

DISASTER RELIEF ROADMAP

THE SMALL BUSINESS OWNER'S GUIDE



**SMALL
BUSINESS**

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Economic Injury Disaster Loans and CARES Act Programs

The *Coronavirus Aid, Relief, and Economic Security (CARES) Act* was just passed by Congress and signed into law March 27th. The CARES Act provisions are intended to assist business owners with immediate relief. We expect the Administrator of the U.S Small Business Administration to issue regulations and standard operating procedures quickly, as much of the benefits are based on SBA's 7(a) program. When implemented, there will be many new resources available for small businesses, as well as certain non-profits and other employers.

This guide is not intended to provide a comprehensive analysis of the Act, but will provide information about the major programs and initiatives that will soon be available. There are also some additional tax provisions that are outside the scope of SBA.

Since the first of March, we have noted that many small business owners are not only struggling with a lack of cash, but also struggling with the change that is affecting their business. The disaster is likely to change your processes and procedures and could even change your entire business model.

Struggling to get started? The following questions might help point you in the right direction. Do you need:

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Capital to cover the cost of retaining employees? Then the Paycheck Protection Program might be right for you.

A quick infusion of a smaller amount of cash to cover you right now? You might want to look into an Emergency Economic Injury Grant. This grant is paired with and expands the Economic Injury Disaster Loan program.

To ease your fears about keeping up with payments on your current or potential SBA loan? The Small Business Debt Relief Program could help.

Just some quality, free counseling to help you navigate this uncertain economic time? The resource partners might be your best bet.

Paycheck Protection Program (PPP) Loans

The program would provide cash-flow assistance through 100 percent federally guaranteed loans to employers who maintain their payroll during this emergency. If employers maintain their payroll, the loans are forgiven which would help workers remain employed and get small businesses and our economy on the road to a quicker recovery after this crisis.

PPP has a host of attractive features, such as forgiveness of up to 8 weeks of payroll based on employee retention and salary levels, **no SBA fees** and at least six months of deferral with maximum deferrals of up to a year. Small businesses and other eligible entities will be able to apply if they were harmed by COVID-19 between **February 15, 2020 and June 30, 2020**. This program would be retroactive to February 15, 2020, in order to help bring workers back on the payroll who may have already been laid off. **Loans are available through June 30, 2020.**

There are some specific underwriting points that the business owner will have to address. This is not an “automatic” approval as banks will be able to individually underwrite. The bank does have to participate in the SBA 7(a) program but for those who are not SBA Lenders, many of the requirements are being waived.

Any bank entering into a PPP loan is likely to ask for your Federal and State 2019 Quarterly Employment Reports and your bank statements for 2019 to the present. Of course, if you're not dealing with your current bank, be prepared with 3 years of business and personal tax returns and each owner's (greater than 15%) Personal Financial Statement.

Getting the loan forgiven at the end of the year is another application process with the bank making the loan. We'll know more about that process in the coming days.

FREQUENTLY ASKED QUESTIONS

QUESTION: What types of businesses and entities are eligible for a PPP loan?

- Answer:
- Businesses and entities must have been in operation on February 15, 2020.
 - Small business concerns, as well as any business concern, a 501(c)(3) nonprofit organization, a 501(c)(19) veterans organization, or Tribal business concern described in section 31(b)(2)(C) that has fewer than 500 employees or fewer employees than established by the relevant industry code.
 - Individuals who operate a sole proprietorship or as independent contractors and eligible self-employed individuals.
 - Any business concern that employs not more than 500 employees per physical location of the business concern and that is assigned a North American Industry Classification System code beginning with 72, for which the affiliation rules are waived.
 - Affiliation rules are also waived for any business concern operating as a franchise that is assigned a franchise identifier code by the Administration, and company that receives funding through a Small Business Investment Company.



QUESTION: What are affiliation rules?

Answer: They become important when SBA is deciding whether a business’s affiliations preclude them from being considered “small.” Generally, affiliation exists when one business controls or has the power to control another or when a third party (or parties) controls or has the power to control both businesses. Affiliation rules create a lot of questions, ask us.

