

CARES ACT


Paycheck Protection Program

A guide to get fast funding



The \$2 trillion stimulus package allocated \$350B to provide forgivable loans and tax credits to businesses who keep their employees during the crisis or restore their payrolls before June, 30th, 2020. Known as the Paycheck Protection Program, the purpose is to incentivize small businesses to not lay off workers and to rehire laid-off workers that lost jobs due to COVID-19 disruptions. Government guaranteed loans are offered up to \$10M per business. They do not require a personal guarantee or collateral, and will be processed by a network of banks, credit unions and other lenders across the U.S.

TAX & EMPLOYEE BENEFITS:

 Tax Benefits

 Employee Benefits

Read a summary of the bill here: [Guide to Payment Protection Program | CARES ACT.](#)

HIGHLIGHTS

- **Fast Funding:**
Businesses can borrow up to \$10M to fund payroll, rent, utilities and mortgage interest
- **Fully Forgiven:**
The loan can be fully forgiven if employers maintain employee payrolls
- **Great Terms:**
No cost to apply. No personal guarantees. No collateral. No recourse.
- **Easy eligibility:**
If you were in business on or before Feb 15th, 2020, with less than 500 employees on payroll, per location. (Some exceptions for more than 500 employees are available)
- **Easy approval process:**
Apply at your local FDIC bank, federally insured credit union, Farm Credit System or SBA lender.

Disclosure: This document is provided for information purposes only and is not intended as legal, tax, medical or any other professional advice. The document is provided "as is" and without any representations and warranties of any kind. Businesses should consult with their own legal and other professional advisors to determine their legal obligations in response to the Covid-19 crisis. Bottom line, we're passing on what we have learned, in an attempt to help you, but you need to listen to your advisors because we don't have all the information relevant to your business.

Playbook

Here are the questions you may be asking, and everything you need to know.

1 Am I ELIGIBLE?

You are eligible if you are:

- A small business with fewer than 500 employees per location (some exceptions allow up to 1500)
- A 501(c)(3) with fewer than 500 employees
- An individual who operates as a sole proprietor
- An individual who operates as an independent contractor
- An individual who is self-employed who regularly carries on any trade or business
- A Tribal business concern that meets the SBA size standard
- A small business that otherwise meets the SBA's size standard
- A 501(c)(19) Veterans Organization that meets the SBA size standard

In addition, some special rules may make you eligible:

- If you are in the accommodation and food services sector (NAICS 72), the 500-employee rule is applied on a per physical location basis
- If you are operating as a franchise, or receive financial assistance from an approved Small Business Investment Company, the normal affiliation rules do not apply

Note: The 500-employee threshold includes all employees: full-time, part-time, and any other status.

2 How much can I BORROW?

Loans can be up to 2.5 x the borrower's average monthly payroll costs, not to exceed **\$10 million**

How do I calculate my average monthly

PAYROLL COSTS?



ELIGIBLE

- Business must have been in operation on February 15, 2020
- 500 or less employees



CALCULATE MAX LOAN AMOUNT

[Corona Calculator](#)

Playbook

INCLUDED Payroll Cost

For Employers: The sum of payments of any compensation with respect to employees that is a:

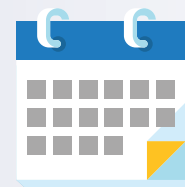
- Salary, wage, commission, or similar compensation
- Payment of cash tip or equivalent
- Payment for vacation, parental, family, medical, or sick leave
- Allowance for dismissal or separation
- Payment required for the provisions of group health care benefits, including insurance premiums
- Payment of any retirement benefit
- Payment of state or local tax assessed on the compensation of the employee

For Sole Proprietors, Independent Contractors, & Self-Employed

Individuals: The sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment, or similar compensation and that is in an amount that is not more than \$100,000 in one year, as pro-rated for the covered period.

EXCLUDED Payroll Cost

- Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the period February 15, to June 30, 2020
- Federal payroll taxes, railroad retirement taxes, and income taxes
- Any compensation of an employee whose principal place of residence is outside of the United States
- Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act (Public Law 116–5 127); or qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act



NON SEASONAL EMPLOYERS:

Maximum loan =

2.5 X Average total monthly payroll costs incurred during previous year.

For businesses not operational in 2019:

2.5 X Average total monthly payroll costs incurred for January and February 2020

SEASONAL EMPLOYERS:

Maximum loan =

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



CALCULATE MAX LOAN AMOUNT

 [Corona Calculator](#)

Playbook

3 Will this loan be FORGIVEN?

Borrowers are eligible to have their loans forgiven if they follow the rules.

