



COVID-19 Relief – Federal Lending Programs

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We will email the slides to all participants after the Presentation. Other presentation materials can be downloaded from the webinar.

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AGENDA

COVID RESOURCES

Update on status of PPP, EIDL and Main Street Lending

PPP – Overview

You're Funded, now what? Best Practices & Tracking Eligible Expenses

PPP – Forgiveness (final guidance expected 5/15)

Main Street Lending Program – Overview and information

Employee Retention Credit – PPP alternative?

Q & A



SUMMARY UPDATE

- EIDL applications are only being accepted for agricultural businesses but the SBA is still processing initial / 1st round applications
- PPP - \$90 to \$120 billion remaining
- Final guidance on forgiveness still not released; expected 5/15 – many unanswered questions
- **PPP safe harbor date to return loan is May 14th ; appears to be required to participate in Employee Retention Credit**
- Borrowers MAY participate in both the Main Street Lending Program & the PPP
- We will finalize and provide a forgiveness workbook to assist with preparing forgiveness applications for lenders.

CARES ACT ASSISTANCE

Available to Small Businesses

PPP	EIDL	Payroll Tax Deferment	Employee Retention Tax Credit	Main Street Lending
<p>Available Aid \$349B \$310B</p>	<p>Available Aid \$50B in loans; \$10B in grants</p>	<p>Size Up to \$5,000 per employee</p>	<p>Deferred Employer portion of payroll taxes</p>	<p>Timeline Expected May 1</p>
<p>Available To Sole Proprietors, ICs, Companies with <500 employees</p>	<p>Available To Sole Proprietors, ICs, Companies with <500 employees</p>	<p>Business Size Rules differ for companies above and below 100 employees</p>	<p>Repayment Half by end of 2021, half by end of 2022</p>	<p>Supporting Federal Reserve</p>
<p>Loan Specifics 2.5 months payroll; can become grants</p>	<p>Loan Specifics Up to \$10K in grants, low interest loans</p>	<p>Eligibility Cannot accept PPP loan; Must be fully or partially closed OR have 50% drop in quarterly gross receipts</p>	<p>Eligibility Cannot accept PPP loan forgiveness</p>	<p>Loan Specifics TBD</p>
<p>How to Apply Private lenders</p>	<p>How to Apply SBA</p>			<p>Restrictions Dividends, Buybacks, Compensation</p>
				<p>How to Apply SBA</p>

Source: U.S. Chamber of Commerce

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WHY CONSIDER EE RETENTION CREDIT?

EMPLOYEE RETENTION CREDIT

- Up to \$5,000 per employee (50% of qualifying wages up to \$10,000)
- Refundable Tax Credit
- Less uncertainty – IRS issued comprehensive FAQ (telework leaves some unanswered questions)
- Self-employed individuals are not eligible
- Businesses deemed essential are not eligible

PAYCHECK PROTECTION PROGRAM

- Main advantage of PPP was forgiveness
- Uncertainty regarding rules
- May result in unwanted loan that was used to pay people to stay home prior to reopen
- Will not support operations through reopen at limited capacity
- Guidelines have reduced flexibility in decision making



Overview - Paycheck Protection Program

- **Loan amount = 2.5 X average monthly payroll costs**
 - **Salaries, wages, employer portion of retirement benefits and health insurance (but not for owner's), net self employment income, and others**
- **Funds spent over 8 weeks following disbursement**
- **Forgiveness available if certain criteria are met within the eligible timeframe:**
 - **75% of funds used for payroll costs**
 - **Restoration of headcount**
 - **Restoration of compensation levels**
- **Portion of a PPP loan that isn't forgiven must be repaid over two years – after a six-month deferral period – at an interest rate of 1%.**



PPP - You're Funded, Now What?

