

Economic Injury Disaster Loans and Paycheck Protection Program Loans from the Small Business Administration

The recently enacted CARES Act (Coronavirus Aid, Relief, and Economic Security) provides stimulus money for small businesses. Most small businesses including self-employed individuals will likely qualify for a number of loans and grants. In most cases, these loans are available even without the need to establish how your own business has been hurt by the COVID-19 pandemic.

Small business owners should consider applying for two types of small business loans — the Economic Injury Disaster Loan (EIDL) and the Paycheck Protection Program (PPP) loan.

The rules & regulations concerning the loan programs are evolving quickly and creating much confusion on implementation. The most recent guidance issued by the Small Business Administration (SBA) was issued the evening of Thursday, April 2, just hours before the scheduled rollout of the programs on April 3, 2020. We have observed conflicting conclusions on implementation of the guidance by banks, CPA firms, law firms, and payroll service companies. In fact, the SBA's recent guidance conflicts with its prior guidance and a clear reading of the law passed by Congress and signed by the President on Friday, March 27th. For this reason, you'll need to be flexible in applying for these loan programs.

The basics of both programs are presented here. For the EIDL, application is made online directly to SBA. To apply for the PPP loan, you will need to do so through a lender, licensed to work with the SBA. Please consider your present bank first. Some banks are only accepting current customers with loan facilities in place.

In many cases, you will want to consider both an EIDL and a PPP loan because both loans are effectively converted (at least partially) into grants that may not have to be repaid. Details about these provisions are available, however given how quickly these programs have come together, changes are expected and likely. We will keep abreast of the changing circumstances as best we can. This link provides a worksheet that compares key provisions of each loan program: <https://www.g3cpa.com/covid-19-sba->

[loan-info/](#)

You likely will not need a lawyer to apply for these loans — just a bank for the PPP loan and an internet connection for the EIDL. The federal government has allocated \$349 billion to this program, and it will be paid out on a first-come, first-served basis. This is a moving target, and no one knows for sure if more funds will be made available, so we suggest you act quickly.

Economic Injury Disaster Loan (EIDL)

You may request an EIDL (in addition to a PPP loan) so long as the loan proceeds are not used to cover the same expenses. Apply for an EIDL online directly with the SBA – <https://disasterloan.sba.gov/>. The EIDL is approved solely based on your credit score.

EIDLs are available for up to \$2 million, though borrowers may prefer to cap their application at \$200,000 or less to avoid the need for a personal guarantee. EIDLs are likely to be granted more quickly than a PPP loan. **The first \$10,000 of an EIDL is converted to an immediate grant, even if your loan request is denied.** By the time the PPP loan is granted, the first \$10,000 of your EIDL loan will become a grant, and you will have already applied \$10,000 toward maintaining your business. Any EIDL funds in excess of the first \$10,000 carries interest at 3.75 percent and is expected to have a loan term of up to 30 years.

Paycheck Protection Program (PPP)

PPP applicants must certify, in good faith, that the uncertainty of current economic conditions makes the loan necessary to support business operations. If your business has been adversely affected by the pandemic, or you are legitimately concerned that some of your customers, patients, or clients will not be able to timely pay their bills, then you probably need these funds and shouldn't be hesitant to apply for them. Applicants must acknowledge that the funds will be used to maintain their own salary, maintain payroll for their employees or to make mortgage payments, lease payments and utility payments. Applicants also must certify that they do not have other "covered loan" applications pending for similar or duplicative purposes.

Applicants will need to provide some or all of the following documentation:

- 2019 payroll tax filings reported to the IRS (941, 940, and W-2)
- Payroll reports at or including 2/15/2020 to confirm employees and payroll at that date
- Verification of payroll tax payments for 2/15/2020 payroll
- current financial statements
- copies of your 2019 and/or 2018 business tax returns

These documents will likely be sufficient to satisfy the bank's requirements but more may be requested.

Applicants can obtain a PPP loan of 2.5 x their average monthly "payroll costs," which has a special definition for this purpose. Payroll costs excludes compensation/income to anyone in excess of \$100,000/per year. PPP loans are capped at \$10 million. However due to the speed with which these definitions and regulations were issued, different banks will interpret the rules differently.

The PPP loan may be forgiven if the borrower uses the loan proceeds to pay expenses from any of the following four categories:

1. Payroll costs: amounts paid to yourself and employees of your business; subject to limitations and to the extent you maintain previous employment and compensation levels.
2. Rent: This includes office space and other property used by your business.
3. Utilities: This can include internet access.
4. Mortgage and loan interest: This may include mortgage interest on your home if self-employed and you maintain a home office.

We anticipate that small businesses will not have difficulty reaching the limits on qualified expenses in the eight weeks covered by the PPP since most will be using the proceeds to effectively pay themselves and their employees. Spreadsheets for the PPP loan computation and forgiveness are available through the following link: <https://www.g3cpa.com/covid-19-sba-loan-info/> Different alternatives are included since banks are interpreting the SBA guidance in different ways. Most businesses will want to borrow the maximum amount they can support under the 2.5 average monthly payroll calculation because there is no personal guarantee and no collateral needed. Any amount not forgiven must be repaid over an initial term of 2 years at 1 percent interest.

Summary of Recommended Actions:

Based on the current available information and rapidly changing SBA guidance we are advising the following actions to be explored or considered:

- Talk with your banker to determine how they will be processing the PPP loans – the EIDL does not require a bank's involvement – this is between you and the SBA, but oversight may come in at a later point. The PPP loan does not require personal guarantees and little else in terms of qualification. Loans may be partially or fully forgivable depending on how the proceeds are used and how many employees are maintained at a compensation level of at least 75% of prior averages.
- As soon as you are able, apply for the EIDL and request the \$10,000 grant/loan – especially if cash flow is already tight.
- Based on conversations with your banker, apply for the PPP loan as soon as possible. The loan applications were accepted starting April 3, 2020. Each bank is expected to issue their own guidance and some may require their own version of the application form to be submitted. While we can and will assist in gathering the required information, calculating the eligible amount and with issues post application, it appears that some banks will require an owner of the business to actually submit the application.
- Do not accept EIDL amounts, in excess of the \$10,000 initial grant, until after a review is done to determine the impact it might have on the PPP loan. Again, we expect further rules and regulations to be implemented, so discuss with us or your banker which one is better for you. The \$10k EIDL grant may need to be refinanced into any PPP loans you are granted. We are waiting for more guidance here.
- After the funding of the loans, depending on your facts and circumstances, consider additional employer payroll tax credits being developed – but do **NOT** take these credits now, pending loan provisions. You may not accept both a PPP loan and an Employee Retention Credit.

This information should be considered preliminary and not finalized. Based on what we know this is currently believed to be the best course of action. However, the SBA guidance & bank rules are changing rapidly and are not consistent from lender to

lender. Please feel free to consult with other advisors. We here at Gold Gerstein Group are always available to discuss with you any questions or concerns. This is an unprecedented moving target and we anticipate/expect the need to change course because the programs are evolving to keep up with the crisis.

Please email us with questions and concerns. Due to the current shelter in place regulations most of our partners and staff are working remotely. Reaching us by email is the quickest alternative.

This information has been provided by Gold Gerstein Group, LLC.

Moorestown Office: (856) 727-0100

Voorhees Office: (856) 770-1400



GOLD GERSTEIN GROUP LLC

Certified Public Accountants and Consultants