

# *Treadwell, Tamplin & Co.*

Certified Public Accountants  
A Limited Liability Partnership

157 West Jefferson Street  
Madison, Georgia 30650

Ph: 706-342-1040  
Fax: 706-342-1041

March 27, 2020

Dear clients and friends:

On March 25, 2020, the U.S. Senate passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Please be aware that the House of Representatives has not yet passed this bill, so there could be changes to the Act before it becomes a law. The House was supposed to take up this measure on Friday, the 27<sup>th</sup>. However, time is of the essence, so we wanted to get this information out even if it could change.

Most importantly, the CARES Act greatly increases eligibility for small business loans through the Small Business Administration (SBA). SBA loans are generally made by a lender and then guaranteed by the federal government. Getting this relief will involve applying for a loan with a lending institution. Below we have summarized the major provisions related to obtaining SBA loans:

1. Businesses and non-profits under 500 employees eligible for loans under section 7(a) of the Small Business Act. Self-employed individuals are eligible for loans as well.
2. Loan amounts limited generally to the smaller of the average monthly payments for payroll (limited to annual salaries up to \$100,000 prorated for the period) over the one year period prior to the loan, multiplied by 2.5. For self-employed people, net earnings from self-employment up to \$100,000 per year, prorated for the covered period are eligible. Seasonal employers calculate their average between the dates of either 2/15/19 or 3/1/19 (election made by seasonal employer) to 6/30/19. Loan can also be used to refinance a loan that was taken after 1/31/20. Limited to an overall cap of \$10 million.
3. Loan proceeds can be used for: payroll costs, interest payments on any mortgage obligation, rent, utilities, interest on any other debt incurred before 2/15/20

4. **Loans are to be made NONRECOURSE with respect to the owner and no collateral is required. No personal guarantee required.**
5. Loan amounts that are not forgiven will have a maturity of 10 years and shall bear interest at a rate not to exceed 4%. Loans will not have prepayment penalties.
6. Loan payments will be deferred for a period of at least 6 months but not to exceed 12 months.
7. No loan fees from SBA allowed. These fees normally range from 2-3.75% of the loan amount.
8. Entire loan amount is guaranteed by the federal government. Provision sunsets on 12/31/20
9. Anyone that applies after February 15, 2020 is presumed to have been adversely affected by Covid-19
10. No limitations on lenders for commitments for 7(a) loans
11. Express loan limit increased from 350k to \$1 million through 12/31/20. Express loans have streamlined procedures and application process.
12. **Loans are forgivable for the amount of payroll paid, interest payments on debt obligations incurred prior to 2/15/20, rent, and utilities incurred during the covered period for forgiveness (the 8 week period beginning on the origination date of the loan). The only type that seems to be eligible for the loan forgiveness are loans made under the 7(a) program.**
13. Amounts forgiven will be considered cancelled indebtedness by lenders. **This cancelled debt is excluded from the income of the borrower. Normally canceled debt is income to the debtor. Not here.**
14. Banks will be reimbursed by federal government for amounts forgiven. The Act appropriates \$349 billion for this purpose.

15. Loan forgiveness reduced by percentage of subtracting the average number of full-time equivalent (FTE) employees during the covered period (8-week period following loan) over average FTE employees between 2/15/19 and 6/30/19 or the number of FTE between 1/1/20 or 2/29/20 at the election of the borrower. For example, if you had average 10 FTE during the 2019 period and only 8 FTE during the 2020 period, then the calculation would be as follows:  $1 - 8/10 = 20\%$  reduction in loan forgiveness. There are provisions to reduce the forgiveness reductions based on rehiring previously laid off positions.

16. Loan forgiveness also reduced by the amount of any reduction in pay in excess of 25% of pay (for any employee earning under 100k annually) compared to the most recent calendar quarter prior to the covered period. For example, if you have an employee that normally earns \$8,000/month and you reduce that pay to \$5,000/month, you will have reduced that employee's pay by 37.5%. Your possible loan forgiveness would be reduced by \$2,000 (\$3,000 actual reduction less \$2,000 allowed reduction ( $8,000 * 25\%$ ) times the 8-week period).

17. **Borrower must submit to lender:**

- a. **Payroll tax filings to IRS**
- b. **State income, payroll and unemployment filings**
- c. **Financial statements verifying payment on debt obligations**
- d. **Other documents deemed necessary**

18. Borrower must certify certain things about uncertainty during this time justifying the loan request and acknowledge the allowed uses of the loan proceeds.

19. Didn't see any prohibitions about forgiveness of salaries of owners.

Here is information that you need to start gathering for the loan application and to analyze the amount of forgiveness you might expect:

1. Expected payroll to be paid during 2/15/20 to 6/30/20 including expected headcount (needed to calculate potential forgiveness)

2. average monthly payments for payroll. We have prepared a template to help you use this information to calculate your maximum loan amount.
3. Documents specifically required by statute – bolded above
4. 3 years personal and business tax returns
5. Resume for owners. SBA requires the owner's personal history on a Form 912  
<https://www.sba.gov/sites/default/files/2019-12/SBA-912.pdf>
6. Personal financial statement. SBA requires this information to be on a Form 413  
<https://www.sba.gov/sites/default/files/2019-09/Form%20413.pdf>. This form is very similar to personal financial statements that banks normally require for lending.
7. P&L up to date as well as balance sheet to date. These reports should be closed out by accounting (i.e. cleaned up)
8. Projection of income and finances for the next year along with a written explanation of how you will reach that projection
9. Copy of business lease and business license
10. SBA Form 1919 <https://www.sba.gov/sites/default/files/2018-03/SBA-1919.pdf> and SBA Form 1920 <https://www.sba.gov/sites/default/files/2017-10/Form%201920%20Fillable.pdf>
11. 7(a) loan application – Could be some documents related to the loan application that will be provided by the lender

Our firm can help you with gathering some of this information. Contact us and we will give you guidance in the most efficient way for you to gather the needed information.

Very truly yours,

Treadwell, Tamplin & Co.