



SBA LOANS AND PAYCHECK PROTECTION PROGRAM – HOW TO SUCCESSFULLY APPLY

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PEASE, CPAS

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Role at Pease, CPAs:

- Conducting business valuations and helping companies grow the value of their business

Education:

- Case Western Reserve University
 - MBA (Weatherhead School of Management)
- The Ohio State University
 - BS Accounting (Fisher College of Business)
 - BS Construction Management

Previous Work Experience:

- Vice President, Knoch Corporation (Construction Management)

GORDY JONES, CPA

SENIOR MANAGER



Role at Pease, CPAs:

- Tax Senior Manager focused on new legislation, strategic problem solving, and internal consulting

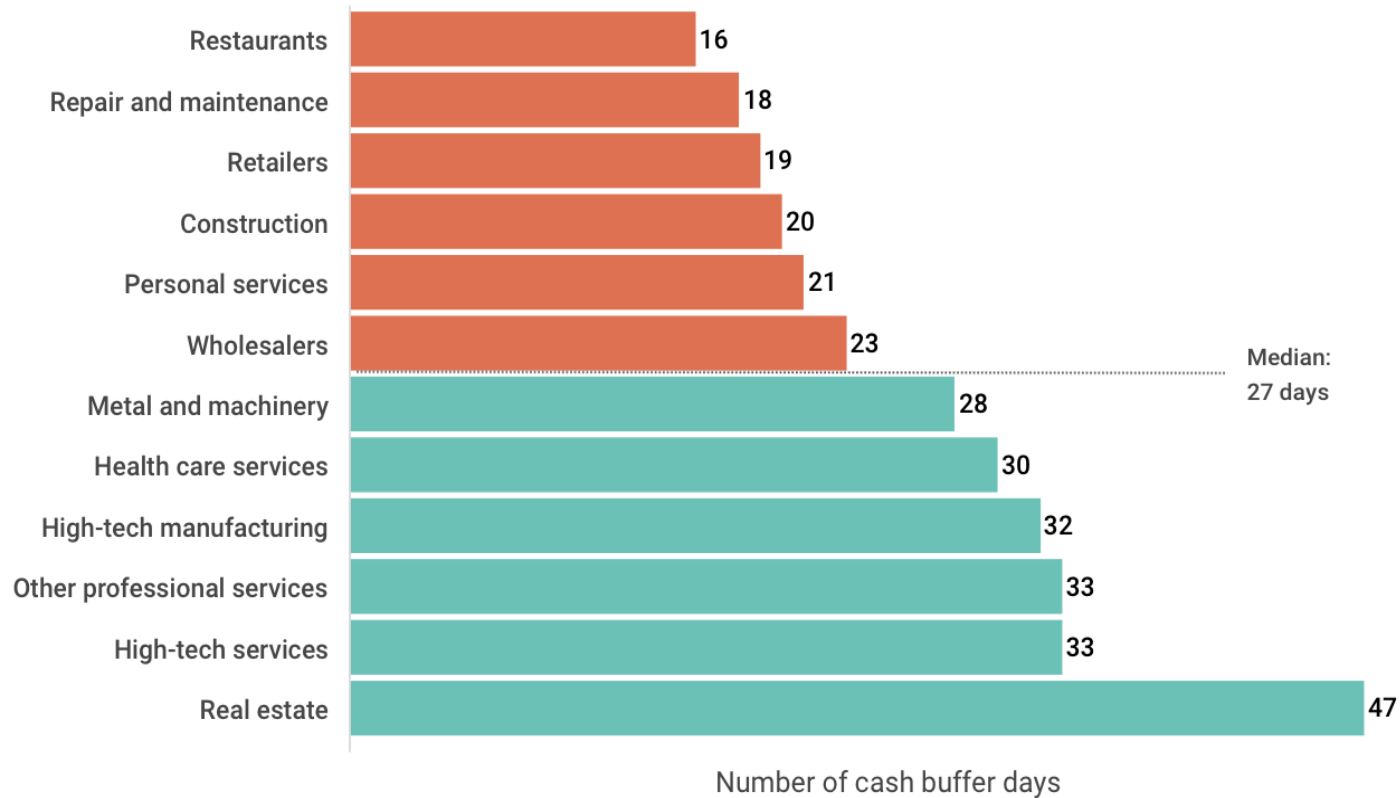
Education:

- Ohio University
 - BS Accounting
- Certified Public Accountant
 - Registered with the State of Ohio

Previous Work Experience:

- Ten Years of multi disciplinary experience, Cohen & Company, Ltd.

