



Navigating COVID-19 Relief Resources for your Business


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*SBA Economic Injury Disaster Loans – Coronavirus
Related Economic Disruptions Presentation*


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4





Agenda

- 1. CARES Act (Payroll Protection Program or PPP)
- 2. Economic Injury Disaster Loan (EIDL)
- 3. Overview of Business Tax Incentives
- 4. Process for Questions and FAQs
- 5. Immediate Actions
- 6. Upcoming Sessions
- 7. Content and Resources



CARES Act

- Coronavirus Aid, Relief and Economic Security Act (CARES)
 - Background
 - Eligibility
 - Borrowing Limits
 - Loan Uses
 - Lender Requirements
 - Calculating Payroll Costs
 - Non Seasonal vs. Seasonal Employers
 - Loan Forgiveness
 - Loan Terms
 - Application Process



7

SBA Economic Injury Disaster Loans (EIDL)

- Program Background
- Eligibility
- Loan Uses
- Borrowing Limits
- Emergency Advance
- Loan Terms
- Application Process and Requirements



8

CARES Act (PPP) Background

- Allocates \$350 billion to assist small businesses to keep businesses operating and to keep workers employed amid the COVID-19 pandemic and economic downturn.
- Expands the SBA's 7(a) Loan Program to support new "Paycheck Protection Program" Loans (PPP).
- Includes increased loan amounts, expanded allowable use provisions and possible loan forgiveness.
- Provides 100% federally guaranteed loans to small businesses.
- Administered by the SBA and the loans are issued by private lenders
- **PPP is not operational until the SBA issues its guidance and regulations (ASAP)**
- Application deadline is 6/30/20



9

PPP - Eligibility

- A small business with fewer than 500 employees
- Employee count includes all employees: full-time, part-time and any other status
- A small business that otherwise meets the SBA's size standard
- A not-for-profit with fewer than 500 employees
- An individual who operates as a sole proprietor or as an independent contractor
- An individual who is self-employed who regularly carries on any trade or business
- A 501(c)19 Veterans Organization that meets the SBA size standard
- Accommodation and food services sector – 500 employees rule applied per location



10

PPP – Loan Amount Limit

- 2.5x the average total monthly payroll costs during the 1 year period before the loan is made
- Maximum loan amount is **\$10 million**
- Example: Loan made on 4/1/20
 - Avg. payroll costs 4/1/19 – 4/1/20 = \$1,500,000
 - Maximum loan amount = \$3,750,000

- Businesses not operating in 2019 - 2.5x average monthly payroll costs for January and February 2020
- Seasonal employers – 2.5x average monthly payroll costs for the 12 week period beginning 2/15/19 (or 3/1/19) and ending 6/30/19

11



PPP – Lender Responsibility for Eligibility

- Borrower in business before 2/15/20 and had employees for whom they paid salaries and payroll taxes or paid independent contractors
- Good faith certification from borrower that:
 - Uncertain economic conditions due to COVID-19 makes the loan necessary to support on-going operations
 - Loan proceeds will be used to retain workers and maintain payroll and make mortgage, lease and utility payments
 - No application pending nor has received loans for Disaster Recovery Loans or Economic Stabilization Loans under COVID-19 stimulus package for the same purpose (i.e. intent is not to “double dip”).
 - From 2/15/20 – 12/31/20, the borrower has not received a loan duplicative of the purpose and amounts applied for here
- For independent contractors, sole proprietors or self employed, lenders will be looking for payroll tax filings, Form 1099-MISC and income and expenses from the sole proprietorship

12



PPP – NOT Required by Lender

- Personal guarantee
- Collateral
- Ability to repay
- Disclosure that the borrower was unable to obtain credit elsewhere

13



PPP – Loan Uses

- Payroll
- Rent
- Health benefits
- Insurance premiums
- Utilities
- Interest on other debts or mortgages

14



PPP – Application Materials

- Applications must include documentation verifying the number of FTEs or equivalents on payroll and pay rates including:
 - Payroll costs including paid sick, medical, vacation and costs related to continuation of group health care benefits during periods of leave
 - Employee salaries, wage commission or other similar compensation
 - Interest on mortgage obligations
 - Allowance for dismissal or separation
 - Payment of any retirement benefit
 - Payment of state and local tax assessed on the compensation of employees
 - Rent
 - Utilities
 - Evidence of other debt obligations incurred before the covered period



15

PPP – Included in Average Monthly Payroll Costs

- Salary, wages, commission or similar compensation
- Cash tips or equivalent
- Payments for vacation, parental, family, medical or sick leave
- Separation pay
- Payment required for the provisions of group health care benefits, including insurance premiums
- Payment of any retirement benefits
- Payment of state or local tax assessed on the compensation of the employee
- Sole proprietors, independent contractors and self employed – wages, commissions, income, net earnings from self –employment not more than \$100,000, as prorated for the covered period



