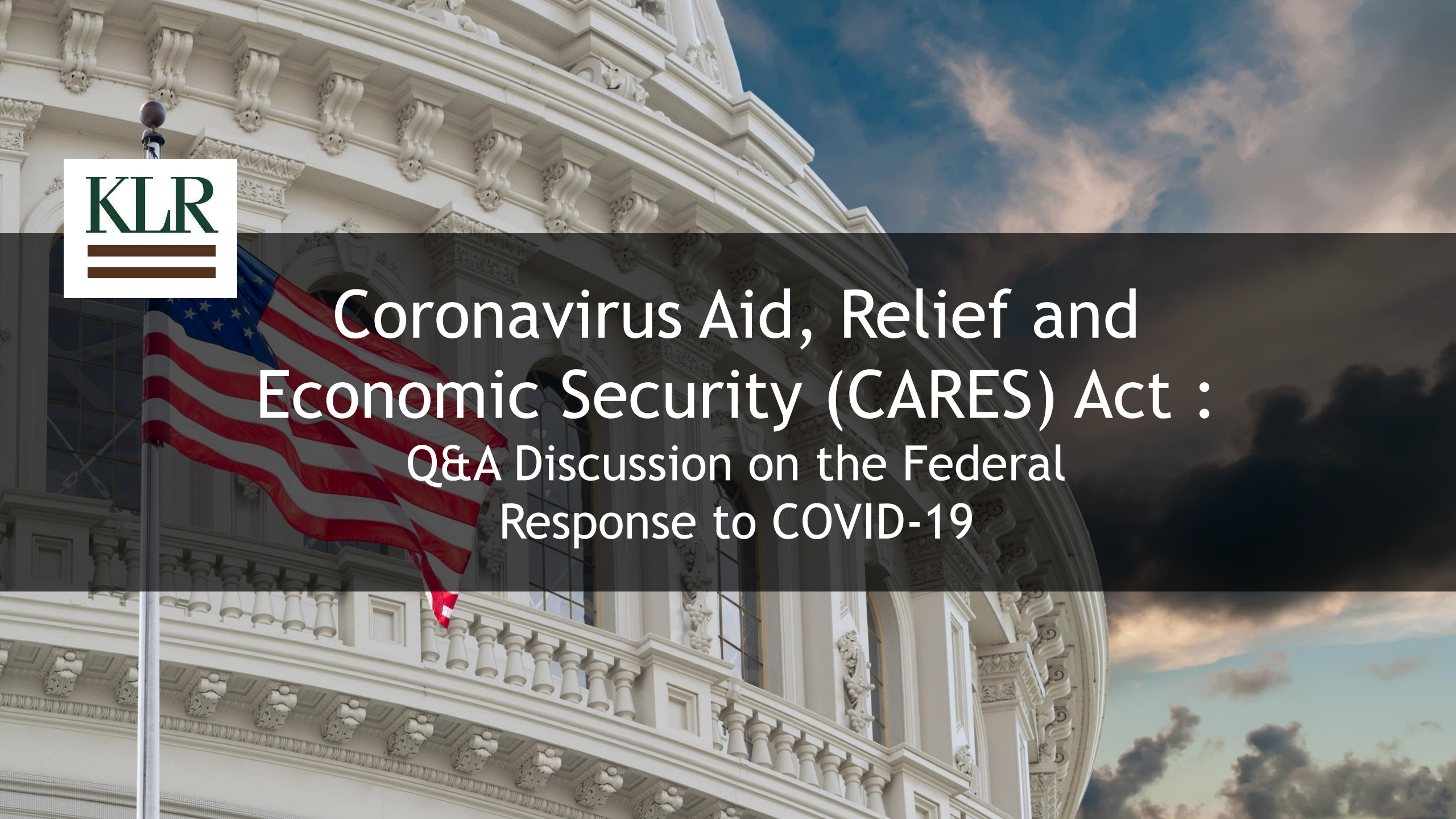


The KLR logo is located in the top left corner. It consists of the letters 'KLR' in a green, serif font, with two horizontal brown lines below them. The logo is set against a white square background.

