Getting Cash During the Virus Crisis: Loans, Forgivable Loans, and Grants Available to Businesses, Independent Contractors, Sole Proprietors, and the Self-Employed

The Payroll Protection Program and the Economic Injury Disaster Loan Program (and some other benefits for small businesses)
Key Takeaways

• Most now eligible for subsidized loans, forgivable loans, small grants
  • <500 employees, indep. contractors, sole props., self-employed, partnerships
    • Full-time, part-time, or “other status”
  • If hurt by crisis or its “uncertainties”
    • Often no collateral, no personal guarantee

• Forgivable PPP loan = 2½ months of pre-crisis “payroll” costs

• Other loans also have low-interest, very easy terms, cash quickly

• Apply today, strategically—regardless of headlines
  • Fast and easy to apply and get funded—until funds run out

• Banks and SBA likely to re-start applications on April 27th

• We provide concrete examples of how PPP loans can help
Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), and More

• Goal: To preserve employment and businesses
  • Current economic uncertainties make loan necessary for support of operations
  • Small businesses, sole proprietors, self-employed, and contractors, etc.

• $310B replenished PPP, after $350B used up in two weeks
• Forgive loan repayment if use the PPP loan (mostly) for payroll costs
  • 1% interest, 2-year term, <$10M
  • No personal guarantee, no collateral required

• $50B more for Economic Injury Disaster Loans and grants (EIDLS)
• Crisis-related tax credits and the usual SBA loans
• Even unemployment checks for business owners, self-employed, etc.
Forgiveness of PPP Loans—Up to 100 Percent!

- Costs eligible for forgiveness: compensation, rent, utilities, mortgage interest
  - Compensation: wages & salaries, health and ret. benefits, paid leave, non-fed. payroll taxes
- Spend loan proceeds within 8 weeks of receiving cash
- Spend at least 75% of loan proceeds on compensation costs
- Achieve pre-crisis headcount by June 30
- Compensation costs at least 80% of pre-crisis amount
- Limited to the first $100K of each employee’s annual compensation cost
- Rules for partial forgiveness are not yet clear
Get Going to Get Cash

**Easy to Apply**
- Some complaints PPP is “complex”, “bewildering”, “confusing”, “frustrating”
- But, 2-page application in < 1 hour
  - Application in Appendix below
- Provide the few required documents
  - “Payroll” costs, payments to owner, 1099
  - 2019 Schedule C—even if not yet filed!
  - Maybe some invoices, bank statements
- Perhaps, separately apply for business account and/or loan to trigger paperwork (BSA, AML, ...)

**Have a Strategy for Where To Apply**
- Many lenders are swamped
- Some lenders require business accounts as of Feb. 15th (e.g., BofA, ...)
- Credit unions and smaller banks
  - $30B reserved for PPP @ small banks + CUs*
  - $30B reserved for PPP @ midsize banks + CUs*
  - Also, will be eligible for $250B PPP loans
- But, completed applications not funded before might be first in line

*Small: Assets <$10B
*Midsize: Assets $10B-$50B
PPP Loans May Be Forgiven, Mostly (or Entirely): 15 Full-Time Employees

Tuowonbee Enterprises:

**Monthly Expenses ($1000s)**

- **Payroll** 90*: Forgivable
- **Benefits** 20*
- **Health Ins.** 20*
- **Rent** 20*
- **Utilities** 5*
- **Other** 45

**Total** 200

Paycheck Protection Program:

**Loan Amount and Forgiven**

- **Maximum Loan Size**
  - 2.5 x (90+20+20) = 325
    - 2.5 x monthly compensation
- **Amount of Loan Forgiven**
  - 2 x (90+20+20+20+5) = 310
    - 2 months of compensation+rent+utilities
    - Amount of loan forgiven is not taxable
- **Net borrowing** = 325-310 = 15
  - Interest rate = 1.00%
  - 1st payment deferred 6 months
  - About $1,000.00/month
    - Interest is tax-deductible
Lenders Submitted 2M PPP Loan Applications
(By April 16. Total fees paid by govt. to lenders: $10B. No fees to borrowers.)

“One hand washes another”: Don’t apply for PPP loan a little over $351K.