COVID-19 IMPACT



Source: The JPMorgan Chase Institute's "Cash is King: Flows, Balances, and Buffer Days;" Sept. 2016

COVID-19 IMPACT ON BUSINESSES

According to a Goldman Sachs survey:

- 96% say they have already been impacted by COVID-19.
- 75% say their business has been impacted by fewer sales.
- 75% feel they have no voice or not a very strong voice in the policy-making process.
- 67% of small business owners are uncertain about how to access and apply for emergency funds.
- 53% say their employees don't have the ability to telecommute.
- 51% say their business will only be able to continue to operate for 0-3 months.
- 13% are confident about their contingency plan to meet the needs of their business.



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EIDLs ARE DIFFERENT FROM OTHER SBA LOANS

- Have to be directly impacted by disaster (COVID-19)
- Apply direct to SBA (<https://disasterloan.sba.gov/ela.>)
- No cost to apply
- No obligation to take the loan if offered
- Intended for emergency cashflow.....not expansion
- Applicants can have an existing SBA Disaster Loan and still qualify for an EIDL
- New EIDL cannot be consolidated with previous disaster loans



U.S. Small Business
Administration



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WHAT TYPE OF ORGANIZATIONS QUALIFY?

- Small Businesses
- Small Agricultural Co-ops
- Small Aquaculture Businesses
- Most Private Non-Profit Organizations

NOTE: SBA defines "small business" by NAICS code. The size standard is usually stated in number of employees or average annual receipts. The definition of "small" varies by industry.

To determine if the size of your organization qualifies visit:
www.sba.gov/document/support-table-size-standards.

Beware of the SBA affiliation rules relating to loans.



WHAT ORGANIZATIONS ARE NOT ELIGIBLE?

- **Agricultural Enterprises:** If the primary activity of the business (including its affiliates) is as defined in Section 18(b)(1) of the Small Business Act, neither the business nor its affiliates are eligible for EIDL assistance.
- **Religious Organizations**
- **Charitable Organizations**
- **Gambling Concerns:** (Ex: Concerns that derive more than 1/3 of their annual gross revenue from legal gambling activities)
- **Casinos & Racetracks:** (i.e., businesses whose purpose for being is gambling (e.g., casinos, racetracks, poker parlors, etc.) are not eligible for EIDL assistance regardless of 1/3 criteria above.

CAUSES FOR ELIGIBILITY

Directly
impacted by
disaster

NOT due to
economic
downturn

Business
offering services
directly related
to businesses in
the declaration

Example: A restaurant may be eligible as well as third party suppliers and contracted cleaning company.

ELIGIBILITY REQUIRES A PHYSICAL PRESENCE

Physical
Presence



PO Box



Economic
Influence



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TERMS AND LIMITS

Up to
\$2
Million

2.75%
Non-profit rate

3.75%
Small-biz rate

Up to
30 years

- Eligibility for these working capital loans are based on the size (must be a small business), type of business, and its financial resources.
- Actual amount loaned to the business is determined by SBA to be the business's actual economic injury combined with the business's financial need.



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HOW CAN I USE THE LOAN FUNDS?

Fixed debts

Accounts Payable

Payroll

Other Bills

that could have been paid had the disaster not occurred.

The loans are not intended to replace lost sales, profits or for expansion.

COLLATERAL REQUIREMENTS

>\$25K
requires
collateral

Real estate
can be used

Personal
Guarantee

SBA will not decline a loan for lack of collateral, but requires borrowers to pledge what is available.

BASIC REQUIREMENTS

- **Credit History:** Applicants must have a credit history acceptable to SBA.
- **Repayment:** SBA must determine the applicant business has the ability to repay the SBA loan.
- **Eligibility:** The applicant business must be physically located in a declared state and suffered working capital losses due to the declared disaster. Personal net worth will also be considered.