- CAUTION: Follow the spending rules to avoid fines, consider setting up separate account or accounting class to track spending
- Get your people back on payroll.
- Forgiveness – What expenses are eligible? counted? latest updates & What needs to change

BEST PRACTICES

PPP LOAN PROCEEDS

SEPARATE BANK ACCOUNT

SEGREGATING EXPENSE IN GENERAL LEDGER

- QUICKBOOKS - CLASSES
- SEPARATE ACCOUNTS
 - PPP PAYROLL COSTS
 - PPP OTHER COSTS
- SEPARATE DEPARTMENT

PAYROLL COSTS

- COMPENSATION
- STATE & LOCAL EMPLOYER TAXES (SUTA)
- HEALTH INSURANCE
- RETIREMENT EXPENSE

OTHER COSTS

- RENT
- UTILITIES
- INTEREST

SUPPORTING DOCUMENTS

SAMPLE JOURNAL ENTRY

Example of Payroll Journal Entry for PPP			
Account	Debit	Credit	Class
7905: Officer Compensation	17,153.84		
7905: Officer Compensation	3,846.16		SBA - PPP
6310: Wages - Professional	322.16		SBA - PPP
6340: Commissions	2,118.76		SBA - PPP
6530: Wages - Admin	783.19		SBA - PPP
6610: Payroll Taxes - FICA	551.13		
6620: Payroll Taxes - SUTA	78.89		SBA - PPP
6630: Payroll Taxes - FUTA	1.07		
1015: Checking		13,289.98	
1015: Checking		9,128.28	
2350: Misc PR Deduction		1,000.00	
2210: 401K Payable		2,155.41	
6700: 401K Company Match	718.47		SBA - PPP
	25,573.67	25,573.67	

PPP Payroll Expenses:

Gross Wages up to \$15,384.62 per Employee for 8 weeks

Employer SUTA expense

401K Company Match

Health Insurance paid by Employer

Non Payroll Costs:

Rent, Utilities, interest on mortgage
debt incurred before 2/15/20

FORGIVENESS RULES

- [PPP Forgiveness Template .xlsx](#)
1. 75% of funds must be used for payroll (25% of other expenses are limited to the forgivable portion of the loan)
 2. FTE Restoration
 1. Select base period by choosing the lower FTE count of the following:
 1. 2/15/19 through 6/30/2019 OR 1/1/20 through 2/29/20.
 2. Your 8 week covered period (see tab 2 on excel template) average headcount must meet or exceed the FTE headcount from that period. However, you have until 6/30 to restore any employees let go / furloughed from 2/15/20 through 4/26/20. We advise you to plan to restore by week 8 of the covered period.
 3. Salary Restoration
 1. Loan forgiveness is reduced by the amount of reduction in any employee salary in excess of 25% of the total salary or wages of the most recent full quarter that the employee worked (will be 4Q19 or 1Q20 for most).
 1. Exclude any employee who received an annualized rate of \$100K for ANY PAY PERIOD in 2019.

WEEKLY SPENDING											
REHIRE EXEMPT THROUGH 6/30 HEADCOUNT		14	14	14	14	14	14	14	14		
AVERAGE HEADCOUNT		1	0	0	0	0	0	0	0	0	
Week Ending		4/27/2020	5/4/2020	5/11/2020	5/18/2020	5/25/2020	6/1/2020	6/8/2020	6/15/2020		
EMPLOYEE LAST NAME	EMPLOYEE FIRST NAME	WEEK #1	WEEK #2	WEEK #3	WEEK #4	WEEK #5	WEEK #6	WEEK #7	WEEK #8	8 WEEK TOTAL	ADJUSTED 8 WEEK TOTAL
Last Name 7	First Name 7	-	-	-	-	-	-	-	-	-	-
Last Name 8	First Name 8	-	-	-	-	-	-	-	-	-	-
Last Name 9	First Name 9	-	-	-	-	-	-	-	-	-	-
Last Name 10	First Name 10	-	-	-	-	-	-	-	-	-	-
TOTAL EMPLOYEE WAGES	SUB-TOTAL	1,000.00	-	-	-	-	-	-	-	1,000.00	1,000.00
STATE & LOCAL TAXES		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	800.00	800.00
401K ER MATCH		300.00	300.00	300.00	300.00	300.00	300.00	300.00	1,000.00	3,100.00	3,100.00
HEALTH INSURANCE (EXCLUDING OWNERS)		8,000.00				8,000.00				16,000.00	16,000.00
LESS: Owner's Portion		(2,500.00)				(2,500.00)					
LESS: EMPLOYEE PORTION		(500.00)				(500.00)				(1,000.00)	(1,000.00)
NET HEALTH INSURANCE		5,000.00	-	-	-	5,000.00	-	-	-	15,000.00	15,000.00
TOTAL PERSONNEL EXPENSES		6,400.00	400.00	400.00	400.00	5,400.00	400.00	400.00	1,100.00	19,900.00	19,900.00
UTILITIES											
ELECTRIC		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	800.00	800.00
TELEPHONE		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	800.00	800.00
CELL PHONE		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	800.00	800.00
WATER		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	800.00	800.00
TRANSPORTATION (ELIGIBILITY IN QUESTION)		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	800.00	800.00
TOTAL UTILITIES		500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	4,000.00	4,000.00
RENT / INTEREST ON COVERED MORTGAGE		10,000.00				10,000.00				20,000.00	20,000.00
TOTAL UTILITIES & RENT		10,500.00	500.00	500.00	500.00	10,500.00	500.00	500.00	500.00	24,000.00	24,000.00



