

# COVID-19 Federal Aid Reference Guide

## The Charity CFO, LLC

### EIDL & Emergency SBA Loans - 7(b)

#### Program Overview

The Small Business Administration (SBA) has expanded their existing disaster relief loan program, known as the Existing Economic Injury Disaster Loan (EIDL), for any small businesses and nonprofits impacted by COVID-19. This expansion applies looser credit standards and allows organizations to receive up to \$200,000 in uncollateralized and unguaranteed *unforgivable* loans. SBA 7(b) loans are administered directly by the SBA, and applications are currently available online.

#### Dollar Amount

The 7(b) loans are available for up to \$2 million.

All applicants will receive a payment 'advance' of \$10,000 within 3 business days of submitting their application. This 'advance' can be considered a grant and is *not* required to be repaid, even if the application is ultimately denied and no loan is issued.

#### Collateral or Guarantee

Any loan in excess of \$25,000 will require collateral. While real estate is the preferred form of collateral, a loan will not be declined for lack of the preferred form of collateral. An SBA lien is subordinate to any existing liens.

#### Eligibility

This program is available to all US-based private nonprofit organizations with 500 or fewer employees, *excluding* any religious organizations.

#### Interaction with Other Programs

This program is available to organizations taking advantage of any other COVID-19 program. However, the funds provided through this program cannot be applied to the same expenses as funds provided through the Paycheck Protection Program 7(a) loans.

#### Criteria

Criteria is primarily based on need and credit score.

## Restrictions

If an organization is receiving aid through both the SBA 7(b) program and the PPP 7(a) program, the funds received through the SBA 7(b) loan program may not be counted towards the same expenses as are applied to the PPP 7(a) program.

Otherwise, there are no restrictions on the use of funds loaned through the 7(b) program. However, the \$10,000 advance must be limited to the following uses:

- Payroll expenses
- Increased costs due to disrupted supply chain
- Debt service

## Loan Terms

The interest rate available to nonprofit applicants is 2.75%, which is lower than under the 7(a) program. The period of the loan will vary, though it is limited to no more than 30 years. There is no prepayment penalty.

## Forgiveness

There is no provision for forgiveness under the 7(b) loan program.

## Application Availability

Applications are available today through the SBA directly. Click [here](#) for the application link.

## Application Requirements

The SBA has recently updated its application process for these loans. Currently, the only information required for the initial application is summarized below:

- Federal EIN
- Gross revenues for the 12 months ending January 31, 2020
- Cost of goods sold for the 12 months ending January 31, 2020
- Non-profit cost of operations for the 12 months ending January 31, 2020
- Details of any secular social services provided by a religious organization
- Details of other compensation received as a result of the disaster
- Number of employees
- Business activity
- Ownership information\*
- Accounting firm information

\* Note that the form requires information on all owners, even for nonprofit applicants. Generally, we simply include the relevant information for the executive director and specify an ownership interest of 0%.

## Certification

The applicant must certify, under penalty of perjury, that all information provided in the application is true and correct.

## Paycheck Protection Program Loans - 7(a)

### Program Overview

The Coronavirus Aid, Relief and Economic Security (CARES) Act is a piece of bipartisan legislation which was passed and signed into law on March 27, 2020. One of the features of this bill was the creation of the Paycheck Protection Program (PPP) loans program, or SBA 7(a) loans. These 7(a) loans are available to small businesses and nonprofits and allow for loan forgiveness if certain criteria are met. This program is underwritten by the SBA and administered by local "SBA preferred" banks and lending institutions. At this time, applications for these loans are not currently available.

### Dollar Amount

The 7(a) loans are available for 2.5 times the average payroll expenses from the last 12 months, though not to exceed \$10 million. For organizations without a full year of payroll history, 2.5 times the average monthly payroll expenses from January 1st, 2020 to February 29th, 2020 is used. For purposes of determining the loan amount, payroll includes salaries to the extent that they do not exceed \$100,000 per employee, plus employee benefits and payroll taxes.

### Collateral or Guarantee

There is no requirement for collateral or a personal guarantee, regardless of the amount.

### Eligibility

This program is available to all US-based nonprofit organizations which were in operation as of 2/15/2020 and with 500 or fewer employees, *including* religious organizations. Nonprofit organizations with no employees or independent contractors are not eligible.

