

Insights

COVID-19 UPDATE - EMPLOYEE ASSISTANCE THROUGH INTEREST-FREE LOANS

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As we explore ways to manage through these difficult economic times, employers who are looking for ways to assist employees who have seen their compensation reduced or former employees whose jobs have been temporarily eliminated due to the impact of the coronavirus quarantine may want to consider making interest-free loans available to those employees as a way to assist them economically during this difficult period.

The Tax Code permits an employer to make an interest-free loan to an employee of up to \$10,000 without having to treat the foregone interest as compensation to the employee. In addition, if the employee currently has received a loan in excess of \$10,000 from his or her employer, such as in the case of a bank employee who has a mortgage loan with his or her employer, the employer can still make an additional loan to that employee so long as the rate of interest is at least equal to minimum rate established under the provisions of the Tax Code. For short-term loans (less than 3 years) originated in March 2020, the loan must provide for a rate of interest of 1.5% per annum. The interest rate for short-term loans made in April 2020 is even lower, 0.91%. Both rates are significantly lower than commercial loan rates that might otherwise be available to employees looking for ways to manage through these difficult economic times.

We are happy to answer questions employers may have regarding the below-market loan rules or explore other tax issues they may have during this period.

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Frank A. Crisafi

Atlanta

frank.crisafi@bclplaw.com

[+1 404 572 6840](tel:+14045726840)



Philip B. Wright

St. Louis / New York

philip.wright@bclplaw.com

[+1 314 259 2499](tel:+13142592499)