

BGW CPA
CARES Act Small Business Update
3/31/2020

Format

- ▶ 30 - 40 minutes of content - please use the question feature to ask questions.
- ▶ Questions will be addressed both during a slide if related to the slide or at the end if the topic is unaddressed.
- ▶ Don't know all the answers as policy is still being made - so part of the analysis is conjecture and could change tomorrow

Representative war room plan

Launch (Day/Week 0)	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6
Get set-up and manage the process	Lay the ground work and fix immediate priorities			Focus on critical action plans		Focus on medium-to-long-term
<u>Align your senior team with a wake up call</u> - Host workshop with senior leaders	<u>Protect your employees and customers</u> - Assess safety across all people: employees, customers, suppliers, etc. - Implement the most conservative CDC protocols		<u>Defend against revenue declines</u> - Develop immediate actions, and medium-to-long term actions - Assess both downside and upside opportunities		<u>Play offense, not just defense</u> - Assess methods to outperforming competitors (M&A, product moves etc.)	
<u>Establish a dedicated senior team in a "war room" setting</u> - Stand-up the team - Specify work stream owners - Est. decision rights - Put in place complete tracking tool - If needed, call in external experts to help manage situation	<u>Model your exposure; stress test P&L</u> - Conduct initial assessment on external and internal scenarios across revenue, cost, cash and operations		<u>Stabilize operations to "new normal"</u> - Prepare critical operations: sourcing, manufacturing, supply chain - Build contingency plan for other operations		- Prepare for 'bounce-back' and recovery (assess marketing spend, leverage macro trends)	
	<u>Focus on immediate priorities / no regret actions</u> - Take swift needed decisions (e.g., cost, ops, rev.)		<u>Plan urgent cost take-out to conserve cash</u> - Plan for rolling 4 quarter and 13 week, and immediate liquidity actions - Improve cost position for mid-to-long-term		- Plan for and leverage a 'leap-frog' change in customer behaviors	
	Maintain an ongoing program management office (using Agile; start building 2-wave list of 'handbrake' vs. 'break glass' initiatives)					
	Build and execute on a communications and engagement plan					

The Tool Kit / FAQs

	Paycheck Protection Program (PPP) (7(a))	Economic Injury Disaster Loan (EDIL) (7(b))
Amount	2.5 X average payroll up to \$10m (plus EDIL - but total max is \$10m)	Up to \$2m
Uses	Payroll, rent, utilities, mortgage interest	A/P, COGs, Debt Obligations, and PPP items
Payback	For amounts not forgiven - 10 years	Determined by SBA based on ability to repay - up to 30 years; or PPP if refinanced
Apply To	Banks	SBA
Available	Next 1 to 4 weeks	Now (any funding?)
Covered Period	2/15/2020 - 6/30/2020	1/31/2020 - 12/31/2020
Eligible	500 employees - exceptions apply	Up to 500 employees
Personal Guarantee	No	Beyond \$200,000 (could change), exclusion in bankruptcy
Loan Payments	Deferred - 6 to 12 mos	Deferred - 6 mos (normal SBA provision?)

What's My Amount - PPP

PPP	Example
"Payroll" on a per employee / contractor basis	
Wage -	\$150,000 salary annualized:
Federal Withholding -	\$150,000 minus
Employer / Employer FICA / Medicare +	\$ 27,000 fed + 10,415 FICA minus
Employer portion of health insurance +	\$7,500 group plan plus
Employer portion retirement plan +	\$6,000 401(k) match plus
Employer state unemployment tax (income tax already included in wage) -	\$252 SUTA
Excess of (wage X 12) over \$100,000 excluded.	\$126,337 for purposes of the calculation (\$26,337 would be excluded)

PPP Forgiveness

- ▶ Payroll
- ▶ Rent (lease was in force pre 2/15/2020)
- ▶ Utilities (water, sewer, electric, internet, telephone – more guidance forthcoming – in force pre 2/15/2020)
- ▶ Mortgage interest if owner occupied (at an entity level – if owner occupied would mean rent paid to self so mortgage interest would not apply)
- ▶ Certified by bank that made the loan
- ▶ Reductions for FTE count / salary reductions below \$100k annualized – 75%.

