

# DOING BUSINESS DURING UNCERTAIN TIMES

WEBINAR HOSTED BY ANDREW ZWERMAN, CPA, MST, Partner at Wagner & Zwerman LLP

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## Topics to discuss

1. SBA Loans Available:
  - A. Paycheck Protection Loan Program
  - B. Economic Injury Disaster Loan (EIDL)
  - C. Express Loans
  - D. Micro Loans
2. Individual Tax Issues relating to the C.A.R.E.S. Act
3. Business Tax Issues relating to the C.A.R.E.S. Act

# Paycheck protection loan program (PPP)

## OVERVIEW

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1. Borrowers will need to certify that they've been impacted by COVID-19 as well as meet SBA size standards to qualify.
2. The program intends on helping small businesses cover costs related to payroll (including healthcare and certain related expenses), mortgage interest, rent, leases, utilities and interest on existing debt.
3. There will be no personal guarantees, collateral, or fees associated with the loan.
4. Loan amount maximum is 2.5 times average monthly payroll and expenses (salaries up to \$100,000 per person, retirement benefits, health insurance or employees and state income taxes)
  - Owners / members of partnerships will be able to include their flow through income up to \$100,000.
5. There will be a payment deferral and loan forgiveness program.
6. Eligibility – any business that meets the applicable North American Industry Classification System (NAICS) Code-based size standard or other applicable 7(a) loan size standard, both alone and together with its affiliates; or (b) has an employee headcount that is lower than the greater of (i) 500 employees. Sole proprietorships, independent contractors, and self-employed individuals are also eligible. Employee count includes seasonal and foreign staff. Companies that have common ownership must be combined when applying the 500 employee limit.
7. It is critical to note that the PPP is open only to non-profit organizations tax-exempt under Section 501(c)(3) or veterans organization tax-exempt under Section 501(c)(19) of the US Internal Revenue Code. All other non-profit organizations are ineligible to participate.

# PRIMARY TERMS OF PPP LOANS

1. Interest rate of approximately 4%
2. 2 year maturity (originally 10 years)
3. Payments under PPP loans and all other 7(a) loans will be deferred for 6–12 months
4. No collateral or personal-guarantee requirements

# Payroll protection loan calculation

## 1. NON SEASONAL EMPLOYERS:

A. the year prior to the loan date - 2019 or last fiscal year

B. *For businesses not operational in 2019:*

i. 2.5 x Average total monthly payroll costs incurred for January and February 2020

## 2. SEASONAL EMPLOYERS

A. Maximum loan = 2.5 x Average total monthly payments for payroll costs for the 12-week period beginning February 15, 2019 or March 1, 2019 (decided by the loan recipient) and ending June 30, 2019.

# Excluded payroll costs

1. Compensation of an individual employee in excess of an annual salary of \$100,000
2. Federal payroll taxes, railroad retirement taxes, and income taxes.
3. Any compensation of an employee whose principal place of residence is outside of the United States.
4. Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act (Public Law 116– 5 127); or qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act.

# What You Can Do Now

1. Breakdown of monthly payroll from April 1, 2019 through May 31, 2020
2. Complete 2019 financials (profit/loss and balance sheet) on qualifying expenses such as:
  - A. Mortgage interest
  - B. Rent expenses
  - C. Utility expenses
  - D. Prepare an excel spreadsheet, see the loan calculation on the next slide
3. Example of application that you have to submit to your bank:  
<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf>

## EXAMPLE LOAN AMOUNT CALCULATION FOR PAYROLL PROTECTION LOAN PROGRAM

EMPLOYEE NAME	ANNUAL SALARY
HENRY	\$25,000
JANE	\$75,000
JOHN	\$100,000 (LIMIT)
BILL	\$50,000
DANA	\$50,000
Annual Payroll Full-time Employees	\$300,000
<b>+</b> SUBCONTRACTORS	\$0*
HEALTH INSURANCE	\$50,000
STATE PAYROLL TAXES	\$20,000
RETIREMENT PLAN	\$30,000
Total Annual Payroll	\$450,000
<b>%</b> 12 months	12 months
Average Monthly Payroll	\$37,500
	X 2.5
<b>TOTAL AMOUNT OF LOAN</b>	<b>\$93,750</b>