Paycheck Protection Loans

PAYCHECK PROTECTION LOAN BASICS

- Who is Eligible?
 - Small business and Nonprofits with < 500 employees
 - “Alternatively Sized Standards” – Two prong Test based on Net Assets and Income
 - Notable exceptions
- How is the Loan amount determined?
 - Multiplying monthly average payroll for the prior year by 2.5
- What is the maximum loan amount?
 - \$10 million less any other outstanding SBA Debt
- What can the loan be used for?
 - Payroll, group healthcare, rent, utilities, and other debt obligations

WHO IS ELIGIBLE?

- Do you have < 500 employees?
 - Do those employees principally reside in the U.S.?
 - Does your business meet the SBA employee-based size standards for your industry?
- Are you a small business concern as defined by Small Business Act (15 USC 632) and the affiliation rules (13 CFR 121.301 (f))?
- Are you a non-for-profit as defined in 501(c)(3), 501(c)(19), or a Tribal business (Small Business Act) ?
- Where you in operation on 2/15/20 and had employees?

HOW TO CALCULATE PAYROLL

1. + payroll cost from last 12 months for employees and independent contractors
2. - compensation paid to employees in excess of \$100K annually
3. - employer share of payroll taxes

$(12 \text{ month payroll- comp excess of } 100\text{K})/12 = \text{Max Loan Amount}$

WHAT QUALIFIES AS “PAYROLL COSTS”

INCLUDED

- Salary and wages
- Cash Tips
- Vacation, Parental, Family and Medical, or Sick Leave
- Group Healthcare Coverage (including insurance premiums)
- Retirement
- State and Local Taxes (on employee comp.)

EXCLUDED

- Comp from employees outside US
- Comp in excess of \$100K
- Federal employment taxes
- Sick and family leave in Families First Coronavirus Response Act

HOW TO CALCULATE PAYROLL – EXAMPLE

	<u>Cash Flow</u>	<u>PPP Allowed*</u>
<i>Earnings</i>		
Regular Wages	37,000	37,000
Bonus Wages	3,000	3,000
<i>Earnings Subtotal</i>	<u>40,000</u>	<u>40,000</u>
<i>Employer Contributions</i>		
Retirement Account Matching (2%)	800	800
Social Security (6.2%)	2,480	-
Medicare (1.45%)	580	-
State Unemployment Tax Authority (2.7%)	1,080	1,080
Group Health Plan Premiums	450	450
<i>Employer Contribution Subtotal</i>	<u>5,390</u>	<u>2,330</u>
<i>Annual Gross Carrying Cost of Employee</i>	<u><u>45,390</u></u>	<u><u>42,330</u></u>
<i>Average Monthly Amount</i>	3,783	3,528
<i>PPP Max Amount - Average x 2.5</i>		8,819

*As the rules have been interpreted today. The ultimate decision will come from the bank processing the loan, and interpretation has varied from bank to bank based on feedback we have received.

MAXIMUM LOAN CALCULATION OPTIONS

Non-Seasonal Employers

1. Payroll Costs for the most recent 12 months prior to application date
2. Payroll Costs for the 2019 Calendar year

Seasonal Employers*

1. Payroll Costs as calculated from February 15, 2019 – June 30, 2019
2. Payroll Costs as calculated from March 1, 2019 – June 30, 2019

*If annual amounts provide a more favorable option, nothing in the law precludes an applicant from using non-seasonal rates. The final decision will come from the lender.

PAYCHECK PROTECTION LOAN FORGIVENESS

- How will the loan be forgiven?
 - 75% of the loan needs to be used for payroll
 - No more than 25% of the loan forgiveness can be used for non-payroll costs (other approved items such as rent, utilities, debt, etc.)
- What documentation will I need for the loan forgiveness?
 - Certified Payroll demonstrating 75% of loan amount was used for payroll.
 - Additional Documentation as required by the lender or SBA regulations

PAYCHECK PROTECTION LOAN DETAILS

- Where can I apply for Paycheck Protection Loans?
- Can I apply for more than 1 PPL?
- What is the maturity date of a PPL?
- What is the interest rate?
- Do independent contractors count as employees?
- What happens if the loan is used for unapproved expenses?