16

PPP – Excluded From Payroll Cost

- Payroll costs in excess of an annual salary of \$100,000 for an individual employee (prorated for the covered period)
- Payroll taxes, railroad retirement taxes and income taxes
- Payroll costs of an employee whose principal place of residence is outside the US
- Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act
- Qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act



17

PPP – Loan Forgiveness

- Borrowers are eligible to have a portion of their loans forgiven
- The forgiven debt will NOT be recognized as income for tax purposes
- Borrower may be eligible to loan forgiveness on principal for the amounts spent on the following items during the **8-week** period beginning on the day the loan was originated:
 - Payroll costs
 - Interest on mortgage obligation (originated before 2/15/20)
 - Rent on a business lease (originated before 2/15/20)
 - Utility payments (services that began before 2/15/20)
 - Additional wages paid to tipped employees
- Loan forgiveness may be reduced based on reduction of employee head count or employee wages
- Reductions in headcount or wages that occur during the period beginning 2/15/20 and ending 30 days after the start of the CARES Act will not reduce the amount of loan forgiveness IF by 6/30/20 the borrower eliminates the head count reduction or wages reduction.



18

PPP - Applying for Loan Forgiveness

- All borrowers seeking forgiveness must file an application with the lender
- Decision on forgiveness must be within 60 days after the lender receives the completed application
- Documentation
 - Verification of FTEs for the relevant periods, including IRS payroll tax filings and state, income, payroll and unemployment insurance filings
 - Cancelled checks, receipts, transcripts of account or other documents verifying rent, mortgage interest and rent payments
 - Certification by borrower representative that information provided is true and correct and the loan proceeds were used for permissible uses
 - TBD documentation that the SBA determines is necessary

19



PPP – Loan Terms

- Maximum loan term of 10 years
- Fixed maximum interest of 4%
- No prepayment penalty
- No personal or collateral guarantees
- Borrower is not receiving and has not requested funds from another SBA program for identical uses
- Certain fees that would otherwise apply under the SBA are waived
- Loan payments are deferred for a period of 6 months to one year from the origination date

20



PPP – Further SBA Guidance

- SBA will be issuing guidance to lenders shortly for the processing and disbursement of loans and prioritization for small businesses:
 - Underserved markets
 - Rural markets
 - Veteran owned
 - Owned and controlled by socially and economically disadvantaged individuals (Section 8(d)(3)(c)
 - Women owned and controlled
 - Businesses operating for less than 2 years

21



Economic Injury Disaster Loan



SBA EIDL - Background

- Provides up to \$2,000,000 per borrower in working capital loans for small businesses and not-for-profits
- \$50 billion has been made available for the EIDL program
- Available to companies in those states that have been declared Disaster Areas by the SBA.
- Most states and the District of Columbia have been declared Disaster Areas (please check [SBA.gov/disaster](https://www.sba.gov/disaster) for full list)
- Includes a provision that the SBA may advance up to a \$10,000 grant to each applicant, paid within 3 days after completing the loan application to the SBA.



23

SBA EIDL - Eligibility

- Business concern having not more than 500 employees (or as otherwise defined by SBA and NAICS Codes)
- Sole proprietorship or an independent contractor
- Cooperative having not more than 500 employees
- ESOP with not more than 500 employees
- Tribal business concern with not more than 500 employees
- Eligibility is the period 1/31/20 to 12/31/20
- Cannot be used to refinance long term debts



24

SBA EIDL – Loan Uses

- Intended to assist business to meet ordinary and necessary financial obligations that cannot be met as a direct result of COVID-19
- Payroll
- Rent
- Other working capital needs
- Other operating expenses that would have been paid had the disaster not occurred
- Loan proceeds are not intended to be used for lost profits or to finance business expansion

25



SBA EIDL – Loan Amount Limits

- Lessor of \$2,000,000 or the amount of economic injury determined by the SBA less business interruption insurance recoveries
- SBA will consider potential contributions from the business and its owners or affiliates
- SBA may provide guidance on specific loan amount calculations, such as 50% of gross profits (pending more clarification on this)
- If the business is deemed a major source of employment, the SBA has the authority to waive the \$2,000,000 limit

26



SBA EIDL – Loan Terms

- 30 year repayment terms
- 3.75% interest rate for small businesses
- 2.75% interest rate for not-for-profits
- No prepayment penalty
- Waived ability to repay
- No personal guarantees for loans under \$200,000
- Personal guarantees for loans over \$200,000 from all owners of 20% or more of the borrowing business
- No collateral for loans under \$25,000
- No loan forgiveness, except for the \$10,000 emergency advance



