



Notes from: CARES Act Explained - Tax Implication Webinar #1

Disclaimer: In this webinar, Daniel Ramsey at MyOutDesk, Jake Randall at TaxBot, and Timothy Mahoney at CliftonLarsonAllen LLP are not providing tax, legal, or financial advice. We strive to support the success of all SMBs and want to pass along useful and practical information that can help your business draw out effective solutions. Please consult a qualified tax, legal, or investment professional for guidance.

CARES Act Masterminds:

What it means for your business & what businesses should be doing

Two Types of Loans

1. Disaster loans - for economic injury
2. Forgivable loans

Navigating the CARES Act

Businesses and entrepreneurs are eligible for 1) small business interruption loans and 2) disaster loan forgiveness for a two-month period, March through June 2020. The forgiveness covers:

- Payroll support – for employee leaves, health, FMLA Leaves
- Employee Salaries
- Mortgage Payments
- Rent (including rent under a lease agreement)
- Any other debt obligation that were incurred before the covered period

Low-interest loans, 3.75% for businesses, 2.75% for np, up to 30 year payback periods

- Capital to cover the cost of retaining employees? Then the Paycheck
- Protection Program might be right for you.
- A quick infusion of a smaller amount of cash to cover you right now? You
- might want to look into an Emergency Economic Injury Grant.
- To ease your fears about keeping up with payments on your current or
- potential SBA loan? The Small Business Debt Relief Program could help.

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SBA Disaster Loans for Businesses

[Link to SBA Disaster Assistance](#)

- Based on economic need
- Prove your economic impact: revenue pre-disaster, revenue post-disaster
- A short-term ability to pay your bills, namely: liabilities, rent, loans, monthly obligations, long-term maintenance contracts
- Apply directly with the SBA, up to \$2 million.
- Unknown processing time
- Advertising contracts can be included, the most the SBA can say is no. May request to modify contract terms first, before disaster loan approval.
- Go to your lender directly for mortgage payments and investment properties to modify terms.
- You can include all costs associated with an employee to determine your loan eligibility.

What you need to attach with your SBA Loan Application:

- 1) Form 5
- 2) Personal Financial Statement
- 3) 4506-T Form (all entity)
- 4) Taxes 2018/2019

Prepare for the interview. Have these ready:

- 1) Assets and liabilities
- 2) Current YTD P&L
- 3) Contractual obligations - Copy of details
- 4) Letters of declination
- 5) Projections: Post Corvid-19 & Pre Corvid: show a decline in Revenue
- 6) Adjusted Client Acquisition
- 7) Understanding of cash flow - your Operating Expenses

Meant for saving businesses and jobs.

Qualifications:

- A credit score of 640 or more to qualify
- Capable of paying back, debt coverage ratio of 1.25

No double-dipping for 7a SBA Loans (forgiveness): payroll & employee, rent, utilities.

CARES Act - 7(a): Paycheck Protection Program & Loan Forgiveness for Businesses

[Link to Senate's Guide to the CARES Act](#)
[Link to bill](#)

As guidance for SBA (7(a) Loans) is being made clear over the coming days, banks will need time to update their process.

Eligible forgiveness covers payroll and rent and utilities. Provide: Proof of payroll, Proof of rent/lease.

- In your tax return, must proven loan was spent for approved terms. The principle of that loan will be forgiven for the terms.
- The annual max forgiveness limit is calculated as \$100,000/yearl per employee.
- Business owner interest rates will be 4%, if you keep it for a couple of months, it's cheap money.
- Win: Forgiveness. Don't ask for money that you can prove is for forgiveness.
- There's no orientation fees for this. The banks are getting paid to originate these loans.
- Maintain the average level of payroll.
- Consideration: perhaps it's better in your case to take the loan and keep business moving, instead of pausing.
- \$100 million max loans, and have to have under 500 employees.

What if I have independent contractors? What about foreign employees?

Independent contractors would probably qualify, with a 1099. In good spirit, foreign employees should too.

Calculating Payroll:

- Looking at total average payroll costs and FTEs. They will base your numbers on your January & February payroll.
- The portion that you laid off will be cut proportionally.
- If you can prove you had to lay off people because of a last resort caveat, you can.
- If you laid off in April, and rehire them in June, you qualify for the loan forgiveness. Based on the average cost of employees you had last year.
- Costs covered would probably be what would be on their w-2 at the end of the year.
- Will the loan be forgiven if we already furloughed "some" employees?
- There may be a 25% limit to salary reduction under 100k employees
- You can still fire bad performing employees, and rehire to maintain the average.

Calculating Rent, Lease, Utilities:

- It may depend on how you present the case, based on an entity case.
- Based on historical rent numbers.
- These loans will be pushed out fast.

Questions - Live From Our Webinar

When do independent contractors qualify for 7(a) Loan?

A solopreneur at some point can qualify for unemployment, instead of applying for a 7(a) or disaster loan. This is state-mandated, so look into your state to see when you qualify

Who should be applying? Companies or independent contractors?

You'll have a hard time getting a payroll loan as an independent contractor, maybe if you have a bunch of assistants. Potentially, the parent can apply for the loan, or contractors can apply for unemployment. Those on unemployment should not be working. If independent contractors are still working, include them.

Are there any requirements to apply at a specific bank?

You can apply at any bank.

If an employee was just laid off and applied for unemployment, can I hold off in rehiring them and use the forgiveness loan to pay them when rehired later?

You have to show what you paid in the 8 weeks. You may qualify for the forgiveness but you won't get any extra funds, only what your expenses were during the forgiveness period.

With dead revenue stream, what's the best course of action?

Be prepared for a different revenue scenario. Figure out how you can change your services, i.e. Restaurants, offer delivery. 7(a) loan is where you need to start to keep the bare necessities and restart. Hard to get SBA loan, because hard to prove if you can pay back. Talk to your tax professional.

Can I get a loan and pay back taxes from previous years?

Try speaking to your tax professional.

If I have lines of credit, will I qualify for an SBA loan?

Maybe told "no" on disaster loan. Probably still eligible for 7(a) loan to maintain payroll.

If I am an owner-operator and the profit was my take-home pay? Do I apply for 7(a) or unemployment?

For real estate: not time to qualify for employment. Get your deals in place and put them into the SBA 7A loan.

See Also:

- [100 Most Active SBA 7\(a\) Lenders](#)
- [The Senate's Guide to the CARES Act with FAQs](#)
- [SBA Disaster Assistance Homepage](#)
- For more information , [click here for a full copy of the bill](#)

Tips:

Feel free to reach out to Jake and Tim.

Jake's tip: Have real conversations with your banker and your accountant—go with an open mind to your professionals and work out a plan. Stay productive, we'll get through this!

Jake Randall at TaxBot: <https://taxbot.com/> & <http://facebook.com/taxbot>

Tim's tip: Educate yourself, ask a lot of questions — find your trusted advisors and not rely on Google alone! A lot has happened in the last 2 weeks, so just keep informed as best as you can. We're all in this together and we'll make it!

Timothy Mahoney at CliftonLarsonAllen LLP: <https://www.claconnect.com/>

Daniel's tip: Get out, get market share, get to work right now, firms that can shift are the ones who survive.

Daniel Ramsey at MyOutDesk: <http://myoutdesk.com>

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