



CARES ACT ECONOMIC RELIEF SUMMARY FOR SMALL BUSINESS LOANS

SPIRIT ADVISORS



SUMMARY AND DISCLAIMER

- The following information is based on our review of the Coronavirus Aid, Relief, and Economic Security (CARES) Act related to the Economic Injury Disaster Loan Assistance (EIDL) and Paycheck Protection Program (PPP) launched by the Small Business Administration for federal guaranteed loans. This information is supplied to inform our clients and contacts; however, the exact terms of the loans are determined solely by the lender(s) and Spirit Advisors can make no representations as to the accuracy or completeness of any information contained herein.
- Please note that you can apply for both loans; however, the loans must be used for different allowable purposes. If you qualify and accept the EIDL loan, and you subsequently qualify for the PPP loan, you can re-finance the EIDL loan with the PPP loan. Loans are limited to one per Taxpayer Identification Number. The principal balance of the loans forgiven under the PPP will not constitute cancellation of indebtedness income for federal tax purposes.

CARES Act SBA Loan Options Overview

Requirements/Terms	EIDL	PPP
Loan Eligibility	In operation as of 1.31.2020	In operation as of 2.15.2020
	(Generally less than 500 employees)	
Approver / Required Documentation	SBA - based on credit score or other alternative methods determined by SBA	Bank - TBD by institution. Payroll tax, payroll, health insurance invoices and retire plan funding reports. Refer to further details on the Documentation slide
Collateral Required	Personal guarantees on loans above \$200 thousand, other TBD	None
Loan Size Available	Up to \$2 million	Up to \$10 million - based on 2.5 times average prior year monthly payroll costs
Loan Forgiveness	None; however, the EIDL can be refinanced through the PPP, which is eligible for forgiveness	Up to 100% of the loan if proceeds are used during the covered period for specified expenses (payroll, benefits, rent or mortgage interest) but with forgiveness reductions based on average employee headcount and maintaining wages at 75%
Covered period	1/31/2020 to 12/31/2020	8 week period within 2/15/20 to 6/30/20
Application Availability / Process	Available now at the following SBA link. https://covid19relief.sba.gov/#/ Estimated 2-3 weeks for SBA review plus 5 additional days for funding \$10,000 Emergency Advances are to be distributed within 3 days of application	TBD - Contact your current banker for application availability. SBA will be accepting applications for Small Businesses on 4/3/2020. SBA will accepting applications for Independent Contractors and Sole Proprietors on 4/10/2020.
Terms	3.75% up to 30 years	1%, 2 year note
Payment Deferral Period (interest is accruing during deferment)	1 Year	6 months to 1 Year

THE EIDL APPLICATION PROCESS AND \$10,000 ADVANCE

1. Complete the application at the following web address:

[\(https://covid19relief.sba.gov/#/\)](https://covid19relief.sba.gov/#/)

2. At the end of the application, select the option to receive a \$10,000 advance

- The \$10,000 advance on the EIDL will not have to be paid back even if you do not qualify for the EIDL or refinance the EIDL into a PPP.
- The \$10,000 advance must be used for payroll, rent, mortgage payments, or repaying obligations that cannot be met due to revenue losses.

3. Information needed to complete the application:

- Employer Identification Number or Social Security Number (for sole proprietors)
- Date your business was established
- Date you've owned the business, if different than the date it was established
- Information related to the \$10,000 advance:
 - Your Bank Name
 - Bank Account Number
 - Bank Routing Number

Allowable Uses

- Paid sick leave to employees unable to work due to the direct effect of COVID-19.
- Maintain payroll
- Increased costs due to supply chain disruption
- Rent or mortgage payments
- Repaying obligations that cannot be met due to revenue loss



PAYCHECK PROTECTION PROGRAM ELIGIBILITY QUALIFICATION

- Individuals who operate a sole proprietorship or as an independent contractor and eligible self-employed individuals.
- Any business concern that employs not more than 500 employees per physical location of the business concern and that is assigned a NAICS code beginning with 72 (Accommodation and Food Services companies)
- Affiliation rules are also waived for franchises with codes assigned by the SBA, as reflected on the SBA franchise registry and businesses that receive financial assistance from one or more small business investment companies (SBIC)
- Refer to SBA tool: <https://www.sba.gov/size-standards/>

MAXIMUM PPP LOAN ELIGIBILITY IS BASED ON 2.5 X PRIOR YEAR AVG. MONTHLY PAYROLL COST

- Average Total Monthly Payments for Payroll Costs during the 1 year period before the date on which the loan is made, except that, in the case of an applicant that is seasonal employer, as determined by the Administrator, the average 12-week period beginning February 15, 2019, or at the election of the eligible recipient, March 1, 2019 and ending June 30, 2019; by 2.5;
- and “(bb) the outstanding amount of a loan under subsection (b)(2) that was made during the period beginning on January 31, 2020 and ending on the date on which covered loans are made available to be refinanced under the covered loan; or “(ii) \$10,000,000.