QUESTION: What types of non-profits are eligible?

Answer: All 501(c)(3) non-profits with 500 employees or fewer, or more if SBA’s size standards for the non-profit allows. Please visit <http://www.sba.gov/size-standards> to find out your non-profit’s SBA size standards by the number of employees. For example, churches and museums with fewer than 500 employees are eligible. You will need the 6-digit North American Industry Classification Code for your business.

QUESTION: How is the loan size determined?

Answer: Depending on your business’s situation, the loan size will be calculated in different ways (see below). The maximum loan size is always **\$10 million**.

- **If you were in business February 15, 2019 – June 30, 2019:** Your max loan is equal to 250 percent of your average monthly payroll costs during that time period. If your business employs seasonal workers, you can opt to choose March 1, 2019 as your time period start date.
- **If you were not in business between February 15, 2019 – June 30, 2019:** Your max loan is equal to 250 percent of your average monthly payroll costs between January 1, 2020 and February 29, 2020.
- **If you took out an Economic Injury Disaster Loan (EIDL) between February 15, 2020 and June 30, 2020** and you want to refinance that loan into a PPP loan, you would add the outstanding loan amount to the payroll sum.

QUESTION: What costs are eligible for payroll?

- Answer:
- Compensation (salary, wage, commission, or similar compensation, payment of cash tip or equivalent)
 - Payment for vacation, parental, family, medical, or sick leave
 - Allowance for dismissal or separation
 - Payment required for the provisions of group health care benefits, including insurance premiums
 - Payment of any retirement benefit
 - Payment of State or local tax assessed on the compensation of employees



QUESTION: What costs are not eligible for payroll?

- Answer:
- Employee/owner compensation over \$100,000
 - Taxes imposed or withheld under chapters 21, 22, and 24 of the IRS code
 - Compensation of employees whose principal place of residence is outside of the U.S
 - Qualified sick and family leave for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act.

QUESTION: What are the allowable uses of loan proceeds?

- Answer:
- Payroll costs (as noted above)
 - Costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums
 - Employee salaries, commissions, or similar compensations (see exclusions above)
 - Payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage obligation)
 - Rent (including rent under a lease agreement)
 - Utilities
 - Interest on any other debt obligations that were incurred before the covered period

QUESTION: What are the loan term, interest rates, and fees?

Answer: The maximum term is 10 years, the maximum interest rate is 4 percent, zero loan fees, zero prepayment fee (SBA will establish application fees caps for lenders that charge).

QUESTION: How is the forgiveness amount calculated?

- Answer: Forgiveness on a covered loan is equal to the sum of the following payroll costs incurred during the covered 8-week period compared to the previous year or time period, proportionate to maintaining employees and wages (excluding compensation over \$100,000):
- Payroll costs **plus** any payment of interest on any covered mortgage obligation (not including any prepayment or payment of principal on a covered mortgage obligation) **plus** any payment on any covered rent obligation **plus** any covered utility payment.



QUESTION: How do I get forgiveness on my PPP loan?

Answer: You must apply through your lender for forgiveness on your loan. In this application, you must include:

- Documentation verifying the number of employees on payroll and pay rates, including IRS payroll tax filings and State income, payroll and unemployment insurance filings
- Documentation verifying payments on covered mortgage obligations, lease obligations, and utilities.
- Certification from a representative of your business or organization that is authorized to certify that the documentation provided is true and that the amount that is being forgiven was used in accordance with the program's guidelines for use.

QUESTION: What happens after the forgiveness period?

Answer: Any loan amounts not forgiven at the end of one year is carried forward as an ongoing loan with max terms of 10 years, at 4% max interest. Principal and interest will continue to be deferred, for a total of 6 months to a year after disbursement of the loan. The clock does not start again.

QUESTION: Can I get more than one PPP loan?

