

COVID BUSINESS ADVISORY ALERT

PAYCHECK PROTECTION PROGRAM OVERVIEW BY DAVID RIM, ALISHA JERNACK, RYAN VAUGHAN

March 28, 2020



The CARES Act establishes a new Paycheck Protection Program to let small businesses, nonprofits, and individuals seek loans through the Small Business Administration (“SBA”) 7(a) loan program. The program authorizes \$349 billion in total 7(a) lending from February 15 through June 30 for fiscal 2020. It would provide for the SBA to fully guarantee loans under the new program, compared with a 75% or 85% guarantee for standard 7(a) loans.

Loans would be available during the covered period for:

- Any business, nonprofit, veterans’ group, or tribal business with 500 or fewer employees, or a number set by the SBA for the relevant industry.
- Sole proprietors, independent contractors, and eligible self-employed workers.
- Hotel and food service changes with 500 or fewer employees per location.

The maximum for a 7(a) loan is increased to \$10 million or 250% of the average monthly payroll costs for the prior year, and interest rates are capped at 4%.

Mazars’ Paycheck Protection Program – Analysis Tool

M A Z A R S Paycheck Protection Program - Analysis Tool	
Questionnaire	
Congratulations! You are eligible for relief under the Paycheck Protection Act of the Coronavirus Aid, Relief and Economic Security Act. PLEASE CONTINUE BELOW:	
1	Are you in the "Accommodation and Food Services" Sector of the North American Industry Classification System? (NAICS) No
2	Do you have more than 500 employees? No
3	Please enter the expected date of the the loan (February 15, 2020 to June 30, 2020): 6/15/2020
4	What was the TOTAL payroll costs* during the trialing 12 month period before the date entered in Question #3? \$ 8,500,000
*include wages, tips, commissions, vacation, parental, family, medical or sick leave, severance, group health insurance premiums, retirement benefits, state or local tax assessed on compensation of employees	
5	Do you have any employees that earn more than \$100,000 per year? Yes
6	Were any employees included in Question #4 receiving qualified leave wages under the Families First Coronavirus Respo Yes
6a	How much did employees receive under the Families First Coronavirus Response Act during the period? \$ 10,000
7	Were any employees included in Question #4 non-U.S. residents? Yes
7a	How much did non-U.S. resident employees earn during the period? \$ 45,000
This is your applicable payroll costs: \$ 679,444	
This is your Maximum Loan Amount: \$ 1,698,610	
Anticipated Debt Forgiveness: \$ (1,403,888)	

Recipients could use the loans to cover eligible payroll costs -- including salaries, commissions, regular paid leave, and healthcare benefits -- as well as mortgage interest and utility payments. They would have to make a “good faith certification” that they will use the funds to retain workers, maintain payroll, and pay for rent and similar expenses.

Recipients cannot use the funds to compensate individual employees at an annual rate above \$100,000, or to pay for emergency sick or family leave under the second coronavirus response package (Public Law 116-127).

Approved 7(a) lenders can issue covered loans if they determine a business was operating with salaried employees or paid contractors as of Feb. 15. The measure would provide \$25 million for the Treasury Department to set criteria to allow additional insured banks and credit unions to participate.

The SBA would have to assume that eligible loan applicants in operation as of Feb. 15 were adversely affected by COVID-19 and require lenders to let them defer payments for at least six months and as long as one year.

Recipients of SBA-guaranteed loans under the Paycheck Protection Program could apply for loan forgiveness over eight weeks for eligible payroll costs and mortgage interest, rent, and utility payments. The SBA would pay lenders for any canceled debt plus accrued interest.

Loan forgiveness would be reduced for businesses that fire employees or cut their pay. Businesses could receive additional forgiveness for wages paid to tipped employees. Covered loans would have a maximum maturity of 10 years following a borrower’s application for forgiveness. The SBA would continue to guarantee remaining balances. Canceled debt would be excluded from borrowers’ gross income for tax purposes.

Terms of Loan Forgiveness (Sec. 1106)

- Loan recipients will be eligible for loan forgiveness for an 8-week period after the loan’s origination date in the amount equal to the sum of the following costs incurred during that period:
 - Payroll costs (compensation above \$100,000 excluded)
 - Payment of interest on the mortgage obligation
 - Rent obligations
 - Utility payments
- The amount forgiven cannot exceed the amount borrowed.
- Loan forgiveness will be proportionally reduced if the average number of employees is reduced during the covered period as compared to the same period in 2019. The amount of loan forgiveness will be reduced by the amount of any reduction in total employee salary or wages during the covered period that is in excess of 25% of the total salary or wages.
 - Payroll documentation and documentation of expenses are required to receive forgiveness, to ensure the forgiveness was used to retain employees and pay expenses.
 - Borrowers that rehire laid off workers by June 30 won’t be penalized for having a smaller workforce at the beginning of the period.

- Borrowers with tipped workers may receive loan forgiveness for the additional wages paid to those employees.
- Lenders have 60 days to issue a decision on the application.
- The canceled loan amount will not count towards gross income for tax purposes.

FOR MORE INFORMATION CONTACT: **DAVID RIM****SENIOR MANAGER**

+1.732.475.2160

david.rim@mazarusa.com **ALISHA JERNACK****SENIOR MANAGER**

+1.609.994.6823

alisha.jernack@mazarusa.com **RYAN VAUGHAN****DIRECTOR**

+1.815.478.8170

ryan.vaughan@mazarsusa.com**VISIT US AT** www.mazarsusa.com**Disclaimer of Liability**

Our firm provides the information in this e-newsletter for general guidance only, and does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult a professional adviser who has been provided with all pertinent facts relevant to your particular situation.

Mazars USA LLP is an independent member firm of Mazars Group.

CONFIDENTIALITY NOTICE: *The information contained in this communication may be privileged, confidential and protected from use and disclosure. If you are not the intended recipient, or responsible for delivering this message to the intended recipient, you are hereby notified that any review, disclosure, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by replying to the message and deleting it*