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CORONAVIRUS EMERGENCY LOANS SMALL BUSINESS FAQS

The **Coronavirus Aid, Relief and Economic Security (CARES) Act** allocated \$350B to help small business keep their employees and keep their businesses open amid the pandemic. You may also hear it discussed as the **Paycheck Protection Program (PPP)** and it provides 100% federally guaranteed loans to small businesses. Most importantly, these loans may be forgiven if borrowers maintain their payrolls during the crisis or restore their payrolls afterward. While absolutely NO ONE can speak to all the intricacies and implementation of this new law, more details will be forthcoming, including a list of lenders offering loans under the program. In the meantime, the US Chamber of Commerce has issued a guide to help small businesses and self-employed individuals prepare to file for a loan.

1. Who Is Eligible?

- a. Small businesses with less than 500 employees
- b. Small businesses that otherwise meet the SBA size standards
- c. 501(c)(3)s with less than 500 employees
- d. Sole Proprietorships
- e. Independent Contractors
- f. Those who are self-employed
- g. Some Tribal businesses
- h. 501(c)(9) Veterans Organizations that meet SBA size standards
- i. Special Rules
 - i. Those in the accommodation and food services sector: the 500-employee rule applies only per physical location
 - ii. Franchises – the normal affiliation rules don't apply

2. What Will Lenders Look For?

- a. Were you operating before 2/15/20? Were you paying salaries and payroll taxes for individuals prior to that date? Were you paying independent contractors before that date?
- b. **Good Faith Certifications** for the following:
 - i. Uncertainty of economic conditions makes the loan necessary to support ongoing operations
 - ii. Borrowers will use the loan proceeds to retain workers and maintain payroll, lease, mortgage or utility payments
 - iii. Borrowers don't have a pending application for a loan with a duplicative purpose
 - iv. From 2/15/20 – 12/31/20, borrowers will not receive any loans with a duplicative purpose
- c. Borrowers will likely ask for payroll tax filings, 1099-MISC, K1s, and/or P&L reports

3. How Much Can I Borrow?

- a. **General Rule** – Loans can be up to 2.5 Times the borrowers average monthly payroll costs, not to exceed \$10M.
- b. Payroll Costs include
 - i. Any compensation for employees such as salary, wages, commissions, bonuses, tips, vacation pay or sick leave, separation pay, payments required for group benefits including insurance premiums (i.e. health insurance), payments of retirement benefits, and payments of any state or local taxes assessed on compensation
 - ii. For the self-employed, it includes any compensation that is wages, commissions, income, or net earnings in an amount that is not more than \$100,000 in one year as pro-rated for the covered period.
- c. Payroll Costs exclude
 - i. Compensation in excess of \$100,000 prorated from 2/15/20-6/30/20
 - ii. Payroll taxes, railroad retirement taxes, and income taxes
 - iii. Compensation for employees whose principal residence is outside the US
 - iv. Qualified sick leave wages that are allowed credit under the Families First Coronavirus Response Act

4. Will This Loan Be Forgiven?

- a. **General Rule:** Borrowers are eligible to have their loans forgiven
- b. Limitations
 - i. Forgiveness amount is equal to the amount the borrower spent on the following items during the 8 week period beginning on the date of the loan origination:
 - 1. Payroll Costs
 - 2. Interest on mortgage obligations
 - 3. Rent
 - 4. Utility payments
 - 5. Additional wages paid to ordinarily “tipped” employees
 - ii. Forgiveness cannot exceed the principal.
- c. Reductions – the loan forgiveness amount could be reduced if there is a reduction in the # of employees or a reduction of greater than 25% in wages paid to employees. It’s based on the average # of FTEs (Full Time Employees) for the 8-week period beginning on loan origination.