Answer: No, an entity is limited to one PPP loan. Each loan will be registered under a Taxpayer Identification Number at SBA to prevent multiple loans to the same entity.

QUESTION: What kind of lender can I get a PPP loan from?

Answer: All current SBA 7(a) lenders are eligible lenders for PPP. The Department of Treasury will also be in charge of authorizing new lenders, including non- bank lenders, to help meet the needs of small business owners.

QUESTION: How does the PPP loan coordinate with SBA's existing loans?

Answer: Borrowers may apply for PPP loans and other SBA financial assistance, including Economic Injury Disaster Loans (EIDLs), 7(a) loans, 504 loans, and microloans, and also receive investment capital from Small Business Investment Corporations (SBICs).

QUESTION: How does the PPP loan work with the temporary Emergency Economic Injury Grants and the Small Business Debt Relief program?

Answer: Emergency Economic Injury Grant and those who receive loan payment relief through the Small Business Debt Relief Program apply for and take out a PPP loan. Refer to those sections for more information.

Small Business Debt Relief Program

This program will provide immediate relief to small businesses with **non-disaster SBA loans**, in particular 7(a), 504, and microloans. Under it, SBA will cover all loan payments on these SBA loans, including principal, interest and fees, for six months. Until we see some of the regulations, we won't know the exact nature of this benefit. *This relief will also be available to new borrowers* who take out loans within six months (September 2020) of the bill becoming law.

FREQUENTLY ASKED QUESTIONS	
QUESTION:	Which SBA loans are eligible for debt relief under this program?
Answer:	7(a) loans not made under the Paycheck Protection Program (PPP), 504 loans, and microloans. Disaster loans are not eligible
QUESTION:	How does debt relief under this program work with a PPP loan?
Answer:	Borrowers may separately apply for and take out a PPP loan, but debt relief under this program will not apply to a PPP loan.
QUESTION:	How do I know if I'm eligible for a 7(a), 504, or microloan?
Answer:	In general, businesses must meet size standards, be based in the U.S., be able to repay, and have a sound business purpose. Each program has different requirements, see https://www.sba.gov/funding-programs/loans for more details.
QUESTION:	What is a 7(a) loan and how do I apply?
Answer:	<p>7(a) loans are an affordable loan product of up to \$5 million for borrowers who lack credit elsewhere and need access to versatile financing, providing short-term or long-term working capital and to purchase an existing business, refinance current business debt, or purchase furniture, fixtures and supplies.</p> <p>In the program, banks share a portion of the risk of the loan with SBA. There are many different types of 7(a) loans. If you need more information, we have a chart describing all of the programs. Understand that not all SBA Lenders participate in all loan programs. You apply for a 7(a) loan with a bank or a mission-based lender.</p>

QUESTION: What is a 504 loan and how do I apply?

Answer: The 504 Loan Program provides loans of up to \$5.5 million to approved small businesses with long-term, fixed-rate financing used to acquire fixed assets for expansion or modernization. It is a good option if you need to purchase real estate, buildings, and machinery. You apply through a Certified Development Company, which is a nonprofit corporation that promotes economic development. Depending on your business structure, many times larger projects are eligible for 504 loans.

QUESTION: What is a microloan and how do I apply?

Answer: The Microloan Program provides loans up to \$50,000 to help small businesses and certain not-for-profit childcare centers to start up and expand. The average microloan is about \$13,000. These loans are delivered through mission-based lenders who are also able to provide business counseling. This is not a bank program.

QUESTION: I am unfamiliar with SBA loans, can anyone help me apply?

Answer: Yes, our affiliate company, Bank Solutions, is an SBA lender service provider with years of experience with SBA and is happy to assist.

Economic Injury Disaster Loans & Emergency Economic Injury Grants

These grants provide an emergency advance of up to \$10,000 to small businesses and private non-profits harmed by COVID-19 within three days of applying for an SBA Economic Injury Disaster Loan (EIDL). To access the advance, you must first apply for an EIDL and then request the advance. At this point, we do not know the proper procedures for accessing the grant for those who have applied for the EIDL before CARES became law. The advance does not need to be repaid under any circumstance and may be used to keep employees on the payroll, to pay for sick leave, meet increased production costs due to supply chain disruptions or pay business obligations, including debts, rent and mortgage payments.

