

Many of our clients have questions about the CARES Act Paycheck Protection Program (PPP) and resources available to small business owners during this time. Although guidance continues to unfold from the Small Business Administration (SBA), we wanted to share some helpful details and frequently asked questions about a few of the programs available.

If you have additional questions on these programs, we encourage you to reach out to your CPA, your banker or your Abacus Financial Advisor.

## **Economic Injury Disaster Loans**

### **What is the Economic Injury Disaster Loan (EIDL)?**

[EIDLs](#) are not new and have always been available from the SBA as a first line of support in a disaster. What is new is this is the first time a virus or pandemic has been defined as a disaster. This declaration makes businesses in every state and territory eligible to apply for EIDLs.

### **What are the terms of an EIDL?**

- Loans of up to \$2,000,000 with up to a 30-year term.
- Interest Rates are 3.75% for small businesses (fewer than 500 employees) and 2.75% for non-profits.
- The first month's payments are deferred a full year from the date of the promissory note.

### **What are the expanded provisions?**

- EIDLs can be approved by the SBA based solely on an applicant's credit score.
- EIDLs smaller than \$200,000 can be approved without a personal guarantee.
- Borrowers can receive up to \$10,000 (\$1,000 per employee up to \$10,000) in an emergency grant cash advance which can be forgiven if spent on paid leave, maintaining payroll, increased costs due to supply chain disruption, and mortgage or lease payments or repaying obligations that cannot be met due to revenue loss.
- It expands access to sole proprietors or independent contractors.
- Even if your loan is denied you will be able to keep the grant. Cash is expected to be disbursed within a week of application.
- CARES waives the requirement that you be unable to obtain credit elsewhere.
- You apply for these loans directly through the SBA.
- There are no loan fees, guarantee fees, or prepayment fees.
- You must have been in business by January 31, 2020 to qualify.

## Paycheck Protection Program (PPP)

### What is the Paycheck Protection Program (PPP)?

The PPP provides loans for employment and other qualified costs -- on favorable terms and with repayment deferrals and limited forgiveness -- which can be used during the period from February 15, 2020 through June 30, 2020 (the "Covered Period"). Borrowers can choose which 8 weeks they want to count toward the covered period, which can start as early as February 15, 2020. These loans are for any company who employs 500 or fewer employees (or more for industries with larger SBA size standards). **All loan terms will be the same for everyone.**

### What is the maximum I can borrow?

The lesser of (i) 2.5 X the average total monthly payroll costs incurred during the 1-year period before the loan date (not counting any portion of an employee's salary over \$100,000 annually), or (ii) \$10 million. Net earnings from self-employment do count as payroll for a (possibly) forgiven loan amount.

### What are the terms?

Interest rate of 1%; no borrower fees; maturity date of 2 years. There are no prepayment penalties or fees.

### What are the Underwriting requirements?

No credit history or testing, tax returns, or financial statements required. Two criteria: business was operating on February 15, 2020, and paid payroll and payroll taxes.

### When can I apply?

- Applicants are eligible to apply for the PPP loan until June 30, 2020, but apply as soon as possible because there is a funding cap and lenders need time to process your loan.
- Starting April 3, 2020, sole proprietorships and small businesses can apply.
- On April 10, 2020, independent contractors and self-employed can apply.

### Where can I apply?

Start with your banker. Banks will prioritize their own customers in processing applications, so apply with your own bank to avoid delays if they are an approved SBA lender.

From there, you can find SBA-approved lenders in your area through [SBA's online Lender Match](#) tool or by calling your local [Small Business Development Center](#) or [Women's Business Center](#) and they will provide free assistance and guide you to lenders.

### I am an independent contractor or gig economy worker, am I eligible?

Sole proprietors, independent contractors, gig economy workers, and self-employed individuals are all eligible for the Paycheck Protection Program.

You must submit documentation as is necessary to establish eligibility such as payroll processor records, payroll tax filings, or Form 1099-MISC, or income and expenses from a sole proprietorship. For borrowers with no such documentation, other supporting documentation such as bank records will need to be provided.

### Address Payroll for Single-Owner S-Corp vs. Sole-Prop

If you are a single-owner S-Corp, only your payroll (capped at \$100,000) will count toward your loan amount; dividends will not. If you are a single-owner LLC or Sole Proprietorship that is not on payroll, you will use your net income (capped at \$100,000).

### What can I use these loans for?

You may only take out one loan under this program. There is no "double dipping" as the funds have very specific intended uses. You should use the proceeds from these loans on your:

- Payroll costs, including salary, wages, commissions, or tips (up to \$100,000 annualized per employee); employee benefits including costs for vacation, parental, family, medical, or sick leave; group health

insurance premiums, payment of any retirement benefit; and state and local taxes payroll taxes assessed on compensation.

