

COVID-19 Support Guide



SAVE YOUR BUSINESS FROM THE VIRUS

-  **Cash Planning**
-  **Loans**
-  **Tax Savings**

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The CARES Act is a new bill. While we understand the bill and its contents, implementation by the government may change. Information will continue to become updated as it becomes available.

I could write some fancy intro here, but instead, let's just get you the info you need to get your business through this crisis.

LOANS

There are two distinct lending programs to support small businesses with cheap (and potentially free) money right now, the Payroll Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL).

Payroll Protection Program

The Payroll Protection Program (PPP) is a **new lending program** that was released as part of the CARES Act. As are normal SBA 7(a) loans, these loans are issued from banks.

How much can I get?

The maximum loan a small business is eligible for under PPP is **2.5 months of payroll costs based off the previous 12 months of actual payroll costs**. For this purpose, payroll costs includes employees benefits, sick pay, vacation pay, and state payroll taxes. It also potentially includes pay to independent contractors documented on Forms 1099-MISC, although we're still firm up our understanding of how that component will work. **Banks will require documentation of your payroll costs over those 12 months as part of your application.**

How do I pay it back?

Proceeds from a PPP loan can be used to pay **payroll costs, rent, utilities, and interest on mortgages and other debt incurred prior to 2/15/2020**. To the extent that the proceeds are used on these items, the principal balance of the loan **will be forgiven eight weeks after the loan is issued**.

There are two limitations on the amount of



forgiveness you can receive. First, if you reduce the number of full-time equivalent employees you have versus a prior period, then your loan forgiveness will be reduced proportionally. **If you have reduced headcount, or do so before 4/26/20, you have until 6/30/20 to increase your headcount to be eligible for the full forgiveness.**

Also, **if you reduce the total wages of an employee by more than 25%** (except for employees that received a paycheck for more than an annualized 100,000 at any point in 2019), **then your PPP forgiveness is reduced dollar for dollar for the amount of pay reduction during the eight weeks after you get your loan.**

While these terms may change, it looks like **any unforgiven balance will bear interest at an annual rate of 0.5% (yes, that's right) and be due in two years, with no payments for the first six months.**

How do I get the loan?

These loans are issued through private banks. If you have worked with a bank on another loan, line of credit, or anything business related, they are probably already reaching out to you. **You will probably get the best service taking advantage of your existing**

relationship, because the banks are going to be completely swamped handling the incredible volume of loan applications they are about to receive.

Unlike normal SBA loans, there are **no collateral requirements or personal guarantees required**. The only caveat is that if you spend the money fraudulently, they are making it very clear that they are going to pursue criminal charges against people for abusing the system, so don't do anything stupid.

It's looking like there will be **very little underwriting** of PPP loans. The loans are 100% guaranteed by the federal government, and the government's clear desire is that this money go out quickly to keep people employed. It is up to the individual bank to set their own lending standards and process, but it's anticipated that this process will go very quickly.

What to do now?

Talk to your preferred loan officer ASAP. Applications will start being accepted on 4/3/20.

Economic Injury Disaster Loan

The SBA Economic Injury Disaster Loan (EIDL) program is a pre-existing program to support businesses in disaster areas. While this has historically been natural disasters, the entire country is in a disaster area and many businesses have been turning to EIDL for help.

How much can I get?

There are two components to EIDL. The largest component of EIDL is the loan itself,

which is typically tailored to individual business needs after consultation with an SBA loan officer. Currently, you don't even put a request amount with the initial application - all the loan amounts will be determined later in the process.

The CARES Act put an additional up-front payment in place. **The SBA is required to send any applicant a \$10,000 grant within three days of receiving an EIDL application.** To support this, the SBA has actually created a specific application for COVID-19 EIDL loans.

How do I pay it back?

Payment terms are also individualized to the specific business, but **interest rates are capped at 3.75% and amortization periods can go up to 30 years.**

The \$10,000 grant is yours to keep even if you do not subsequently take out an EIDL. If you get the \$10,000 grant and also get a PPP loan, the \$10,000 **reduces your eligibility for forgiveness under PPP** by the same amount.

How do I get the loan?

This is the difficult part. Getting the \$10,000 is easy - the SBA should send it within 3 days, although some delays are to be anticipated. There's no application review or any other sort of analysis.

