



Biz Hippo

The CARES Act: No Small Business Left Behind

The Basics

- All materials will be sent via email after the webinar
- Also available on the Biz Hippo website
- Q&A for the last 20 minutes of the webinar: please type your questions in the Q&A area
- I'll summarize the Q&A and put on the website within the week

So What Makes Me Such an Expert?

- I can read- and I did in fact read all the Sections I am talking about
- Certified Public Accountant with 30+ years experience
- Worked with, in, and around small businesses my entire life
- Started Biz Hippo as a full-service accounting firm in 2016 to serve small and growing businesses

Coronavirus Aid, Relief, and Economic Security Act or CARES Act

\$2,000,000,000,000

for workers, small businesses, hospitals,
and severely distressed industries

\$349,000,000,000

funding for Paycheck Protection Program
loans

\$10,000,000,000

funding for EIDL emergency grants of
\$10,000 per business

\$17,000,000,000

funding for deferment of existing SBA loans
for 6 months

CARES Act Sections related to Small Business

congress.gov H.R. 748

- Sec. 1102** Paycheck protection program.
- Sec. 1106** Loan forgiveness.
- Sec. 1110** Emergency EIDL Grants
- Sec. 1112** Subsidy for certain loan payments.
- Sec. 2301** Employee retention credit for employers subject to closure due to COVID-19
- Sec. 2302** Delay of payment of employer payroll taxes

Employee Retention Incentives Under CARES Act (H.R. 748)
 Passed March 27, 2020 Most provisions in place until 12/31/2020

	Paycheck Protection Program (PPP) Applies 2/15 - 6/30	Employee Retention Credit For wages paid 3/1/2020 - 1/1/2021	Deferral of Employer Payroll Taxes For payroll taxes 3/27 - 12/31
Summary	Provides a loan for 2.5 times average monthly payroll costs which is potentially 100% forgivable after June 30 if employees are retained and other conditions met.	Provides a tax credit for eligible employers for 50% of qualified wages up to \$10,000 per employee for affected quarters.	Provides deferral of employer's share of SS (OASDI portion- 6.2%). 50% due by 12/31/2021. Remaining 50% due by 12/31/2022.
Who Qualifies	Impacted* businesses and non-profits less than 500 employees who were in business as of 2/15/2020. <i>*Impacted certified by borrower</i>	Impacted businesses and non-profits closed (partially or fully) due to COVID-19 OR businesses that suffered a decline in gross receipts (covers the quarters when receipts dropped 50% from previous year through recovery of at least 80% of previous year)	Any employer
How Distributed	Through your bank, if an approved SBA lender.	Taken as a credit against the employer's share of Social Security (OASDI portion- 6.2%) on quarterly 941 report. Excess credit can be refunded.	No distribution necessary. Taxes held from payroll deposits and quarterly 941 filings.

*** None of these benefits can be combined with other employer benefits, such as the tax credit for Mandatory Time Off and extended leave for COVID-19**

Employee Retention Incentives Under CARES Act (H.R. 748) (continued)

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How Much Assistance	<p>2.5 times average monthly payroll costs (based on last 12 months).</p> <ul style="list-style-type: none"> • If not in business all year, use 1/1 - 2/29. • Payroll costs include health premiums, retirement benefits. • Excludes compensation of employee in excess of \$100,000. (\$100,000 payroll cap) • Max loan \$10,000,000 	<p>If business is eligible, it has the potential for:</p> <ul style="list-style-type: none"> • up to 3.3 quarters of tax credits • 50% of wages (limited to \$10,000) per employee <p><i>Employees making over \$80K a year, will hit the cap of \$10K in 1 quarter; Employees under \$25K, it will take 3.3 quarters to hit \$10K cap.</i></p>	<p>6.2% of your payroll from 3/27 - 12/31, excluding employee's payroll over \$137,700.</p>
The Fine Print	<p>This is a traditional SBA 7(a) loan, with some differences:</p> <ul style="list-style-type: none"> • Do not have to prove unable to find credit elsewhere • No personal guarantee or collateral required • Interest rate <= 4% • Payments deferred for 6 months to 1 year • 100% guaranteed by the SBA (v. 75% or 85%) • No fees to lender or borrower • No prepayment penalty 	<p>Can't take this benefit and a PPP loan</p>	<p>Can't take this benefit and a PPP loan.</p> <p><i>In theory, I think you could use the Employee Retention Credit and the Payroll Tax Deferral, but in practice, not sure how it would work. We won't know until the IRS writes their regulations to determine how they will handle each program.</i></p>

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The Fine Print (continued)	<p>Forgiveness Provision:</p> <ul style="list-style-type: none">• Borrower can apply for forgiveness of 100% of the loan balance.• Money must have been spent on payroll, existing mortgage interest, rent or utilities during the period 2/15 - 6/30.• Forgiveness amounts reduced if number of Full-Time Employees is reduced or wages reduced more than 25%. (Forgiveness computation not yet completely defined.)• Employees laid off between 2/15 and 4/27 may be rehired and employer is not penalized on loan forgiveness. (That's head-count, not the specific employees.)		
Self-Employed	Available for self-employed workers. Documentation requirements are a bit different.	Doesn't apply	Applies to Self-Employment Taxes

