

The logo consists of the letters 'SAX' in a bold, sans-serif font. The 'S' is a light blue color, while the 'A' and 'X' are a slightly darker blue. The 'X' is formed by two overlapping diagonal bars, with the top-right bar being a darker shade than the bottom-left bar.

SAX

Direction that
moves you forward

This slide deck contains information on the COVID-19 related Loan Options & Forgiveness Strategies and is the most up-to-date as of **April 30, 2020**.

Changes are constant and additional guidance is on-going. We will keep you posted on changes through our weekly webinar updates and COVID-19 resource center. You can also reach out to your Sax advisor for the most recent information.

Please visit our Resource Center at www.saxllp.com for on-going updates, or email covid19@saxllp.com with questions.



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COVID-19 Resource Center

On your road to recovery, lean on Sax for up-to-date information relevant to your state and business.

Preparing for Recovery **Loan Options &** **Forgiveness Strategies**

April 30, 2020

Our firm provides the information in this webinar presentation for general guidance only, and does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind.

The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers.

Before making any decision or taking any action, you should consult a professional adviser who has been provided with all pertinent facts relevant to your particular situation.

Today's Agenda

- Introduction
- Updates
- Loan Forgiveness

Introduction



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Updates

Updates

Governmental Action

- Additional \$370B in funding for small businesses
 - \$310B for PPP
 - \$60B specifically set aside for smaller institutions & lenders
 - \$60B for EIDL
 - \$10B specifically set aside for \$10K Advance Program
- Banks began accepting applications on April 27, 2020
- Certification Clarification
 - SBA FAQ #31 (discussed later)

Updates

Governmental Action (cont'd)

- Other Clarifications & Eligibility Requirements
 - Hedge Funds / Private Equity Firms
 - Portfolio Companies
 - Seasonal employers
 - Full-time employees vs. Full-time equivalents
 - Loan Eligibility vs. Loan Forgiveness

- Existing certification per CARES Act (in part)
 - The uncertainty of the current economic conditions makes necessary the loan request to support the ongoing operations
- Further clarified by SBA FAQ #31
 - Borrowers must make above certification in good faith, taking into account
 - their current business activity; and
 - their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business.
 - Example in FAQ surrounds public enterprises, but all applicants must consider the implications
 - SBA issued additional guidance on April 28, 2020
 - Businesses owned by private companies must consider these stipulations

Updates

SBA FAQ #31 (cont'd)

- Treasury Secretary Mnuchin indicated on April 28, 2020 that loans of at least \$2M will be reviewed by the SBA
- Lenders may rely on borrower's certification
- Any borrower that applied for a PPP loan prior to April 23, 2020 and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith.

Updates

SBA FAQ #31 (cont'd)

- Each borrower should consider the impact of this newly issued clause and document the reason(s) to support PPP eligibility. Examples include, but are not limited to:
 - Do you have access to capital outside the PPP (*i.e.*, line of credit, significant cash reserves, other capital resources)?
 - Is your business open? If yes, are you operating with a reduced staff?
 - Did you have a decline in current sales and/or a cancellation of future orders?
 - Have your receivable collections decreased and/or have your customers requested more favorable payment terms?
 - Any supply chain issues (*i.e.*, diminished access to product or materials, inability to deliver product, reduced access to labor market)?
 - Are your customers/vendors applying for PPP funding?

Updates

SBA FAQ #31 (cont'd)

- We encourage all businesses who have applied or plan to apply for the PPP loan to document their rationale as to why the loan is necessary to support ongoing operations.
- Preparation of a 30/60/90 day cash flow analysis taking into account loss of income, slowdown of receivable collections, lack of currently available credit facilities, potential employee layoffs or furloughs, debt repayments, projected expenses and other cash disbursement commitments would be one example to demonstrate that the PPP loan is needed to be able to support ongoing operations.

Loan Forgiveness

PPP Loan Forgiveness

Recap

- Caveat : SBA still needs to come out with additional guidance
- **Step 1:** Start with Eligible costs that are forgivable spent in the 8 week period:
 - Payroll costs (must be at least 75% of forgivable loan amount)
 - Certain non-payrolls costs (capped at 25% of forgivable loan amount)
 - Interest on mortgage obligations
 - Rent
 - Utilities
- **Step 2:** Apply formula that considers workforce reduction **(A)/(B)**
 - (A) Avg # of FTE employees during 8 week period beginning with the date of the loan origination
 - (B) Avg # of FTE employees from 2/15/19 – 6/30/19 or 1/1/20 – 2/29/20

PPP Loan Forgiveness

Recap (cont'd)

- Caveat : SBA still needs to come out with additional guidance
- **Step 3:** Decrease amount by certain employees whose wages were reduced during the 8 week period by an excess of 25% compared with the most recent full quarter during which the employee was employed prior to commencement of the period.
 - Keep in mind \$100K limit
- **Step 4:** For the period from February 15, 2020 – April 26, 2020 where there was a decrease in number of FTE employees or wages, you restore the FTE employee count or wages by June 30, 2020 to pre February 15, 2020 status.

PPP Loan Forgiveness

Open Questions

- The following questions still are unclear and need further guidance from the SBA:
 1. Are the costs for the 8-week period to be determined on a cash basis or an accrual basis?
 2. At least 75% of the loan proceeds shall be used for Payroll Costs. What happens if I spend less?
 3. Should full year bonuses and/or year end profit-sharing contributions be included in the forgiveness calculation?
 4. Does rent cover only costs for facilities or do equipment rentals count as rent for forgiveness purposes?
 5. How is full-time equivalent calculated?
 6. How are non-COVID-19 reductions in workforce and/or salary treated for purposes of the loan forgiveness reduction?
 7. Will the formula for salary reduction be pro-rata adjusted?
 8. Do the exceptions for headcount and/or salary reduction allow for a replacement of the terminated worker?

PPP Loan Forgiveness

Open Questions (cont'd)

- The following questions still are unclear and need further guidance from the SBA:
 9. What types of transportation costs qualify as utility costs?
 10. For employees re-hired by June 30th, is there a time period for which they need to be employed in order to count towards headcount/salary restoration?
 11. Will the expenses associated with the forgiven funds give rise to a tax deduction?
 12. Will the forgiven funds be tax-exempt for state tax purposes?



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- **For additional questions:** Email Covid19@saxllp.com
- Visit **Sax's COVID-19 Resource Center** found on Saxllp.com to register and for on-going information and resources.

Upcoming Webinars

- *Thursday, May 7 @ 10AM - Preparing for Forgiveness – Updates on Loan Options & Forgiveness Strategies*

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