# HOW CAN PPP LOAN PROCEEDS BE USED and WHAT PORTION OF THE LOAN MAY BE FORGIVEN

1. **These are the expenses the proceeds of the loan can be used for. To qualify for LOAN FORGIVENESS you have to use the proceeds for qualifying expenses up to 8 weeks after the loan is given.**
  - A. Payroll costs, excluding the prorated portion of any compensation above \$100,000 per year for any person.
  - B. Group healthcare benefit costs and insurance premiums.
  - C. Mortgage interest (but not **prepayments or principal payments**) and rent payments on mortgages and leases in existence before February 15, 2020.
  - D. Certain utilities, including electricity, gas, water, transportation, and phone and Internet access for service that began before February 15, 2020.

# SBA ECONOMIC INJURY DISASTER LOANS (EIDL)

1. SBA Disaster Relief Loan – up to \$2,000,000

► <https://disasterloan.sba.gov/ela/Information/ApplyOnline>

2. SBA Express Loans – up to \$350,000

► <https://www.sbaexpress.loans/>

3. SBA Micro Loans – up to \$50,000

► <https://www.sbaexpress.loans/sba-express-glossary/sba-microloans>

**\*\*We highly recommend that all of our clients whose businesses are affected by COVID-19 apply for all available SBA loans as well as the Paycheck Protection Program Loan**

# EIDL OVERVIEW

1. These loans are used to assist with working capital needs, pay fixed debts, payroll, accounts payable, and other bills that could have been paid had the disaster not occurred.
2. Terms and Rates Available
  - A. Eligible entities may qualify for loans up to \$2 million
  - B. With terms up to 30 years
  - C. Interest rates are: 3.75% for small businesses, 2.75% for nonprofit organizations
3. Eligibility - Eligibility for these working capital loans are based on size and type of business (must be a small business) and the business' financial resources to repay the loan.
4. There is no cost to apply.
5. No obligation to take the loan if offered.
6. Applicants qualify for an EIDL for the Coronavirus (COVID-19) disaster even if they have an existing SBA Disaster Loan.
7. Check if your business is eligible by going to <https://www.sba.gov/funding-programs/disaster-assistance>

# ITEMS TO CONSIDER

1. Real estate will be required as collateral if available.
2. SBA may require personal guarantees of loans over \$200,000
3. Loans cannot be consolidated.
4. Economic Injury Disaster Loans over \$25,000 require collateral.
5. SBA will not decline a loan for lack of collateral, but requires borrowers to pledge what is available.
  - A. Credit History** - Applicants must have a credit history acceptable to SBA.
  - B. Repayment** - SBA must determine that the applicant business has the ability to repay the SBA loan.
  - C. Eligibility** - The applicant business must be physically located in a declared county and suffered working capital losses due to the declared disaster, not due to a downturn in the economy or other reasons.

# SBA DISASTER RELIEF LOAN

1. Who qualifies?
  - ▶ Small Business, Small agricultural cooperative, Most private nonprofit organizations
2. Max Amount - \$2 million
3. Interest Rate – 3.75% (2.75% for non-profits)
4. Term – up to 30 years
5. Maximum SBA Guaranty – 75%
6. Collateral - Lenders are not required to take collateral for loans up to \$25,000. For loans in excess of \$350,000, the SBA requires that the lender collateralize the loan to the maximum extent possible up to the loan amount. If business fixed assets do not “fully secure” the loan the lender may include trading assets (using 10% of current book value for the calculation), and must take available equity in the personal real estate (residential and investment) of the principals as collateral.
7. SBA Turnaround Time – 5 -10 business days
8. APPLY HERE <https://covid19relief.sba.gov/#/>