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My Assessment	<p>This plan is the best for most businesses.</p> <p>However, less beneficial for::</p> <ul style="list-style-type: none"> • Employers who had little or no payroll or contractors prior to 2/15/2020 • Employers with high-income employees (over \$100,000) <p><i>If your cash flow still has you concerned about making it until the economy recovers, this program does allow you to reduce wages by as much as 25%, which you could combine with your state's Shared Work Program.</i></p>	<p>If you can't qualify for a PPP, this plan provides the most benefit for companies with a large number of low-paid workers.</p> <p>Since it caps at \$10,000 a worker, any employee making \$25,000 / yr and up will give you the maximum benefit if your business qualifies for the entire time period (just over 3 quarters).</p>	<p>Provides the least amount of benefit, but if you can't qualify for either of the other two, it is better than nothing.</p> <p>This does provide an interest free loan that matures in 2 years and 9 months.</p>
Disadvantages	<p>Employer must follow the spending and documentation rules to qualify for loan forgiveness.</p> <p>If you don't qualify for loan forgiveness, it will become a traditional 7(a) loan with an amortization term of less than 10 years. (Personal guarantee then applies.)</p>	<p>Not a short-term solution for cash flow. Employer is out of pocket for the wages for the quarter until the credit is used up or refunded by the IRS.</p> <p>Employer has the burden of proving the closure or the significant drop in receipts.</p>	<p>Least benefit of the three programs. This is a deferral, not a credit or a forgiven loan.</p>
How to make a rough calculation	Your monthly gross payroll times 2.5	Head count times \$10,000	8 months of payroll times 6.2% is deferred.

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CARES Act (H.R. 748) - SBA Lending Changes

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	SBA 7(a) Loan	SBA 7(b)(2) Loan Economic Impact and Disaster Loan (EIDL)
Purpose	The SBA was empowered in July of 1966 to provide loans to qualified small business concerns for plant acquisition, construction, conversion, or expansion, including the acquisition of land, material, supplies, equipment, and working capital.	Under 7(b)(2), the SBA was authorized to make loans to any small business concern, private nonprofit organization, or small agricultural cooperative located in an area affected by a disaster if the concern has suffered a "substantial economic injury". Needless to say, there is lots of verbage of what constitutes a disaster.
Who funds	Direct from SBA or through a lending partner (bank)	Direct from SBA or through a lending partner (bank)
General Requirements	<ul style="list-style-type: none"> ● Business must not have been able to obtain credit elsewhere ● Must have been in business for at least one year ● SBA guarantees up to 75% of loans over \$150,000; 85% less than or equal to \$150,000 ● Requirements on maximum loan terms, maximum borrowed amounts, interest rates, etc. etc. <p>Express Loans were authorized under (31)(A)</p> <ul style="list-style-type: none"> ● Allowed banks to use their own documentation and procedures to make SBA loans ● Limited to \$350,000 ● SBA guarantees 50% of loan 	<ul style="list-style-type: none"> ● Business must not have been able to obtain credit elsewhere ● Business must have been in business for one year ● Loan limited to \$2,000,000 ● Loan term cannot exceed 30 years ● SBA Guarantee will not exceed 85% ● You can apply online at https://www.sba.gov/disaster/apply-for-disaster-loan/index.html

CARES Act (H.R. 748) - SBA Lending Changes (continued)
 Passed March 27, 2020 Most provisions in place until 12/31/2020

<p>Changes made by CARES Act Expire 12/31/2020</p>	<ul style="list-style-type: none"> ● Express loan limit increased to \$1,000,000 ● Initiated the Express Bridge Loan Pilot Program <ul style="list-style-type: none"> ○ Offers up to \$25,000 in funding through an SBA Express Lender while waiting for funding on an EIDL loan ● Creates a subset of 7(a) called the Paycheck Protection Program. <ul style="list-style-type: none"> ○ Loan based on 2.5 times average monthly payroll (maximum \$10,000,000) that is 100% forgiven if used for qualified expenses (rent, payroll, etc.) from 2/16 - 6/30. 	<ul style="list-style-type: none"> ● Available to any business with < 500 employees ● No need to prove unable to get credit elsewhere ● No personal guarantee or collateral required under \$200,000 ● Must have been in operation on 1/31/2020 ● May approve applicant based solely on credit score and not require a tax return or can use alternate appropriate methods to determine applicant's ability to repay ● Allows emergency grants of up to \$10,000 <ul style="list-style-type: none"> ○ Grants will be disbursed within 3 days of request ○ Can be used for maintaining payroll, making rent or mortgage payments, repaying obligations that cannot be met due to revenue losses ○ Even if subsequently denied a 7(b)(2) loan, business is not required to return the grant.
<p>Additional Information</p>	<p>Cannot get both a 7(a) and 7(b)(2) EIDL loan.</p> <p>If you got a 7(b)(2) loan from 1/1/2020 to 2/29/2020, you may request to have it converted to a PPP loan.</p> <p><i>Can you have a PPP loan, get it forgiven after 6/30 and then apply for an EIDL or a 7(a) loan if you still need extra cash flow? That's a question for your bank or the SBA.</i></p> <p><i>Will a bank be willing to extend a Line of Credit or other term loans given that you are receiving 2.5 times your monthly payroll as a gift? My guess is if you were a good credit risk prior to COVID-19, with the government support being provided, private lenders will be willing to extend credit during this time.</i></p>	