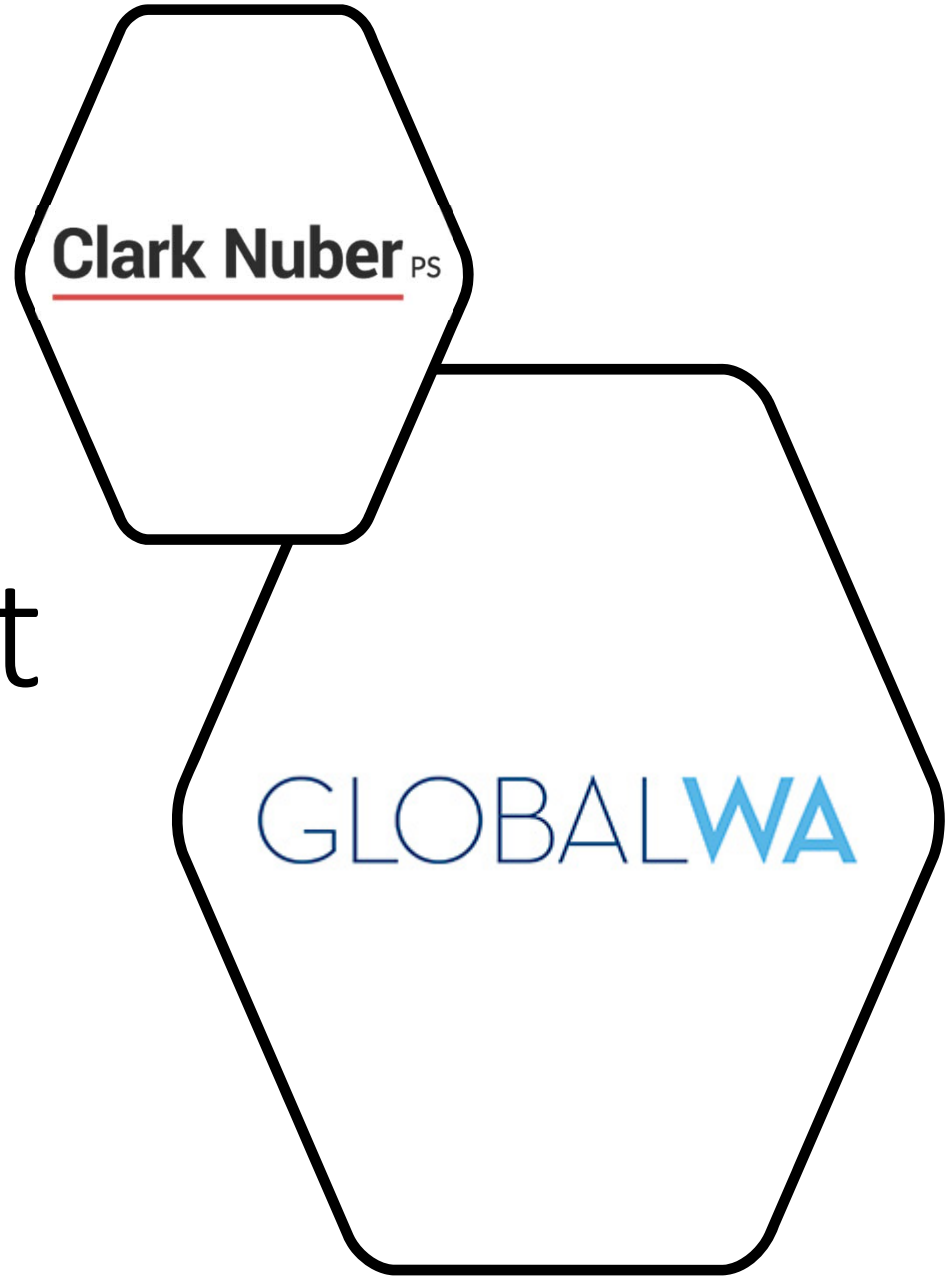




April 17, 2020

CARES Act

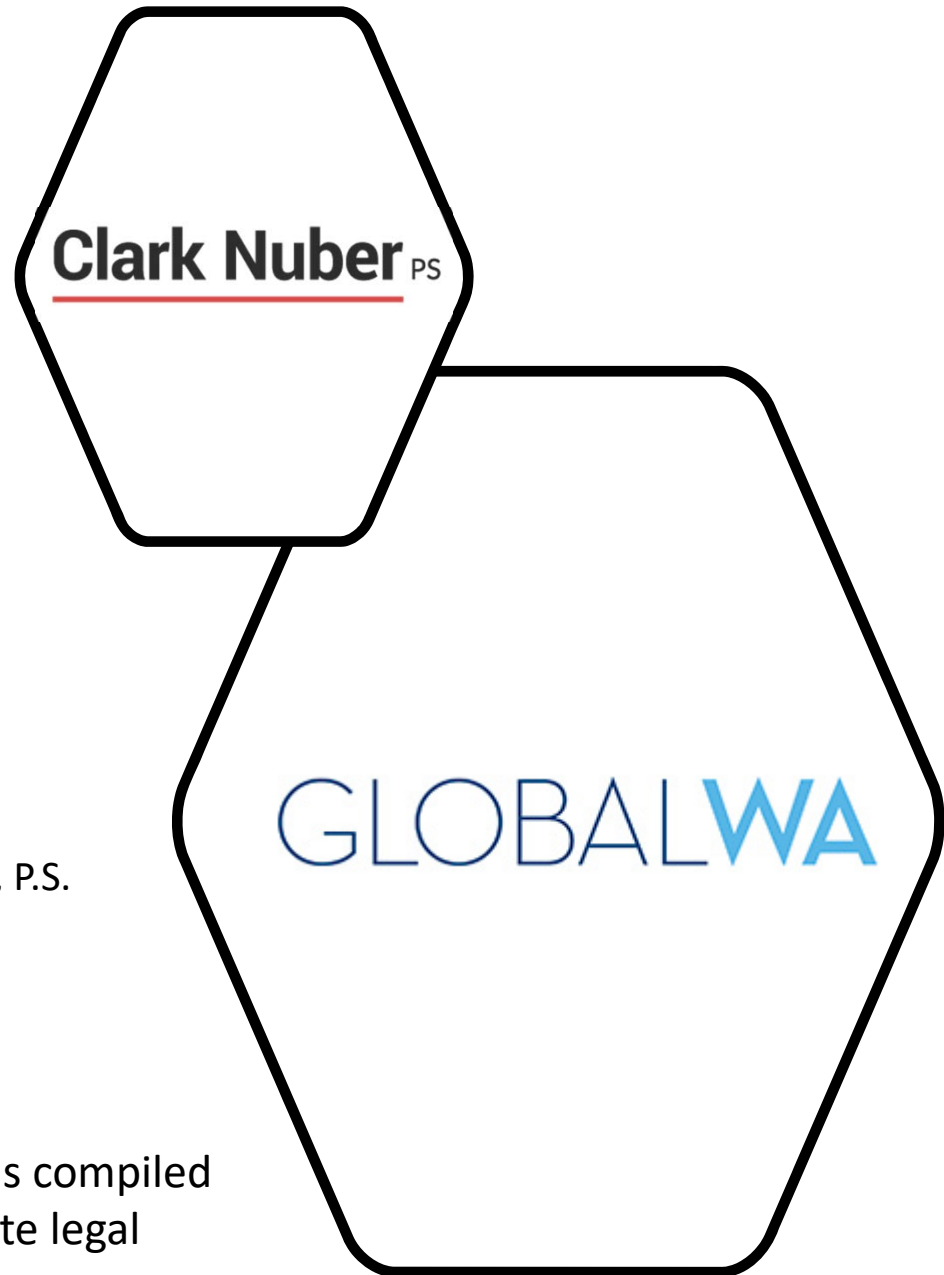




Deby MacLeod, CPA, CGMA
Shareholder, Clark Nuber, P.S.
damacleod@clarknuber.com
425.635.4567

Grant Shaver
Senior Manager, Clark Nuber, P.S.
gshaver@clarknuber.com
425.635.7426

Information included in this presentation is compiled from public sources and does not constitute legal advice or represent legal counsel.



Today's Topics

- Overview of the CARES Act and available cash flow relief
 - What relief is still available
 - Paycheck Protection Program: application, funding, forgiveness
- Tax filings and extensions
- Resources for information
- Questions
- What is most important to you?

