

# The CARES Act: What it means for small businesses

*The Coronavirus Aid, Relief, and Economic Security (CARES) Act addresses the economic impacts of the COVID-19 outbreak. It authorizes emergency loans to distressed businesses, establishes funding for grants and technical assistance, provides funding for tax rebates to individuals and families, and establishes limits on requirements for employers to provide paid leave. There are three key provisions for small businesses.*

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**Paycheck Protection Loans:** loans to small businesses to keep their employees on payroll. Loans can be used for payroll, rent, mortgage interest, and utilities, and will be forgiven if employees are kept on the payroll for the eight weeks after the loan is received

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**Economic Injury Disaster Loans:** federal financial assistance to small businesses that suffer economic injury as a result of COVID-19

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**Small Business Tax Provisions :** tax relief for small businesses in the form of direct tax relief, relief from aspects of the 2017 Tax Cuts and Jobs Act, and technical corrections to the TCJA that benefit small businesses

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**Other SBA Provisions :** SBA express loans and other loan subsidies and deferrals

Next Street is a **mission-driven** advisory firm revolutionizing how our clients provide **capital, customers,** and **services** to **small businesses** and entrepreneurs

# What does the CARES Act mean for **small businesses**?

## Paycheck Protection Program Loans (PPP)

A direct incentive for *small businesses* to keep their employees on the payroll. *Loans will be forgiven* if all employees are kept on the payroll for the eight weeks after loan origination date and the money is used for *payroll, rent, mortgage interest, or utilities payments*. The initial round of funding was depleted in two weeks, but Congress is in the process of refunding the program.

### Am I eligible? Yes, if you:

- > Were operational on February 15<sup>th</sup>, 2020
- > Have under 500 employees
- > Can make a *good faith certification* that your business was affected by COVID-19
- > Are a small business, sole proprietorship, self-employed individual or independent contractor, tribal business, coop, or business assigned a franchise operator code

### How much can I borrow?

- > Up to 2.5x your average monthly “payroll costs” (includes salaries up to \$100,000, commissions, tips, employee benefits such as health insurance premiums and retirement benefits, state and local taxes, compensation to sole proprietors or independent contractors)
- > Other eligible expenses include interest on mortgage obligations incurred before 2/15/20, rent under lease agreements before 2/15/20, and utilities payments
- > The loan covers 8 weeks of eligible expenses, from origination, with a maximum loan amount of \$10M

### What are the terms?

- > Loans carry a term of up to 2 years, a rate of 1%, no prepayment penalty, and a 6-month deferment on initial payment
- > PPP loan recipients are eligible for 100% loan forgiveness if funds are used to directly cover eligible expenses
- > Borrowers are required to spend at least 75% of the forgiven amount for payroll expenses; loan forgiveness will be reduced if you decrease the number of full-time employees and/or decrease salaries or wages by more than 25%
- > If you have already laid off employees, you have until June 30<sup>th</sup>, 2020 to restore your full-time employment and salary levels for any changes made between Feb. 15<sup>th</sup>, 2020 and April 26<sup>th</sup>, 2020

### What documentation will I need?

- > Complete two-page PPP application
- > Average monthly Payroll Costs
  - If your business was open before this year, plan to use the period of 2/15/19 to 6/30/19 to calculate your average monthly payroll costs
  - If your business opened this year, plan to use the period of 1/1/20 to 2/15/20
  - If your business is seasonal, work with your lender to determine the best time period to use
- > No collateral or personal guarantee is necessary

### How do I apply?

PPP loans are available until **June 30<sup>th</sup>, 2020** and are approved by the over 1800 existing SBA-approved lenders. **If you have an existing relationship with a bank or financial institution, talk with them first.** If you don't, or yours is not participating, you may apply through any existing SBA 7(a) lender. The Treasury Department will also be approving application in the coming weeks as well.

# What does the CARES Act mean for **small businesses**?

## Economic Injury Disaster Loans (EIDL) and Advance Grant

The Economic Injury Disaster Loan (EIDL) offers federal financial assistance to *small businesses that suffer economic injury as a result of a declared disaster*. EIDL also offers an upfront, forgivable Advance Grant of up to \$10,000 that can be accessed even if you ultimately do not receive the loan itself.