FREQUENTLY ASKED QUESTIONS

QUESTION: Are businesses and private non-profits in my state eligible for an EIDL related to COVID- 19?

Answer: Yes, those suffering substantial economic injury in all 50 states, DC, and the territories may apply for an EIDL.

QUESTION: What is an EIDL and what is it used for?

Answer: EIDLs are lower interest loans of up to \$2 million, with principal and interest deferment available for up to 4 years, that is available to pay for expenses that could have been met had the disaster not occurred, including payroll and other operating expenses.



<p>QUESTION: Who is eligible for an EIDL?</p> <p>Answer: Those eligible are the following with 500 or fewer employees:</p> <ul style="list-style-type: none">• Small business concerns (including sole proprietorships, with or without employees)• Independent contractors• Cooperatives and employee-owned businesses• Private non-profits• Tribal small businesses
<p>QUESTION: My private non-profit is not a 501(c)(3). Is it still eligible for an EIDL and a grant?</p> <p>Answer: Yes, if you are a private non-profit with an effective ruling letter from the IRS, granting tax exemption under sections 501(c), (d), or (e) of the Internal Revenue Code of 1954, <u>or</u> if you can provide satisfactory evidence from the State that the non-revenue producing organization or entity is a non-profit one organized or doing business under State law.</p>
<p>QUESTION: Who is eligible for an Emergency Economic Injury Grant?</p> <p>Answer: Those eligible for an EIDL and who have been in operation since January 31, 2020.</p>
<p>QUESTION: How long are Emergency Economic Injury Grants available?</p> <p>Answer: January 31, 2020 – December 31, 2020. The grants are backdated to January 31, 2020 to allow those who have already applied for EIDLs to be eligible to also receive a grant.</p>
<p>QUESTION: If I get an EIDL and/or an Emergency Economic Injury Grant, can I get a PPP loan?</p> <p>Answer: Whether you've already received an EIDL unrelated to COVID-19 or you receive a COVID-19 related EIDL and/or Emergency Grant between January 31, 2020 and June 30, 2020, you may also apply for a PPP loan. If you ultimately receive a PPP loan or refinance an EIDL into a PPP loan, any advance amount received under the Emergency Economic Injury Grant Program would be subtracted from the amount forgiven in the PPP.</p>
<p>QUESTION: How do I know if my business is a small business?</p> <p>Answer: Please visit https://www.sba.gov/size-standards/ to find out if your business meets SBA's small business size standards. You will need the 6-digit North American Industry Classification Code for your business and your business' 3-year average annual revenue.</p>

QUESTION: How do I apply for an economic injury disaster loan?

Answer: Banks & Associates can assist small businesses with EIDL loans. If you prefer to “do it yourself”, please visit <https://disasterloan.sba.gov/ela/>.

QUESTION: I am unfamiliar with the EIDL process, can anyone help me apply?

Answer: Yes, SBA resource partners are available to help guide you through the EIDL application process. Call us at 501.804.8410 or email us at loans@sbabanksolutions.com

Counseling & Training

Banks & Associates has provided strategic advisory services for over 20 years. We do not have any “size standards” for clients, but many have expressed they simply aren’t large enough to take advantage of our services on a continuing basis. Please understand our consultants are always willing to assist. The CARES Act does make some quasi-governmental agencies resources available during this time at no charge.

You can turn to your local Small Business Development Center (SBDC), Women’s Business Center (WBC), or SCORE mentorship chapter. These resource partners, and the associations that represent them, will receive additional funds to expand their reach and better support small business owners with counseling and up-to-date information regarding COVID-19. There will soon be a joint platform that consolidates information and resources related to COVID-19 in order to provide consistent, timely information to small businesses. Many of these resources are associated with local universities.