# SBA EXPRESS LOAN - accelerated turnaround time for SBA review

1. Max amount - \$350,000
2. Term – up to 10 years
3. Interest rate - Lenders and borrowers can negotiate the interest rate, but it may not exceed the SBA maximum of 7.25-9.25%
4. Maximum SBA guaranty – 50%
5. Collateral - Lenders are not required to take collateral for loans up to \$25,000. May use their existing collateral policy for loans over \$25,000 up to \$350,000
6. SBA Turnaround Time - Within 36 hours
7. Apply here: <https://www.sbaexpress.loans/loan-application-checklist>

# SBA MICRO LOANS

1. Max amount – up to \$50,000
2. Term – 6 years
3. Interest Rate – between 8 and 13 percent
4. Eligibility Requirements
  1. Each intermediary lender has its own lending and credit requirements. Generally, intermediaries require some type of collateral as well as the personal guarantee of the business owner.
5. Microloans can be used for:
  1. Working capital
  2. Inventory or supplies
  3. Furniture or fixtures
  4. Machinery or equipment
6. Participating Intermediary Microlenders:  
[https://www.sba.gov/sites/default/files/articles/microlenderrpt5\\_20170621.pdf](https://www.sba.gov/sites/default/files/articles/microlenderrpt5_20170621.pdf)
7. To Apply, contact your closest SBA office directly.

# Individual Tax Relief under the C.A.R.E.S. Act

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1. Under the plan, people making up to \$75,000 a year are expected to receive checks for \$1,200. Couples making up to \$150,000 would receive \$2,400, with an additional \$500 per child.
2. The payments would decrease for those making more than \$75,000, with an income cap of \$99,000 per individual or \$198,000 for couples.
2. Suspends payments on federal student loans through September 30, 2020.
3. Provides an additional \$600 per week payment to each recipient of unemployment insurance until July 31, 2020. Extends payments to 39 weeks.
4. Waives the 10% early withdrawal penalty for certain coronavirus-related distributions up to \$100,000 made during 2020 from an eligible retirement plan.
5. Required minimum distributions rules for certain retirement plans in 2020.
6. Allows for a 2020 tax deduction of \$300 for eligible charitable contributions, for taxpayers who do not itemize their deductions. For individuals that itemize, the 60-percent of adjusted gross income limitation is suspended for tax year 2020.
7. Defers until 2021 the excess loss limitations rules ( \$250,000 single / \$500,000 joint) to allow deductions of NOLs from 2018, 2019 and 2020 and carrybacks to five prior years.

# Business Tax Relief under the C.A.R.E.S. Act

1. Refundable payroll tax credit of 50% of the wages paid to an employee for any calendar quarter in which an eligible business is forced to fully or partially close due to a governmental directive related to the coronavirus.
2. Delay of Employer Payroll Tax Payments that allows employers and self-employed individuals to postpone payment of the employer share of Social Security taxes that they would otherwise be required to pay between the date of enactment and January 1, 2021. The deferral will be paid in two installments one at the end of 2021 and the other at the end of 2022. Deferral will not be able to employers that avail themselves of SBA (7) loans.
3. Permits corporate net operating losses (NOLs) from 2018, 2019, and 2020 to be carried back five years (under current law, no carryback for NOLs in these years is permitted).
4. Relaxation of Limits on Business Interest Deductions. Increases the amount of interest expense businesses are allowed to deduct, by increasing the 30% limitation to 50% of the taxable income for 2019 and 2020.
5. Accelerates the ability of corporations to recover alternative minimum tax (AMT) credits entirely into 2018. The 2017 tax reform act repealed the AMT, and allowed corporate taxpayers to recover certain AMT taxes paid prior to repeal as refundable credits against their regular tax liability, but only over four years starting in 2018.
6. A technical correction to the 2017 Tax Law that would treat qualified improvement property (QIP) as 15-year property under MACRS, and eligible for current law 100 percent bonus depreciation.

# CONCLUSION, QUESTIONS AND CONTACT INFO

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