27

SBA EIDL – Emergency Advance Option

- Applicants may request an emergency advance of \$10,000 from the SBA when applying for the EIDL program
- Advances are to be paid with 72 hours of filing application
- Applicant must certify that it is eligible for a SBA EIDL
- Advance is not required to be repaid if loan is denied
- If loan is approved, the amount of the Advance paid will be reduced from the amount of the loan
- Advance can be used for:
 - Payroll
 - Rent
 - Mortgage payments
 - Supply chain costs that have increased due to COVID-19
 - Debts in arrears due to COVID-19
 - Sick leave for employees directly impacted by coronavirus



28

SBA EIDL – Express Bridge Loan (Pilot)

Express Bridge Loan Pilot Program

- Complete the application on the SBA website
- Decision can take up to 4 weeks (could be expedited by SBA)
- Upon approval, first \$25,000 is disbursed within 5 business days
- Each applicant is assigned a case officer for additional disbursements
- Loan disbursements can repay bank bridge loans up to \$25,000

Review more on this program below:

<https://www.sba.gov/sites/default/files/2020-03/Express-Bridge-Loan-Pilot-Program-Guide-FINAL-3.25.20.pdf>



29

SBA EIDL – Documentation Requirements

- Business owner information
- Gross revenue for trailing twelve month (TTM) period ended 1/31/2020
- Cost of goods sold for TTM period ended 1/31/2020
- Rental properties: lost rents due to the disaster
- Non-profits: cost of operations for the TTM period ended 1/31/2020
- Compensation from other sources received as a result of the disaster (pending clarification on this information)
- SBA may request other information and additional forms, including:
 - Multiple years of tax returns
 - Schedule of Liabilities (Form 2202)
 - Personal Financial Statement (Form 413D)
 - Monthly sales figures and estimated impact (Form 1368)
 - Forecasts to determine loan amount



30

Applying for a PPP loan and a SBA EIDL

- An eligible business can apply for the EIDL **and** the PPP (subject to change or clarification by SBA)
- Business will not be permitted to use the EIDL and PPP loan for the same expenses covering the same period (i.e. cannot “double dip”)
- If business has already Received an EIDL, then the borrower can refinance the EIDL as part of the PPP loan, for which the PPP portion may be subject to forgiveness (\$10,000 advance would reduce debt forgiveness amount)
- Remaining portions of the EIDL loan for purposes other than those in the loan forgiveness terms for a PPP loan would remain an outstanding loan (up to 30 year term)
- Pending SBA Ruling: Once PPP funds are available, you may have to elect EIDL or PPP (some contacts have noted that EIDL eligibility will be reduced)



31


Business Tax Incentives



33

Employee Retention Tax Credit (ERTC)

- Refundable payroll credit equal to 50% of wages, including group health plan expenses, (up to \$10k wages counted per employee) paid by eligible employers to employees after March 12, 2020 and before January 1, 2021.
- Eligible Employer
 - Carrying on a trade or business in 2020; and
 - Either
 - Fully or partially suspended operations due to COVID-19 related shutdown order; OR
 - Gross receipts decline more than 50% as compared to same calendar quarter in prior year.
 - 501(c) organizations are eligible under shutdown.




34

Employee Retention Tax Credit (ERTC)

- Gross Receipt Decline:
 - Period begins first quarter dip below 50% compared to last year quarter and ends when gross receipts is 80% compared to last year quarter.
- Example:
 - 2019 – each quarter has \$1M gross receipts

Quarter	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Gross Receipts	\$450,000	\$200,000	\$825,000	\$900,000

- Company would qualify in Q1, Q2 and Q3.



Employee Retention Tax Credit (ERTC)

- Credit Calculation – it depends!
- If more than 100 full-time employees during 2019, wages include wages paid for periods during which the employees are not working due to government restrictions or due to significant decline in gross receipts.
 - Wages cannot exceed wages that would have been paid during the 30-day period prior to when the employee was not working.
- If 100 or fewer full-time employees, all wages paid during the period will qualify.
- Max credit is \$5,000 per employee (based on \$10,000 of wages).

35



Delay of Payment of Employer Payroll Taxes and Self-Employment Tax

- Social security taxes (6.2%) due between May 27, 2020 and January 1, 2021 are subject to payment deferral.
- Specifically, 50% of deferred taxes will be due by December 31, 2021 and 50% of deferred taxes will be due by December 31, 2022.
- Same deferral applies to 50% of such taxes incurred by self-employed persons.

36



Double Dipping

- Employers that receive a Paycheck Protection Program loan are not eligible for ERTC.
- If employer has debt forgiven under the Paycheck Protection Program, not eligible for deferral of payroll tax.
 - Can you defer payroll tax until company has debt forgiven?

