



CARES Act Programs: Which One is Right for You?

April 2, 2020





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- BBA Finance – Southern Methodist University
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- Studied at Kwansei Gakuin University (KGU) in Nishinomiya, Japan as exchange student from Southern Methodist University
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Overview

- Paycheck Protection Program provides small businesses with funds to pay up to 8 weeks of payroll costs including benefits.
- Employee Retention Credit (ERC) for employers subject to closure due to COVIDI-19
- Emergency Economic Injury Disaster Loan (EIDL) changes and emergency grants



PAYCHECK PROTECTION PROGRAM (PPP)



Paycheck Protection Program

- “Paycheck Protection Loans” are designed to give small businesses an incentive to keep employees on their payroll
- Fully backed by the federal government, have no origination fees, and require no personal guarantee
- Eligible for up to 100% forgiveness if certain criteria are met
- Available through June 30, 2020



Who can apply?

- Small businesses with fewer than 500 employees (includes sole proprietorships, independent contractors, and self-employed persons)
- Non-profit organizations with fewer than 500 employees
- Certain industries may have more than 500 employees, as defined by the SBA's size standards



How Much is the Loan?

- Loan is equal to the lesser of:
 - Average monthly “payroll costs” for the 1-year period ending on the date of the loan, multiplied by 2.5,

OR

- \$10,000,000



What are Payroll Costs?

- Salaries, wages, commissions, or similar
- Payments of cash tips or equivalent
- Payment for vacation, parental, family, medical, and sick leave
- Severance payments
- Payments for group health care benefits, including insurance premiums
- Payments for retirement benefits
- Payments for state or local taxes assessed on the compensation of employees
- Payments not to exceed \$100,000 to/from independent contractors or self-employed persons
(More guidance needed)



What is Excluded from Payroll Costs?

- Compensation of any individual employee in excess of an annual salary of \$100,000
- FICA & Medicare taxes
- Compensation to any employee whose principal place of residence is outside the U.S.
- Qualified sick and family leave wages for which a credit is allowed under the Families First Coronavirus Response Act



How Does Loan Forgiveness Work?

- Loan forgiveness amount equals the sum of the following incurred and paid during the 8-week period beginning on the date of the loan:
 - Payroll costs (as defined above)
 - Mortgage interest
 - Rent & utilities (**Caution: recent guidance indicates only 25% of forgiveness can be for non-payroll costs**)
- Any remaining balance has a maturity of 10 years or less, an interest rate not to exceed 4%, with payments deferred for 6 months. (**Caution: SBA has stated that term will be 2 years, 0.5% rate**)



Other Considerations

- Due to likely high subscription, at least 75% of the forgiven amount must have been used for payroll.
- Loan payments will also be deferred for six months.
- No collateral or personal guarantees are required.
- Neither the government nor lenders will charge small businesses any fees.



Must Keep Employees on the Payroll—Or Rehire Quickly

- Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels.
- Forgiveness will be reduced if full-time equivalent headcount declines, or if salaries and wages decrease.



When to Apply

- Starting April 3, 2020, small businesses and sole proprietorships can apply.
- Starting April 10, 2020, independent contractors and self-employed individuals can apply.
- We encourage you to apply as quickly as you can because there is a funding cap.



How to Apply

- Apply through any existing SBA 7(a) lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating.
- Other regulated lenders will be available to make these loans once they are approved and enrolled in the program.
- Consult with your local lender as to whether it is participating.
- All loans will have the same terms regardless of lender or borrower.
- A list of participating lenders as well as additional information and full terms can be found at www.sba.gov.



More Information

- The Paycheck Protection Program is implemented by the Small Business Administration with support from the Department of the Treasury.
- Lenders should also visit www.sba.gov or www.coronavirus.gov for more information.



EMPLOYEE RETENTION CREDIT (ERC)



ERC for Employers Subject to Closure Due to COVID-19

- Credit is for 50% of qualified quarterly wages paid during March 13-December 31, 2020
- Limited to the first \$10,000 paid to an employee (maximum of \$5,000 credit per employee)
- Eligible employers had operations fully/partially suspended by government mandate related to COVID-19 or experienced a decline of more than 50% in gross receipts compared to the same quarter in the prior year due to COVID-19.



ERC for Employers Subject to Closure Due to COVID-19 Cont.

- If employer qualifies only through the 50% gross receipts test, eligibility ceases when gross receipts surpass 80% of the gross receipts for the same quarter in the prior year
- If employer had an average of greater than 100 full-time employees in 2019, then wages that qualify for the credit are only amounts paid to an employee who was not working due to a COVID-19 issue
- If employer had an average of less than 100 full-time employees in 2019 then all wages paid during the prescribed period qualify for the credit



ERC for Employers Subject to Closure Due to COVID-19 Cont.

- Credit may be claimed against the employer portion of employment taxes, if the credit exceeds such amount then it is treated as an overpayment and can be refunded in advance
- **Caution: Business is not eligible if the client received an SBA PPP loan.**



EMERGENCY ECONOMIC INJURY DISASTER LOAN (EIDL) GRANTS



Temporary SBA EIDL Loan Changes

- EIDL is intended to cover up to six months' of working capital needs that cannot be met due to the COVID-19 emergency
- Loans are not forgiven (unlike PPP), but loan terms are favorable:
 - 30 years, fixed 3.75% interest rate
- Eligible expenses broader than PPP



Temporary SBA EIDL Loan Changes

Cont.

- Eligible entities are a business or cooperative with less than 500 employees, any individual who owns a sole proprietorship, an ESOP, or a tribal small business
- For SBA EIDLs made in response to COVID-19 between January 31, 2020 and December 31, 2020, the SBA will waive any rules related to the personal guarantee on advances and loans under \$200,000
- The requirement for applicants to have been in business for one year before the disaster is also waived, however, an eligible business must have been in operation by January 31, 2020



EIDL: Emergency Grant

- Eligible entities who apply for a loan under section 7(b)(2) of the small business act during this period may request an advance of \$10,000
- This grant may be used for COVID-19 related paid sick leave, payroll costs to retain employees, increased cost to obtain materials, rent or mortgage payments, or repaying obligations which cannot be met due to revenue losses
- Even if they are subsequently denied an EIDL loan, applicants will not be required to pay back the advance payment



EIDL: Emergency Grant Cont.

- Advanced amount will reduce Paycheck Protection Program loan forgiveness
- You may refinance EIDL into a PPP loan in some cases, but it may not be beneficial to do so.
- Must apply for EIDL through SBA website, not through lenders.



Recap

- Paycheck Protection Program: forgivable loans for 8 weeks of payroll, rent, utilities, and interest.
- Employee Retention Credit (ERC) for employers subject to closure due to COVID-19 who do not claim PPP.
- Emergency Economic Injury Disaster Loan (EIDL): \$10,000 tax-free grants plus favorable loans for working capital needs.



Contact Information

For additional advice and assistance, please contact your Saville advisor.

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