The following was received from a client and prepared by a CPA. It may be helpful to you as you navigate the programs that have been funded to assist small business owners.

**EIDL (Economic Injury Disaster Loan) versus PPP (Paycheck Protection Program) loans**

President Trump signed into law on March 27th, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a stimulus bill that includes a loan program to keep small businesses alive during the mandated COVID-19-related closures. This is good news to all small businesses!

The CARES Act includes a Paycheck Protection Program (PPP) which authorizes up to $349 billion of federally guaranteed loans to qualifying small businesses. This new loan program is based on the SBA’s existing 7(a) loan program and has a provision to forgive loans of up to $10 million available to qualifying small businesses.

Subsequent to the declaration of a national emergency to combat the Coronavirus (COVID-19) pandemic, the Small Business Administration (SBA) launched the Economic Injury Disaster Loan Assistance (EIDL) program for small business owners in all US states, Washington D.C., and other US territories.

Businesses cannot get both PPP and EIDL loans simultaneously. You can apply for an EIDL loan now and the PPP loan when it becomes available, approximately in two weeks. If you obtain and fund the EIDL loan, and you subsequently qualify for the PPP loan, you can re-finance the EIDL loan with the PPP loan. You can apply for both loans. If you qualify for both you can decide which loan you prefer. You cannot utilize both loans for one business!

With the expertise and experience of seasoned SBA lenders and loan providers involved, we would anticipate that the PPP Loan program will be more streamlined than the EIDL program, and funding should be faster.

We have included a comparison of the EIDL program and the PPP program below. We believe that the PPP program is the better option. The PPP Loan program is available for loans up to $10 million dollars. The PPP loan can be forgiven and will not need to be included as taxable income.

Under the PPP Loan program, the maximum loan amount is the lesser of $10 million or the product obtained by multiplying the average monthly payments for all payroll costs during the one-year period, before the loan is made by 2.5. So, if the loan is made on April 1, 2020 and the average monthly payroll cost from April 1, 2019 to April 1, 2020, is $1 million, the maximum loan amount would be $2.5 million. Payroll amounts over $100,000 per person will be excluded from this calculation.

The EIDL program is available for loans only up to $2 million. No one knows how long this virus will affect our world and the recovery time frame could be lengthy. There has been significant business disruption to the global supply chain of goods and services. You need a significant loan to ensure that your business survives as a "going concern" through the end of this virus.
Below is a comparison of the two types of loans:

**EIDL**

**Lender:** The SBA

Maximum Amount of the Loan: The maximum amount of the EIDL loan is $2 million. Applicants applying for this loan may request an advance of $10,000 from the SBA. The advance will be distributed within 3 days. Applicants are not required to repay the advance if they are denied a loan.

**Annual Interest Rate:** 3.75% for businesses; 2.75% for non-profits

**Term of Loan:** Up to 30 years

**First Loan Payment Due:** One year after origination with interest accrued during the interim

**Use of Loan:** Financial obligations and operating expenses not met had the disaster not occurred

**Collateral:** UCC lien against the assets of the business

**Personal Guarantee:** Yes, for loans over $200,000 and managing members of LLCs; no liens against real estate

**Forgiveness:** No

**Reduction of forgiveness:** N/A

**Required to file 2019 tax return:** No, the 2019 taxes do not have to be filed prior to applying for the loan. Must submit a form 4506T providing the SBA historical access to tax returns.

**Turnaround on the loan application:** Two to three weeks plus five days for funding

**When to Apply:** You can apply now. You are not required to accept the loan if your business qualifies.

**What businesses/entities can apply; What are the affiliation rules?**

EIDL loans are for small businesses. There are many standards the SBA uses to define a small business, and this varies by industry. Generally, businesses with less than 500 employees and $35 million in revenue would qualify. Applicants for SBA loan programs typically must include their affiliates when applying size tests to determine if they are eligible. This means that employees of other businesses under common control would count toward the maximum number of employees.

**PPP Loans**

**Lender:** A Bank that does SBA 7(a) Loans, underwritten by the SBA

Maximum Amount of the Loan: The maximum loan is $10 million. Computed as follows: 2.5x the average monthly "payroll" costs, measured over the 12 months preceding the loan origination date.
Seasonal businesses may use the period February 15, 2019 – June 30, 2019 or March 1, 2019 – June 30, 2019 to calculate the average payroll. If you took out an EIDL loan between February 15, 2020 and June 30, 2020 and you want to refinance that loan into a PPP loan, you would add the outstanding loan amount to the "payroll" sum.

Payroll includes salaries, commissions, tips, certain employee benefits (including health insurance and retirement benefits), state and local taxes and certain types of compensation to sole proprietors or independent contractors. Payroll costs specifically exclude compensation of an individual employee in excess of an annual salary of $100,000, foreign employees, FICA and income tax withholdings.

**Annual Interest Rate:** Does not exceed 4%

**Term of Loan:** Ten years

**First Loan Payment Due:** Six months after the loan origination date with interest accrued during the interim

**Use of Loan:** Payroll costs, group healthcare benefits, insurance premiums, interest on mortgages (and other debt) in place prior to February 15, 2020, rent on leases in place prior to February 15, 2020.

**Collateral:** No collateral required from the business or owners

**Personal Guarantee:** No

**Forgiveness possible:** Yes, computed as the amount spent by the borrower during the 8-week period after the origination date of the loan on: payroll, interest payments on mortgages, notes, rent on leases, utilities (all existing and in place prior to February 15, 2020).

**Reduction of forgiveness:** The amount forgiven is reduced based on failure to maintain the average number of full-time equivalent employees versus the period from February 15, 2019, through June 30, 2019, or January 1, 2020, through February 29, 2020, as selected by the borrower. The amount forgiven is also reduced to the extent that compensation for any individual making less than $100,000 per year is reduced by more than 25% measured against the most recent full quarter. Reductions in the number of employees or compensation occurring between February 15, 2020, and 30 days after enactment of the CARES Act will generally be ignored to the extent that reductions are reversed by June 30, 2020. Forgiven amounts will not be taxed as income for federal tax purposes.

**Required to file 2019 tax return:** Each lender will be different

**Turnaround on the loan application:** Not yet determined; depends on the bank

**When to Apply:** The SBA needs to give loan guidelines to the banks. The banks need to prepare their loan application process which is expected to take two to three weeks.

**What businesses/entities can apply; What are the affiliation rules?**
Sole proprietorship's, independent contractors, eligible self-employed individuals, businesses and entities must have been in operation on February 15, 2020 and have 500 or fewer employees. There are some exceptions based on industry (see below).

Any business concern that employs not more than 500 employees per physical location of the business concern and that is assigned a NAICS code beginning with 72 (Accommodation and Food Services companies).

Affiliation rules are also waived for franchises with codes assigned by the SBA, as reflected on the SBA franchise registry and businesses that receive financial assistance from one or more small business investment companies (SBIC).

Sources:

https://disasterloan.sba.gov/

https://www.congress.gov/bill/116th-congress/senate-bill/3548/text#toc-id40c30dd4a08343e7b83eefd391b45c4e