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COVID-19: SBA LOAN PROGRAMS

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Presenter



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Loan Programs

- **Two** loan programs available to businesses who have been damaged by the pandemic:
 - Economic Injury Disaster Loans (“EIDL”), which were funded earlier this month
 - Paycheck Protection Program Loans (“PPPL”), which are part of the CARES Act.

Note: Employee retention credit is not available if you do a PPPL

SBA Economic Injury Disaster Loan Program ("EIDL")

	Previously	Modified by the CARES Act
Qualifying	<p>All for profit and nonprofit businesses impacted by COVID-19 and based on revenue and employee count determined by NAICS code</p> <p>https://ecfr.io/title-13/se13.1.121_1201</p>	<ul style="list-style-type: none"> • Less than 500 EEs or applicable industry size standard determined by SBA** • Sole proprietorships, with or without employees • Independent contractors • Cooperatives and ESOPs with < 500 EEs • Tribal small business concerns
Loan Amount	Up to \$2M based on formula	No change to loan amount; however, Emergency Advance up to \$10,000 available within three days of application
Loan Proceeds Use	Payroll, paid sick leave, payables, debt service	No change
Deferral	90 days	Up to 1 year
Interest Rate	3.75% for business and 2.75% for nonprofits	No change

SBA Economic Injury Disaster Loan Program ("EIDL")

	Previously	As Modified by the CARES Act
Terms	Up to 30 years	No change
Debt forgiveness	None	None
Personal Guarantee	Required by owners of 20% or more of the company, or at least one guarantor	Waived on advances and loans of \$200,000 or less for all applicants
Prepayment Penalties	Waived	No change
Credit Elsewhere	Evaluated	Waived
Approval documentation	Requires tax return submission	No tax return submission required. Based solely on credit scores or alternative methods to determine ability to pay

EIDL Application Process

- Streamlined online process go to –
<https://covid19relief.sba.gov/#/>
- Emergency advance of \$10,000 available (check the box in the application)
- If you do not take an EIDL, the \$10,000 will be deducted from the PPPL
- Requires SBA to determine damage to award the loan

Paycheck Protection Program Loan

Paycheck Protection Program Loan (PPPL)

- Loans provided during the period from February 15, 2020 to June 30, 2020
- SBA to provide 100% federally-backed loans
- Will be administered through commercial banks approved as SBA lenders
- No recourse unless loan proceeds used for unauthorized purposes
- Loan under SBA Disaster Loan Program after Jan 31, 2020 may be refinanced under this new program
 - Understanding you can get both if proceeds are used for different purposes
- Exclusion for the small business requirement as it relates to restaurants and hotels, based on less than 500 employees per location
- Franchise affiliation

Paychecks Protection Program Loan

	Disaster Loan	Paycheck Protection Loan
Qualifying	<ul style="list-style-type: none"> • Less than 500 EEs or applicable industry size standard determined by SBA <ul style="list-style-type: none"> • For Profit businesses • Nonprofit organization • Veterans' organization • Tribal business • Sole proprietorships, with or without employees • Independent contractors • Cooperatives and ESOPs with < 500 EEs 	<ul style="list-style-type: none"> • Less than 500 EEs or applicable industry size standard determined by SBA <ul style="list-style-type: none"> • For Profit businesses • Nonprofit organization • Veterans' organization • Tribal business • Sole proprietors • Independent contractors • Self-employed individuals
Loan Amount	Up to \$2M based on formula	Up to \$10M based on a multiple of 2.5 times the average monthly payroll over one year prior to loan <u>PLUS</u> outstanding loan under Disaster Loan Program
Loan Proceeds Use	Payroll, paid sick leave, payables, debt service	Payroll costs, benefits costs, salaries and commissions, mortgage interest, rent, utilities and interest on debt incurred before February 15th
Interest Rate	3.75% for business and 2.75% for nonprofits	0.5% *Recent change*

What Does Payroll Include?

Sum of payment of any compensation with respect to employees that is:

- Salary, wage, commission or similar
- Payment of cash tip or equivalent
- Payment for vacation, parental, family, medical or sick leave
- Allowance for dismissal or separation
- Payment required for group health care including premiums
- Payment of retirement benefit
- Payment of any state or local tax (e.g., SUTA)
- Sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from SE or similar compensation and that is in an amount that is not more than \$100,000 in year (pro-rated for covered period)

What Does Payroll Not Include?

