,200 as refundable tax credits. Couples making less than \$150,000 would receive \$2,400 as refundable tax credits. As the Individuals income levels rises, the money would get lower, Individuals who make \$99,000 or more and couples without any children who make \$198,000 or more won't qualify for any money. Families will be eligible for an additional \$500 per every child. These payments are in addition to unemployment insurance benefit for qualified individuals.

Pandemic Unemployment Insurance would provide an additional 13 weeks of assistance on top of the existing unemployment assistance (normally 26 weeks depending upon state to state). It would also cover independent contractors, part-time workers and gig economy employees. The CARES Act also allocates \$600 per week per unemployment insurance applicant

over the four months period, which is in addition to state benefits.

## 2) Small Businesses

\$377 billion is allocated to small businesses through which loans would be provided to these small business to keep them running. At present most of the small businesses are either closed or operating a lesser capacity due to social distancing measures

The loans provided would be eligible to be forgiven if the borrowers retain their employees, such forgiveness would be reduced in proportion to the employees laid off during the eight-week period beginning on the date of loan origination.

These forgivable loans will be distributed through the framework of Small Business Administration's 7(a) program that allows financial lenders to issue SBA-guaranteed loans. The Act also allows the Treasury department to authorize additional lenders outside of the SBA's approved network to issue loans.

Emergency Economic Injury Disaster Loan Program is also introduced which would provide small businesses and private nonprofit organizations that are suffering substantial economic damage as a result of COVID-19 with emergency grants through low-interest working-capital loans.

The CARES Act also introduces an Emergency Grant program that would allow eligible EIDL applicants to request an advance on that loan that doesn't exceed \$10,000

## Large businesses and other Institutions

\$500 billion is allocated to eligible businesses, states and municipalities out of which \$25 billion is allocated to airlines, \$4 billion to air cargo carriers and \$17 billion to national security industries. The remaining \$454 billion is allocated for loans and Federal Reserve facilities that include Loan & Loan guarantees and Secondary Market Purchases in order to mitigate the risk of any market liquidity crisis evolving into an economic credit crisis.

The \$454 billion breakup is as follows:

**Midsized Business Lending Facility:** Fed's emergency discount window is generally only open to

large commercial lenders. But this allocation would make it possible to provide loans to even mid-sized businesses defined as those businesses that employ between 500 and 10,000 workers.

**Main Street Lending Facility:** This facility supports small and mid-sized businesses through providing them with capital to maintain short-term financing (e.g. Payroll expenses) and to stay in business. This allocation would help to provide an overall aid package aimed at delivering capital to small and mid-sized businesses.

**Government Participants Facility:** This facility provides liquidity to financial institutions that lend to states and municipalities.

**Other potential facilities** (1) employers are eligible for a 50% refundable payroll tax credit on qualified wages paid up to \$10,000 (per employee) during the crisis, (2) employer-side social security payroll tax payments may be delayed until January 1, 2021, (3) relaxed limitations on a company's use of losses, (4) companies can more quickly recover Alternative Minimum Tax credits as part of the 2017 tax reform law, and (5) businesses are temporarily allowed to increase the amount of interest expense deducted on their tax returns.

### 3) Local & State government

Around \$330 billion is allocated toward state and local governments, through (1) direct funding, (2) aid to hospitals and public health initiatives, (3) grants to airports, (4) aid to transit agencies, and (5) the establishment of an education stabilization fund.

## Detailed Implication of CARES Act for Business Tax Payers

### 1. Permission to Carry back Net Operating Losses

The act allows carryback of Net Operating Losses (NOL) arising in any taxable year beginning after 2017, but before 2021 (i.e. 2018, 2019 & 2020), However a taxpayer may elect to forgo the carryback.

Special rules are provided for taxpayers that had a transition tax obligation under Section 965 in one of the carryback years.

Since the enactment of the tax reform law in 2017, commonly referred to as the Tax Cuts and Job Act (TCJA), NOLs carried forward are limited to 80% of taxable income for the tax year. The CARES Act suspends this rule until the taxpayer's first taxable year beginning after 2020 and clarifies that the 80% limitation applies to taxable income computed without regard to deductions for Sections 199A and 250 after taking into account pre-2018 NOL carryovers.

It also makes a TCJA-technical correction that had negatively impacted fiscal taxpayers with NOLs generated in a tax year beginning in 2017 and ending in 2018.

Special rules are also provided for real estate investment trusts (REITs) and life insurance companies.

### 2. Deferment of Employer Payroll Taxes

Employers can defer payment for the employer portion of payroll taxes incurred between the dates the CARES Act is enacted through December 31, 2020.

If deferred, the employer would instead pay 50% of this amount by December 31, 2021, and the remaining 50% by December 31, 2022. The eligible payroll taxes are the employer's portion of Social Security taxes—6.2% of an employee's wages.

Self-employed taxpayers can also defer the employer's portion of Social Security taxes in the self-employment tax.

### 3. Employee Retention Credit for Employers

Eligible employers may claim a credit against Social Security taxes for each calendar quarter equal to 50% of qualified wages up to \$10,000 per employee. If the credit for the quarter exceeds the employer's Social Security tax liability, the excess is refunded.

