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## COVID-19 Resource Center

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## CARES ACT NEW LOAN INCENTIVE PROGRAMS AVAILABLE TO BUSINESSES

Due to the unfortunate Coronavirus pandemic, bi-partisan Congressional efforts have been in full force to support and encourage economic relief for individuals and businesses hard hit during this ongoing crisis. There have been a number of benefits passed via the Phase 1, [Coronavirus Preparedness and Response Supplemental Appropriations Act](#) and the Phase 2, [Families First Coronavirus Response Act](#).

However, the most significant benefits package to date, the Phase 3 Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed by Congress and signed into law by the President on March 27, 2020. The Act delivers over \$2 trillion in economic stimulus aimed at providing relief for individuals and businesses, as well as specific industries most seriously harmed by this pandemic.

There are several beneficial provisions available in the CARES Act, but we specifically wanted to inform you of two key provisions surrounding **loan programs available for small businesses**.

While both programs are administered by the [Small Business Administration \(SBA\)](#), there are important eligibility, loan amount and debt forgiveness features and differences between the two that applicants must consider.

**WITHIN THIS ARTICLE WE WILL COMPARE THE DETAILS OF BOTH THE PAYCHECK PROTECTION PROGRAM AND THE ECONOMIC INJURY DISASTER LOANS.**

# PAYCHECK PROTECTION PROGRAM

Section 1102 of the CARES Act offers a \$349 billion program to aid small businesses via federally guaranteed loans. Provided certain criterion are met, a portion of these loans **are eligible for forgiveness** such that qualifying small businesses would have access to cash without future repayment requirements or federal cancellation of indebtedness income recognition.

## SPECIFIC ITEMS TO KEEP IN MIND INCLUDE:

- Eligibility is predicated solely on the number of full-time, part-time or other employees in both for-profit and non-profit small businesses.
  - Generally, the employee limit is 500, but there are exceptions for the accommodation and food service industry, affiliated groups and certain businesses in SBA-designated industries.
  - Sole proprietorships, self-employed individuals and independent contractors are eligible as well.
  - Ability to repay the loan is not an eligibility requirement.
- Program runs retroactively from February 15, 2020 - June 30, 2020.
- Maximum amount of the loan is the lesser of:
  - 2.5 times the average total monthly Payroll Costs incurred during the 1-year period before the date the loan is made; plus
  - Refinance-eligible loans that were made from January 31, 2020 through the date the Paycheck Program Protection Loan is received; **or**
  - \$10,000,000.
    - Note that special rules exist for businesses that were not in existence from February 15, 2019 – June 30, 2019.
- Payroll Costs up to \$100,000 in annual compensation (pro-rated from February 15, 2020 - June 30, 2020) include:
  - Salary, wages, commissions or similar compensation, including cash tips;
  - Vacation, parental leave, family leave, medical or sick leave;
  - Severance payments;
  - Group healthcare payments;
  - Retirement benefits; and
  - State or local tax assessed on the compensation of employees.

- Loan proceeds can be used for:
  - Payroll Costs;
  - Group healthcare benefits, including health insurance premiums, sick leave, medical leave and/or family leave;
  - Mortgage or other interest on debts incurred prior to February 15, 2020; and
  - Rent and utilities.
- The SBA plans to grant banking institutions with the authority to work directly with the businesses on application submission.

### ***Loan Forgiveness***

While there are several nuances that still need to be worked out, an area of great interest surrounds the debt forgiveness aspect. In particular, loan proceeds used for the expenditures listed above for an 8-week period beginning on the date the loan is received are eligible for 100% forgiveness. Amounts eligible for forgiveness will be proportionately reduced to the extent there is a year-over-year reduction in retained workers, although qualifying small businesses will be allowed to rehire previously terminated personnel without penalty.

To the extent loan proceeds are used outside this 8-week period and/or are used for ineligible expenditures, the interest rate is capped at 4% and the loan maturity period is up to 10 years. Additionally, there would be no borrower and/or lender fees and collateral and/or personal guarantees would not be necessary. Lastly, the loan payments can be deferred for 6 – 12 months.

## **ECONOMIC INJURY DISASTER LOANS**

While the SBA already had a program in place in the event of economic disaster and injury, Section 1110 of the CARES Act expands eligibility requirements for impacted small businesses while easing some of the documentation and collateral requirements.

Key criterion for applicants to consider under the Economic Injury Disaster Loan (EIDL) program are

listed below. However, the most significant difference to applicants likely surrounds the debt forgiveness component, as loans under this program, other than potential \$10,000 advances, **are not eligible for forgiveness**.