How Much?

A borrower is eligible for loan forgiveness equal to the amount the borrower spent on the following items during the loan period beginning on the date of the origination of the loan:

- Payroll costs (using the same definition of payroll costs used to determine loan eligibility)
- Rent on a leasing agreement
- Payments on utilities (electricity, gas, water, transportation, telephone, or internet)
- For borrowers with tipped employees, additional wages paid to those employees
- Interest on the mortgage obligation incurred in the ordinary course of business
- The loan forgiveness cannot exceed the principal.

How could the forgiveness be reduced?

The amount of loan forgiveness calculated above is reduced if there is a reduction in the number of employees, or a reduction of greater than 25% in wages paid to employees. Specifically:

Reduction based on reduction of number of employees



PAYROLL COST
Calculated on page 2



Average Number of Full-Time Equivalent Employees (FTEs) Per Month for the 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
- For Seasonal Employers:**
Average number of FTEs per month from February 15, 2019 to June 30, 2019

Reduction based on reduction in salaries



PAYROLL COST
Calculated on page 2



For any employee who did not earn during any pay period in 2019 wages at an annualized rate more than \$100,000, the amount of any reduction in wages that is greater than 25% compared to their most recent full quarter.

Playbook

What if I bring back employees or restore wages?

Reductions in employment or wages that occur during the period beginning on February 15, 2020, and ending 30 days after enactment of the CARES Act, (April 26, 2020) shall not reduce the amount of loan forgiveness IF by December 31, 2020 the borrower eliminates the reduction in employees or reduction in wages.

What do I give the bank when applying for loan forgiveness?

- Documentation verifying the number of full-time equivalent employees on payroll, and pay rates for the loan period and the year preceding the loan: payroll tax filings reported to the IRS and State income, payroll, and unemployment insurance filings
- Documentation to prove your mortgage, lease, or utility payments; cancelled checks, payment receipts, account statements
- Certification from borrower that:
The documentation presented is true and correct the amount for which forgiveness is requested was used to retain employees, make payments on a covered rent obligation

The lender must make a decision within 60 days of your forgiveness application submission.

4 What will lenders be **LOOKING FOR?**

In evaluating eligibility, lenders are directed to consider whether the borrower was in operation before February 15, 2020 and had employees for whom they paid salaries and payroll taxes. Lenders will also ask you for a good faith certification that:

- The uncertainty of current economic conditions makes the loan request necessary to support ongoing operations
- The borrower will use the loan proceeds to retain workers and maintain payroll or make mortgage, lease, and utility payments
- Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for here. From Feb. 15, 2020 to Dec. 31, 2020, the borrower has not received a loan duplicative of the purpose and amounts applied for here

Note: There is an opportunity to fold emergency loans made between Jan. 31, 2020 and the date this loan program becomes available into a new loan. If you are an independent contractor, sole proprietor, or self-employed individual, lenders will also be looking for certain documents (final requirements will be announced by the government) such as payroll tax filings, Forms 1099-MISC, and income and expenses from the sole proprietorship.



What lenders will **NOT LOOK FOR**

- That the borrower sought and was unable to obtain credit elsewhere.
- A personal guarantee is not required for the loan.
- No collateral is required for the loan.

Paycheck Protection Program



Below is a summary of the Paycheck Protection Program rules. Visit [SBA.gov](https://www.sba.gov) to check for program updates.

SUMMARY of Bill

- The Paycheck Protection Program provides fast funding to small businesses to cover payroll and expenses during the crisis.
- Businesses can borrow up to \$10M and if they follow all the program rules, the loan can be forgiven.

Who is ELIGIBLE?

- Businesses which were operational on Feb. 15, 2020 with 500 or fewer employees, unless the covered industry's SBA size standard allows more than 500 employees. Click here to see SBA size standards: certain industries may have higher maximum employee levels
- Eligible borrowers must make a good faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19; that funds will be used for a permitted purpose; and that they are not receiving funds from another SBA program for the same uses.

