

CARES Act – Points to Consider for Small Businesses:

To all business owners:

Please read the portions you need from the 880 pages of the act: [https://www.congress.gov/bill/116th-congress/house-bill/748/text?q={%22search%22:\[%22paycheck%20protection%22\]}&r=17&s=3&fbclid=IwAR3errOoS1kl3ualKCthEjJ3VtXvnUMUwhNQZJ3pV0SNt5KHAbpkf0bdpZo](https://www.congress.gov/bill/116th-congress/house-bill/748/text?q={%22search%22:[%22paycheck%20protection%22]}&r=17&s=3&fbclid=IwAR3errOoS1kl3ualKCthEjJ3VtXvnUMUwhNQZJ3pV0SNt5KHAbpkf0bdpZo)

Here is the SBA loan application process here for the 7(b) loans.:

<https://www.sba.gov/disaster/apply-for-disaster-loan/index.html>

Should you apply now since you can only apply for the loan and not the Advance?

SBA says: "In the interim period, you can still apply for a full Economic Injury Disaster Loan, but will need to reapply for the Advance when the system is updated with a streamlined application." Once updated, the Advance will be included in your EIDL application process. You should probably apply as soon as you can.

If you are not a sole proprietor (if S-Corp, Partnership, LLC, etc):

Loan Application

If you are a sole proprietor:

Loan Application

All applying:

Personal Financial Statement

Request for Transcript of Tax Return

Schedule of Liabilities

Once these forms are completed:

Apply for the Economic Injury Disaster Loan by uploading the forms to the SBA's website.

Save all documents in a folder on your computer in case they need to be resubmitted.

Keep an eye on your email for announcements of when the application for the advance of the loan comes out and for the availability of when the 7(a) PPP is available.

Again, this is in regards to the 7(b) loan and at some point, you will have a form that will allow you to apply for the 7(b) forgivable advance. My understanding is that after applying for the 7(b) advance, it will be available within three days of submitting the 7(b) advance application. (Which again, is not yet available as far as I know.)

Save all documents in a folder on your computer in case they need to be resubmitted.

Keep an eye on your email for announcements of when the application for the advance of the loan comes out and for the availability of when the 7(a) PPP is available.

From what I understand, the advances can only be obtained with the 7B2 loan application...the grants can only be given if one applies for the loan. You should be a business of not more than 500 employees..a sole proprietorship, independent contractor, cooperative, esop, travel related business, small business concern, private non-profit, small ag coop, etc.

The \$10,000 advance (on the 7(b) loans) is designed to be a way to help businesses quickly. For this reason, all of you should probably apply for the 7(b) loan regardless of perceived need unless your office has not been affected by COVID at all.. The timeline for the separate 7(a) loan funds to be received for small businesses is 6-8 weeks from now.

It looks as if you use the funds for any qualified purpose (i.e. paid sick leave, maintaining payroll, meeting increased costs to obtain materials, making rent or mortgage payments, or repaying obligations that can't be covered - there may be more), you will be forgiven 100% on the \$10,000 - regardless of rehiring employees. Again, a qualified purpose is any operating expense for your business. KEEP RECORDS OF EVERY EXPENSE YOU SPEND THIS ON BECAUSE THE SBA WILL WANT IT! You may not want to use these funds for payroll purposes, which will be explained later (there is also a Section 1102 - Paycheck protection program that can be obtained through banks).

Let's use an example using broad timeline assumptions.

Your office averages \$20,000/month in payroll. That means the maximum 7(a) loan you can receive is \$50,000. (250% of \$20,000 as per Section 1102(a)(E)(i)(aa)(AA))

Let's assume your 7(b) loan is for the same amount as the maximum allowed for the 7(a) loan.

In one to two weeks from today (when the SBA believes the application for the advance will be available) you apply for the 7(b) advance as well as the 7(b)(2) loan. Assuming you are one of the first million applicants for the advance you'd receive the \$10,000 within three days of the request for the advance. You would hear about being approved for the 7(b)(2) likely 7-15 days later. Again, let's assume that you are approved for \$50,000 for that loan the same as the 7(a) requirements.