MAJOR FORGIVENESS ISSUES

1. Define full-time equivalent
2. Incurred vs paid
3. Salary reduction over 25%; 8 week period to 12/13 week quarter



EXPENSES ELIGIBLE FOR FORGIVENESS

- Payroll costs;
- Any payment of interest on any mortgage obligation (not including any prepayment of or payment of principal on a mortgage obligation) that was incurred before February 15, 2020,
- Any payment of rent under a leasing agreement in force before February 15, 2020,
- Any utility payment, including payment for the distribution of electricity, gas, water, **transportation**, telephone, or internet access for which service began before February 15, 2020.



MAJOR FORGIVENESS ISSUES

1. Define full-time equivalent
2. Incurred vs paid
3. Salary reduction over 25%; 8 week period to 12/13 week quarter



Overview Main Street Lending Program (MSLP)

- A Federal Reserve bank will lend to a single common special purpose vehicle (SPV); Treasury will use allocated CAREs Act funds to make a \$75 billion equity investment in the SPV. The SPV will purchase a percentage of the participation – Lenders would retain 5% - 15% of the loan.
- 600 billion in funds available. Program runs through 9/30/2020.
- Eligible lenders include U.S. insured depository institutions, U.S. bank holding companies, and U.S. savings and loan holding companies
- Main Street loans are not eligible for forgiveness, but offer one year deferments for principal and interest payments
- Applications not accepte



Main Street Lending Program (MSLP) – Eligible Borrowers

- Eligible Borrower must meet the following criteria:
- May NOT have more than 15,000 employees, OR more than \$5 billion in 2019 annual revenues;
- Must be created or organized in the United States or under the laws of the United States with significant operations in and a majority of its employees based in the United States; AND
- Must not have received specific support pursuant to the CARES Act (Subtitle A of Title IV for air carriers, air cargo, and businesses critical to national security)
- The President, Vice President, an executive department head, Member of Congress or close relative cannot own over 20% of the outstanding voting stock of the Eligible Borrower.

The Main Street Lending Program offers three different secured or unsecured 4-year term loan options set at an adjustable rate of LIBOR (1 or 3 month) plus 300 basis points with principal and interest payments deferred for one year for eligible borrowers. Unlike Paycheck Protection Program (PPP) loans, Main Street loans are full-recourse loans and are not forgivable.

All loans under the Main Street Lending Program must permit prepayment without penalty. All loans are made by private financial institutions but backed by the Federal Reserve.

MAIN STREET LENDING PROGRAM LOAN OPTIONS

	Main Street New Loans	Main Street Priority Loans	Main Street Expanded Loans
Term	4 years	4 years	4 years
Minimum Loan Size	\$500,000	\$500,000	\$10,000,000
Maximum Loan Size	Lesser of \$25M or 4x 2019 adjusted EBITDA	Lesser of \$25M or 6x 2019 adjusted EBITDA	Lesser of \$200M, 35% of outstanding and undrawn available debt, or 6x 2019 adjusted EBITDA
Risk Retention by Lender	5%	15%	5%
Payment (year one deferred for all)	Years 2-4: 33.33% each year	Years 2-4: 15%, 15%, 70%	Years 2-4: 15%, 15%, 70%
Rate	LIBOR + 3%	LIBOR + 3%	LIBOR + 3%
Lender Transaction Fee (May be paid by Borrower)	100 basis points of principal loan amount	100 basis points of principal loan amount	75 basis points of principal loan amount
Borrower Origination Fee	100 basis points of principal loan amount	100 basis points of principal loan amount	75 basis points of principal loan amount

EBITDA: Earnings before interest, tax, depreciation and amortization ([more information](#))

LIBOR: London Interbank Offer Rate, a common benchmark interest rate index ([more information](#))

SOURCE: US CHAMBER OF COMMERCE



MSLP – TERMS

- Maturity: 4 years
- Maximum loan 4X 2019 EBITDA for new facilities; 6X 2019 EBITDA for expanded & priority facility loans with additional limitations based on existing debt
- Amortization: Principal and interest deferred for 1 year.
- Interest rate: Adjustable rate of SOFR9 + 250-400 basis points.
- Prepayment: Permitted without penalty.



