

# CARES Act:

## Small Business Interruption Loans EIDL and PPP overview

CARES Act Summary – April 15, 2020

1

This is Hard

- Brand New Legislation
  - Passed into law 18 days ago
  - Moving Target
    - Rules and Clarification keep changing
- \$350,000,000,000 of funding available
  - Massive amount of money to be loaned before June 30, 2020
- Each Bank is different
  - Interpretation of changing rules
  - How much they can loan
- The initial funds are about out.....

2

## Programs Available

- EIDL Loans (Economic Injury Disaster Loan)
  - Available much quicker??
  - Apply directly to SBA (sba.gov)
  - \$10k payment within “days”
  - 10 year Loan @4% Interest
  - Apply via SBA.gov NOW.
  - May be allowed to “fold into” PPP Loans
- PPP Loans (Forgivable Payroll Protection Prog)
  - Forgivable Loan for Payroll Costs, benefits, rent, interest portion of mortgage, utilities

3

## Who is eligible for PPP loans

- For profit companies
- Not for profit entities
- Adversely impacted by COVID-19
  - Supply chain disruptions, staffing challenges, decrease in sales
- <500 employees
- Business in operation on February 15, 2020
- Had employees for whom the business paid salaries and payroll taxes or 1099 Indep. Contractors
- Sole proprietors and Independent Contractors also eligible (can't apply until April 10)

4

## PPP Loans How Much Can I Borrow

- Maximum of 2.5 X Average Monthly Payments of
  - Timeframe for calculation is bank specific
    - Some are 2019
    - Some are 12 months prior to loan app.
  - Payroll Costs defined as:
    - W2 Payroll Costs +
    - Guaranteed Payments, Self Employed Income for Owners (Partnership LLC structure) +
    - Group Health Care costs paid by company +
    - Retirement Benefits paid by company
  - Payroll costs excluded
    - Comp. above \$100k for employees
    - Payroll taxes (Employer and Employee FICA)
      - Timeframe is bank specific
    - Qualified Sick Leave that qualify for other Coronavirus Acts
  - Adjustment for previous EIDL loan participation
- Maximum of \$10,000,000
- Banks may have other limitations
  - Chase, Wells Fargo Example(s)

5

## What Can I Use the Money For

- 2 months of business expenses including:
  - Payroll including sick leave, medical or family leave
    - Group Health Care Benefits during medical/family leave
  - Rent
  - Utilities
  - Interest portion of other mortgage payments incurred before Feb 15, 2020

6

## Loan Forgiveness

- Forgiveness in an amount equal to the cost of maintaining payroll continuity for 8 weeks from loan origination
  - Total payroll costs during the 8 weeks X 75%
- The Treasury Dept anticipates less than 25% forgiveness for:
  - Rent
  - Utilities
  - Additional wages paid to tipped employees
- Forgiveness is reduced if:
  - Full Time Employee reduction during the covered period (March – June)
  - \*Compensation is reduced by more than 25%
    - Previous Quarter vs March – June timeframe
- Loan Forgiveness is not taxed!!
- Unforgiven portion of loan converts to 2 year loan at 1% interest

7

## Forgiveness Strategy

- Loan is forgiven if you don't change payroll or
- By June 30, 2020:
  - Company brings employees back
  - Company restores wages
- Wage Reduction may make sense:
  - Lower wages during the crisis to extend companies cash and keep more employees working
    - Increase wages by June 30
- Layoff's with intent to bring employees back
  - Lower cash flow during crisis and bring back as business ramps up
    - Ideally by June 30

8

## Overall Thoughts

1. **Start with the banks**
  1. Each Bank is interpreting differently
  2. Each bank has their own calc/forms/etc
2. **Evaluate salary reductions in combination with Loan(s) to buy the business more time to evaluate long term impact to business**
3. **Evaluate layoff's in combination with Loan(s) to buy the business more time to evaluate long term impact to the business**