Other Eligible CATEGORIES

- Select types of businesses with fewer than 1,500 employees, 501(c)(3) non-profits with fewer than 500 workers, Tribal businesses, and some 501(c)(19) veteran organizations. Additionally, self-employed, sole proprietors, and freelance and gig economy workers are also eligible to apply.
- With the exception of businesses with a NAICS industry code beginning with 72 (primarily hospitality and food service industries), certain franchise businesses, and businesses that have received investment from an SBIC, a business's employee count will include the employees of its affiliates (as defined by the SBA).

PROGRAM Period

- Starting April 3, 2020 until December 31 you can apply for and receive loans through existing SBA lenders
- The loan program period is from February 15, 2020 to December 31, 2020. 100% of the proceeds need to be spent within 24 weeks of loan date to have loan forgiven.

WHAT IS THE MAXIMUM amount I can borrow?



- The maximum loan amount is the lesser of \$10 million
- or –
- The formula to calculate the maximum amount of money is:



2.5 x average monthly payroll costs from previous 12 months

Payroll costs include the following:

- Salary, wage or commission (compensation above \$100,000 excluded; employees outside U.S. excluded)
- Family or sick leave costs
- Health insurance premium
- Retirement benefits
- State and local payroll taxes

[Corona Calculator](#)

[Guide to Loan Calculations](#)

NEW Companies

For businesses not operational in 2019:



2.5 x average monthly payroll costs incurred for January 1 to February 29, 2020

Seasonal EMPLOYERS

For businesses not operational in 2019:



Maximum loan = 2.5 x Average total monthly payments for payroll costs for the 12-week period beginning February 15, 2019 or March 1, 2019 and ending June 30, 2019 (decided by the loan recipient)

For Sole PROPRIETORS

Payroll costs for sole proprietors and independent contractors includes wages and net earnings from self-employment that is not more than \$100,000 in one year

How can the loan **BE FULLY FORGIVEN?**

Borrowers can have 100% of the loan forgiven if they follow all the rules:

- Maintain same average number of employees that they had on average of prior year
- Not reduce salaries of any employees by more than 25% of their compensation in full quarter before loan origination date
- Spend the money in 24 weeks from loan origination date on eligible expenses that include:
 - Payroll costs: 60% must be used on payroll. Compensation above \$100,000 is excluded.
 - Rent payments on any lease in force prior to February 15, 2020
 - Utility payments for which service began before February 15, 2020
 - Interest payments on any mortgage incurred prior to February 15, 2020 (excludes principal and prepayment)
- For borrowers with tipped employees, additional wages paid to those employees
- At least 60% must be used for payroll and the remaining 40% can be used for rent, utility and mortgage interest payments.
- The amount forgiven cannot exceed the amount borrowed.
- Any amount forgiven will not be included in your taxable income.



[Guide to Loan Forgiveness](#)

How could **FORGIVENESS BE REDUCED?**

The amount of loan forgiveness will be reduced:

- Based on reduction in average number of employees per month compared to prior year; and
- Based on reduction in wages of any employee greater than 25% of their compensation in full quarter before loan origination date

REDUCTION BASED on reduction of number of employees

The formula for reduction on number of employees is:



The loan forgiveness amount x (Avg. FTE per month for 8-week loan period / Avg FTE per month for Feb. 15-June 30 2019 or Jan 1-Feb 29 2020)

The loan forgiveness amount multiplied by:

- Average Number of Full-Time Equivalent Employees (FTEs) Per Month for the 8-Weeks Beginning on loan origination date divided by either (at election of the borrower) –
 - Option 1: Average number of FTEs per month employed from February 15, 2019 to June 30, 2019; or
 - Option 2: Average number of FTEs per month employed from January 1, 2020 until February 29, 2020;

REDUCTION BASED on reduction in wages



- If you reduce the wages of any employee, whose annual salary or wages was less than \$100,000 in most recent quarter, by more than 25%, during the 8-week period after loan date, the dollar amount of that wage reduction will reduce your loan forgiveness amount.
- The formula is the loan forgiveness amount minus the amount of any reduction in total salary or wages of any employee (as described above).

What if I bring back EMPLOYEES OR RESTORE WAGES?