KLR

The background of the slide is a photograph of the United States Capitol building. The image shows the ornate white marble architecture, including columns and a balcony with a balustrade. An American flag is visible on the left side, waving. The sky is blue with some clouds. A semi-transparent dark grey banner is overlaid across the middle of the image, containing the title text.

# Coronavirus Aid, Relief and Economic Security (CARES) Act :

Q&A Discussion on the Federal  
Response to COVID-19

## Presented by



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# Agenda

- Overview of the stimulus programs
  - SBA Loans Available
  - Payroll Tax Credit Programs
  - Unemployment Insurance for Employees
  - NOL Carrybacks
- What we are hearing - FAQs from our clients
- Q&A - webinar attendees





# Overview of Stimulus Programs





SBA Loans Available



SBA LOANS AVAILABLE

# Economic Injury Disaster Loans (EIDLs)

## What are they?

Loans for both for profit and non-profit entities located in recognized federal disaster areas.

## How Much Can I Borrow?

EIDLs allow for borrowings up to \$2MM. For many taxpayers, the actual amount will be much less, as the SBA is looking to provide enough financing to pay operating expenses such as payroll, rent, fixed loan payments and utilities for the next 3-6 months depending on the industry.





SBA LOANS AVAILABLE

# Economic Injury Disaster Loans (EIDLs)

## Terms and Collateral

For-profit entities interest rates are set at 3.75% and non-profit entities are set at 2.75% with repayment terms up to 30 years, with a four-month deferral of the first loan payment.

## How do I apply?

Apply at [SBA.gov](https://www.sba.gov) - We have a team at KLR that is assisting applicants in navigating the process if you need help.



SBA LOANS AVAILABLE

# Economic Injury Disaster Loans (EIDLs)

## Why should I apply?

Included in the CARES act is a provision that gives applicants the ability to receive up to a \$10,000 advance on an EIDL when they apply for the loan.

*Caution - If you take advantage of the EIDL grant and then receive a Payroll Protection Program loan, this \$10,000 will be subtracted from any forgiveness.*



# Express Bridge Loans

## What are they?

Express loans allow small businesses eligible for EIDL who currently have a business relationship with an SBA Express Lender to access up to \$25,000 with less paperwork.

These loans have a fast turnaround and will be repaid using proceeds from the EIDL loan. Any amounts not repaid from the EIDL loan will be converted to a seven year term loan with interest rates of up to prime + 6.5%.



SBA LOANS AVAILABLE



A close-up photograph of a person's hand holding a silver and black pen, writing on a white check. The check has the words "PAY TO THE ORDER OF" and "MEMO" visible. In the background, a pair of glasses with blue frames is resting on a wooden desk.

SBA LOANS AVAILABLE

# Paycheck Protection Program (PPP)

## What is it?

The Paycheck Protection Program (PPP) is a loan program designed to provide two months of payroll and assist with necessary operating expenses.

The key provision of this loan is that payroll and certain other costs incurred in the 8 week period after the loan are made will potentially be eligible for forgiveness. Such forgiveness will be tax free to the borrower.



A close-up photograph of a person's hand holding a silver and black pen, writing on a white check. The check has the words "PAY TO THE ORDER OF" and "MEMO" visible. In the background, a pair of glasses with blue frames is resting on a wooden surface.

SBA LOANS AVAILABLE

# Paycheck Protection Program

## Who is Eligible?

Generally speaking, for-profit, non-profit (501(c)(3) organizations) Tribal organizations and veterans organization that employ less than 500 individuals. Also, sole proprietors, independent contractors and other self employed individuals may be eligible to receive a loan.

There is an exception for those businesses operating in the Restaurant and Hotel Industry whereby the limit is 500 EE's per each physical location and the SBA affiliation rules for franchises are suspended.