### Interaction with Other Programs

This program is available to organizations also taking advantage of the EIDL SBA 7(b) loans. However, the funds provided through this program cannot be applied to the same expenses as funds provided through the 7(b) loans. With the exception of the 7(b) loans, this program is not available for organizations taking advantage of any other COVID-19 programs.

## Criteria

Criteria is primarily based on need and credit score.

## Restrictions

If an organization is receiving aid through both the SBA 7(b) program and the PPP 7(a) program, the funds received through the PPP 7(a) loan program may not be counted towards the same expenses as are applied to the SBA 7(b) program.

In addition, proceeds from the loan must be used for the following purposes:

- Payroll expenses
- Interest on debt which was in effect prior to 2/15/2020
- Rent
- Utilities

## Loan Terms

The interest rate available to all applicants is 4%, which is higher than under the 7(b) program. The first six months of payments (interest and principal) are automatically deferred, though there is no prepayment penalty. The loan period is limited to 10 years.

## Forgiveness

To the extent that the loan covers the following expenses *within 8 weeks* of the loan origination date, it is forgivable:

- Payroll expenses (including payroll taxes and benefits, though limited to \$100,000 gross wages per employee and excluding non-US employees)
- Interest on debt which was in effect prior to 2/15/2020 (excluding prepaid interest)
- Rent
- Utilities

All forgiveness is treated as a nontaxable grant to the applicant. Any eligible forgiveness may be reduced on a pro-rata basis for *any* of the following reasons:

- There is a reduction in full-time equivalent (FTE) employees from February 15th, 2020 to June 30th, 2020 as compared to average monthly FTEs from either February 15th, 2019 to June 30th, 2019 **or** from January 1st, 2020 to February 29th, 2020 (borrower can choose comparison period). Note that a reduction in FTE employees could be the result of lay-offs, terminations, or a reduction in hours of part-time employees.
- There is a decrease in wages *beyond* 25% for any employees earning less than \$100,000 per year occurring February 15th, 2020 to June 30th, 2020 relative to wages in the fourth quarter of 2019.

- The applicant received a \$10,000 advance through the SBA 7(b) loan program. Note that in this case, the PPP 7(a) loan forgiveness will be directly reduced by \$10,000.

If the borrower meets either of the first two criteria for forgiveness reduction, they may take steps to re-hire employees, increase part-time employee hours, and/or reinstitute/raise wages in order to return to the employment/wage levels as of 2/15/2020. Doing so will exempt the organization from forgiveness reduction, with the exception of any forgiveness reduction due to the \$10,000 advance through the SBA 7(b) loan program.

Borrowers will be required to provide supporting documentation with their lending institution for any relevant expenses incurred to receive forgiveness.

## Application Availability

The 7(a) loans are administered by local banks and other lending institutions deemed to be 'preferred lenders' by the SBA. The SBA is responsible for managing the program and underwriting all loans. Currently, the SBA is working to outline specific procedures for implementing this program. We expect that applications will begin opening with certain lending institutions by April 8th.

## Application Requirements

While the specific requirements have not yet been defined by the SBA, we have compiled this list of materials which we expect will be required of applicants:

- IRS determination letter or articles of incorporation
- 2019 IRS quarterly 941 payroll tax reports
- Last 12 months of payroll reports, to include the following for each employee:
  - Gross wages
  - Paid time off
  - Payroll taxes
- All 1099's from 2019
- Documentation to substantiate any health or retirement benefits paid to employees by the organization

## Certification

The applicant must make the following good faith certifications in order to apply for a 7(a) loan:

- The loan is necessary to support the business through an environment created by COVID-19.
- Funds will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments, and utility payments.
- The applicant has not otherwise received funds or has an application pending under the Paycheck Protection Program.

# Payroll Tax Remittance Deferrals

## Program Overview

The Coronavirus Aid, Relief and Economic Security (CARES) Act is a piece of bipartisan legislation which was passed and signed into law on March 27, 2020. One of the features of this bill is an option to delay federal payroll tax remittances for employer social security.

## Dollar Amount

Federal payroll tax requirements include 6.2% social security plus 1.45% medicare deducted from *employee* gross wages and 6.2% social security plus 1.45% medicare paid in addition to gross wages by the *employer*. This results in a total payroll tax bill, which is remitted by the employer, of 15.3% of gross wages.

The CARES Act allows employers to defer the payment of *only* employer social security payroll taxes (6.2% of gross wages) in order to improve liquidity. Employers must pay 50% of deferred payroll taxes by 12/31/2021 and the other 50% by 12/31/2022.