- To encourage employers to rehire any employees who have already been laid off due to the COVID-19 crisis, borrowers that re-hire workers previously laid off will not be penalized for having a reduced payroll at the beginning of the period.
- Reductions in employment or wages that occur during the period beginning on February 15, 2020, and ending 30 days after enactment of the CARES Act, (April 26, 2020) shall not reduce the amount of loan forgiveness IF by December 31 the borrower eliminates the reduction in employees or reduction in wages.

What happens to any amount THAT IS NOT FORGIVEN?

- Any loan amount not forgiven at the end of one year is carried forward as an ongoing loan for 5 years, at 1.0% interest.

WHAT IS THE PROCESS for loan forgiveness?

Borrowers will submit an application for forgiveness to their lender. You will need to send the following documents with your application for forgiveness:

- Payroll documents: This includes payroll tax filings that you submit to the IRS and state filings for income, unemployment insurance and payroll.
- Verification of costs eligible for forgiveness: This can include mortgage statements, rent receipts, utility payments and canceled checks — among other relevant documents.
- Certification: Someone in your business that handles or oversees expenses must certify that the documents are correct and that your business used the funds for eligible purposes.
- Your lender may also require additional documentation, depending on the circumstance
- Lenders have 60 days to issue a decision on loan forgiveness.

Playbook

Allowable USES FOR THE LOAN

Below are use of funds that are eligible for full forgiveness:

- Payroll costs
- Health care benefits (including paid sick or medical leave, and insurance premiums)
- Rent obligations incurred prior to February 15, 2020
- Utility payments incurred prior to February 15, 2020
- Mortgage interest obligations incurred prior to February 15, 2020

Below are use of funds that are not eligible for full forgiveness:

- Interest on other debt obligations incurred previous to Feb. 15, 2020

NOTE: The loans will be non-recourse to the business owners except to the extent they use the proceeds for an unauthorized purpose.

WHAT ARE MY TERMS for any loan amount that is not forgiven?

- Loan due in 5 years after application for loan forgiveness
- 1.0% fixed interest rate
- Payment Deferral: 10 months (including payment of principal, interest, and fees)
- No prepayment penalty
- No fees

What documents DO I NEED TO APPLY?

These are the documents you are likely to need so ask your financial advisor or accountant to start gathering these forms.



Preliminary Checklist for Paycheck Protection Program:

- 2019 Payroll Cost
- Number of employees as of December 31, 2019
- Number of employees as of February 15, 2020
- What industry does the business fall under?
- 2019 Business Tax Returns or Year End Financial Statements as of 12/31/19

PAYROLL EXPENSE Verification Documents to Include

- IRS Form 940 Employers Annual Federal Unemployment Tax Return (FUTA)
- IRS Form 941 Employer's QUARTERLY Federal Tax Return
- Payroll Summary Report 2019 with corresponding bank statements
- W2 Summary

PAYROLL EXPENSE Verification Documents to Include

(Continued)

- Breakdown of payroll benefits (vacation, allowance for dismissal, group healthcare benefits, retirement benefits, etc.)
- Copy of 2019 W2s for wage earners
- Trailing twelve-month profit and loss statement (as of the date of application) for all applicants



[Guide to Applying for PPP Loan](#)

Administrator GUIDELINES

- Funding to be distributed using the existing framework of SBA lenders, working with and through national and local banks, who will take your application and deliver the loans.
Note: Contact your local bank to ask them if they are participating in the program.
- The government is guaranteeing 100% of the loans provided to businesses as part of the program. The bank has no risk because the government is guaranteeing 100% of the loans delivered through the program.
- For these loans the Government has waived personal guarantee, collateral and credit elsewhere requirements.
- Lenders are directed to prioritize small businesses, entities in underserved and rural markets, veterans and members of the military community, small business concerns owned by socially and economically disadvantaged individuals, women, and businesses in operation for less than 2 years.

Existing SBA DISASTER LOAN PROGRAM

- A loan made under the SBA's Disaster Loan Program on or after January 31, 2020, may be refinanced as part of a covered loan under this new program as soon as these new loans are made available. The CARES Act specifically allows SBA Disaster Loan recipients with economic injury disaster loans made since January 31, 2020 for purposes other than the permitted loan uses under this program to receive assistance under this program.