Payroll Costs exclude the following:

- Prorated compensation of an individual employee in excess of an annual salary of \$100,000
- FICA, Railroad Retirement Tax
- Employee outside of U.S.
- Qualified sick leave or family leave for which a credit is allowed under FFCRA
- Independent contractor expenses if you are a small business

Payroll Costs include the following:

- Salary, wage, commission;
- Cash or tip 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 employees

For Independent Contractors and Sole Proprietors payroll includes wages, commissions, income, or net earnings from self-employment or similar compensation.

PPP LOAN ALLOWABLE USES AND REQUIRED CERTIFICATIONS

Allowable Uses

- Payroll costs, as previously defined
- Group health benefits during periods of paid sick, medical, or family leave and insurance premiums
- Employee salaries, commissions, or similar compensations
- Interest on any mortgage obligation
- Rent
- Utilities
- Interest on any other debt obligations incurred before covered period

Required business self-certifications

- Uncertain economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient
- Funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments
- You haven't made any other loan applications under this subsection
- From February 15, 2020 you have not received duplicative loan amounts



PPP LOAN ELIGIBLE FORGIVENESS EXPENDITURES

- Payroll costs
- Additional wages paid to tipped employees
- Interest on any covered mortgage obligation
- Covered rent obligations
- Covered utility payments

LIMITS ON FORGIVENESS OF PPP LOANS (1 OF 2)

- May not exceed the original amount of principal on the covered loan
- 75% of the forgivable amount must be used for payroll
- Reduced based on reduction in number of employees
 - Numerator = Avg. FTE's during covered period
 - Denominator = borrower can elect one of the following:
 - Avg. FTE's per month from February 15, 2019 to June 30, 2019
 - Avg. FTE's per month from January 1, 2020 to February 29, 2020
- Seasonal employer reduction is calculated as follows:
 - Numerator = Avg. FTE's during covered period
 - Denominator = Avg. FTE's per month from February 15, 2019 to June 30, 2019
- Calculation of Average Number of Employees
 - Numerator = Add Number of FTE's for Each Pay Period in the Month
 - Denominator = Number of pay periods in the month

LIMITS ON FORGIVENESS OF PPP LOANS (2 OF 2)

- Reduction Relating to Salary and Wages
 - Amounts that exceed a 25% pay reduction of an employee's compensation during the previous quarter are a dollar for dollar reduction. This only applies to compensation for employees with under \$100,000 of annualized compensation
 - Exemption for Re-Hires
 - No reduction if one of the following occurs:
 - Between 2/15 and 4/27, there is a reduction in FTE's, and it is eliminated by 6/30
 - Same scenario but related to an individual's compensation

KEY TIPS TO MAXIMIZING YOUR BENEFIT FROM A PPP LOAN AND ACHIEVING 100% LOAN FORGIVENESS

- Prepare a Strategic Plan for the 8 week covered period! You should be able to estimate your total loan and forgiveness amount prior to submitting the application.
- Determine if the business is seasonal or not, and the best optimal annualized prior year payroll period for the largest loan eligibility.
- Review eligible forgivable operating expenses to estimate the total for covered period. (**Maximum operating expenses eligible for forgiveness is 25% of your loan**).
- Review your forecasted payroll for the covered period and calculate the eligible forgiveness amount (\$15,385 cap per employee).
- Identify the number of employees that are going to be paid and ensure it is equal to or greater than the average number of Employees reported in your application. (**Note: The PPP incentivizes rehiring and paying employees for the entire 8 week period even if they are not working**). Please note the amount and timing of when you pay rehired employees can materially affect the amount of your loan forgiveness.
- Based on your payroll and eligible operating expense projections, determine if you would be able to forgive all the loan or if it would be beneficial to hire additional employees or increase wages for the covered period.
- Maintain detailed records and copies of all payments made for approved expenses within the PPP. (Consider opening a new bank account to track the loan deposit and disbursements).
- Make sure your accountant or advisor follows these steps in order to maximize your loan forgiveness.
- **Spirit Advisors will be helping several clients understand and evaluate their options for the PPP, along with gathering documentation for the two phases of the PPP (i.e. loan application and forgiveness application). We're also putting together the details of whether our fees can be treated as payroll costs vs. professional services.**

