CARES Act: What You Need to Know

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A little bit about me...

- A member of ReSound’s Business Development team for over four years, with principal responsibility for practice management support and managing ReSound’s loan portfolio for performance and compliance
- Over 20 years of hearing industry experience in sales, business development, practice management, and manufacturing
- Former private practice owner, board-certified hearing instrument specialist, and president of the NC Hearing Aid Dealers and Fitters Licensing Board
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CARES Act: What You Need to Know

1. Economic Injury Disaster Loans (EIDL)
2. Paycheck Protection Program (PPP)
3. Employee Retention Payroll Tax Credits / Payroll Tax Deferral
4. Other Important Provisions
Economic Injury Disaster Loans (EIDL)

- Coronavirus Aid, Relief, and Economic Security (CARES) Act allocated $10 billion for EIDLs
- Small businesses in every state and territory are eligible to apply directly with the Small Business Administration (SBA)
- To qualify, the applicant must show that it has suffered "substantial economic injury," meaning the business is unable to meet its obligations, pay its ordinary and necessary operating expenses, or market, produce, or provide its products or services
Economic Injury Disaster Loans (EIDL)

Pertinent eligible entities
• Businesses with less than 500 employees (corps, LLCs)
• Sole proprietors (Schedule C)
• Independent contractors (1099-MISC)
• Private non-profit organization that are non-governmental agencies or entities

Entity must have been in operation before January 31, 2020

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Economic Injury Disaster Loans (EIDL)

Use of funds
• Working capital
• Payroll
• Providing paid sick leave to employees
• Making rent or mortgage payments
• Meeting increased costs to obtain materials
• Repaying vendor obligations that cannot be met due to revenue losses
Economic Injury Disaster Loans (EIDL)

Terms and qualifications
- Maximum loan amount is $2 million, based on actual economic injury and business’ financial needs
- Maximum repayment term is 30 years, and payments are deferred for one year
- Interest rates are 3.75% for small businesses, and 2.75% for non-profits
- EIDLs can be approved by the SBA solely on an applicant’s credit score. No prior tax returns are required.
- No personal guarantees required on EIDLs less than $200,000
- EIDLs over $25,000 require collateral
- No loan or guarantee fees, no prepayment penalty

Emergency grant
- CARES Act allows an eligible entity who applied for an EIDL due to COVID-19 to request an advance on that loan, up to $10,000.
- SBA has three days to distribute the advance
- Applicants are not required to repay the advance, even if denied for the EIDL
Economic Injury Disaster Loans (EIDL)

To apply
• covid19relief.sba.gov

Have available
• A copy of the practice’s most recent two tax returns (including all schedules)
• Profit and loss statement, and balance sheet, for 2019 and YTD 2020

Paycheck Protection Program (PPP)
Paycheck Protection Program (PPP)

• $349 billion program
• SBA-backed loans originated through qualified lenders

Paycheck Protection Program (PPP)

Relevant eligible entities

• Businesses with fewer than 500 employees (corps, LLCs)
• Sole proprietors (Schedule C)
• Independent contractors (1099-MISC)
• 501(c)(3) non-profits with fewer than 500 employees

Must have been in operation on February 15, 2020, and had employees or independent contractors for whom they paid salaries, compensation, and payroll taxes.
Paycheck Protection Program (PPP)

Use of funds
• Payroll costs (excluding individual employee compensation over $100,000)
• Group health care benefits
• Payment of interest on mortgage obligations
• Rents/leases
• Utilities

>75% of the loan amount be been spent on payroll costs in order to qualify for forgiveness

Payroll costs include
• Salaries, wages, commissions, or similar
• Cash tips or similar
• Vacation, parental, family, medical, and sick leave
• Severance payments
• Payment of group health care benefits (insurance premiums)
• Payment of retirement benefits
• State and local tax on employee compensation

EXCLUDES compensation of individual employees in excess of $100k, annualized
Paycheck Protection Program (PPP)

Maximum loan amount is the lessor of
1. 2.5x the average monthly payroll costs incurred during the 12 months prior to the loan
2. for businesses not operational in 2019, 2.5x the average monthly payroll costs incurred in January and February 2020
3. $10 million

Terms and qualifications
• Nonrecourse loans, no personal guarantees or collateral required
• SBA fee waived
• Interest rate is 1%
• Payments are deferred for 6 months
• If any balance remains after loan forgiveness, they have 2 years to pay it back
Paycheck Protection Program (PPP)

Potential loan forgiveness

Borrower is eligible for loan forgiveness equal to the amount spent on the following in the eight weeks following loan origination:

- Payroll costs
- Interest on mortgage obligations
- Rent/leases
- Utilities

Loan forgiveness may be reduced if the average number of FTEs per month during the eight-week period does not equal:

1. the average number of FTEs per month from February 15, 2019 to June 30, 2019, or
2. the average number of FTEs per month from January 1, 2020 to February 29, 2020.

>75% of the loan amount should have been spent on payroll costs

Paycheck Protection Program (PPP)

- If a business reduced employment or wages between February 15, 2020 and April 26, 2020 (30 days from enactment of CARES Act), and eliminates the reduction(s) by June 30, 2020, loan forgiveness will not be reduced
- Loan forgiveness must be applied for. Lender has 60 days from receipt of application to decide on forgiveness.
- Forgiven amount is not taxable
Paycheck Protection Program (PPP)

Application acceptance dates
• April 3 – Small businesses and sole proprietors
• April 10 – Independent contractors and self-employed individuals

Where to apply
• Go to sba.gov/paycheckprotection/find to search for lenders by ZIP code
  • Any existing SBA lender
  • Any participating federally insured bank, credit union

Preparing to Apply
• Complete SBA loan application
• Have the following documentation available:
  • IRS Forms 940, 941, or 944 for 2019
  • Payroll reports for the prior 12 months detailing each employee and their gross pay, PTO, vacation pay, family/medical leave pay, and state and local taxes assessed on employee compensation
  • Documentation for group health insurance premiums paid by the practice
  • Documentation for retirement plan funding that was paid by the practice
  • Practice tax return for 2019, if already filed
  • Balance sheet and profit and loss statements for 2018 and 2019
Employee Retention Payroll Tax Credits / Payroll Tax Deferral

For businesses that do not accept a Paycheck Protection Program loan

• Tax credit is equal to 50% of the qualified wages (up to $10,000) paid or incurred between March 13, 2020 and December 31, 2020
• Tax credit may be taken as a direct offset up to the amount of the employer’s FICA obligations for the quarter. Additional amounts may be treated as an overpayment and refundable.
• Employer portions of Social Security taxes (6.2%) for the rest of 2020 may be deferred – with 50% of the deferred sum due December 31, 2021, and the remainder due December 31, 2022
Other Important Provisions

- Changes in the treatment of net operating losses, now allowing NOLs from 2018, 2019, and 2020 to be carried back up to five years, and used to offset 100% of income
- Increases ceiling on deductible interest expenses
- Suspends excess business loss limitations
- Between March 27, 2020 and January 1, 2021, employers may contribute up to $5,250 annually toward an employee's qualified student loans, and such payments are excluded from employee's income
- Funding to expand use of telehealth and remote care technologies went to HHS, Indian Health Services, and FCC