To actually get a full EIDL, however, will take some time. The word we're hearing is that it will be a minimum of six weeks to have a loan officer assigned to start moving the process along. The SBA is a government agency that has never seen anything like the kind of application volume they're getting right now, so I would anticipate that wait times will be

even longer. It makes it all the more important to get the initial application in quickly.

What to do now?

Go to <https://covid19relief.sba.gov/> and complete the application for your business. They only ask for a couple of numbers, and you should be able to do this in 15 minutes. You will need to provide bank account info to receive the \$10,000 grant. Then be on the lookout from an e-mail from the SBA regarding next steps - but it might be a bit.

	PPP	EIDL
Issued by	Banks	SBA (government agency)
How much	2.5 months of payroll costs	\$10,000 grant + additional TBD loans based on individual business needs
What's required	<ul style="list-style-type: none"> No collateral or personal guarantee needed Documentation for 12 months of payroll costs 	<ul style="list-style-type: none"> Collateral / personal guarantee potentially needed For grant, just a bank account to receive the grant For full EIDL, waiting 6+ weeks
Pay back	Forgiven 8 weeks after issue if used on payroll, rent, utilities, and / or interest	No need to repay \$10,000, though forgiveness of PPP reduced by amount of grant
Terms	<ul style="list-style-type: none"> Unforgiven balance 0.5% annual interest Due in 2 years No payments for 1st 6 months 	<ul style="list-style-type: none"> Payment terms are also individualized to the specific business Interest rates are capped at 3.75% and amortization periods can go up to 30 years
Catch, if any	<ul style="list-style-type: none"> Must spend on payroll costs If reduced FTEs pre-4/26/20, have until 6/30/20 to increase 	Forgiveness of PPP reduced by amount of grant
Tips & tricks	<ul style="list-style-type: none"> Take advantage of existing bank relationships Don't spend money fraudulently 	<ul style="list-style-type: none"> Get the initial application in quickly Be patient
Action	Talk to your preferred loan officer ASAP.	Go to https://covid19relief.sba.gov/ and complete the application for your business.

TAX PROVISIONS

There were several useful provisions under the CARES Act to help small businesses stay afloat financially.

Payroll Tax Relief

The employer portion (NOT the employee portion withheld from wages) of Medicare and Social Security taxes is being deferred. While you will still owe these taxes, you do not have to pay them right now. Fifty percent of the unpaid balance is due by 12/31/2021, and the other 50% is due by 12/31/2022. Look for guidance from your payroll processor on how to handle this within their system.



Retirement Account Withdrawals

If you experience “adverse financial consequences” as a result of COVID-19 related orders, you are eligible to withdraw up to \$100,000 from your tax-deferred retirement accounts without any early withdrawal penalty. If the withdrawal comes from a taxable account, the income will be spread evenly over the three-year period of 2020 through 2022. You are also eligible to recontribute the withdrawn amount at any point in the next three years.

NOL Carrybacks

If you have a net operating loss in 2018, 2019, or 2020, you are eligible to carryback the loss up to five years and get an immediate refund. This is subject to their being income and taxes in those previous years to reduce by use of the NOL, but we can talk you through this if you think it might apply to you.

Technical Correct for Qualified Leasehold Improvements

The CARES Act fixed a technical bust that was created in the TCJA back in December 2017 that made it so that businesses could not take bonus depreciation on qualified leasehold improvements. If you’ve built out a space as either a tenant or a landlord since 1/1/2018, you may be eligible to accelerate depreciation and get an immediate tax benefit. Contact us if you think this might apply to you.

WHAT ELSE DO I NEED TO DO?

This is the single biggest business shock in any of our lives. The #1 objective for every business is to survive, so that better days can come again. There are going to be a lot of businesses that don't come through this. But there's also enormous opportunity, both now and when things get back to something resembling normal. If you can persevere when your competitors don't, that gives you the chance to expand your customer base and make up for lost time in the future.

So, hang on. Do whatever you need to do in order to stay in the game.

And get help. Use your team. **I'd be happy to work with each of you on a cash plan for the next three months, to help you get loans, and to implement tax benefits.**

We're going to be releasing a lot more information about how to get your business through this, over the coming weeks and months. Keep an eye open.

As always, reach out if you need me.

Evan