37



ERTC and Deferral v. PPP

- Should I consider PPP or take the ERTC and/or Deferral of Payroll Tax?
- Depends
 - Most scenarios lead to PPP conclusion.
 - Over 100 employees – limited wages will qualify under ERTC, so PPP more likely.
 - Can company pay wages without influx of cash?
 - If company has reduced workforce, forgivable PPP portion may be limited.

38



FFRCA – Sick Leave and FMLA

- Credit available any amounts required to be paid by reason of FFRCA.
 - Sick leave (\$511/day with max of \$5,111 or \$200/day with max of \$2,000)
 - FMLA (\$200/day with max of \$10,000)
- These amounts are not considered “payroll costs” for purposes of PPP.

39



Unemployment

- Why you talking about unemployment?
- CARES Act substantially changes the landscape.
- Furloughed employees – qualify
- Self-employed individual – qualify
- Increase benefit by \$600 a week for up to 4 months
- Up to 39 weeks of coverage

40



Net Operating Loss

- 2018, 2019 and 2020 NOLs
 - TJCA – limited the NOL to 80% of taxable income AND required NOL to be carried forward.
 - CARES Act – can carryback 100% of 2018, 2019 and 2020 NOL 5 years back
 - REFUNDS at 35% rates!

41



Business Interest Expense Limitation

- Business interest was limited to 30% of adjusted taxable income.
- CARES Act increases the limit to 50% of adjusted taxable income and allows taxpayer to use 2019 income in its 2020 calculation.
- Special and overly complicated rules for partnerships.

42



Qualified Improvement Property

- Retail glitch
 - Qualified improvement property was treated as 39 year asset due to a drafting error.
 - Fixed the problem for property placed in service after December 31, 2017.
 - Amended returns and change of accounting method possibly required.

43



Education Loans

- Can pay up to \$5,250 of student loans for your employees tax-free!!!

44





Frequently Asked Questions

FAQ #1

Question: How do I know if I should apply for an EIDL or PPP?

Answer: It will depend on specific facts and circumstances. In general, the PPP process is more streamlined and ideal for companies with high payroll costs (among other factors). The debt forgiveness element is attractive. The EIDL may be considered for businesses with significant amounts of non-payroll costs (and also meet other eligibility factors). The EIDL does not have debt forgiveness, but does have a term of up to 30 years. There are several other factors to consider in making this determination, such as tax credit availability (see ERTC section), existing banking relationships, projections beyond the covered periods, etc.

Businesses should consider the total impact of both loan program (EIDL or PPP) and available tax credits in making a decision on which loan to pursue.

We can help with this.

47


Frequently Asked Questions

FAQ #2

Question: If I elect the PPP loan and the funds are not made available until 30 or more days, how should I manage payroll and other expenses?

Answer: It depends on specific facts and circumstances, but businesses should consider cash flow forecasts and other financing available to cover expected gaps in funding. Payroll reductions, furloughing, and other methods are options, but should consider potential employee impacts, as well as impacts on the PPP loan amount and debt forgiveness calculations.

See: Cash Flow Management Article and Tool - <https://www.pncpa.com/insights/cash-flow-management-during-crisis/>





Immediate Actions

What can you do while waiting further guidance?

- Follow the guidance and be up to date with changes or clarification.
- Begin discussions with our current lender – don't overlook the obvious
- Identify and prepare documentation (financial information, payroll reports, rent obligations, expense support, etc.)
- Prepare cash flow scenarios – What if? How long? Who knows?
- Consider tax implications and impact on current decisions
- Set up account or process to track funds



49

Upcoming Sessions



Upcoming Sessions and Content

- Loan Amount and Debt Forgiveness Calculations
- EIDL vs. PPP Interplay
- CARES Act – Individual and Businesses Tax
- Families First Coronavirus Response Act (FFCRA)
- FAQ Sessions

51



Content and Resources




53

P&N Resource Center

<https://www.pncpa.com/resources/coronavirus/>

Area	Resources
Economic Relief for Businesses	<ul style="list-style-type: none">• CARES Act: Paycheck Protection Program• Debt Forgiveness Under PPP• EIDL and PPP Matrix• FFCRA• Grants• Retirement
Tax Updates	<ul style="list-style-type: none">• Tax Payment and Filings Updates• State and Local Tax Filing Updates
Accounting and Assurance	<ul style="list-style-type: none">• FASB• Compensating Public Entity Employees• Impairment Testing
Governmental Entities	<ul style="list-style-type: none">• Financial Impacts and Initial Actions
Crisis Resources	<ul style="list-style-type: none">• Cash Flow Management• Emergency Preparedness• Working Remotely• Collaboration



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54

U.S. Small Business Administration

SBA Disaster Customer Service Center
call -(800) 659-2955
email -disastercustomerservice@sba.gov

SBA Website for Information
www.SBA.gov/disaster

SBA Website to Apply
<https://disasterloan.sba.gov/ela>



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