Does NOT include:

- Compensation in excess of \$100,000
- Taxes imposed or withheld under chapters 21, 22 or 24 of the IRS Code from 2/15/2020 – 6/30/2020 [**Recently clarified on 4/6 – This means only that the employer portion of FICA cannot be included. It does not mean you have to back out any employee portions of FICA or Federal Withholding**]
- Compensation of an employee whose principal place of residence is outside of the US
- Qualified sick leave wages for which a credit is allowed under Families First (no double dipping)
- Qualified family leave wages for which a credit is allowed under section 7003 of the FFCRA
- **Payments to independent contractors (1099) by a company. The individual 1099 contractors will be able to file for their own PPPL**

Paychecks Protection Loan

	Disaster Loan	Paycheck Protection Loan
Terms	Up to 30 years	Two year maturity
Debt forgiveness	None	Provides for debt forgiveness with stipulations At least 75% must be used for payroll
Deferral of Payments	Up to 1 year	Minimum of six months, up to one year
Personal Guarantee	Waived on advances and loans of \$200,000 or less for all applicants	No personal guarantee or collateral required
Prepayment Penalties	Waived	Waived
Credit Elsewhere	Waived	Waived
Approval documentation	No tax return submission required. Based solely on credit scores or alternative methods to determine ability to pay	Good-faith certification <ul style="list-style-type: none"> • Fund operations during COVID-19 • Fund payroll, mortgage, lease and utility payments • No other application under program for same purpose • Has not received duplicative amounts under this program

PPL Debt Forgiveness

How does debt forgiveness work?

- Amount forgiven cannot exceed principal amount of the loan
- Debt forgiveness is excluded from gross income
- Equal to costs incurred and payment made during covered period – eight weeks after the date of the loan is issued for:
 - Payroll costs
 - Interest payments on mortgages and other debt incurred prior to 2/15/2020
 - Rent
 - Utility payments
- Will be reduced for any employee cuts or reductions based on formula
- Relief is available for employers
 - Rehire employees by June 30, 2020
 - Make up for wage reductions by June 30, 2020

Debt Forgiveness

Step 1 - Create a Pool of Eligible Dollars

- Determine the pool of eligible dollars
- Spent in the eight weeks after the origination of the loan
- Based on the eligible costs
 - Payroll (75%)
 - NonPayroll (25%)
 - Rent
 - Utilities
 - Interest on mortgage and debt
- No more than 25% of the dollars should be to non-Payroll expenses

Debt Forgiveness

Step 2 – Workforce Retention

- Full-time equivalent employee (“FTEE”)
- Sets a baseline – at the company’s option either
 - Average FTEES 2/15/2019 to 6/30/2019 **–OR–**
 - Average FTEES 1/1/2020 to 2/29/2020
- Compares the baseline to the average FTEEs during the eight week period to create a % of FTEEs retained
- Can be “cured” by rehiring workforce by June 30, 2020
- Not the same employees, simply an FTEE count

Debt Forgiveness

Step 3 – Payroll Reduction

- Further reduction for any individual whose pay has been reduced by more than 25%
- Can be “cured” by putting salaries back to pre-reduction levels by June 30, 2020

How do I apply for forgiveness?

- Borrowers must submit to their lender the following:
 - Documentation verifying employees on payroll and their pay rates
 - Documentation on covered costs/proof of payments
 - Certification from business representative
 - Additional documentation as requested
 - Amount forgiven cannot exceed principal amount of the loan

PPPL Application Process

- Through commercial lenders that are SBA approved
- SBA released a sample application
- https://www.sba.gov/sites/default/files/2020-03/Borrower%20Paycheck%20Protection%20Program%20Application_0.pdf
- FAQ says ready to lend by
 - April 3rd – Small businesses and sole proprietorships
 - April 10th – Independent contractors and self-employed individuals
- All banks are currently processing these loan applications and have their own processes and underwriting standards in place
- Start the process with your existing bank, most efficient approach
- Time is of the essence, start the process today if you have not already done so

Payroll Protection Program Loans

- Plan to maximize debt forgiveness in a way that makes economic and business sense
- Qualified expenses
 - May behoove you to continue to pay interest and rent, whereas you might have negotiated with your lender not to.
 - Wait until the eight week period clock starts
- Lay off or Furlough or Unemployment
 - When to take the loan?
 - Beginning if you have all your employees currently
 - End (if you can) of the period - if you have a low work force - get the benefit of the eight weeks following the day you take the loan in July/August. Employees back at work.