Toolkit and FAQs – PPP / EDIL

Question:	Answer:
I have over 500 employees - now what?	<p>Exceptions apply restaurants / hotels / franchises and if the SBA 'average' employee count is higher than 500 for traditional SBA lending.</p> <p>Its possible that other affiliation rules will get waived in the future - likely would be based on locations / control with parent entity.</p>
What's an 'average FTE'	Not defined - but if using the ACA definition - any employee that works 30 hours per week in a given month or combination of part-timers that, when added, equal 30 hours per week. Average is average for each pay period in a month.
How do I get the restoration exemption?	Re-hire and/or restore salary reductions by 6/30 - it's unclear if this must be done at anytime prior to 6/30 - however the forgiveness is only up to the amount that you actually paid covered expenses.
Can I do EDIL and PPP at the same time?	Yes - but not for the same purpose (so using PPP first, EDIL second, or EDIL request that specific to A/P, COGS, other purposes).
I've already made EDIL request - how does that impact PPP	Just make sure you're clear with SBA and lender what you've done - and when / if you get EDIL from SBA ensure that the amounts are representative of non-PPP amounts.
What about partnership income	Although not explicitly stated - as self employed individuals qualify assume that partners subject to SE will qualify up to the same \$100,000 limit.
I use a PEO	The same calculation and limitations apply as for this purpose - you are the employer, not the PEO.
I have tipped employees	You could pay what they traditionally earned / reported, minimum wage - or another number.
Do I have to prove damages	Currently, no, just a certification that you used the money as intended.

The Tool Kit / FAQs

FMLA Credit	Employee Retention	Unemployment
<p>Employee Requests Leave:</p> <p>\$200 / day - up to \$10,000 per employee</p> <p>Subject to stay at home order, sick, or childcare</p> <p>Can be partial - as long as employer / employee agree (e.g. can only telework part-time due to obligations)</p> <p>Has to be full-day increments if non-telework.</p> <p>500 or less employees - lax affiliation rules</p> <p>Paid by either shorting payroll tax deposit (penalties waived) or refunded.</p> <p>Subject to guidelines for reporting from IRS.</p>	<p>50% of wages - up to \$10,000 - which equals \$5,000 per employee</p> <p>Forced closure or significant reduction in sales</p> <p>Greater than 100 Employees:</p> <p>Only applies when the employee is not working for employer but still getting paid.</p> <p>100 Employees or Less:</p> <p>Sales lower then 50% on a Q by Q comparison - stops when credit reaches 80%.</p> <p>Cannot be used at the same time as FMLA.</p> <p>Paid by either shorting payroll tax deposit (penalties waived) or refunded.</p> <p>Have to demonstrate gross receipts test.</p>	<p>Additional 13 weeks of eligibility beyond existing requirements (ends 12/31)</p> <p>Additional \$600 / week</p> <p>If part time - state may reduce benefit but \$600 / week enhanced benefit remains</p> <p>Starts in April - ends at the end of July</p> <p>Cannot be used if also receiving FMLA / Employee Retention</p>

The “Dates”

What?	Dates:
PPP Application	From ability to borrow until 6/30/2020
PPP Forgiveness Covered Period	5/1 - 6/30 (assuming this is eight weeks) or earlier / later depending on contract.
PPP Forgiveness	60 days after request to bank - 8/31 if 6/30.
PPP Test Period for Forgiveness	2/15/2019 - 6/30/2019 or at the election of the borrower - 1/1/2020 - 2/29/2020. Grace period for rehires / payroll 4/27 (or thereabouts).
FMLA Covered Period	4/1 - 12/31
Employee Retention Credit	3/12 - 12/31 (first quarter where gross receipts declined or shut down due to government)

Examples

Considerations

- ▶ Which scenario are you?
- ▶ S-Corp owner salary considerations – part of the math
- ▶ Moral / Culture related to use of unemployment / reductions if declines aren't permanent?
- ▶ Use of EDIL as a supplement if 'new normal' is still temporary and/or to clear out old A/P?
- ▶ On the positive – use the opportunity to make business model changes (e.x. reduction in travel through the use of web meetings)

Questions?