

# *Healey & Associates*

*Certified Public Accountants and Consultants*

Dear Clients and Friends,

- Maximum loan amounts under the Paycheck Protection Program are calculated by utilizing average monthly payroll over last twelve months times 2.5. Example – average monthly payroll \$50,000 times 2.5 = \$125,000 maximum loan.
- To determine whether a business is eligible for this program, the CARES Act requires lenders to ascertain: (1) whether a business was operational on February 15, 2020, and (2) whether the business had employees to whom it paid salaries and payroll taxes, or paid independent contractors, and (3) whether the business was substantially impacted by COVID-19. The legislation also gives more authority to lenders regarding eligibility determinations without having to run those determinations through the normal SBA approval channels.
- Businesses eligible for the expanded 7(a) loans under the CARES Act include small businesses, nonprofits and veterans organizations with 500 or fewer employees. During the covered period, individuals who operate under a sole proprietorship or as an independent contractor and eligible self-employed individuals shall be eligible to receive a covered loan.
- The CARES Act says that the allowable uses of 7(a) loans include salary, wages, commissions, tips, paid leave, healthcare payments and retirement benefit payments. It's important to note that allowable payroll costs do not include compensation to an individual employee in excess of an annual salary of \$100,000 as prorated for the covered period. Qualified sick leave or family leave wages for which a credit is allowed under the Families First Coronavirus Response Act are not included in the allowable uses. It also does not include any compensation of an employee whose principal place of residence is outside of the United States.
- One of the most important aspects of the CARES Act is that the 7(a) loans are nonrecourse, except if the proceeds are used for an unauthorized purpose. In addition, no personal guarantee or collateral are required. That said, "Good Faith" certification is required and certification has the following elements:
  - The current uncertainty makes the loan necessary to support ongoing operations;
  - The funds will be used to retain work and maintain payroll or make mortgage payments, lease payments, and utility payments;
  - There are no duplicative amounts.
- The terms of these loans are as follows:
  - Interest rate: During the covered period, a covered loan shall bear an interest rate not to exceed 4 percent
  - Payment Deferment: 6-12 month of deferment including principal, interest and fees
  - Origination Fees: Lender reimbursed by the SBA
- Secretary of Treasury promises rapid funding with much relaxed standards of qualifications.

- Are guaranteed 100% by the Small Business Administration (no personal guarantees or collateral required);
- May be **forgiven** for amounts used to cover basic operating expenses such as payroll costs, rent and mortgage, and utilities for up to two months from the loan origination date (**excluded from COD income**); and
- Have a maximum maturity rate of 10 years and 4% interest if **not forgiven**.

Also, in response to the questions we've had about the amounts of the stimulus checks individuals will receive, here is a helpful link to compute the payments:

[www.kiplinger.com/tool/taxes/T023-S001-stimulus-check-calculator-2020/index.php](http://www.kiplinger.com/tool/taxes/T023-S001-stimulus-check-calculator-2020/index.php)

For your reference, here is a list of CARES Act tax provisions:

- Tax credit rebates of up to \$1,200 per individual and \$500 per child that are phased out for taxpayers with AGI over \$75,000 (\$150,000 MJF and \$112,500 HOH) and will be "rapidly advanced;"
- Deferral of 50% of an employers' payroll tax deposits for 2020 (with 50% of deferred amount due by December 31, 2021, and 50% due by December 31, 2022);
- A refundable employer retention credit equal to 50% of qualified wages against quarterly employment taxes, to offset up to \$10,000 of wages paid per employee in 2020;
- The reinstatement of NOL carrybacks for the 2018–2020 taxable years, and repeal of the 80% taxable income limitation for the 2018–2020 taxable years;
- A TCJA technical correction that classifies qualified improvement property as 15-year recovery period, allowing the bonus depreciation deduction to be claimed for such property retroactive as if it was included in the TCJA at the time of enactment;
- Penalty-free withdrawals of tax retirement funds of up to \$100,000 (income recognized over a three-year period);
- A temporary waiver of RMD requirements in 2020;
- Increased individual and corporate charitable contribution deductions for 2020;
- The deferral of excess business loss limitations until 2021;
- Deferral of an employer's 2020 minimum contributions to its single-employer defined benefit pension plan until January 1, 2020;
- An increase in the business interest deduction limitations from 30% to 50% of adjusted taxable income for the 2019 and 2020 taxable year;
- An exclusion from income for employer-payments made on employee student loans paid before January 1, 2021;
- The acceleration of the corporate credit for prior-year minimum tax liability, allowing 100% of the credit to be claimed in 2019 (2018 at the election of the taxpayer); and
- A COD exclusion of small business Payroll Protection loans forgiven under the Act.

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