### Am I eligible? Yes, if you:

- > Were operational on January 31<sup>st</sup>, 2020
- > Have under 500 employees
- > Can make a good faith certification that your business was affected by COVID-19
- > Are a small business, sole proprietorship, self-employed individual or independent contractor, tribal business, coop, or business assigned a franchise operator code

### How much can I borrow?

- > Up to \$2 million, with specific amounts dependent on the amount on economic injury suffered
- > Businesses that apply for EIDL automatically qualify for a forgivable emergency Advance Grant of up to \$10,000
- > You must indicate that you want to receive the Advance Grant during the application process
- > You'll receive the Advance Grant within 3 days of submitting your application, and do not need to pay it back, even if you ultimately do not receive an EIDL loan

### What are the terms?

- > Loans carry a term of up to 30 years, with a rate of 3.75% for small businesses. Initial loan payments can be deferred for up to 1 year
- > Only the \$10,000 Advance Grant is forgivable, any additional funding received through EIDL loans are not
- > In order for the Advance Grant to be forgiven, it must be used towards the following expenses: sick leave to employees unable to work due to direct effect of COVID-19, maintaining payroll, meeting increased costs to obtain materials, make rent or mortgage payments, or repaying obligations that cannot be met due to revenue losses
- > Loans under \$200,000 do not require a personal guarantee, but loans over \$25,000 may require collateral

### What documentation will I need?

- > Complete [SBA Form 5 App here](#)
- > Specifically, you will need access to the following information/documentation:
  - Personal Financial Statement (SBA Form 413)
  - Schedule of Liabilities (SBA Form 2202)
  - Tax Authorization Form (IRS 4506T)
  - Complete copies of most recent federal tax returns
- > SBA will not consider whether you were able to obtain credit elsewhere, but may ask for your credit score

### How do I apply?

EIDL loans are approved directly by the SBA via the SBA Form 5 App linked above. Small businesses are eligible to apply for EIDL funds, including the Advance Grant, through December 31<sup>st</sup>, 2020, on a first come, first served basis!

**Small businesses are allowed to apply for both PPP and EIDL funding, but can't use funds from each loan for the same purpose.** If you plan to apply for both, we suggest using PPP funds for your payroll costs, and EIDL funds, including the \$10,000 Advance Grant, for other eligible, non-payroll cost expenses.

# What does the CARES Act mean for **small businesses**?

## Small Business Tax Provisions

The CARES Act provides tax relief for small businesses in 3 distinct ways

### Direct Tax Relief to Small Businesses

- > **Employee Tax Retention Credit**
  - Creates a new tax credit to incentivize small businesses to retain workforce, available through December 31<sup>st</sup>, 2020
- > **Delayed Payment of Employer Payroll Taxes**
  - Allows small businesses (including the self-employed) to delay the employer portion of the Social Security payroll tax

### Technical Corrections to TCJA

- > **The CARES Act institutes a correction to the TCJA's Qualified Improvement Property (QIP) policy, as follows:**
  - Tenant improvements made to non-residential property eligible for a 15 year depreciable life and bonus depreciation (as opposed to the current 39 year life)
  - As a result, small business owners may be eligible to amend previously filed tax returns to take advantage of additional depreciation on QIP

## Relief from TCJA

- > **Net Operating Loss Provision**
  - Businesses may take net operating losses earned in 2018-2020 and carry back losses for 5 years
- > **Excess Loss Limitations**
  - Businesses can access immediate tax refunds by carrying back losses from 2018-2020 to the prior 5 years
- > **Changes to Interest Expense Limitations**
  - Businesses can deduct interest paid on tax returns from 30-50% of EBITDA for 2019 and 2020

## Other SBA Provisions

The CARES Act includes provisions to expand capital access through existing SBA products

### SBA Express Loans Provisions

- > **Increase in maximum loan amount**
  - SBA is now authorized to approve SBA Express loans of up to \$1M (up from \$350K) through 12/31/2020
- > **Veteran fees waiver**
  - Permanently waives the fee for veterans on SBA Express Loans

### Existing SBA Loan Subsidies & Deferrals

- > **Existing SBA Loan Subsidies**
  - SBA is required to pay the principal, interest, and any associated fees on "defined" loans for 6 months, starting with the next payment date
  - "Defined" loans include existing 7(a) loans, Community Advantage loans, and 504 loans
- > **Existing SBA Loan Deferrals**
  - Loans made during the COVID-19 pandemic (until 6 months after enactment of CARES Act) also qualify for 6 months of deferral payment by the SBA