

CARES Act Paycheck Protection Program (PPP)

Application Process

SPEAKERS

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Your guide forward





CARES Act

Paycheck Protection Program (Sec 1102)
Loan Forgiveness (Sec 1106)

Paycheck Protection Program

Utilizes the existing 7(a) SBA program to make new forgivable loans to businesses and not-for-profit entities with less than 500 employees. Total of \$349 billion appropriated in the CARES Act. Congress is already discussing the possibility of appropriating more funds if existing funding runs out.

Who is making the loans?

- ▶ Provided delegated authority to lenders in allowing them to determine eligibility and credit worthiness without going through SBA channels.
- ▶ SBA guarantee is increased to 100% through Dec. 31, 2020

How are banks evaluating the borrower?

- ▶ In evaluating the eligibility of a borrower for a covered loan, a lender can consider whether the borrower:
 - was in operation on February 15, 2020; and
 - had employees for whom the borrower paid salaries and payroll taxes
 - independent contractors as reported on a Form 1099-MISC can apply separately for the program.

Eligibility for Plan Loans

Employee Limit – 500 employees

- ▶ The term employee includes individuals employed on a full-time, part-time or other basis.
- ▶ Determined on an affiliated employer which takes into account 50% ownership interests, common management and identity of business criteria.
- ▶ Waives affiliation rules for
 - The accommodation/hospitality and restaurant industry
 - Franchises that are approved on the SBA's Franchise Directory and small businesses that receive financing through the Small Business Investment Company (SBIC) program.
- ▶ PE owned firms and controlled groups of companies who share affiliated ownership may not be eligible. US subs with foreign parents must include foreign affiliate employees in qualifying.
- ▶ Individuals who operate as a sole proprietorship, partnership or as an independent contractor and eligible self-employed individuals eligible to receive a covered loan.

Eligibility for Plan Loans

Employee Limit – 500 employees

▶ Certain industries, notably in manufacturing, are subject to a higher standard than 500 employees. To see if your business qualifies, take the NAICS code from your business tax return, compare it to the SBA Table of Size Standards, and if your NAICS code uses an employee based size standard, then compare your headcount with the listed standard. If there is no employee size standard listed, the size limit is 500 employees

<https://www.sba.gov/document/support--table-size-standards>

Eligibility for Plan Loans

- ▶ **How Does the SBA Calculate Number of Employees?**
 - Part time employees are counted the same as full time employees
 - Domestic and foreign are included in the calculation of total number of employees.
 - Includes self-employed persons employed (sole proprietors and partners) by the business but NOT independent contractors contracted by the business

Paycheck Protection Program

Maximum Loan Amount - \$10,000,000

2.5 times average monthly payroll costs including:

- ▶ Salary, wage, commission, or similar compensation
 - Up to \$100,000.
- ▶ Payment of cash tip or equivalent;
- ▶ Payment of vacation, parental, family, medical or sick leave;
- ▶ Allowance for dismissal or separation;
- ▶ Payment required for the provision of group health care benefits, including insurance premiums;
- ▶ Payment of any retirement benefits; or
- ▶ Payment of state or local tax assessed on the compensation of employees;



Self-employment wages of a **partner, sole proprietor or independent contractor** in an amount not exceeding more than \$100,000 in 1 year, as prorated for the period beginning 2/15/20 and ending 6/30/20

Seasonal businesses have option of calculating payroll costs amounts from 2/15/19 to 6/30/19.

New businesses can calculate payroll costs from 1/1/20 to 2/29/20.

Paycheck Protection Program

Payroll Costs do NOT include:

- ▶ The compensation of an individual employee's in excess of an annual salary of \$100,000 as prorated for the period beginning on February 15, 2020 and ending on June 30, 2020;
- ▶ Taxes imposed or withheld under FICA (Social Security and Medicare), Railroad Retirement Act, and IRC Chapter 24 (income tax at source);
- ▶ Any compensation of an employee whose principal place of residence is outside the United States;
- ▶ Qualified sick leave or family leave wages for which a credit is allowed under the Families First Coronavirus Response Act.



What can I use the loan for?