You used the \$10,000 advance for the following:

\$4,000 in rent.

\$5,000 in payroll.

\$1,000 in utilities.

You'd have \$10,000 of the \$10,000 advance forgiven. This is regardless of you rehiring any employees.

IMPORTANT: Use of these funds for anything other than a qualified expense will likely be considered FRAUD at worst and PERJURY at best. You must keep documentation on the use of these funds as we are anticipating stringent documentation to avoid nefarious uses of government funds.

You can use those funds at any time.

Now, two to three weeks from now the 7(a) loan program is finalized and you can start applying. You'd contact your banker and apply for the loan through the bank. You'll likely have to let them know if you have applied for the 7(b) loan as well at this time and you could then CHOOSE if you'd like to refinance the 7b loan into the 7a loan. You are not required to. You are also not required to apply for the 7a loan at all and just take the \$10,000 forgivable advance. Hopefully, that will be streamlined but the SBA doesn't know what that process will look like.

You would then receive \$40,000 for the 7(a) loan proceeds. (\$50,000 - \$10,000 already given in the 7b advance, assuming you are refinancing the 7b into the 7a)

Your "covered period" as defined by 1102(a)(1)(36)(A)(iii) is between February 15, 2020, and June 30, 2020. This is in relation to the 7(a) loan.

However, there is also a "covered period" defined in Section 1106(a)(3) which says that once you've been approved for the loan, the eight week period beginning on the origination of the loan is the loan forgiveness period in which you can start qualifying your expenses for forgiveness.

So, to the example, let's say that on April 20th your loan is originated. That would mean that eight weeks from April 20th, all expenses for qualified expenses will be kept up with and attributed to your 7(a) loan. For example's sake, let's say that eight weeks equals two months.

In between April 20th and the end of the eight week period you had:

\$30,000 in payroll. (\$15,000/month)

\$8,000 in rent.

\$2,000 in utilities.

Since your average payroll is typically \$20,000, you are only eligible for a 75% loan forgiveness. (\$15,000 / \$20,000)

You received \$50,000 for the total loan. You spent \$40,000 on qualified expenses in the eight week period. (Separate from the \$10,000 funds spent in a different time frame)

That would mean potentially \$30,000 of the \$50,000 loan would be forgiven. (\$40,000 qualified expenses in the eight week covered period x 75% = forgiven)

Since you already had \$10,000 forgiven from the advance, you'd subtract the \$10,000 from the \$30,000 to get to \$20,000 forgiven in the covered period. Meaning that you'd still owe \$30,000 from the loan. (You received \$10,000 advance + \$50,000 loan - \$30,000 forgiven = \$30,000 owed)

To summarize in this example.

\$50,000 max loan size for 7(a) based on average monthly payroll. (with some calculations excluded based on employees making more than \$100,000/year)

You get the advance on the 7(b) of \$10,000 which doesn't have to be repaid if spent on qualified expenses (any operating expense).

You apply and receive a 7(a) loan for the \$50,000. You can CHOOSE to refinance the 7(b) loan into the 7(a) which would mean that you'd only get an additional \$40,000. If you choose to NOT refinance the 7(b) advance into the 7(a), you'd get the full \$50,000.

Once you have your loan originated, for eight weeks your expenses can potentially be forgiven. The forgiven amount is reduced by the amount not repaid in the 7(b) advance.

Note: This is all changing and guidance could still be reissued.

The recommendations are to apply for the 7(b) loan and request the advance when that application becomes available. If you've already applied for the disaster loan you need to apply for the EIDL in the link above, which I'll share here again:

<https://www.sba.gov/disaster/apply-for-disaster-loan/index.html>

If you are not going to continue employing your staff, the 7(a) loan may not be advisable.. You may just stick with the 7(b) loan in that case. However, if your office is planning on re-opening, the 7(a) loan appears to have a lot of benefits attached to it.