CARES Act To Date

- March 27 - CARES Act issued
- \$2.2 trillion for Act, \$349 billion for PPP
- Small Business Administration (SBA) charged with defining rules for the Paycheck Protection Program (PPP) within 10 business days
- April 2 - "Interim Final Rule" (IFR) issued by SBA for the PPP in just 4 business days
- April 14 - Updated IFR issued by SBA for the PPP containing additional eligibility criteria and requirements for certain pledges of loans
- April 16 - Applications for 2 programs suspended pending additional funding
- Information continues to unfold almost daily

Programs of Interest

- SBA Loan Programs
 - Paycheck Protection Program (PPP)
 - Lapse in appropriations
 - Economic Injury Disaster Loan (EIDL)
 - Lapse in appropriations
 - Emergency Economic Injury Grant (EEIG)
 - Express Bridge Loans
 - Employee Retention Credit
 - Payroll Tax Deferral
- Lesser degree
 - Education Stabilization Fund (Department of Education)

Paycheck Protection Program

PAYCHECK PROTECTION PROGRAM (PPP)

Maximum available	--2.5 X average monthly payroll for 1-year period before loan application --Compensation capped at \$100k/employee --\$10 million maximum per entity
Funding description	--SBA 7(a) loan to cover payroll and other eligible expenses (see slide 9) --Covered period: February 15 – June 30, 2020
Staff size limitations	--Up to 500 employees --Includes compensation only for US based employees --Includes affiliate organizations --Certain exceptions may apply
Repayment	--All or a portion is forgivable --At least 75% of forgiven amount must have been used for payroll --Forgivable portion is reduced for FTE declines or salaries decreases
Loan interest rate	--1% interest rate --2-year maturity --6 month payment deferral
Restrictions	--If receiving loan forgiveness, cannot use the Employee Retention Credit or the Payroll Tax Deferral (see slides 15 and 16)
Eligibility	--Any business concern or nonprofit organizations (section 501(c)(3) exempt from taxation under section 501(a)) that employs not more than 500 employees

How to Apply

- Contact an approved SBA lender
 - SBA website lists approved lenders
 - <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program-ppp>
- Have the following materials ready
 - Payroll reports
 - Payroll register for the full 2019 year
 - Payroll register for all available months of 2020
 - Official forms
 - Forms 941 Quarterly Tax Filings for all 4 quarters of 2019 and Q1 of 2020
 - Form 944 Annual Tax Filings for 2019
 - Identification
 - Corporate bylaws
 - IRS determination letter
 - <https://www.sba.com/funding-a-business/government-small-business-loans/ppp/how-to-complete-paycheck-protection-program/>

Loan Calculation Example

Payroll Protection Program ("PPP") Loan Calculations (Not for Sole Proprietors or Independent Contractors)		
	Trailing 12 Months Or 2019	Running Total
3 Aggregate payroll costs (<i>Step 1 of SBA Rule</i>)	\$ -	\$ -
4 Compensation paid to an individual employee in excess of an annual salary of \$100,000 that was included in line 3 (<i>Step 2 of SBA Rule</i>)*	\$ -	\$ -
5 Compensation paid to employees living outside of the U.S. (<i>incorporated in amount in Step 1 of SBA Rule</i>)	\$ -	\$ -
6 Payroll Cost**	\$ -	
7 Monthly Payroll Cost (<i>Step 3 of SBA Rule</i>)	\$ -	
8 2.5 x monthly payroll cost (<i>Step 4 of SBA Rule</i>)	\$ -	
9 Outstanding amount of an (EIDL) made between January 31, 2020 and April 3, 2020, less the amount of any EIDL grant (<i>Step 5 of SBA Rule</i>)	\$ -	
10 Cap on PPP loan	\$ 10,000,000	
11 PPP Loan	\$ -	
12		

Example above obtained from Lane Powell; however, there are many available

<https://www.lanepowell.com/Our-Insights/201802/Every-Business-That-Received-a-Payroll-Protection-Program-Loan-PPP-Loan-CARES-About-Forgiveness>

Interactive loan calculator available at SBA website

<https://www.sba.com/funding-a-business/government-small-business-loans/ppp/loan-calculator/>

Allowable Uses/Forgiveness of Covered Loans

Eligible Costs

- Payroll costs
 - Continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums
 - Employee salaries, commissions, or similar compensation
 - Must be 75% of amount forgiven
- Interest payments on mortgage obligations
 - ***cannot include principal payments or prepayments
 - Interest on any other debt obligations incurred before the covered period
- Rent
- Utilities