ELIGIBLE PPP LOAN BALANCE IS CAPPED AT \$8,333 PER EMPLOYEE

For the 12 months Ending February 29, 2020

	Annual Comp	Benefits	Payroll Cost	Monthly Avg.	Eligible Monthly Avg.*	Eligible Loan Balance 2.5 Monthly Avg.
Employee 1 (Owner)*	\$ 100,000	\$ 25,000	\$ 125,000	\$ 10,417	\$ 8,333	\$ 20,833
Employee 2	75,000	18,750	93,750	7,813	7,813	19,530
Employee 3	50,000	12,500	62,500	5,208	5,208	13,020
Employee 4	40,000	10,000	50,000	4,167	4,167	10,417
Total	\$ 265,000	\$ 66,250	\$ 331,250	\$ 27,604	\$ 25,521	\$ 63,800

*For the basis of the loan, each employee is limited to \$100,000 of annualized total payroll costs or \$8,333 per month including wages, benefits and insurance based on our current understanding of the bill.

BUSINESS'S ARE INCENTIVIZED TO RETAIN OR REHIRE HEADCOUNT AND MAXIMIZE FORGIVABLE PAYROLL COSTS FOR THE ENTIRE COVERED PERIOD

Based on the scenarios below, the highest payroll costs resulted in the lowest net expense and no outstanding PPP loan debt for the business.

Example: The scenarios below are applied to the \$63,800 loan balance for a company with 4 employees assuming other operating costs for the 8 week covered period of \$16,685 remain the same.

Scenario A: All employees were retained or rehired at their average 2019 wages for the entire 8 week covered period.

Scenario B: All employees were retained or rehired at their average 2019 wages for the entire 8 week covered period and an independent contractor was hired to assist with the loan and forgiveness applications.

Scenario C: Payroll was reduced by 50% for Employee 3 with \$50,000 of annual compensation and 100% for Employee 4 who was terminated with \$40,000 of annual compensation.

Scenario D: Payroll was reduced by 25% for all employees other than the Owner.

	2019 Avg. # of Employees	5.1.2020	8 Week Covered Period					6.30.2020	Increase in Net	
		PPP Loan Balance	Payroll Costs	Other Expenses	Total Operating Expenses	Eligible Forgiveness*	Net Expenses	# of Employees	PPP Loan Balance, Net	Expense from Scenario A
Scenario A	4	\$ 63,800	\$ 50,962	\$ 16,685	\$ 67,647	\$ (62,300)	\$ 5,346	4	\$ 1,500	\$ -
Scenario B	4	\$ 63,800	\$ 52,462	\$ 16,685	\$ 69,147	\$ (63,800)	\$ 5,346	4	\$ (0)	\$ -
Scenario C	4	\$ 63,800	\$ 38,462	\$ 16,685	\$ 55,147	\$ (35,427)	\$ 19,719	3	\$ 28,373	\$ 14,373
Scenario D	4	\$ 63,800	\$ 44,952	\$ 16,685	\$ 61,637	\$ (55,178)	\$ 6,458	4	\$ 8,622	\$ 1,112

*Loan forgiveness is capped at \$15,385 per employee which is annualized payroll cost of \$100,000 for the 8 week period. Additionally, the forgiveness reduction for wage decreases excludes employees with annualized wages over \$100,000.

BUSINESSES CAN BENEFIT THE MOST BY MAXIMIZING FORGIVABLE PAYROLL COSTS IN ORDER TO MAXIMIZE FORGIVABLE OPERATING COSTS

Scenario A: All employees were retained or rehired at their average 2019 wages for the entire 8 week covered period.