Eligible employers operating a business during 2020 must have experienced either:

- A partial or full suspension of the operation of their trade or business during the calendar quarter due to governmental orders that limited commerce, travel, or group meetings due to COVID-19

- A significant decline in gross receipts from 2019

A significant decline begins with the quarter in which the gross receipts for the quarter were less than 50% of those in the same quarter in the prior calendar year. The decline ends with the quarter in which gross receipts are greater than 80% of the gross receipts for the same quarter in the prior calendar year.

Qualified wages for employers with 100 or fewer employees qualify for the entire credit. For employers with more than 100 employees, the wages eligible for the credit are the wages paid to employees who aren't providing services due to circumstances described above.

Employers who take advantage of the payroll protection loan—Section 1102 of the act—aren't eligible. Also, qualified wages don't include amounts paid for the sick leave credit or The Family and Medical Leave Act (FMLA) credit enacted by HR 6201.

#### 4. Section 163(j) Limit Increased for 2019 and 2020

The act increases the Section 163(j) interest deduction limitation from 30% to 50% of adjusted taxable income (ATI) for tax years beginning in 2019 or 2020. Partnerships, however, remain subject to the 30% limitation for tax years beginning in 2019.

Taxpayers eligible for the 50% limitation may elect to instead use the 30% limitation. In addition, all taxpayers, including partnerships, may elect to use their ATI for a tax year beginning in 2019 to compute their Section 163(j) interest deduction limitation for their tax year beginning in 2020. This favorable election should be beneficial for many businesses hit hard by the COVID-19 pandemic.

Partners that are allocated excess business interest expense (EBIE) for tax years beginning in 2019 are able to deduct 50% of that EBIE in tax years beginning in 2020 and the remaining 50% of the 2019 EBIE is subject to the normal Section 163(j) rules. This means it's carried forward to tax years for which the partner is allocated sufficient excess taxable income (ETI) from the partnership.

#### 5. Qualified Improvement Property

The long-awaited technical correction to qualified improvement property (QIP) is here.

QIP is any improvement made by the taxpayer to the interior portion of nonresidential real property after the building was first placed in service, excluding improvements to enlarge the building, any elevator or escalator, or the internal structural framework of the building.

The fix is retroactive so taxpayers that placed QIP in service in 2018 are able to treat such property as 15-year property eligible for bonus depreciation.

For alternative depreciative system (ADS) purposes, QIP is recovered over 20 years.

#### 6. Accelerated Recovery of Alternative Minimum Tax Credits for Corporations

Since the repeal of corporate alternative minimum tax (AMT) by the TCJA, corporations with carryover AMT credits have been able to recover the credits over a four-year period. Under the CARES Act, a taxpayer may claim a refund for any remaining AMT credit carryover in their first tax year beginning during 2019 under new Section 53(e).

An election is available to take the entire credit amount in 2018 under Section 53(e)(5). Under this election, the taxpayer would need to apply for a tentative refund before December 31, 2020.

#### Increased Limitation on Charitable Contributions for 2020

The limitation on a corporation's deduction of charitable contributions is increased from 10% of taxable income to 25% for 2020.

The excess is carried over for five years. Eligible charitable contributions must be made in cash during 2020 and must not be to a Section 509(a)(3) charitable organization or donor-advised fund.

In addition, the limitation on donated food inventory during 2020 has increased from 15% of taxable income to 25%.

## 7. Excess Business Loss Rule Suspended Through 2020

The act modifies excess business loss (EBL) rules (EBLs) for no corporate taxpayers under Section 461(l) to postpone the effective date of the provision to tax years beginning after 2020.

Those taxpayers that filed 2018 tax returns reflecting a EBL would presumably be eligible to file an amended tax return to remove any imposed EBL limitation and receive a refund.

## 8. The Section 461(l) modifications also included several much needed technical amendments to the statute that include:

- Clarifying that any EBL is treated as a NOL for subsequent tax years, eligible for carryforward or carryback, if applicable
- Stating that the EBL is computed without including a NOL or a Section 199A deduction
- That W-2 wages aren't included in the EBL computation
- Providing that capital gains are included in the computation of EBL only to the lesser of gains and losses attributable to a trade or business or net capital gain income of the taxpayer
- Net capital losses aren't included in the computation of EBL

## 9. Other Notable Business Provisions

Other noteworthy provisions of the act include:

- Any hand sanitizer produced between December 31, 2019, and January 1, 2021, by distillers related to COVID-19 is exempt from excise tax
- Exemption from treating as cancellation of indebtedness (COD) income forgiveness from certain qualifying loans made and guaranteed under the Small Business Act (SBA)
- Advance credits for paid sick leave, a modification to HR 6201

In addition, there are numerous industry-specific provisions impacting the health care, financial, and airline industries.

## CONCLUSION

Extraordinary times call for extraordinary measures. While the implications of the Corona Virus may seem daunting to an economic super power like USA, this disaster holds opportunities for a fresh jumpstart in the economy, newer possibilities through innovation and technology. In addition, the 2 trillion USD stimulus package passed by the USA government has been towards providing relief to the American workers, providing cash inflow to low income group citizens and cushion the crisis of economic slowdown.

## DISCLAIMER

This content is intended for general information purpose only and should not be used as a substitute to Professional Advise.

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