Between February 15, 2020 and ending on June 30, 2020, the eligible recipient can use the proceeds from the loan for:

- ▶ Payroll costs;
 - Costs related to the continuation of group health care benefits during periods; of paid sick, medical, or family leave, and insurance premiums;
 - Employee salaries, commission, or similar compensations;
 - State and local taxes assessed on compensation
- ▶ Payments of interest on any mortgage obligation incurred before 2/15/20;
- ▶ Rent under a lease agreement in force on 2/15/20;
- ▶ Utilities for service which began before 2/15/20



Recipient Good Faith Certifications

An eligible recipient applying for a covered loan must make a good faith certification acknowledging that:

- ▶ The uncertainty of current economic conditions makes necessary the loan to support ongoing operations
- ▶ Funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments;
- ▶ Only 1 PP loan will be received under the program; but an applicant can still obtain a EIDL loan.
- ▶ You will provide to the lender documentation that verifies the number of full-time equivalent employees on payroll and the dollar amounts of payroll costs, covered mortgage payments, covered rent payments and covered utilities for the eight weeks after getting the loan
- ▶ All information and supporting documents are true and accurate and that the tax documents are identical to those submitted to the IRS

Paycheck Protection Program

- ▶ **Nonrecourse**

The administration has no recourse against any individual shareholder, member, or partner of an eligible recipient of a covered loan for nonpayment of any covered loan **UNLESS** it is used for a purpose not authorized.

- ▶ **No Guarantee**

Between February 15, 2020 and ending on June 30, 2020, no personal guarantee is required for the covered loan **AND** no collateral is required for the covered loan.

- ▶ **No SBA Fee**

Paycheck Protection Program

- **Application includes completed application form & payroll documentation**
- **Key Loan Features:**
 - ☐ **Principal and Interest payments deferred for 6 months (interest is accrued though)**
 - ☐ **Rate – 0.5% annual interest rate**
 - ☐ **2 year term**
 - ☐ **No prepayment penalty**
 - ☐ **No collateral**
 - ☐ **No personal guarantee**



Loan Forgiveness

Loan Forgiveness



An individual or entity that is eligible to receive a covered loan is eligible for forgiveness of indebtedness on that loan in an amount equal to the sum of the following costs incurred and payments made during the 8 week period beginning on the date of the origination of a covered loan:

- ▶ Payroll Costs;
- ▶ Any payment of interest on any covered mortgage obligation:
 - Any indebtedness or debt instrument incurred in the ordinary course of business that is a liability of the borrower, is a mortgage on real or personal property and was incurred before 2/15/2020;
- ▶ Any payment of a rent obligation made under a leasing agreement in force before 2/15/2020;
- ▶ Any utility payment related to the distribution of electricity, gas, water, transportation, telephone or internet access for which service began before 2/15/2020.

Loan Forgiveness

Information that must be provided to the lender:

- ▶ Documentation verifying the number of full time equivalent employees on payroll and pay rates including payroll tax filings reported to the IRS and State income, payroll, and unemployment insurance filings;
- ▶ Documentation, including cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments.
- ▶ You must certify that documents provided are true and that loan proceeds were used to maintain employees on the payroll and make eligible rent, mortgage interest and utility payments
 - Lender will determine if forgiveness is appropriate within 60 days

Loan Forgiveness

Lenders shall grant forgiveness at up to 100% of the loan amount or a lesser % based on one of the following ratios (borrower's choice):

Average # of FTE employees per month for the 8 week period following loan closing

Average # of FTE employees per month for the period of 2/15/19 through 6/30/19

OR

Average # of FTE employees per month for the 8 week period following loan closing

Average # of FTE employees per month for the period of 1/1/20 through 2/29/20

- ▶ **Other calculations apply for seasonal businesses.**
- ▶ **Businesses who have laid off workers or reduced worker salaries between 2/15/20 and 4/26/20, but plan to rehire and restore salaries to original levels with PPP loan proceeds can include those amounts in a loan request. Those amounts can ultimately be forgiven as long the business re-hires or reinstates prior pay amounts no later than 6/30/20.**
- ▶ **Loan forgiveness amounts shall be reduced by the amounts by which a borrower reduces the wages of an employee earning < \$100,000 per year by more than 25% during the 8 week period from the date of loan disbursement as compared to the employee's wage rate for the quarter prior to the date of loan disbursement.**

How can borrower's prepare?

- ▶ **Compile 2019 tax documents to determine maximum loan amounts**
- ▶ **2019 Form 941s and W-2s**
- ▶ **2019 income tax return information to determine:**
 - **qualified health benefit costs**
 - **qualified retirement plan amounts**
 - **state and local taxes paid**
- ▶ **Call your banker today! Tell them you believe that you will qualify for a PPP loan and want to apply. Ask for their advice and assistance about getting expedited service.**
- ▶ **Consider that if your bank is inundated, you may need to apply elsewhere.**
- ▶ **Ask questions now – make sure your company qualifies and you will have supporting data for an application.**

Cherry Bekaert Assistance

For companies wanting assistance with PPP loan we are offering for a fee of \$2,500:

- ▶ Assistance that includes:
 - Checklist of items needed for PPP loan application
 - Calculator and support to develop eligible loan amount
 - Review loan package before it is submitted to a SBA participating lender
 - A reasonable level of Q&A consulting support
- ▶ Dedicated team to provide expedited processing

Contact Us

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