*Need to consider SBA affiliation rules*

# Paycheck Protection Program

## How much can I borrow?

The maximum loan amount available is the lesser of:

- The 12 month average monthly payroll costs of the applicant incurred prior to the date the loan is disbursed to the applicant multiplied by 250% (2.5)
- \$10,000,000

**Note** - For seasonal employers or businesses not in existence as of 6/30/19 the maximum loan amount will be calculated differently



# Paycheck Protection Program

## **What are eligible payroll costs?**

Generally speaking, payroll costs include salary, wages, cash tips, state and local taxes assessed on payroll and employee benefits including employer paid health insurance and retirement benefits.

## **What are the exceptions?**

Salary and wages are capped at \$100K annual compensation per employee, any amounts paid in excess of that amount will not be included in the calculation. Also wages paid to foreign individuals or for qualified sick leave or family leave wages for which a credit is allowed under the Families First Coronavirus Response Act.

# Paycheck Protection Program

## What can I use the loan proceeds for?

Borrowers may use the loan for payroll costs, health insurance, payments of interest (not principal) on mortgage obligations, rent, and utilities. For mortgage, debt, rent and utilities the agreement had to be in effect prior to February 15, 2020.

## FAQ - What is rent?

The definition of rent is vague in the actual text of the CARES Act bill. We expect a clarification from the SBA that rent is limited to rent incurred on the leasing of the borrows premises, not rent paid for copiers, computers, trucks, etc.



# Paycheck Protection Program

*Fine Print before the Million dollar question*

- **Collateral** - This a nonrecourse loan unless it the loan proceeds are determined to have been used for unauthorized expenditures.
- **Guarantee** - No personal guarantees are required.
- **Interest Rate and Term** - Interest will be at .50% and repaid over a 2 year term.
- **Payment deferral** - First payment required will be deferred for 6 months upon loan conversion
- **Fees** - The SBA will not collect any fees for loans made under this program.



SBA LOANS AVAILABLE

# Paycheck Protection Program

*Million Dollar Question:*

**How much will be forgiven and is it taxable?**

The loan forgiveness amount is based upon the total costs for payroll, interest (mortgage only), rent, and utilities made during the 8 week period following the loan disbursement date.

Amounts forgiven will not be includable in taxable income.

The PPP is designed to provide payroll and necessary operating expenses for a two month period for small businesses. Assumed that not more than 25% of the forgiven amount may be for non-payroll costs.





SBA LOANS AVAILABLE

# Paycheck Protection Program

*\$2 Million Dollar Question:*

**How much of the loan forgiveness may be reduced?**

**Formula based:** reduction in the total number of average full-time equivalent employees (FTEs) and/or salary reductions of employees.

Remember, the goal of this program is to cover payroll costs. The government wants employers to keep their employees employed and off unemployment, so any reduction in employee count or costs that would have normally occurred if the COVID 19 crisis was not in effect will reduce the available forgiveness amount.

# Paycheck Protection Program

The reduction amount due to a decrease in FTEs is calculated as follows:

- The total eligible loan forgiveness amount multiplied by
- The average # of FTEs for the 8 week period divided by (at the borrowers election) either the
  - Average # of FTEs from 2-15-19 through 6-30-19
  - Average # of FTEs from 1-1-20 through 02-29-20
  - Average # of FTEs from 2-15-19 through 6-30-19 (Seasonal ERs only)

*Note - The credit cannot be increased in the scenario where additional workers were hired.*





SBA LOANS AVAILABLE

# Paycheck Protection Program

## Reduction for wages paid

The loan forgiveness amount will be further reduced for any reduction in total salary or wages for an employee who is in excess of 25% of the total salary and wages of the employee during the most recent quarter.

In other words, if you decrease an employee's payroll by more than 25%, each \$ above 25% will reduce the loan forgiveness amount.

Note - Reductions in excess of 25% for employees with annual salaries of \$100K or more are excluded (no proration or cap)

A close-up photograph of a person's hand holding a silver and black pen, writing on a white check. The check has the words "PAY TO THE ORDER OF" and "MEMO" visible. In the background, a pair of glasses is resting on a surface.