	Eligibility	How much can I borrow?	Terms	Will this loan be forgiven?	Where do I apply?
SBA Economic Injury Disaster Loan Program (EIDL)	<ul style="list-style-type: none"> Basic Requirements: <ul style="list-style-type: none"> Credit history acceptable to SBA. SBA determines business has ability to repay. Physical location requirement. Must have a physical presence in the declared disaster area. NOTE: All U.S. states and territories have been declared disaster areas as a result of COVID-19. Eligible Organizations: <ul style="list-style-type: none"> Small Businesses Small Agricultural Co-ops Small Aquaculture Businesses Most Private Non-Profit Organizations Look to SBA's size standards to determine if organizations qualifies by NAICS code Ineligible Organizations: Agriculture Enterprises, Religious Organizations, Charitable Organizations, Gambling Concerns, Casinos & Race Tracks. Must not be able to get credit elsewhere. Rules for Affiliated Businesses: <ul style="list-style-type: none"> Can be found in 13 CFR § 121.103 (f) 	<ul style="list-style-type: none"> Up to \$2 Million Loan amount based on the size, type of business, and its financial resources. Determined by SBA to be the business's actual economic injury combined with the business's financial need. 	<ul style="list-style-type: none"> Interest rates: <ul style="list-style-type: none"> 3.75% Small Businesses 2.75% Non-profits Collateral required for loans over \$25,000 – requires borrowers to pledge what is available, will take real estate. No personal guarantees on advances and loans \$200,000 or less. Personal guarantees have been modified and sometimes eliminated. Up to maximum 30 years Intended to help you meet necessary financial obligations that you could have met had the disaster not occurred. Can be used to pay fixed debts, payroll, accounts payable, and other bills. Not to be used to replace lost sales, revenue or intended for expansion. 	<ul style="list-style-type: none"> No, this loan is not forgivable. Term length of the loan can be up to a maximum of 30 years. Length of the loan to be determined by SBA, who will take into consideration ability to pay back loan. Can be refinanced into PPP loan but portion of loan advanced through Emergency Economic Injury Grant will be subtracted from the amount forgiven under PPP. 	<ul style="list-style-type: none"> No cost to apply, no obligation to take loan if offered. Directly through SBA – not through a lender. <ul style="list-style-type: none"> Apply online: https://disasterloan.sba.gov/ela Call SBA Customer Service Center 800-659-2955 Can have an existing SBA Disaster Loan. EIDL cannot be consolidated with previous disaster loan. Emergency Economic Injury Grants – Grants can provide emergency advance of up to \$10,000 to small business and private non-profits within three days of applying for EIDL. To access advance apply for EIDL and then request the advance. Advance does not need to be repaid under any circumstance – can be used for payroll, sick leave, increased production costs, pay business obligations. Available January 31, 2020 – December 31, 2020.
Paycheck Protection Program (PPP)f – through SBA's 7(a) loan program	<ul style="list-style-type: none"> < 500 employees; or meets SBA's size standard 501(c)(3) < 500 employees Sole Proprietor; Independent Contractor; Self-employed Tribal business concern that meets SBA's size standard 501(c)(19) Veteran Organizations that meets SBA's size standard. Alternatively Sized business – less than \$15m in Net Worth and not more than \$5m average Federal Taxable Income (excluding loss carryovers) over the prior two years. Rules for Affiliated Businesses: <ul style="list-style-type: none"> Can be found in 13 CFR § 121.103 (f) Waiver of affiliated businesses rule: <ul style="list-style-type: none"> Businesses with no more than 500 employees and a NAICS code beginning with 72 (i.e., accommodation and food services businesses) Franchises that have been assigned a franchise identifier code by the SBA; and Businesses that receive financial assistance from an SBIC. Can apply for PP loan and other SBA financial assistance, including EIDLs, 7(a) loans, 504 loans, microloans, and also receive investment capital from Small Business Investment Corporations. Will not look for: that the borrower sought and unable to obtain credit elsewhere 	<ul style="list-style-type: none"> The lesser of \$10,000,000 and an amount calculated based on a payroll formula below. Non Seasonal Employers = 2.5 x Average total monthly payroll costs incurred during the 12 months prior to the loan date or calendar 2019. Seasonal Employers = 2.5 x Average total monthly payments for payroll costs for the 12-week period beginning February 15, 2019 or March 1, 2019 (decided by the loan recipient) and ending June 30, 2019. For business not operational in 2019: 2.5 x Average total monthly payroll costs incurred for January and February 2020. Any other outstanding SBA 7(a) loans should also be added to the payroll sum for comparison against the \$10m limit. 	