SBA Loans – Now What?

- Evaluate which loan program is best for your situation based on:
 - Qualifications and program details
 - Modeling of scenarios to maximize loan amount and debt forgiveness
 - Understanding is that you can take both – the proceeds must be used for different purposes
- Be Proactive
 - Reach out to your banker that is SBA approved
 - Keep your books and records current
 - Gather legal documents for easy reference (e.g., organizational, leases, loans)
 - Keep investor ownership records current
 - Keep investors apprised of overall status

What to Expect from GBQ

- **Knowledge.** We're reading and reacting all day every day so that we can share important information with you quickly.
- **Accessibility.** We're not in the office, but we're on high alert to help with whatever you need.
- **Reliability.** One of us may not know the answer, but our team will find it, whether inside or outside of GBQ. We will help you solve your problems.
- **Empathy.** We are learning every day, just like you. We are worried about our employees, our customers and our families, just like you.



COVID-19 Checklist



During this time of uncertainty as to how long COVID-19 will impact everyday life, personally and professionally, it is important to have a plan in place to preserve your business, client relationships and most importantly, your employees. Here are some considerations on creating a COVID-19 response plan.

Financial Considerations	Reviewed	Follow-Up Date
Cash Flow Considerations		
→ Virtually no business will be able to escape the impact of the current economic crisis. Take time to do "what if" planning and create a multi-step plan for reducing expenses. Pre-determine the specific financial triggers for implementing these plans (when AR collections slow by X%, we will do Y). It's easier to plan for a crisis in advance than to make reliable decisions under extreme pressure as conditions shift.	<input type="checkbox"/>	_____
→ Re-evaluate revenue streams and ways to expand allowable revenue streams through creative marketing efforts, third-party delivery and social media platforms.	<input type="checkbox"/>	_____
→ Create 13-week cash flow projections to determine your 30, 60, and 90-day cash needs. The flexible projections will allow for updating as things progress while assisting you in identifying the pre-determined triggers.	<input type="checkbox"/>	_____
→ Evaluate whether outlet locations need to be closed in light of surrounding environmental changes (e.g., close proximity to sporting events). It's important to maintain security of these locations to prevent vandalism and looting.	<input type="checkbox"/>	_____
→ Think about critical vendors to your business who may be experiencing disruption. Make sure that you are considering supply chain delays and potential alternate sources when planning your orders.	<input type="checkbox"/>	_____
→ Commence discussions with vendors, including your landlord, regarding options to defer rent payments. Additionally, review your lease with legal counsel; force majeure clauses are common in leases and could excuse performance.	<input type="checkbox"/>	_____
→ Prioritize vendors and use them as sources of cash flow. Review your routine cash outlays and discuss payment deferral options with those third parties. They can always say "no", but they may say "yes."	<input type="checkbox"/>	_____
→ Consider the use of a credit card for certain expenses to extend the payment cycle.	<input type="checkbox"/>	_____
→ Complete sales tax, payroll withholding and other "trust tax" remittances fully and timely unless specific state guidance is issued allowing a delay. Personal liabilities may result from nonpayment of these taxes.	<input type="checkbox"/>	_____
→ Revisit accelerated sales tax payment methodologies and, where appropriate, make an accelerated payment commensurate with the actual, (most likely) reduced tax due.	<input type="checkbox"/>	_____
→ Consider whether to continue major capital improvement projects, be it new stores, remodels, or product design.	<input type="checkbox"/>	_____
→ Be cognizant of any penalties or fees that may be levied and ask for them to be waived before assessed.	<input type="checkbox"/>	_____
→ Review subscription services and determine whether any can be frozen or reduced in level of service provided.	<input type="checkbox"/>	_____
→ Re-evaluate your marketing expenditures and focus on only the forms that will reach your customers. (Fewer people in cars means less radio, but may result in more people at home watching TV.)	<input type="checkbox"/>	_____
Banking		
→ Maximize the relationship with your lender and commence open dialogue on topics concerning:		
• Increased credit limits for a temporary time period;	<input type="checkbox"/>	_____
• Payment deferral options, while keeping in mind SBA loans, in particular, have deferral programs available;	<input type="checkbox"/>	_____
• Interest-only options;	<input type="checkbox"/>	_____
• Extension of annual audit/reviewed financial statements or quarterly reporting, if necessary; and	<input type="checkbox"/>	_____
• Waiving failed debt covenants directly related to COVID-19 impact.	<input type="checkbox"/>	_____

