One of the most anticipated and popular provisions in the CARES Act is the expansion of Small Business Administration (SBA) 7(a) Loans with new Paycheck Protection Program loans. These loans are non-recourse to owners, 100% Federally guaranteed and can be used to pay payroll and rent during the economic uncertainty ahead as a result of the COVID-19 outbreak.

This guide has been prepared with all available information as of March 29, 2020. We are eagerly awaiting regulations from the SBA to help provide needed clarity and guidance and for lenders to begin to originate these loans.

We would like to emphasize that these loans are not guaranteed to be granted to any borrower nor is any forgiveness guaranteed.
Given the high level of economic uncertainty, particularly with smaller (less than 500 employees) organizations, the CARES Act looked to increase the eligibility for this loan program to include companies with less than 500 employees, including 501(C)(3) nonprofits.

### Eligible Borrowers of the Payroll Protection Loan Program
- Business with less than 500 employees
- Business with more than 500 employees, but less than published SBA Size Standard
- 501(C)(3) Organizations with less than 500 employees
- Sole-proprietors and independent contractors

### Permitted Uses of Payroll Protection Loan Program Proceeds
- Payroll Costs
- Interest (but not principal) of mortgage obligations
- Rent
- Payments for Utilities (Electric, Gas, Water, Telephone, Internet)
- Interest (but not principal) on prior debt obligations

### Terms of the Loan Program
- Loans will be made between now and June 30, 2020
- Loans will have a forgiveness feature for certain spending
- Any amount not forgiven will have a maximum term of 10 years and a rate to not exceed 4%
- Loans are 100% Federally guaranteed and nonrecourse to owners or board members (except in the event of nonpermitted uses).

The CARES Act states the following eligibility and certification requirements for borrowers. It is anticipated that any application will cover these certifications. In addition, there are certain factors that lenders will not look for in making these loans.

### Good Faith Certifications Required from Borrowers
1. The uncertainty of the current economic conditions makes the loan necessary to maintain and support ongoing operations.
2. The borrower will only use the proceeds of the loan for permitted expenses, such as payroll & occupancy costs.
3. The borrower does not have an application pending for a loan elsewhere for the same purposes.
4. From Feb 15, 2020 to December 31, 2020 the borrower has not received or will not receive a loan for the same purposes.

### Conditions for Eligibility For Loans
1. The borrower was in business as of February 15, 2020
2. The borrower had employees they paid salaries or contractors they paid for services.

### Factors that will NOT be considered for the loan
1. The borrower sought or has access to ‘credit elsewhere’
2. A personal guarantee from borrowers. The loan is nonrecourse.
3. No collateral will be required.
The loans are limited to a maximum of 2.5 times your average monthly eligible payroll costs or $10,000,000.

The calculation of eligible payroll costs is as follows:

- **Allowable Payroll Costs**
  - Compensation paid to employees, including salaries, wage, commission, other compensation, cash tips or equivalent, vacation, family or medical leave, severance pay.
  - Group health benefits.
  - Retirement benefits.
  - State and Local Tax assessed on Payroll.
  - Payments to independent contractors*.

- **Nonallowable Payroll Costs**
  - Employer payroll taxes, other than state and local taxes.
  - Compensation for any employee that is not located in the United States.
  - Wages where a credit under other programs (FFCRA) is granted.
  - Compensation of employee in excess of $100,000.**

*We cannot definitively say payments to contractors are included, our current interpretation is that these costs are eligible. As more details become available we will update.

**There is still uncertainty as to the mechanics of this. The law states it is prorated over the loan period, so the possibility exists that prior paid compensation may be eligible. Our interpretation is also that the exclusion is only compensation in excess of $100,000; the portion of compensation below this is eligible.

There is still some uncertainty and no clear consensus if businesses with 1099 contractors will be able to include these costs as part of payroll costs, as well as the mechanics of how the $100,000 compensation limitation will be factored in.
As mentioned in our foreword, the SBA and lenders are working on getting these loans available as soon as possible. Based on what we know so far, it is our belief and understanding most businesses will get these loans via their current relationship with a bank. As no application is available yet, we recommend that borrowers gather the following documentation to be prepared for these loans. Not all of this information will likely be needed for the application and there may be some streamlined processes with lenders and the SBA to originate these loans.

The popularity of this program is driven largely by the potential loan forgiveness features. The law provides that up to the full amount of principal of the loans may be forgiven, depending on certain uses of the proceeds, staffing and payroll levels. This forgiveness will not be considered taxable income.

### Recommended Documents

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<td>Key business information (EIN, address, phone, ownership)</td>
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<td>Last 2 years tax returns for any 20% + owner Form 4506-T</td>
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<td>2019 Forms 941 and NYS-45</td>
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### Forgiveness eligible spending

For amounts spent in the first 8 weeks after origination on the following:
- Payroll costs (as defined prior)
- Interest on mortgage obligation incurred prior to February 15, 2020
- Rent on a lease agreement in place prior to February 15, 2020
- Payments on utilities

Any amount forgiven will not be considered taxable income to the company or generate UBT

### Forgiveness ineligible spending

For amounts spent in the first 8 weeks after origination on the following:
- Payroll costs in excess of 100,000 per employee, prorated.
- Interest on other debt obligations
  This is an allowable use but not allowed for forgiveness purposes.
Any reductions to forgiveness will be calculated as follows:

- Forgiven Eligible Spending
- Payroll Reduction Above 25%
- FTE Reduction Ratio
- Average Monthly FTE Per Month Loan Period
  - Divided by
  - Average FTE Per Month in Base Period

**Loan Period** - February 15, 2020 - June 30, 2020
**Base Period** - Either February 15, 2019 - June 30, 2019 or January 1 - February 29, 2020

Any payroll or workforce reductions between February 15, 2020 - April 26, 2020 that are restored by June 30, 2020 will be disregarded.

It is important to note that the forgiveness will not be automatic but will require a separate application that will be released.

As more guidance comes from the SBA and lenders, including the application process, we will share as quickly as we can.

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