

# CARES Act SBA 7(a) Loan Program

## Small Business Guide and Checklist



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## CARES Act SBA 7(a) Loan Program

- \$349 Billion to help small businesses keep their workers employed amid pandemic
- Known as Paycheck Protection Program (PPP)
- 100% federally guaranteed loan
- 100% forgivable if certain conditions are met
- Unforgiven portion is a 2-year loan, 1% interest



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## Who is eligible?

- A small business, 501(c)(3), or 501(c)(19) Veterans Organization with fewer than 500 employees or otherwise meets the SBA's size standard.
- An individual who operates as a sole proprietor, independent contractor or is self-employed who regularly carries on any trade of business.
- A tribal business concern that meets the SBA size standard.



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## Who is eligible?

### Eligibility rules that may apply:

- The 500 employee rule is applied on a per physical location basis if the borrower is in the accommodation and food service sector (NAICS 72).
- The normal affiliation rules do not apply if the borrower is operating as a franchise or receives financial assistance from an approved Small Business Investment Company.

**Note:** The 500 employee threshold includes all employees: full-time, part-time, and any other status.

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## The Lenders Perspective

Lenders evaluate your eligibility based on the consideration of whether the borrower was in operation before February 15, 2020 and had employees from whom they paid salaries and payroll taxes or paid independent contractors.



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## The Lenders Perspective

### Lenders will also ask you for a good faith certification that:

- The loan request is necessary to support the operations of your small business due to the uncertainty of current economic conditions.
- The borrower will use the loan proceeds to retain workers and maintain payroll or make mortgage, lease, and utility payments.
- Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for here.
- From Feb. 15, 2020 to Dec. 31, 2020, the borrower has not received a loan duplicative of the purpose and amounts applied for here (note: there is an opportunity to fold emergency loans made between Jan. 31, 2020 and the date this loan program becomes available into a new loan).

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## Lenders will not look for

- Ability to get credit elsewhere
- Personal guarantee
- Collateral



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## How much can I borrow?

- Loans can be up to 2.5 times the borrower's average monthly payroll costs incurred during the 1 year period before the date on which the loan is made.
- Loans cannot exceed \$10,000,000
- How do I calculate my average monthly payroll costs?



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## Included Payroll Cost

**For Employers:** The sum of payments of any compensation with respect to employees that is a:

- salary, wage, commission, or similar compensation;
- payment for cash tip or equivalent;
- payment for vacation, parental, family, medical, or sick leave;
- allowance for dismissal or separation;
- payment required for the provisions of group health care benefits, including insurance premiums;
- payment of any retirement benefit;
- payment of state or local tax assessed on the compensation of the employee.



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## Included Payroll Cost

**For Sole Proprietors, Independent Contractors, and Self-Employed Individuals:**

- The sum of payments of any compensation to, or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment, or similar compensation and that is in an amount that is not more than \$100,000 in one year, as pro-rated for the covered period.

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## Excluded Payroll Cost

- Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the period February 15, to June 30, 2020.
- Payroll taxes, railroad retirement taxes, and income taxes.
- Any compensation of an employee whose principal place of residence is outside of the United States.
- Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act; or qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act.



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## Example: Payroll Cost Calculation

Coronavirus Emergency Loans – Payroll Costs Breakdown Template

Employee Name	Employee Payroll Wages Prior 12 Month Period	Cash Tip or Equivalent	Vacation, Parental, Family, Medical, or Sick Leave	Less EXCLUDED Payroll Costs	Group Health Care Benefits	Retirement Benefits	State or Local Tax Assessed on the Compensation of the Employee	Total INCLUDED Payroll Costs	Total Payroll Cost Per Employee
John Smith	\$150,000.00	-	-	(\$50,000.00)	\$18,000.00	\$5,000.00	\$950.00	\$123,950.00	\$123,950.00
Totals	\$150,000.00	-	-	(\$50,000.00)	\$18,000.00	\$5,000.00	\$950.00	\$123,950.00	\$123,950.00

Net Payroll Costs	\$123,950.00
Divided By	12.00
Avg. Monthly Payroll	\$10,329.17
Multiplies By	2.50
Maximum Amount of Loan	\$25,822.92

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## Loan Forgiveness

### How much of the loan can be forgiven?

During the 8-week period beginning on the date of the origination of the loan, the borrower is eligible for loan forgiveness equal to the amount the borrower spent on the following items:

- Payroll costs (using the same definition of payroll costs used to determine loan eligibility);
- Interest on the mortgage obligation incurred in the ordinary course of business;

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## Loan Forgiveness - continued

- Rent on a leasing agreement;
- Payments on utilities (electric, gas, water, transportation, telephone, or internet);
- For borrowers with tipped employees, additional wages paid to those employees.

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# Loan Forgiveness

## Reduction of the loan forgiveness

Reduction based on reduction of number of employees

**Payroll Costs**

(Calculated Above)

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Avg. # of FTEs per Month for the 8-weeks

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**Option 1:** Average # of FTEs per month from Feb. 15, 2019 to June 30, 2019

**Option 2:** Average # of FTEs per month from Jan. 1, 2020 to Feb. 29, 2020

**Option 3:** Average # of FTEs per month from Feb. 15, 2019 to June 30, 2019

Note Option 3 is only for seasonal employers


Reduction based on reduction in salaries

**Payroll Costs**

(Calculated Above)

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For any employee who did not earn during any pay period in 2019 wages at an annualized rate more than \$100,000, the amount of any reduction in wages that is greater than 25% compared to their most recent full quarter.





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# Loan Forgiveness

## What if I bring back employees or restore wages?

- Reduction in employment or wages that occur during the period beginning on Feb. 15, 2020 and ending 30 days after enactment of the CARES Act, (as compared to Feb. 15, 2020) shall not reduce the amount of loan forgiveness IF by June 30, 2020 the borrower eliminates the reduction in employees or reduction in wages.





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## Other items to consider

- Choosing your Bank
  - Current customer/relationship
  - Lending limits
  - Online vs. Manual
  - Support Documents
- Timing
  - First Come, First Serve?
  - 8 Week period starts

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## Contact Us

### **Lisa DeV Vaughn Foley**

[lisa.foley@baldwincpas.com](mailto:lisa.foley@baldwincpas.com)  
859.626.4960

### **Matthew McKirahan**

[matthew.mckirahan@baldwincpas.com](mailto:matthew.mckirahan@baldwincpas.com)  
859.626.4977

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