In addition, the Minority Business Development Agency’s Business Centers (MBDCs), which cater to minority business enterprises of all sizes, will also receive funding to hire staff and provide programming to help their clients respond to COVID-19. Not every state has an MBDC.

FREQUENTLY ASKED QUESTIONS

QUESTION: Do I have to pay for counseling and training through SBDCs, WBCs, and MBDCs?

Answer: Counseling is free and training is low-cost with these partners. The additional funds that Congress provided will help keep this possible. Mentorship through SCORE is always free.

QUESTION: What is an SBDC?

Answer: SBDCs are a national network of nearly 1,000 centers that are located at leading universities, colleges, state economic development agencies and private partners. They provide counseling and training to new and existing businesses. Each state has a lead center that coordinates services specifically for that state, which you can find by clicking the link above.

QUESTION: What is a WBC; is it only for women?

Answer: WBCs are a national network of more than 100 centers that offer one-on-one counseling, training, networking, workshops, technical assistance and mentoring to entrepreneurs on numerous business development topics. In addition to women, WBCs are mandated to serve the needs of underserved entrepreneurs, including low-income entrepreneurs. They often offer flexible hours to meet the needs of their diverse clientele.

QUESTION: What is SCORE?

Answer: SCORE provides free, confidential business advice through our volunteer network of 10,000+ business experts. You can meet with a mentor online.

QUESTION: Who do MBDCs serve?

Answer: MBDCs are a good option for minority-owned businesses (including those owned by Black, Hispanic, Asian American/Pacific Islander, and American Indian business owners), especially those seeking to penetrate new markets — domestic & global — and grow in size and scale.

Contracting

If you are a government contractor, there are a number of ways that Congress has provided relief and protection for your business. Agencies will be able to modify the terms and conditions of a contract and to reimburse contractors at a billing rate of up to 40 hours per week of any paid leave, including sick leave. The contractors eligible are those whose employees or subcontractors cannot perform work on-site and cannot telework due to federal facilities closing because of COVID-19.

If you need additional assistance, please reach out to your local Small Business Development Center, Women's Business Center, SCORE chapter, or SBA District Office. You should also work with your agency's contracting officer, as well as the agency's Office of Small and Disadvantaged Business Utilization (OSDBU).

Small Business Tax Provisions

Employee Retention Credit for Employers Subject to Closure or Experiencing Economic Hardship

This provision would provide a refundable payroll tax credit for 50 percent of wages paid by eligible employers to certain employees during the COVID-19 crisis. The credit is available to employers, including non-profits, whose operations have been fully or partially suspended as a result of a government order limiting commerce, travel or group meetings. The credit is also provided to employers who have experienced a greater than 50 percent reduction in quarterly receipts, measured on a year-over-year basis.

Wages of employees who are furloughed or face reduced hours as a result of their employer's closure or economic hardship are eligible for the credit. For employers with 100 or fewer full-time employees, all employee wages are eligible, regardless of whether an employee is furloughed. The credit is provided

for wages and compensation, including health benefits, and is provided for the first \$10,000 in wages and compensation paid by the employer to an eligible employee. Wages do not include those taken into account for purposes of the payroll credits for required paid sick leave or required paid family leave, nor for wages taken into account for the employer credit for paid family and medical leave (IRC sec. 45S).

The credit is not available to employers receiving assistance through the Paycheck Protection Program. The credit is provided through December 31, 2020.

Delay of Payment of Employer Payroll Taxes

This provision would allow taxpayers to defer paying the employer portion of certain payroll taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021, the other at the end of 2022. Payroll taxes that can be deferred include the employer portion of FICA taxes, the employer and employee representative portion of Railroad Retirement taxes (that are attributable to the employer FICA rate), and half of SECA tax liability.

Before taking advantage of this benefit, our advice to small businesses is to carefully consider your options before delaying payments. Should the business fail or not be able to make the required payments as agreed, you may become personally liable.

Deferral is not provided to employers receiving assistance through the Paycheck Protection Program.