COVID-19 Checklist



Financial Considerations (continued)	Reviewed	Follow-Up Date
Banking (continued)		
→ Explore the possibility of temporarily increasing credit card limits to create cash flow availability in addition to lowering interest rates fees.	<input type="checkbox"/>	_____
→ Monitor availability of SBA Disaster Assistance Loans for COVID-19, available in some states.	<input type="checkbox"/>	_____
Relief		
→ Investigate federal, state and local programs for emergency assistance to your business and/or your employees, such as:		
• Unemployment extensions;	<input type="checkbox"/>	_____
• Families First Coronavirus Response Act ;	<input type="checkbox"/>	_____
• SharedWork Ohio is an alternative to laying off employees, allowing both the workers to remain employed and the employers to retain their staff during times of reduced business activity. When reducing employee hours, the Ohio Department of Job and Family Services provides an unemployment insurance benefit proportionate to the employee's reduced hours. For more information please visit http://jfs.ohio.gov/ouio/SharedWorkOhio/ ; and	<input type="checkbox"/>	_____
• Explore community foundation and nonprofit support.	<input type="checkbox"/>	_____
→ Take advantage of the 90-day delay in the federal tax payment deadline to conserve cash.	<input type="checkbox"/>	_____
→ Review insurance coverage with your insurance advisor, keeping in mind that business interruption insurance applies in limited circumstances.	<input type="checkbox"/>	_____
Operational Considerations		
→ Document key operations and internal controls in place along with the backup for each process should an employee become ill or miss work for an extended period of time.	<input type="checkbox"/>	_____
→ Make a plan to receive your incoming mail if your primary business location is closed, particularly if you receive client payments by mail.	<input type="checkbox"/>	_____
→ Understand or expand your capabilities to forward incoming phone calls to an external number.	<input type="checkbox"/>	_____
→ Move meetings to conference calls and utilize virtual meeting tools. Make special accommodations for interacting with those who are most vulnerable, including senior citizens and people with pre-existing health conditions.	<input type="checkbox"/>	_____
→ If your business cannot run without on-site workers, make as many accommodations as practical to increase social distancing, like moving to shift work to reduce the concentration of people in attendance at any one time.	<input type="checkbox"/>	_____
→ Institute strict visitor restrictions and maintain detailed visitor logs for all people on site at your business. This effort ensures that visitors can be notified in the event that exposure to COVID-19 occurs in your location.	<input type="checkbox"/>	_____
→ If you have shifted anything in your business model, such as adjusting to a delivery model, consider insurance ramifications and contact your insurance carrier to ensure you and your employees are covered.	<input type="checkbox"/>	_____
→ Make a strict policy to prohibit children in the workplace for any reason. Parents are struggling with school and daycare closures, and bringing children to work may be tempting. Health professionals believe that children may transmit the virus to others, regardless of whether the child is showing any symptoms of illness.	<input type="checkbox"/>	_____
→ If your business is located in a multi-tenant building, understand your landlord's communication protocols related to the discovery of COVID-19 diagnosis within the building.	<input type="checkbox"/>	_____
→ Develop a plan to stay focused on the client, even when things are chaotic in your own business. Excellent client communication through a time of upheaval enhances trust and deep relationships, which will help your business to recover at the end of this cycle.	<input type="checkbox"/>	_____

