



Paycheck Protection Loans for Small Businesses

In a move designed to keep small businesses afloat, the CARES Act provides that businesses with fewer than 500 employees — including sole proprietors and nonprofits— will have access to nearly \$350 billion in loans under Section 7 of the Small Business Act during the “covered period,” which runs from February 15, 2020 through June 30, 2020. The loans, which are referred to as “paycheck protection loans” and are fully guaranteed by the federal government through December 31, 2020 (returning to an 85% guarantee for loans greater than \$150,000 after that date), are generally limited to the LESSER OF:

- the sum of 1) average monthly “payroll costs” for the 1 year period ending on the date the loan was made (an alternative calculation is available for seasonal employers) multiplied by 2.5, and 2) any disaster loan (discussed below) taken out after January 31, 2020 that has been refinanced into a paycheck protection loan, and
- \$10 million.

Payroll costs, in turn, are the sum of the following:

- wages, commissions, salary, or similar compensation to an employee or independent contractor,
- payment of a cash tip or equivalent,
- payment for vacation, parental, family, medical or sick leave,
- allowance for dismissal or separation,
- payment for group health care benefits, including premiums,
- payment of any retirement benefits, and
- payment of state or local tax assessed on the compensation of employees,

Payroll costs do not include, however:

- the compensation of any individual employee in excess of an annual salary of \$100,000,
- payroll taxes,
- any compensation of an employee whose principal place of residence is outside the U.S., or
- any qualified sick leave or family medical leave for which a credit is allowed under the new Coronavirus Relief Act passed last week.



Example. Rob's Car Wash applies for a paycheck protection loan on May 1, 2020. The business had \$1.2 million in payroll costs for the period May 1, 2019 through May 1, 2020, for a monthly average of \$100,000. Rob's Car Wash is entitled to a fully guaranteed federal loan —assuming it's made before December 31, 2020 — equal to the LESSER OF:

- *\$250,000 (\$100,000 in average payroll costs * 2.5), or*
- *\$10 million.*

The loans will have a maximum maturity of 10 years and an interest rate not to exceed 4%. Proceeds may be used to cover payroll, mortgage payments, rent, utilities, and any other debt service requirements. The standard fees imposed under Section 7 of the Small Business Act are waived, and no personal guarantee is required by the business owner.

An additional provision in the CARES Act provides for possible deferment of repayment of the loans for a period of at least six months, but not to exceed a year.

Loan Forgiveness of Paycheck Protection Loans

A separate section of the CARES Act calls for a portion of the aforementioned paycheck protection loans to be forgiven on a tax-free basis. The amount to be forgiven is the sum of the following payments made by the borrower during the 8-week period beginning on the date of the loan:

- payroll costs (as defined above)
- mortgage interest,
- rent,
- certain utility payments.

To seek forgiveness, a borrower must submit to the lender an application that includes documentation verifying the number of employees and pay rates, and cancelled checks showing mortgage, rent, or utility payments.

Example. Continuing the previous example with Rob's Car Wash, in the first 8 weeks after the business borrows the \$250,000, the business pays \$200,000 in payroll costs, mortgage interest, and utility payments. Rob's Car Wash is eligible to have \$200,000 of the \$250,000 loan forgiven. The forgiveness will not create taxable income. In addition, because of the deferment rules in the CARES Act, any payments due on the remaining \$50,000 will not be due for six months.



There is a provision, however, that reduces the amount that may be forgiven if the employer either:

- Reduces its workforce during the 8-week covered period when compared to other periods in either 2019 or 2020, or
- Reduces the salary or wages paid to an employee who had earned less than \$100,000 in annualized salary by more than 25% during the covered period.

This reduction can be avoided, however, if the employer rehires or increases the employee's pay within an allotted time period.

Emergency Government Disaster Loan and Grant

The CARES Act also expands access to Economic Injury Disaster Loans under Section 7(b)(2) of the Small Business Act to include not only businesses with fewer than 500 employees, but also sole proprietors and ESOPs. For any loan made under this program before December 31, 2020, no personal guarantee will be required on loans below \$200,000. The bill allows a disaster loan to be taken out between January 31, 2020 and the date on which a paycheck protection loan is available for reasons "other than paying payroll costs." Presumably, any loan taken out for payroll purposes will be confined to the paycheck protection loans described above.

In addition, the Act creates a new Emergency Grant to allow a business that has applied for a disaster loan to get an immediate advance of up to \$10,000. The advance can be used to maintain payroll, and is not required to be repaid, even if the borrower's request for a 7(b) loan is denied.

Subsidy for Certain Loan Payments

The CARES Act also provides benefits to those with loans under Section 7(a) of the Small Business Act OTHER THAN the new paycheck protection loans, in the form of a government subsidy whereby the SBA will pay six months of principal, interest and fees on qualifying loans.

[Apply for SBA Payroll Protection Loans Here](#)

Please give us a call (734) 464-3660 if you have any questions about the Paycheck Protection Loan.

[Source](#)