	Annualized = 52 weeks			8 week covered period	
	Annual Comp	Benefits	Payroll Cost	Actual Cost	Forgivable
Employee 1 (Owner)*	\$ 100,000	\$ 25,000	\$ 125,000	\$ 19,231	\$ 15,385
Employee 2	75,000	18,750	93,750	14,423	14,423
Employee 3	50,000	12,500	62,500	9,615	9,615
Employee 4	40,000	10,000	50,000	7,692	7,692
Employee cost				\$ 50,962	\$ 47,115
Marketing and Advertising Expenses				\$ 1,000	\$ -
Payroll taxes (FICA)				500	-
Additional Wages for Tips for Employee #2				4,000	4,000
Rent				8,000	8,000
Utilities				2,185	2,185
Mortgage Interest				1,000	1,000
Other operating expenses				\$ 16,685	\$ 15,185
Total operating expenses				\$ 67,647	\$ 62,300
<i>Forgiveness limitations:</i>					
Operational Expense Limitation (25% of total forgiveness)					-
Forgiveness with Retained Employee Ratio (100%)					-
Reduction for wage decreases					-
Eligible Loan Forgiveness				\$ 62,300	\$ 62,300
Net Operating Cost after Loan Forgiveness for the 8 week covered period				\$ 5,346	
				PPP Loan Balance Ineligible for Forgiveness	\$ 1,500

Scenario A could utilize \$1,500 of government funds for additional eligible payroll costs at no additional cost to the business

UTILIZING THE ELIGIBLE PAYROLL AND OPERATING COSTS FOR THE EFFECTIVE PERIOD EFFECTIVELY TURNS THE PPP LOAN INTO A GRANT

Scenario B: All employees were retained or rehired at their average 2019 wages for the entire 8 week covered period other than Employee 4, which received \$1,500 of additional bonus payments during the period.

	Annualized = 52 weeks			PPP Loan Balance	
	Annual Comp	Benefits	Payroll Cost	\$	63,800
				8 week covered period	
				Actual Cost	Forgivable
Employee 1 (Owner)*	\$ 100,000	\$ 25,000	\$ 125,000	\$ 19,231	\$ 15,385
Employee 2	75,000	18,750	93,750	14,423	14,423
Employee 3	50,000	12,500	62,500	9,615	9,615
Employee 4	40,000	10,000	50,000	7,692	7,692
Bonus payments for Employee 4				1,500	1,500
Employee cost				\$ 52,462	\$ 48,615
Marketing and Advertising Expenses				\$ 1,000	\$ -
Payroll taxes (FICA)				500	-
Additional Wages for Tips for Employee #2				4,000	4,000
Rent				8,000	8,000
Utilities				2,185	2,185
Mortgage Interest				1,000	1,000
Other operating expenses				\$ 16,685	\$ 15,185
Total operating expenses				\$ 69,147	\$ 63,800
<i>Forgiveness limitations:</i>					
Operational Expense Limitation (25% of total forgiveness)					-
Forgiveness with Retained Employee Ratio (100%)					-
Reduction for wage decreases					-
Eligible Loan Forgiveness				\$ 63,800	\$ 63,800
Net Operating Cost after Loan Forgiveness for the 8 week covered period				\$ 5,346	
				PPP Loan Balance Ineligible for Forgiveness	\$ (0)

Scenario B utilized the \$1,500 loan excess to cover additional employee bonus payments

REDUCING AVG. HEADCOUNT AND/OR WAGES BY OVER 25% RESULTS IN HIGHER NET COSTS TO THE BUSINESS AND UNFORGIVABLE DEBT

Scenario C: Payroll was reduced by 50% for Employee 3 with \$50,000 of annual compensation and 100% for Employee 4 who was terminated with \$40,000 of annual compensation.

	Annualized = 52 weeks			8 week covered period	
	Annual Comp	Benefits	Payroll Cost	Actual Cost	Forgivable
Employee 1 (Owner)*	\$ 100,000	\$ 25,000	\$ 125,000	\$ 19,231	\$ 15,385
Employee 2	75,000	18,750	93,750	14,423	14,423
Employee 3	25,000	6,250	31,250	4,808	4,808
Employee 4	-	-	-	-	-
Employee cost				\$ 38,462	\$ 34,615
Marketing and Advertising Expenses				\$ 1,000	\$ -
Payroll taxes (FICA)				500	-
Additional Wages for Tips for Employee #2				4,000	4,000
Rent				8,000	8,000
Utilities				2,185	2,185
Mortgage Interest				1,000	1,000
Other operating expenses				\$ 16,685	\$ 15,185
Total operating expenses				\$ 55,147	\$ 49,800
<i>Forgiveness limitations:</i>					
Operational Expense Limitation (25% of total forgiveness)					-
Forgiveness with Retained Employee Ratio (75%)					(12,450)
Reduction for wage decrease over 25% for Employee 3 (from \$50,000 to \$25,000)					(1,923)
Eligible Loan Forgiveness				\$ 35,427	\$ 35,427
Net Operating Cost after Loan Forgiveness for the 8 week covered period				\$ 19,719	
Remaining PPP Loan Balance \$ 28,373					

A 25% FTE reduction also reduces loan forgiveness by 25% or \$12k in Scenario C

A 50% wage reduction for Employee 3 resulted in a \$5k decline in forgivable payroll costs and \$1.9k decline in total forgiveness eligibility

REDUCING FORGIVABLE PAYROLL COSTS ALSO REDUCES THE ELIGIBLE FORGIVABLE OPERATING EXPENSES

Scenario D: Payroll was reduced by 25% for all employees other than the Owner.