- EIDL eligibility has been expanded to include small for-profit and non-profit businesses, as well as cooperatives and ESOPs, with 500 or fewer employees.
  - Certain SBA-designated business industries may also be eligible despite headcount in excess of 500 employees
- Eligible applicants include businesses directly and indirectly impacted by the pandemic, as well as businesses that provide services and/or products to impacted businesses.
  - The SBA qualifying criteria and information requests, in comparison to the Paycheck Protection Program, can be more stringent, as repayment capabilities are factored into the SBA acceptance process.
- Expanded program runs retroactively from January 31, 2020 – December 31, 2020.
- Loan proceeds may be used for:
  - Payroll and certain types of sick/medical leaves;
  - Mortgage or rent payments;
  - Debts that could not be repaid due to decreased or lost revenue; and
  - Other expenses needed to operate the business
- The maximum loan amount is \$2,000,000 and interest rates range from 2.75% for non-profit entities to 3.75% for all other entities.
- The loan term can be up to 30 years.
- Whereas the SBA has empowered banking institutions to work directly with applicants as part of the Paycheck Protection Program, EIDL applicants are required to apply on the SBA website.
- Collateral requirements exist for loans in excess of \$25,000, although applicants will not necessarily be rejected strictly for lack of collateral.
- Applicants must apply via the SBA website.

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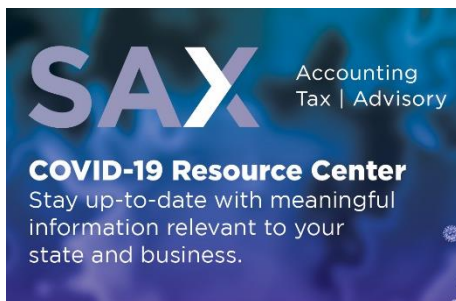
THE FOLLOWING IS A CHART COMPARING THE TWO LOAN PROGRAMS THAT HAVE BEEN INTRODUCED (OR MODIFIED) BY THE CARES ACT:

Paycheck Protection Program		Economic Injury Disaster Loans
Eligible for Forgiveness	YES, if certain conditions are met (1)	NO
<b>Eligibility</b>		
Number of Employees	500 or less employees (2)	500 or less employees (2)
Ability to Repay Loan Requirement	NO	YES
<b>Program Runs</b>		
	Retroactively from 2/15/2020 to 6/30/2020	Retroactively from 1/31/2020 to 12/31/2020
<b>Maximum Amount of Loan</b>		
	The <b>Lesser</b> of 2.5 x's the average monthly payroll costs during the 1 yr. period before the date the loan was made plus refinance loans made from 1/31/20 to loan date or \$10,000,000. (3), (4)	The maximum loan amount is \$2,000,000
<b>Interest Rate</b>		
	Capped at 4% if conditions not met for forgiveness	From 2.75% for non-profit entities to 3.75% for all other entities.
<b>Term</b>		
	Up to 10 years	Up to 30 years
<b>Collateral Requirement</b>		
	None (5)	Yes, for loans >\$25,000 (6)
<b>Loan Proceeds Must Be Used For</b>		
	Payroll Costs, group health care benefits, including health insurance premiums, sick leave, medical leave and/or family leave; mortgage or other interest on debts incurred prior to February 15, 2020; and rent and utilities. (1)	Payroll and certain types of sick/medical leaves; mortgage or rent payments; debts that could not be repaid due to decreased or lost revenue; and Other expenses needed to operate the business
<b>Deferral of Loan Payments</b>		
	YES (7)	NO
<b>Application Process</b>		
	Through authorized banking institutions	Through SBA website
<b>NOTES</b>		
(1) Loan proceeds used for the eligible expenditures listed above for an 8-week period beginning on the date the loan is received are eligible for 100% forgiveness. Amounts eligible for forgiveness will be proportionately reduced to the extent there is a year-over-year reduction in retained workers, although qualifying small businesses will be allowed to rehire previously terminated personnel without penalty.		
(2) Eligibility under <b>Paycheck Protection Program</b> have exceptions for accommodation and food service industry, affiliated groups and certain businesses in SBA-designated industries. Eligibility under <b>Economic Injury Disaster Loans</b> certain SBA-designated business industries may also be eligible despite headcount in excess of 500 employees.		
(3) Payroll Costs up to \$100,000 in annual compensation (pro-rated from February 15, 2020 - June 30, 2020) include: Salary, wages, commissions or similar compensation, including cash tips; Vacation, parental leave, family leave medical or sick leave; Severance payments; Group health care payments; Retirement benefits; and State or local tax assessed on the compensation of employees		
(4) Special rules exist for businesses that were not in existence from February 15, 2019 – June 30, 2019.		
(5) There would be no borrower and/or lender fees and collateral and/or personal guarantees would not be necessary.		
(6) Although applicants will not necessarily be rejected strictly for lack of collateral.		
(7) Potentially for 6 to 12 months payments can be deferred		

## HOW CAN SAX HELP?

While times are now more uncertain than ever, our role and overall goal to be your #1 advisor in this time of need is of the utmost importance to us individually and as a firm. From facilitating the application process to selecting the right banking institution, as well as assistance surrounding cash flow, documentation and other eligibility requirements, we have the knowledge and resources to guide you through this process. The Paycheck Protection Program and the EIDL Program have a number of similarities and differences, but the overall goal is to provide you with the funds to continue operating until this crisis subsides.

Sax will continue to keep you posted as important updates emerge. Please feel free to reach out to your Sax advisor with questions or for more information.



**Sax will keep you informed as important updates emerge. Reach out to your Sax advisor with questions or visit [Sax's COVID-19 Resource Center](#) for more information.**