

Paycheck Protection Program

COVID-19 Relief for Small Businesses, Nonprofit Organizations and Others

Tuesday
March 31, 2020



Welcome



Your moderator:

Bruce V. Benator, CPA, Managing Partner

Housekeeping:

- Webinar is being recorded and we'll make link available
- Participant microphones will be muted
- Type questions using the Q&A screen as soon as you have them
- Participants may “upvote” other’s questions and add their own comments
- Moderator and panelists will select questions to answer live
- A “FAQ” will be summarized and published after the webinar

Panelists available to answer questions:



Steve Horn, CPA Tax Partner



Kevin Hedrick, CPA Tax Partner



David Nash, CPA Tax Partner



Laura Speir, CPA Client Accounting Services Partner

Disclaimer



The following information is based on a careful review of sources we believe to be accurate.

The CARES Act is new, and some details and rules are still being developed. The law is not clear in certain areas.

We will continue to monitor and pass along updated guidance as it becomes available.

If you have any questions about the CARES Act or the PPP, please get in touch with your WBL contact.



Agenda

- Overview of the Paycheck Protection Plan
- Review of Tools
- Participant Questions

Paycheck Protection Program (PPP) Overview

- Enacted as part of Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on Friday, March 27th
- Enhances Small Business Administrations (SBA) existing small business loans through current and new private lenders from 2/15/20 through 6/30/20
- PPP Loans **fully** guaranteed by U.S. government
- Loans **will not** require personal guaranties or collateral
- Streamlined application and approval process (still being developed)
- In most cases **all, or substantially all, of the loan balance will be forgiven if a company/nonprofit maintains its work force**

Who is eligible?

- Businesses and 501(c)(3) nonprofit organizations with < 501 employees based on average number of employees (including part timers) per pay period for the last 12 months before applying (commonly controlled affiliates are considered in total)
- Some businesses with > 500 employees could be eligible if they meet the SBA small business definition based on their industry code (if based on their number of employees <https://www.sba.gov/document/support--table-size-standards>)
- Certain hospitality businesses (e.g. restaurants, hotels) with > 500 employees, but not per physical location
- Self-employed, sole proprietors or independent contractors

What can PPP Loans be used for?

- Payroll costs
 - Salary, wages, commission or similar compensation
 - Individual independent contractor wages (we believe)
 - Vacation, parental, family, medical, or sick leave
 - Group health care benefits, including insurance premiums
 - Retirement benefits
 - State or local taxes on compensation to employees
- Mortgage interest (but not prepayments or the payment of principal)
- Utilities
- Rent
- Interest on other debt incurred by the borrower before the covered period

What *can't* PPP Loans be used for?

- Compensation for employees or independent contractors in excess of an annual salary of \$100,000
 - As prorated for the covered period
 - Unclear at this time if all compensation over \$100,000 is excluded or just the amount over \$100,000, but we believe the latter and consistent with others
- Compensation to a non-U.S. resident
- Sick leave or qualified family leave under the recently enacted FFCRA

What are the terms?

- Borrowers can request up to \$10 million
- Based on average monthly payroll costs during the year prior to the loan origination date X 2.5 (diff. calculation if not in business all year)
- Applicants can refinance Economic Injury Disaster Loans (EIDL) obtained after January 31, 2020 and roll into PPP Loan (which can increase the \$10 million limit)
- The loan terms cannot be greater than 10 years
- Principal and interest payments are generally deferred six months and up to a year
- Interest will not exceed 4% per annum