## Eligibility

This program is available to all US-based nonprofit organizations, except for those taking advantage of the Payroll Protection Program 7(a) loans.

## Interaction with Other Programs

This program is not available for organizations taking advantage of the Payroll Protection Program 7(a) loans.

# Employee Retention Credit

## Program Overview

The Coronavirus Aid, Relief and Economic Security (CARES) Act is a piece of bipartisan legislation which was passed and signed into law on March 27, 2020. One of the features of this bill is the employee retention tax credit which covers 50% of eligible employee wages. Only organizations in *severe* hardship due to COVID-19 qualify.

## Dollar Amount

The credit covers 50% of employee wages, including health benefits, up to \$10,000 per employee. The 50% credit remains in effect until an organization returns to a fully operational

state or its revenues return to 80% of previous quarter values. Additional limits to the credit are applied for organizations with more than 100 employees.

This credit is designed to offset an employer's quarterly payroll tax liability, although any excess credit over the payroll tax liability is refundable. However, the CARES Act includes a provision which would allow an organization to receive an advance payment of this credit.

## Eligibility

This program is available to all US-based nonprofit organizations not taking advantage of the Paycheck Protection Program 7(a) loans and meeting one of the following criteria:

- The organization has either fully or partially shut down all programs as a result of COVID-19
- Current-quarter revenues have dropped by 50% compared with the previous quarter

## Interaction with Other Programs

This program is not available for organizations taking advantage of the Payroll Protection Program 7(a) loans.

## Frequently Asked Questions

Are 1099 contractor expenses eligible for forgiveness under the PPP 7(a) loan program?

No, 1099 contractor expenses are not eligible for forgiveness under the PPP 7(a) loan program. However, funds from the SBA 7(b) loan program can be used to cover 1099 contractor expenses.

When can you apply for a PPP 7(a) forgivable loan?

While the CARES Act has been passed and signed into law, the SBA is still working to solidify the procedures associated with this program. Based on the information we have at this time, we expect that lending institutions will begin releasing applications for these loans by April 8th.

Is an organization disqualified from either a PPP 7(a) or SBA 7(b) loan if it has credit available from other sources?

No, it is still eligible under either loan program.

When is it more advantageous to apply for an SBA 7(b) loan rather than a PPP 7(a) loan?

Generally, the PPP 7(a) loan program is more advantageous, as it provides for forgiveness. However, any organization whose sum of payroll, rent, utilities, and interest expense over a given 8-week period is less than \$10,000 should consider applying for an SBA 7(b) loan instead of a PPP 7(a) loan. For such an organization, the \$10,000 advance which requires no repayment and is provided through the SBA 7(b) program would exceed the loan forgiveness available through the PPP 7(a) loan.

Additionally, any organization with *no* payroll may consider applying for an SBA 7(b) loan, as they would not qualify for a PPP 7(a) loan.

When is it advantageous to apply for *both* an SBA 7(b) and a PPP 7(a) loan?

If an organization is in need of an *immediate* cash infusion, it should consider applying for an SBA 7(b) loan right away. This will allow it to at least receive the \$10,000 advance within three business days. Once the PPP 7(a) application becomes available, the organization can apply through that program to receive additional funds. The forgivability of the PPP 7(a) loan will be directly reduced by the \$10,000 received under the SBA 7(b) program, but the organization will have at least received the \$10,000 much sooner than had it waited to apply through the PPP 7(a) program.

An organization may also choose to apply for both loans if it needs cash flow beyond what is provided through the PPP 7(a) program, although the additional cash flow provided through the SBA 7(b) program would not be eligible for forgiveness.

How can an organization take advantage of the payroll tax remittance deferrals?

An organization wishing to take advantage of this program would need to work directly with their payroll provider to ensure that eligible payroll taxes are appropriately deferred and not remitted.

Note that unless an organization does not qualify for the PPP 7(a) forgivable loan program, they would probably not opt for a payroll tax deferral, as the PPP 7(a) forgivable loan program is far more advantageous.

How can an organization take advantage of the employee retention credit?

An organization wishing to take advantage of this program may need to contact a tax professional for more information. We are currently waiting on IRS guidance to clarify the process for receiving an advance on this credit.

Note that the criteria for an organization to qualify for this program are very restrictive, and an organization has to demonstrate that it is undergoing severe hardship as a *direct* result of COVID-19.