				PPP Loan Balance \$ 63,800	
	Annualized = 52 weeks			8 week covered period	
	Annual Comp	Benefits	Payroll Cost	Actual Cost	Forgivable
Employee 1 (Owner)*	\$ 100,000	\$ 25,000	\$ 125,000	\$ 19,231	\$ 15,385
Employee 2	56,250	14,063	70,313	10,817	10,817
Employee 3	37,500	9,375	46,875	7,212	7,212
Employee 4	40,000	10,000	50,000	7,692	7,692
Employee cost				\$ 44,952	\$ 41,106
Marketing and Advertising Expenses				\$ 1,000	\$ -
Payroll taxes (FICA)				500	\$ -
Additional Wages for Tips for Employee #2				4,000	4,000
Rent				8,000	8,000
Utilities				2,185	2,185
Mortgage Interest				1,000	1,000
Other operating expenses				\$ 16,685	\$ 15,185
Total operating expenses				\$ 61,637	\$ 56,291
<i>Forgiveness limitations:</i>					
Operational Expense Limitation (25% of total forgiveness)					(1,112)
Forgiveness with Retained Employee Ratio (100%)					-
Reduction for wage decreases over 25%					-
Eligible Loan Forgiveness				\$ 55,178	\$ 55,178
Net Operating Cost after Loan Forgiveness for the 8 week covered period				\$ 6,458	
				PPP Loan Balance Ineligible for Forgiveness \$ 8,622	

Forgivable payroll costs must be 75% of total Loan forgiveness, which reduced the \$15.2k of forgivable operating expenses by \$1.1k

PPP LOAN APPLICATION AND LOAN FORGIVENESS APPLICATION DOCUMENTATION

- Documentation verifying the number of FTE's on payroll and pay rates for the following periods,
 - February 15, 2019 to June 30, 2019
 - January 1, 2020 to February 29, 2020
 - Total Year 2019
 - Covered Period (Future)
 - Payroll tax filings reported to IRS
 - State income, payroll, and unemployment insurance filings
- Payroll tax reports, quarterly forms 941, 1099's, historical tax returns or other payroll support, if applicable, for the previous 12 months
- Copies of health insurance plans and premiums paid for the preceding 12 months.
- Retirement plan funding by employer for the preceding 12 months.
- Organizational documents (Articles of Organization/Incorporation and Operating Agreement/By-Laws), if applicable (may not be required for sole proprietors or contractors).
- Invoices, cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on the following:
 - Covered mortgage obligations
 - Covered lease obligations
 - Covered utility payments
- Certification from eligible recipient
 - Documentation presented is true and correct
 - The amount for which forgiveness is requested was used to retain employees, make interest payments, make rent payments, or make utility payments
- Prohibition of Forgiveness Without Documentation
 - No forgiveness without submitting required documentation to the lender servicing the covered loan
- Decision
 - Lender has 60 days from receipt of application to issue a decision on forgiveness

KEY TAKEAWAYS AND NEXT STEPS

- Consider applying for the EIDL loan directly on the SBA website. Advances are available for \$10,000 with distributions to be provided within three days of application. The advance is essentially a Grant under the EIDL that does not need to be repaid.
- You can have either both an EIDL and a PPP loan outstanding at the same time; however, you the loans must be used for different purposes. The EIDL may also be re-financed into the PPP loan.
- You have 60 days to decide to accept either loan once approved.
- If you have an SBA loan originated loan prior to 1.30.20, contact your lender. Sec. 1112 of the CARES Act, mandates that for covered loans in regular servicing status; the principal, interest and fees will be deferred by the SBA for a 6-month period.
- If you are interested in assistance with analyzing your business to review your options or prepare your loan application or forgiveness documentation, please contact us at the following:
 - Nathan Green
 - nathan@spiritadvisorsgroup.com
 - 979-595-6811
 - Derek Stogner
 - derek@spiritadvisorsgroup.com
 - 214-809-8229