Documentation Required

- Payroll tax filings reported to the IRS
- State income, payroll and unemployment insurance filings
- Cancelled checks, payment receipts, transcripts of accounts for interest, rent and utilities

Limits on Amount of Forgiveness

Reduction based on number of employees

$$\frac{\text{Avg. \# of FTEs per month for covered period}}{\text{Avg. \# of FTEs per month from 2/15/19 - 6/30/19}}$$

OR

$$\frac{\text{Avg. \# of FTEs per month for covered period}}{\text{Avg. \# of FTEs per month from 1/1/20 - 2/29/20}}$$

Reduction related to salaries and wages

Salary reduction for any employee over 25% of total salary or wages for the most recent full quarter preceding the covered period.

Forgiveness Example

Calculation of Forgivable Portion of PPP Loan (SBA Will Provide More Guidance)		
	8-Week Period From Receiving PPP Loan	Running Total
14		
15		
16	Payroll Costs	\$ -
17	Cash compensation of an individual employee in excess of an annual salary of \$100,000 that was included in line 20*	\$ -
18	Payroll Costs**	\$ -
19	Mortgage interest paid	\$ -
20	Rent paid	\$ -
21	Utilities paid	\$ -
22	Total eligible for forgiveness under Section 1102(b)** *	\$ -
23	SBA Rule 2.0 limit on non-payroll costs	\$ -
24	Reduction for non-payroll costs in excess of SBA Rule 2.0 limit	\$ -
25	Reduction based on decrease in employees (fill out calculations in line 41-44 below)	\$ -
26	Reduction based on decrease in salary (insert the sum of the line 50 amounts for each applicable employee)	\$ -
27	Reduction for EIDL grant/advance of up to \$10,000	\$ -
28	Total amount that can be forgiven	\$ -
29	PPP Loan	\$ -
30	Amount forgiven	\$ -
31	Remaining PPP loan payable @ 1% over 2 years	\$ -
32		
33	Average number of full-time equivalent ("FTE") employees per month in 8-week period	-
34	Average number of FTE employees per month from February 15, 2019 to June 30, 2019	-
35	Average number of FTE employees per month from January 1, 2020 to February 29, 2020*****	-
36	Section 1106(d)(2) percentage	100.00%
37		
38	Fill out for each employee who (1) worked in the 8-week period and (2) who did not receive, during any single any period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000	
39	Total salary or wages received in the first quarter of 2020	\$ -
40	25% of total salary or wages received in the first quarter of 2020	\$ -
41	Amount of salary or wage reduction during the 8-week period	\$ -
42	Section 1106(d)(3) reduction amount for the employee	\$ -

Example above obtained from Lane Powell

Suggestions on Handling PPP Funds

- Understand the allowable uses of funds
- Have a good payroll system or payroll provider
 - Ensure payroll tax deferral is set up, if desired
- Code/identify PPP costs in GL system for ease of tracking
- Consider having a separate bank account for PPP funds
- Retain (and segregate) full supporting documents
- Monitor the SBA website for updates

What We've Heard

- As of April 16, 2020: Loan applications are no longer being accepted
 - Nationwide-
 - 1.6 million loans approved
 - \$349 billion has been approved (or in process)
 - 4,975 approved lenders
 - In WA State (as of April 13)-
 - 19,000 loans
 - \$5B in loans approved
- As many loans processed in the past 14 days as in the past 14 years

What You Can Do

- It is expected that Congress will provide a 2nd wave of funding totaling \$250B, but there are disagreements over whether to add restrictions to the funds
- Continue to keep in touch with your bank
 - Many banks are only working with existing clients
 - Explore other options, including possible state funding
- Follow up on your application
- Have data ready to apply if you haven't already applied

EIDL and EEIG

ECONOMIC INJURY DISASTER LOAN (EIDL) AND EMERGENCY ECONOMIC INJURY GRANT (EEIG)