Eligible loan amount calculator

	Annual Salary (1)	"Leave" Payments (2)	Separation Pay (3)	Health Insurance (4)	Retirement Benefits (5)	SALT on Comp (6)	Total Payroll	Limited to \$100,000	Monthly
Employee 1	110,000			5,000	5,000		120,000	100,000	8,333
Employee 2	80,000			5,000	5,000		90,000	90,000	7,500
Employee 3	50,000			5,000	5,000		60,000	60,000	5,000
Employee 4	50,000			5,000	5,000		60,000	60,000	5,000
Employee 5	350,000			5,000	5,000		360,000	100,000	8,333
Employee 6	80,000			5,000	5,000		90,000	90,000	7,500
Employee 7	60,000			5,000	5,000		70,000	70,000	5,833
Employee 8	75,000			5,000	5,000		85,000	85,000	7,083
Employee 9	65,000			5,000	5,000		75,000	75,000	6,250
Employee 10	70,000			5,000	5,000		80,000	80,000	6,667
	<u>990,000</u>	<u>0</u>	<u>0</u>	<u>50,000</u>	<u>50,000</u>	<u>0</u>	<u>1,090,000</u>	<u>810,000</u>	<u>67,500</u>

Annual payroll should include costs incurred during the 1 year period before the loan date

Multiplier 2.5

Maximum Loan 168,750

What portion of PPP Loans can be forgiven?

- Amounts incurred and paid by borrower during an 8-week covered period (beginning on date of origination of the PPP Loan) using a formula that includes:
- Payroll costs incurred and paid by borrower during 8 weeks following date of loan origination
- Payment of interest on covered mortgage obligations on real or personal property incurred before 2/15/20
- Payment of rent obligations covered under a leasing agreement in force before 2/15/20
- Any covered utility payment (electricity, gas, water, transportation, telephone or internet) for which the service was begun before 2/15/20

Loan forgiveness calculator

Payroll Costs incurred during the covered period (1)	135,000
Interest payments on mortgage obligations during the covered period (2)	1,000
Rent costs incurred during the covered period (3)	5,000
Utility costs incurred during the covered period	2,000
	<hr/>
	143,000
Less EPSLA and EFMLEA credits received	(20,000)
	<hr/>
Loan Forgiveness	<u>123,000</u>

- (1) - Covered period is 8 weeks beginning on the loan origination date
- (2) - Excludes prepayments and principal payments
- (3) - Qualifies if lease effective before 2/15/20
- (4) - Includes electric, gas, water, transportation, phone and internet

What are the limitations on loan forgiveness?

- Amount of loan forgiveness is **reduced** if:
 - The average number of full-time equivalent (FTE) employees during the covered period is less than it was during the comparable period (several options 2/15/19-6/30/19 or 1/1/20-2/29/20 and seasonal)
 - Employer reduces salary and wages by 25% or more during the covered period to employees who have annualized salaries of less than \$100,000 per year (compared to most recent quarter)
- If salaries and/or FTE employees are reinstated by 6/30/20 you can get credit for them in the calculations above.
- Amount of loan forgiven is **NOT** taxable income to borrower

Limits on loan forgiveness calculator

If FTE's and/or salaries are reinstated by June 30, 2020, you can get credit for them in the calculations above.

Reduction Based on Number of Employee:

Average number of Full-Time Equivalents (FTEs) during the covered period (8 weeks beginning on loan origination)

Option 1 - Average number of FTEs per month from February 15, 2019 to June 30, 2019

Option 2 - Average number of FTEs per month from January 1, 2020 to February 29, 2020

Option 3 - Average number of FTEs per month from February 15, 2019 to June 30, 2019 - For Seasonal Employers

Decrease in FTEs

Reduction in Forgiveness

Total Available for Forgiveness

Reduced Amount Eligible for Forgiveness

	8	8	8
	8		
		11	
			12
	8	11	12
	100%	73%	67%
	123,000	123,000	123,000
	123,000	89,455	82,000
	(1,250)	(1,250)	(1,250)
	121,750	88,205	80,750

Reduction for Reduction in Salaries

Total Reduced Amount for Forgiveness

	Annual Salary	Earned Most Recent Quarter	Per Week	Normal Salary During Covered Period	Earned During Covered Period	\$ Shortage	% Shortage	Reduction Limit	Excess
Reduction Based on Reduction in Salaries:									
Employee 1 - Not eligible if annualized salary exceeds \$100,000 at any time	110,000								
Employee 2 - No reduction	80,000	20,000	1,667	13,333	13,333	-			
Employee 3 - Reduction less than 25%	50,000	12,500	1,042	8,333	7,500	833	10%		
Employee 4	50,000	12,500	1,042	8,333	5,000	3,333	40%	25%	15% 6,250 1,250

What business information is needed to apply?