COVID-19 Checklist



Operational Considerations (continued)	✓ Reviewed	Follow-Up Date
→ Divide and conquer, if at all possible, to separate the internal team that is focused on preserving and managing your business from the team that is serving your clients. This will ensure that both critical functions receive the attention needed.	<input type="checkbox"/>	_____
Technology and Cyber		
→ Communicate to employees regarding the need for enhanced diligence regarding cyberattacks when working remotely.	<input type="checkbox"/>	_____
→ Assess key vulnerabilities in remote working arrangements, such as ensuring the use of VPN technologies and the use of remote viewing programs versus remote desktop.	<input type="checkbox"/>	_____
→ Determine if you have visibility and the ability to monitor remote connections of employees, contractors and others with access to company network resources.	<input type="checkbox"/>	_____
→ Continue cyber diagnostic assessments to find weaknesses before an attacker has the opportunity.	<input type="checkbox"/>	_____
→ Review your business continuity and incident response plan to determine if any updates or accommodations need to be made to the existing environment.	<input type="checkbox"/>	_____
Human Resource Considerations		
Employee Communication		
→ Be transparent with all of your employees about your business plans and preparedness for COVID-19. Sharing information widely educates your team and reduces anxiety, which allows them to think more clearly and make better decisions about their work and family situations. Key subjects include:		
• Remote working policies and opportunities to participate in adequate training to ensure productivity.	<input type="checkbox"/>	_____
• Communication and policies regarding travel restrictions, including other office locations.	<input type="checkbox"/>	_____
• Procedures and expectations around illness and self-quarantine.	<input type="checkbox"/>	_____
• Employee Assistance Program guidelines and requirements.	<input type="checkbox"/>	_____
• Telemedicine and other pertinent insurance-related benefits.	<input type="checkbox"/>	_____
→ Send frequent, straightforward, summarized communications on specific topics. Nobody fully grasps the details when communicated in extensive emails or speeches.	<input type="checkbox"/>	_____
→ Encourage every employee to be prepared for sudden and oftentimes unexpected changes in the situation, and to stay in touch with your guidance and reliable news sources.	<input type="checkbox"/>	_____
→ Ensure that you have multiple ways to contact every employee, and that they know who (and how) to contact for concerns.	<input type="checkbox"/>	_____
→ Consider the accommodations that you can, or cannot, make for individual employee situations. Educate yourself on ADA, FMLA and other labor law requirements to avoid problems that may arise from allowing or requiring different actions from different employees.	<input type="checkbox"/>	_____
→ If you are instituting 14-day self-quarantine protocols for employees who may have been exposed to COVID-19, be very clear about the expectations during that quarantine. Team members may think that staying away from the workplace is the only concern. It's a good idea to share with them that public gatherings, personal travel and other face-to-face interactions should be curtailed.	<input type="checkbox"/>	_____

COVID-19 Checklist



Human Resource Considerations (continued)	✓ Reviewed	Follow-Up Date
Unemployment Laws		
→ Familiarize yourself with the changes in the Ohio, Kentucky and Michigan unemployment laws and how it applies to your workforce. Benefits have been extended by all of these states and several restrictions to qualifications have been lifted.	<input type="checkbox"/>	_____
Workers' Compensation Laws		
→ Familiarize yourself with how employees may consider filing for Workers' Compensation in the event they believe they have contracted COVID-19 as a result of their employment.	<input type="checkbox"/>	_____
FMLA Leave		
→ Familiarize yourself with the changes to FMLA eligibility resulting from the Families First Coronavirus Response Act, enacted as law as of March 18, 2020, i.e. an employee may be covered for FMLA, in order to take care of a minor child if school or daycare has closed, after having been employed for only 30 days (versus 1 year/1,250 hours) and applies to companies with fewer than 500 employees rather than those with 50 or more employees.	<input type="checkbox"/>	_____
Paid Time Off		
→ Review current PTO policies; determine what, if any changes are warranted to allow for additional time off in the event of illness (employee or family member).	<input type="checkbox"/>	_____
→ Familiarize yourself with the Families First Coronavirus Response Act's emergency paid sick leave , including the situations under which paid sick leave is required to be paid by the employer, the treatment of full-time and part-time employees, the daily caps to the amount of emergency paid sick leave and the resulting payroll tax credits related to the paid sick leave.	<input type="checkbox"/>	_____
Childcare		
→ Explore alternate childcare issues for parents, such as high school or college students who are not in school and could potentially help with babysitting, etc.	<input type="checkbox"/>	_____
→ Provide resources to parents who have young children at home for extended periods.	<input type="checkbox"/>	_____
Marketing and Communications		
→ Keep your clients informed on event updates and overall status of your company.	<input type="checkbox"/>	_____
→ Communicate your efforts and policies surrounding COVID-19 to keep your clients and employees safe and aware.	<input type="checkbox"/>	_____