EBITDA DEFINED

The terms described by the Federal Reserve do not address whether a borrower's EBITDA will be determined on a basis consistent with existing credit facilities or whether the borrower would receive the benefit of non-GAAP add-backs to EBITDA in certifying as to the maximum loan amount requirement for eligible



MSLP Restrictions

Until 12 months after the loan is no longer outstanding, the borrower may not:

- participate in stock buybacks
- pay dividends or other capital distributions
- must comply with the limitations on compensation in Section 4004 of the CARES act which limits compensation to officers and employees (details on next slide)

Certain government and political officials and their respective families cannot participate in this program



CAREs Act - SEC. 4004. LIMITATION ON CERTAIN EMPLOYEE COMPENSATION

During the period beginning on the date on which the agreement is executed and ending on the date that is 1 year after the date on which the loan or loan guarantee is no longer outstanding—

1. No officer or employee of the eligible business whose total compensation exceeded \$425,000 in calendar year 2019 -
 1. total compensation which exceeds the total compensation received by the eligible business in calendar year 2019; or
 2. will receive severance pay or other benefits upon termination of employment which exceeds twice the maximum total compensation received by the officer or employee from the eligible business in calendar year 2019; and

2. No officer or employee of the eligible business whose total compensation exceeded \$3,000,000 in calendar year 2019 may receive during any 12 consecutive months of such period total compensation in excess of the sum of—
 1. \$3,000,000
 2. 50 percent of the excess over \$3,000,000 of the total compensation received by the officer or employee from the eligible business in calendar year 2019

TOTAL COMPENSATION DEFINED.—In this section, the term “total compensation” includes salary, bonuses, awards of stock, and other financial benefits provided by an eligible business to an officer or employee of the eligible business.



Additional Borrower CRITERIA

If a borrower has outstanding loans with the lender as of December 31, 2019, such loans must have an internal risk rating equivalent to “pass” in the Federal Financial Institutions Examination Council’s supervisory rating system on that date.

Additionally, lenders are expected to conduct an assessment of each potential borrower’s financial condition at the time of application.

In addition to other certifications required by statutes and regulations, the following certifications are required by eligible borrowers:

1. Borrowers must commit to refrain from repaying principal balance or interest on any debt until the Main Street loan is repaid in full, unless the debt or interest payment is mandatory and due
2. Borrowers must commit that it will not seek to cancel or reduce any of its committed lines of credit with the Main Street lender or any other lender
3. Borrower must certify that it has a reasonable basis to believe that, as of the date of origination of the Main Street loan, it has the ability to meet its financial obligations for at least the next 90 days and does not expect to file for bankruptcy during that time period
4. Borrowers must commit to following compensation, stock repurchase, and dividend restrictions as outlined in the CARES Act for the duration of the loan term plus 1 year Exception: S-corporations and other tax pass-through entities may continue to make distributions to the extent reasonably required to cover its owners’ tax obligations in respect of the entity’s earnings



EMPLOYEE RETENTION CREDIT – CARES ACT

- The CARES Act encourages eligible employers who are financially impacted as a result of COVID-19 stay at home and isolation orders to retain their employees. Employers are not **required** to pay employees under the CARES Act Retention Credit, but must do so in order to receive the benefit of the tax credits (“employee retention credits”).
- The credit available to eligible employers for employee retention is limited to an amount equal to 50 percent of “qualified wages” that the employers pay to their employees. Qualified wages are wages paid by an eligible employer to employees after March 12, 2020, and before January 1, 2021. Qualified wages include the eligible employer’s qualified health plan expenses that are properly allocable to the wages.
- Effective period for qualified wages is 3/12/2020 through 1/1/2021.



Am I eligible?

Qualifying employers must fall into one of two categories:

- The employer's business is fully or partially suspended by government order due to COVID-19 during the calendar quarter; **OR**
- The employer's gross receipts are below 50% of the comparable quarter in 2019. Once the employer's gross receipts go above 80% of a comparable quarter in 2019, the employer no longer qualifies after the end of that quarter.