SBA LOANS AVAILABLE

# Paycheck Protection Program

**But I've already laid off my EE's or instituted drastic salary reductions, what can I do?**

Don't worry, the CARES Act included relief provisions for employers who have laid off employees and/or reduced wages as long as you rehire employees by June 30, 2020.

The CARES Act did not detail how such relief would work. The SBA has 30 days from the date of enactment to issue official guidance in regard to loan forgiveness and relief.

We expect guidance to be released sooner, rather than later given the number of applicants who will be applying.



A close-up photograph of a person's hand holding a silver and black pen, writing on a white check. The check has the words "PAY TO THE ORDER OF" and "MEMO" visible. In the background, a pair of glasses with blue frames is resting on a wooden desk.

SBA LOANS AVAILABLE

# Paycheck Protection Program

## How do I apply?

Unlike the EIDLs which are made directly through the SBA, the PPP loans are administered through the SBA's existing lender network of banks and credit unions.

Every small business who is considering a PPP loan should contact their loan officer.

The total appropriation for this loan program is \$350 billion dollars.

# Potential Payroll Protection Program Loan

Compensation per W-3 Box 5		\$ 5,000,000
Less: Employees in excess of \$100K		
Larry	(140,000)	
Moe	(140,000)	
Curly	(140,000)	
Total		(420,000)
# of EE's in Excess of \$100K	3	
Add back: EE's capped at \$100K		300,000
Eligible Benefits -		
401K matching contributions for 2019		250,000
Profit Sharing Contribution		500,000
Total eligible Health Insurance paid for 2019	750,000	
Less: EE paid amounts	(250,000)	500,000
		6,130,000
12 month average for 2019		510,833
Times 2.5		\$ 1,277,083



# Potential Loan Forgiveness Amount

During the 8 week period following the disbursement of the loan			
	2019	8-Week Estimate	
Total Payroll Costs		\$ 943,077	
Mortgage Interest	50,000	7,692	
Lease payments	48,000	7,385	
Utilities			
Electric	10,000	1,538	
Gas	4,000	615	
Water	3,500	538	
Telephone	2,500	385	
Internet	2,500	385	
Total Potential Amount to be Forgiven		\$ 961,615	
Note - For mortgage interest, lease payments and utility payments, to be eligible for "forgiveness" they need to have been in effect prior to February 15, 2020.			

# Reduction for the Forgiveness Amount - 2 Components

[illegible]



# Existing SBA Loans

The CARES Act also included a six-month waiver of payments for all existing SBA loans. This is not a deferral, the US. Government will be making the payments on these loans for the next six months starting with the next payment due after the bill is passed.

**Note** - Borrowers should plan on making payments until they get confirmation from the SBA/Bank that no payment is due.





## Payroll Tax Credit Programs Available





# Payroll Tax Deferral Credit

## MAJOR EXCEPTION

Does not apply to entities who have debt forgiven under the PPP. A business can get a PPP loan but *may not take both the forgiveness and the payroll tax deferral.*

## What is the Payroll Tax Deferral?

The payroll tax deferral allows employers and self-employed individuals to defer payment of the employer side 6.2% payroll tax from the date of enactment through January 1, 2021.

This is essentially an interest free loan with 50% of the taxes due on December 31, 2021 and the remainder due December 31, 2022

# Employee Retention Credit





# Employee Retention Credit

## MAJOR EXCEPTION

Does not apply to entities who have debt forgiven under the PPP. A business can get a PPP loan but *may not take both the forgiveness and the payroll tax deferral.*

## What is the Employee Retention Credit?

A refundable tax credit for 50% of wages paid by employers to employees limited to the first \$10,000 of compensation paid to each employee. It's limited to employer's whose operations were fully or partially suspended by a shut down order or whose gross revenues declined more than 50% when compared to the same quarter in the prior year.



# Employee Retention Credit

## What wages are eligible?

Only wages paid during the shut down period or where sales declined more than 50% vs. the same quarter in the prior year.