PPP Loan: $325,000. Fee to Lender: $16,250.
PPP Loans May Be Forgiven, Mostly (or Entirely): 40 Full-Time Employees

**BigSmallBiz:**

<table>
<thead>
<tr>
<th>Monthly Expenses ($1000s)</th>
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<tbody>
<tr>
<td>Payroll 250*</td>
<td></td>
</tr>
<tr>
<td>Benefits 65*</td>
<td></td>
</tr>
<tr>
<td>Health Ins. 65*</td>
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</tr>
<tr>
<td>Rent 60*</td>
<td></td>
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<tr>
<td>Utilities 15*</td>
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<tr>
<td>Other 150</td>
<td></td>
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<tr>
<td><strong>Total</strong> 605</td>
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*: Forgivable

**Paycheck Protection Program:**

<table>
<thead>
<tr>
<th>Loan Amount and Forgiven</th>
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<tbody>
<tr>
<td>Maximum Loan Size</td>
<td></td>
</tr>
<tr>
<td>2.5 x (250+65+65)</td>
<td>950</td>
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<tr>
<td>2.5 x monthly compensation</td>
<td></td>
</tr>
<tr>
<td>Amount of Loan Forgiven</td>
<td></td>
</tr>
<tr>
<td>2 x (250+65+65+60+15)</td>
<td>910</td>
</tr>
<tr>
<td>2 months of compensation+rent+utilities</td>
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<tr>
<td>Amount of loan forgiven is not taxable</td>
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<tr>
<td>About $1,700.00/month</td>
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<tr>
<td>Interest is tax-deductible</td>
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</table>
PPP Loans May Be Forgiven, Mostly (or Entirely):
No Employees

1099 Contractors/Self Employed/Sole Proprietor: 2019 Tax Year Form 1040 ($1000s)

• Schedule C (l.31) 90*: Forgivable
  • 2019 Form 1040--even if not yet filed!

Paycheck Protection Program:
Loan Amount and Forgiven

• Maximum Loan Size
  • 2.5 x (90/12) = 18.75
    • 2.5 x 2019 (or recent) monthly net profit

• Amount of Loan Forgiven
  • 2 x (90/12) = 15
    • 2 x 2019 monthly net profit
      • Amount of loan forgiven is not taxable

• Net borrowing = 18.75-15=3.75
  • Interest rate = 1.00%
  • 1st payment deferred 6 months
  • About $170.00/month
    • Interest is tax-deductible
But, Wait! There’s More!!
EIDL Is an SBA Loan—with a Grant

• Apply directly to SBA, not through a lender
  • Approved or not, within days, receive $1K per (Jan. 31, 2020) employee ($<10K)
  • EIDL grant reduces PPP forgiveness
• OK to do both PPP and Economic Injury Disaster Loan (EIDL)
• EIDL if COVID cut operations, or if profits <1/2 of same time in 2019
• EIDL loan <=$2 million at 3.75% for <=30-year term
  • Allows more uses of funds than PPP
  • No collateral required
• 10 minutes to complete forms (SBA); 1 month to get funds
• Payments deferred for first 6 months
And, More Yet!!

• Employee Retention Refundable Tax Credit
  • Credit up to ½ of each employee’s wages with cap of $5K credit for each employee
  • Based on employees, not for self-employed
  • Cannot get PPP loan if claiming this tax credit
  • Businesses eligible if they cut 2020 operations due to govt. restrictions on travel, business, etc.

• Newly eligible for much more in Unemployment Insurance (UI) benefits
  • Thru December, bus. owners, contractors, self-employed, just-employed, ...
  • For April - July, extra $600/week added

• Usual SBA loan programs: 7(a), 504, microloans
  • SBA will pay 1st 6 months of principal, interest, and fees
  • On new loans made through these programs before Sept. 27th
Examples of Rescue Resources

• You can apply for PPP loans through banks, credit unions, and platforms, e.g., https://www.lendio.com/covid-relief/sba-paycheck-protection-program-loans/

• Some lenders that prioritize small businesses are listed at matchfinder.venturize.org

• Payroll calculators are available at https://www.aicpa.org/interestareas/privatecompaniespracticesection/qualityservicesdelivery/sba-paycheck-protection-program-resources-for-cpas.html

• You can apply for the EIDL at https://covid19relief.sba.gov/#/

A Disclaimer

• In the interests of speed and clarity, we omit some program details. We think that our claims and calculations convey useful information.

• We are not providing advice for any particular borrower

• We are not endorsing any particular lender.
Appendix: The PPP Application (except for 2 pp. of instructions. Banks likely require some documents.)