These measures are calculated each calendar quarter. You can not participate in the Paycheck Protection Program and take advantage of the employee retention credit.

EXAMPLE OF EE RETENTION CREDIT

		Q1	Q2	Q3	Q4
2019 Receipts	\$	150,000.00	\$ 180,000.00	\$ 150,000.00	\$ 150,000.00
2020 Receipts	\$	73,000.00	\$ 117,000.00	\$ 109,500.00	\$ 127,500.00
			49%	65%	73%
		Less than 50%	<80%	<80%	85%
		<u>TOTAL</u>			
Qualifying Wages (max of \$10,000 per EE)	\$	143,200.00	\$ 18,250.00	\$ 38,325.00	\$ 57,375.00
EE Retention Credit	\$	71,600.00	\$ 9,125.00	\$ 14,625.00	\$ 19,162.50
			* all quarters eligible		
		Q1	Q2	Q3	Q4
2019 Receipts	\$	150,000.00	\$ 180,000.00	\$ 150,000.00	\$ 150,000.00
2020 Receipts	\$	73,000.00	\$ 117,000.00	\$ 124,500.00	\$ 127,500.00
			49%	65%	83%
		Less than 50%	<80%	<80%	85%
		<u>TOTAL</u>			
Qualifying Wages (max of \$10,000 per EE)	\$	202,500.00	\$ 37,500.00	\$ 52,500.00	\$ 67,500.00
EE Retention Credit	\$	67,500.00	\$ 18,750.00	\$ 22,500.00	\$ 26,250.00
					\$ -
			* Last eligible quarter is the 3rd when the 80% test is met		



What Wages Qualify?

- If an eligible employer averaged more than 100 full-time employees in 2019, qualified wages are the wages paid to an employee during a period the employee is not providing services due to either (1) a full or partial suspension of operations by order of a governmental authority due to COVID-19, or (2) a significant decline in gross receipts.
- If an eligible employer averaged 100 or fewer full-time employees in 2019, qualified wages are the wages paid to any employee during any period of economic hardship.
- As of May 7th, 2020 – health care expenses paid on behalf of furloughed employees may be treated as qualified wages (subject to the \$10,000 maximum per EE)



How Much is Covered?

- The maximum amount of qualified wages taken into account with respect to each employee, for all calendar quarters is \$10,000, so that the maximum amount of the employee retention credit for an eligible employer for qualified wages paid to each employee is \$5,000.
- **Eligible employers may not receive both the employee retention credit and a small business interruption loan under the paycheck protection program under the CARES Act.**
- **Employers are eligible to claim both credits under the FFCRA and CARES Act, but the amount of qualified wages for which an employer may claim the credit under the CARES Act does not include the amount of qualified sick and family leave wages for which the employer received tax credits under the FFCRA.**
- *Note:* One question requiring clarification from the IRS is whether an employer that moves to tele-working could take the position that they had experienced a partial shutdown for purposes of determining qualified wages if the employer did so prior to a government restriction on going to work.



PAYING FOR & CLAIMING THE COVID-19 TAX CREDITS

- Employers can be immediately reimbursed for the credit by reducing their required deposits of payroll taxes that have been withheld from employees' wages by the amount of the credit.
- Eligible employers will report their total qualified wages and the related health insurance costs for each quarter on their quarterly employment tax returns or Form 941 beginning with the second quarter. If the employer's employment tax deposits exceed the credit, the employer may receive an advance payment from the IRS by submitting [Form 7200](#).
- Employers eligible for advance payments of the three credits can find IRS Form 7200 (advance Payment of Employer Credits Due to COVID-19)



Example: Advance Payments of COVID-19 Tax Credits

- The instructions to Form 7200 contain the following example showing how an employer could reduce its employment tax deposits and claim an advance payment for the excess of the employer's credit over the amount of the retained tax deposits:
- An employer entitled to a \$10,000 credit under the CARES Act that is required to deposit \$8,000 in employment taxes could retain the entire \$8,000 of taxes as a portion of the tax credit it is entitled to and file a request for an advance payment for the remaining \$2,000 using Form 7200.



Q & A

Visit www.brinkersimpsoncares.com for the most up to date information and / or email questions to cares@brinkersimpson.com .