- Interest (not principal) on mortgage obligations, incurred before February 15, 2020;
- Rent, under lease agreements in force before February 15, 2020; and
- Utilities, for which service began before February 15, 2020.

### How much of my loan will be forgiven?

You will owe money when your loan is due if you use the loan amount for anything other than payroll costs, mortgage interest, rent, and utilities payments beyond 8 weeks from the loan date. Due to likely high subscription, it is anticipated the forgiven amount for non-payroll costs will not exceed 25%.

You will also owe money if you do not maintain your staff and payroll.

- **Number of Staff:** Loan forgiveness will be reduced if you decrease your full-time employee headcount.
- **Level of Payroll:** Loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee who made less than \$100,000 (annualized in 2019). Keep this in mind if your employees' wages are tied to a level of service provided.
- **Re-Hiring:** You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

### When do I need to start paying interest on my loan?

All payments are deferred for 6 months; however, interest will continue to accrue over this period.

### How can I request loan forgiveness?

You can submit a request to the lender servicing the loan; this includes documents verifying the number of full-time equivalent employees and pay rates, and payments on eligible mortgage, lease, and utility

obligations. You must certify the documents are true and that you used the forgiveness amount to keep employees and make eligible mortgage interest, rent, and utility payments. The lender must make a decision on the forgiveness within 60 days.

### Do I need to pledge any collateral or personally guarantee these loans?

No collateral or personal guarantees are required.

### What do I need to certify?

As part of your application, you must certify in good faith that:

- Current economic uncertainty makes the loan necessary to support your ongoing operations.
- The funds will be used to retain workers and maintain payroll, or to make mortgage, lease, and utility payments.
- You have not and will not receive another loan under this program.
- You will provide the lender with documentation verifying the number of full-time equivalent employees on payroll and the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight weeks after getting this loan.

### If I have applied for or received an Economic Injury Disaster Loan (EIDL) related to COVID-19 before the Paycheck Protection Program became available, will I be able to refinance into a PPP loan?

If you received an EIDL loan related to COVID-19 between January 31, 2020 and the date at which the PPP becomes available, you will be able to refinance the EIDL into the PPP for loan forgiveness purposes. However, you may not take out an EIDL and a PPP for the same purposes. Remaining portions of the EIDL, for purposes other than those laid out in PPP loan forgiveness terms, would remain a loan. If you took advantage of an emergency EIDL grant award of up to \$10,000, that amount would be subtracted from the amount forgiven under PPP.

## Deferral of Payment of Payroll Taxes

### What options are available for deferring payroll taxes?

With the exception of employers who have debt forgiven by the CARES Act for certain loans provided by the SBA, [Section 2302 of the CARES Act](#) provides employers with an option to [defer payroll taxes](#) from the date of enactment, through the end of the year with 50% deferred until December 31, 2021 and the remaining 50% is due on December 31, 2022.

This relief applies to the self-employed as well with respect to the 'employer equivalent' portion of their self-employment taxes. Accordingly, 50% of an individual's self-employment taxes, from the date of enactment through the end of 2020, may be deferred, with 50% of that amount (i.e. 25% of 2020 self-employment taxes) due December 31, 2021, and the remaining deferred amount due on December 31, 2022.

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## Employee Retention Credit

### What is the "Employee Retention Credit" For Employers Subject To Closure Due to COVID-19?

The [Employee Retention Credit](#) is an incentive to encourage businesses who have been hit hard by the economic effects of the COVID-19 crisis from making further layoffs, through a new payroll tax credit (provided the business is not receiving a covered loan under section 7(a)(36) of the Small Business Act).

### How does a Business Qualify for the Employee Retention Credit?

- The business must have existed in 2020 and must have had operations fully or partially suspended due to "orders from an appropriate governmental authority limiting commerce, travel, or group meetings" due to COVID-19.
- Gross Revenues must be less than 50% of gross revenues from the same quarter in 2019.
- Depending upon the method of qualification for

the credit, the credit stays in place until there is either a quarter without a government-required suspension of operations, or gross revenue from the current quarter exceeds 80% gross revenue from the same calendar quarter in 2019, whichever is sooner.

### How is the Employee Retention Credit calculated?

- The credit is equal to 50% of wages paid to each employee, up to a maximum of \$10,000 of wages per employee per quarter. The maximum credit per employee is \$5,000.
- The credit gets applied as a credit to employment taxes.
- For small businesses (100 or fewer employees), all wages (up to the \$10,000 max limit per employee) are eligible to count towards the credit.
- For larger employers (more than 100 employees), only wages paid to individuals (up to the \$10,000 max limit per employee) who are not providing services (not working).

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We recognize the amount of information that is currently available surrounding these topics and hope the details above provide some clarity and actionable steps.

Should you be contemplating the next step to take for your small business, please reach out to your Abacus Financial Advisor or your CPA or Banker.

You can find additional information and support regarding the COVID-19 crisis [here](#).