Wages paid in accordance with the family and medical leave as part of the Coronavirus Relief Act are ineligible.





# Employee Retention Credit

## **How do I receive the credit?**

The credit will be applied against payroll taxes due on the employer's payroll tax filings.

## **What if my credit is greater than my taxes due?**

In the case where the allowable credit is greater than the payroll taxes due for the quarter, that excess will be considered an overpayment and the excess amount "refunded" to the employer.





## Payroll Tax Credit for Sick and Family Leave





# Payroll Tax Credit for Sick and Family Leave

The CARES Act amended certain parts of Section 7000 of the Families First Coronavirus Act (FFCA).

These amendments essentially advance the credits for paid and sick family leave required under the FFCA.

The credit will now be advanced through quarterly payroll tax filings. To the extent the credit exceeds payroll taxes due for the quarter, the excess amount will be refundable to the employer.

# Unemployment Insurance for Employees





# Unemployment Insurance for Employees

All the programs discussed so far are designed for employers to keep their existing workforces employed. The reality is that the options discussed so far will not work for every business.

**What benefits are available to your former employees under the CARES Act?**



# Unemployment Insurance

The CARES Act provides assistance to workers in three ways:

- 1) A \$600 supplement to state paid unemployment compensation for workers who qualify for state benefits
- 2) For workers ineligible for state unemployment benefits, the normal state unemployment rate plus the \$600 supplement.
- 3) An extension of unemployment compensation by 13 weeks beyond the standard state eligibility period.





# Unemployment Insurance

## Important Note

The \$600 supplement will be in effect through July 31, 2020 and the 13 week extensions through December 31, 2020.





## NOL Carrybacks





# NOL Carrybacks

We just wanted to acknowledge that due to tax law changes within the CARES Act, taxpayers who have incurred losses in 2018 and 2019 may be eligible to carryback those losses up to five years and obtain refunds for taxes paid.

Although we are working to identify those clients that may benefit from these tax changes, please feel free to reach out to your KLR tax professional to see if you would benefit.



The image shows a low-angle, perspective view of the U.S. Capitol building. The top half of the image shows the ornate, curved upper part of the dome with a series of arched windows. The bottom half shows a row of tall, white, fluted columns supporting the structure, with warm light glowing from the windows behind them. A semi-transparent dark blue horizontal banner spans the middle of the image, containing the title text in white. On the right side, an American flag is visible, partially obscured by the banner and the building's structure.

# What We Are Hearing- FAQs From Our Clients





Which is better,  
the EIDL or the PPA?

Should I apply for both?



I am a real estate business,  
any relief for me?



I have household EEs. Do  
they qualify?





# Questions From You



Can a Non-Profit Org apply for the loan if it has received more funding during crisis, but the increased need for services exceeds funds raised?



Are 501(c)7 organizations eligible for the SBA loan forgiveness program?



Can a self employer apply for Unemployment benefits or submit a business interruption claim with their insurance?





Please address the specific issues for dentistry, which is closed per public health guidelines



Any thoughts on how payments to an employment agency for leased employees fit into the definition of compensation?



This is not the usual recession. Explain KLR's response to this unique event.



Will the payroll calculation used for the max loan amount be pro-forma (include acquisitions) for companies that did M&A in 2019



I'm an owner of a LLC can I receive comp fore loss of income or unemployment as I have not drawn a salary - only distributions



Will the act apply to business that is registered in the US but ultimately owned by overseas parent company?





There is talk that we can continue paying the high salaried staff up to \$510 per day and the IRS would apply credit is that true?



Wondering if landlords and property managers qualify for any funds



Small Business Definition -  
EEs of 500 limit -  
1. do furlough EE's count in #  
2. can they be termed retro to furlough date?



On the SBA loans, how will rent to a related entity be treated?



What qualifications/limitations are there on the SBA programs relating to a firm's existing and available bank lines of credit.



If I'm self employed and also considered a small biz do those provisions apply to me?



# We're Here.



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Coronavirus Resource Center  
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