<ul style="list-style-type: none"> Interest rate will be 1% APY. Term of the loan will be 2 years, with no payments for the first 6 months. Amounts not forgiven will be payable in 18 equal installments Will not require a personal guarantee, or collateral Can be used to pay payroll costs (as previously defined), mortgage interest payments (but not prepayment of or payment of principal on a mortgage obligation), rent, utilities, and interest on any other debt obligations that were incurred before the covered period. Cost that are not eligible: employee/owner compensation over \$100,000, taxes imposed or withheld under chapters 21, 22, and 24 of the IRS code, compensation of employees whose principal place of residence is outside of the U.S., qualified sick and family leave for which a credit is allowed under 7001 and 7003 of CARES Act. No collateral or personal guarantee. Cannot use a PP loan for the same purpose as your other SBA loan(s). Payment deferral: SBA will direct lenders to defer all payments (principal, interest and fees) otherwise due for 6 months on all SBA 7(a) Loans. 	<ul style="list-style-type: none"> Yes, borrowers are eligible for loan forgiveness. Must apply through lender. Documentation required. The amount forgiven = the amount the borrower spend on the following during the 8-week period beginning on the loan origination date. <ul style="list-style-type: none"> Payroll costs as calculated for the max loan amount Interest on mortgage obligation, rent on leasing agreement, payment on utilities, additional wages for tipped employees. Non-payroll costs cannot exceed 25% of the forgiveness. The amount of loan forgiveness calculated is reduced if there is a reduction in the number of employees or reduction > 25% in wages paid to employees. <ul style="list-style-type: none"> Exception: Reduction in employment or wages that occur during Feb 15,2020 and 30 days after CARES enactment – will not reduce loan forgiveness if by June 30,2020 the borrower eliminates reduction. Any loan that has remaining principal balance after loan forgiveness must have a maturity date 2 years from the date the borrower applied for loan forgiveness with a 1.0% interest rate. 	<ul style="list-style-type: none"> Through a lender – more guidance to be issued soon <ul style="list-style-type: none"> Lenders already authorized to make loans under SBA's existing 7(a) loan program are automatically eligible – Department of Treasury in charge of authorizing new lenders. Fees: SBA will not charge any fees – participating lenders will be entitled to charge a fee as a % of original principal balance. 100 % of the loan is guaranteed. Waives annual or guarantee fees for the loan and all prepayment penalties. Evaluating eligibility – lenders will consider whether the borrower was operation before February 15, 2020, and had employees for whom they paid salaries and payroll taxes or paid independent contractors. Good faith certification: current economic uncertainty makes the loan necessary to support ongoing operations, used to retain workers and maintain payroll or make mortgage, lease, or utility payments., does not have an application pending for a loan duplicative of purpose and amounts applied here, from February 15, 2020 – December 31, 2020, the borrower has not received a loan for duplicative purpose and amount applied here. (Opportunity to fold emergency loan between Jan 31, 2020 and date available into a new loan).



FREQUENTLY ASKED QUESTIONS

Q: Are business required to have fewer than 500 employees

A: No

Q: Will SBA Affiliation rules apply EIDL and PPL?

A: Yes

Q: Can you apply for both PPL and EIDL?

A: Yes

Q: Can payments to independent contractors or sole proprietor be included in calculations of eligible borrower's payroll costs?

A: No

FREQUENTLY ASKED QUESTIONS

Q: Does the Paycheck Protection Program loan cover paid sick leave?

A: Yes and No.

Q: What period should borrowers use to determine their number of employees and payroll costs to calculate their maximum loan amounts?

A: It depends on if the business is non-seasonal or seasonal.

Send questions to :

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