This may vary by lender, but in general, lenders are currently requesting:

- 2019 and 2020 Payroll Records — including the last 12 months of payroll
- 2019 Employees — W-2's for 2019 employees and 1099's for independent contractors that would otherwise be an employee of your business (Not 1099s for services).
- Healthcare costs — all health insurance premiums paid by the business owner under a group health plan.
- Retirement — your company retirement plan funding paid for by the company.
- Financial Statements — some are requesting financial statements and tax returns (interesting)
- Affiliations — some are asking about common ownership

Attest requirement and what is not required

- A borrower must attest:
 - “That the uncertainty of current economic conditions make necessary the loan request to support the ongoing operations of the eligible recipient”
 - That Funds will be used to retain workers and maintain payroll or make mortgage, lease and utility payments
 - Borrower does not have an application pending for a loan under this section.
 - The applicant has not received a similar loan for the same purpose during the period between 2/15/20 and 12/31/20
- No requirements that business can not obtain credit elsewhere (which is standard for other SBA loans)
- No personal guaranty or collateral as security for the loan will be required

Are there other emergency funding resources available for small businesses?

- The SBA offers the Economic Injury Disaster Loans (EIDL) when federal disasters are declared (up to 30-year terms) directly from the SBA
- EIDLs can provide an immediate \$10,000 advance within three days that does not have to be repaid
- Even if the loan is not approved, you can often retain the initial advance
- Businesses cannot borrow under both programs, but can roll an existing EIDL loan into a PPP Loan (as a result we don't recommend pursuing this program right now since much stricter underwriting and will be a delay in getting approved)

How will taking a PPP loan affect other CARES Act benefits?

Condition/Benefit	FFCRA Act		CARES Act			
	Emergency Sick Leave	Emergency Family Leave	Payroll Tax Deferral	PPP	PPP Forgiveness	Retention Credit
More than 500 employees	✗	✗	✓	✗	✗	✓
Less than 500 employees or SBA qualified as Small Business	✓	✓	✓	✓	✓	✓
Received Sick/Family Leave credits	✓	✓	✓	✓	Limited	Limited
Receive a PPP Loan	✓	✓	✗	✓	✓	✗
Gross Receipts for Quarter > 50% of comparable quarter in 2019	No Effect	No Effect	No Effect	No Effect	No Effect	✗
Gross Receipts for Quarter < 50% of comparable quarter in 2019	No Effect	No Effect	No Effect	No Effect	No Effect	✓
Cannot Attest to an economic hardship	No Effect	No Effect	No Effect	✗	✗	No Effect
Employee with COVID-19, similar symptoms, or quarantined	✓	✗	No Effect	No Effect	No Effect	No Effect
Employee Home with Minor Child	✓	✓	No Effect	No Effect	No Effect	No Effect

Who are the lenders?



- Check with your current banker first
- Any qualified SBA lender (new lenders will be qualifying)
- Below is a link to **preferred** SBA lenders in Georgia as of 6/2012

https://www.sba.gov/sites/default/files/articles/Preferred%20Lender%20List%2006-2012_0.pdf

What is the timeline?



- SBA is working to get Program up and running
- No firm dates have been provided
- Loans will be “first come, first serve” so it’s important to get in the queue early even though they claim the funding is adequate
- The covered period ends June 30, 2020 as of now (so you need to have loan funded eight weeks prior to that date)

How can WBL help?



- PPP loan tools will be available on WBL website
 - Excel schedule to calculate eligible loan amount
 - Excel schedule to calculate loan forgiveness
 - Excel schedule to calculate reduction in loan forgiveness
- This recorded webinar and slides
- Our summary of the PPP and the CARES Act
- WBL advisors available to answer questions, discuss concerns and develop strategies

Q & A



Thank You



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