Maximum available	--\$2 million for EIDL (fully allocated, no longer available) --\$10K for EEIG
Funding description	--Loan and emergency grant program -- Grant maximum is \$10K (EEIG) per CARES Act --Based on recent SBA communication, grant is \$1K/employee up to a maximum of \$10K
Staff size limitations	--Up to 500 employees, limit does not apply to private non-profits --Certain exceptions may apply (SBA industry size standard)
Repayment	--Up to 30-year maturity --1 year payment deferral -- No repayment for EEIG (\$10K) unless a PPP loan is also obtained
Interest rate	--2.75% for nonprofits --3.75% for small businesses
Restrictions	--Cannot be used for the same purpose as a PPP loan
Other	--Either the EIDL or EEIG received between 1/31/20 and date that a PPP loan is received can be rolled into the PPP loan if used for the same purpose
Eligibility	--"Private non-profits" assumed to include 501(c)(3) organizations, including religious organizations

Employee Retention Credit

EMPLOYEE RETENTION CREDIT

Maximum available	-- 50% of up to \$10K in wages/employee (i.e. \$5K credit/employee) --Includes health care costs --Period covered is 3/21/20 – 12/31/20
Funding description	--Refundable payroll tax credit
Staff size limitations	> 100 employees --only reduced-hour or furloughed employees' wages < 100 employees --no limitations on hours or employees' wages
Repayment	--N/A
Restrictions	--Not available if receiving PPP loan forgiveness
Eligibility	--"Private non-profits" assumed to include 501(c)(3) organizations, including religious organizations

Payroll Tax Deferral

PAYROLL TAX DEFERRAL

Maximum available	--N/A – applies to employer portion of tax on wages paid between 3/27/20 – 12/31/20
Funding description	-- Deferral of employer portion of 6.2% SS tax or 50% of self-employment tax
Staff size limitations	--N/A
Repayment	--50% of deferred amount due by 12/31/21 --Remaining amount due 12/31/22
Restrictions	--Not available if receiving PPP loan forgiveness --Must apply ERC first

Impact on Federal Grants



Office of Management and
Budget

More questions than answers at this point

Families First Coronavirus Response Act (FFCRA)

- Act will provide funding for free coronavirus testing, 14-day paid leave by American workers affected by the pandemic, and increased funding for food stamps
- Allowability and allocability of leave mandated by the Act
- Treatment of the payroll tax credit associated with the leave

CARES Act

- Payroll Protection (PPP) loan
 - Are payroll and non-payroll costs paid for by a Federal grant includable in the loan amount if subsequently forgiven?
- Employee Retention Credit
 - Impact on the allowability of that portion of the employee payroll costs claimed for the retention credit for which was previously charged to Federal awards
- Payroll Deferral for Employer Payroll taxes
 - Impact on cost reimbursement grants if allowable costs are to be paid before requesting reimbursement

Education Stabilization Fund



Education Stabilization Fund Discretionary Grants

\$30.075M for states with the highest COVID-19 burden. Grants made available to states.

Governor's Emergency Education Relief Fund

\$3B for grants to states based on a formula stipulated in the Act: 60% on relative population aged 5 – 24; 40% on relative number of children counted under section 1124(c).

Elementary and Secondary School Emergency Relief Fund

\$13.5B granted to states in the same proportion that each state received under part A of title I of ESEA of 1965 in the most recent year.

Higher Education Emergency Relief Fund

\$14.5B allocated based on a formula stipulated in the Act.

Resources

- CARES Act: <https://www.congress.gov/bill/116th-congress/house-bill/748/text>
- SBA website: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/>
- SBA FAQs: https://www.sbc.senate.gov/public/_cache/files/2/9/29fc1ae7-879a-4de0-97d5-ab0a0cb558c8/1BC9E5AB74965E686FC6EBC019EC358F.the-small-business-owner-s-guide-to-the-cares-act-final-.pdf
- US Treasury: <https://home.treasury.gov/policy-issues/cares>
- US Treasury FAQs: <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>
- Department of Education: <https://oese.ed.gov/offices/Education-Stabilization-Fund/>
- Clark Nuber: <https://clarknuber.com/covid-19-information-and-resources-for-businesses-nonprofits-and-individuals/>
- Your attorneys and accounting firms

Other Topics

- All found at: <https://clarknuber.com/>
 - Tax filing deadline extensions
 - Single Audit due date extension
 - Best cybersecurity practices while working from home
 - Maintaining strong internal controls during the coronavirus pandemic
 - COVID-19 FAQs for NFPs
- To come
 - Continued guidance and clarity from OMB for federal awards
 - Other ongoing updates



Questions and Discussion

Thank you -
Stay safe and
be well

