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State of Independent Distribution Industry

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CARES Act Provisions to Financially Support Your Agency (Navigating SBA Grants, Loans and the Payroll Protection Program)

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THE CARES ACT

- 2 trillion-dollar stimulus package
- Includes several different “avenues” for small business to obtain funding or relief
 - Paycheck Protection Program
 - Emergency Economic Injury Grant
 - Small Business Debt Relief Program
 - Employee Retention Credit
 - Delay of Payroll Tax Payment

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BIG ONE FIRST -- PPP

- What is the Paycheck Protection Program
 - The program would provide cash-flow assistance through 100 percent federally guaranteed loans to employers who maintain their payroll during this emergency.
 - If employers maintain their payroll, the loans would be forgiven, which would help workers remain employed, as well as help affected small businesses and our economy snap-back quicker after the crisis.
- \$349 BILLION DOLLARS
 - First come/first served



FIRST QUESTION

- Are you eligible?
 - Must have been in operation on or before February 15, 2020
 - Fewer than 500 employees
 - Includes 501(c)(3) nonprofit organizations
 - Independent contractors and eligible self-employed individual

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WHAT ARE CAN PPP BE USED FOR?

- ONE TIME AND ONE TIME ONLY
 - Only get “one bite of the apple” – can only get one PPP loan
- Can be used for:
 - Payroll costs
 - Costs related to the continuation of health care premiums
 - Payment of interest on any mortgage obligation – not prepayment of or payment of principal (incurred prior to 2/15/20)
 - Rent (2/15/20)
 - Utilities (2/15/20)
 - Interest on other debt obligations incurred before covered period

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WHAT ARE PAYROLL COSTS?

- Eligible payroll costs:
 - Compensation (wages, commissions, salary, or similar compensation and payment of cash tip or equivalent)
 - Vacation, parental, family, medical or sick leave
 - Allowance for dismissal or separation (severance pay)
 - Health care benefits, including insurance premiums
 - Retirement benefits
 - State or local tax assessed on the compensation of employees
- For a sole proprietor or independent contractor: wages, commissions, income, or net earnings from self-employment, capped at \$100,000 on an annualized basis

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WHEN CAN YOU APPLY?

- Businesses – April 3, 2020
 - Who do you apply to?
- Independent contractors/self-employed
 - April 10, 2020

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HOW MUCH CAN YOU GET?

- Maximum loan -- \$10 million
- Lower of \$10 million dollars or 2.5 times company monthly payroll costs (as previously defined – EXCLUDED PAYROLL)
 - What period?
 - February 15, 2019 – June 30, 2019
 - January 1, 2020 – February 29, 2020 if not in business



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WHAT IS EXCLUDED PAYROLL?

- Employee/owner compensation over \$100,000
 - What does that mean?
 - Portion over \$100,000 – not entirely excluded
- Taxes imposed or withheld under chapters 21, 22, and 24 of IRS code
- Compensation for employees who reside outside of U.S.
- Qualified sick and family leave paid under the FFCRA
 - Already get a credit!
- NEW GUIDANCE– NOT PAYMENTS TO 1099
 - CAN CLAIM ON THEIR OWN – NO DOUBLE DIPPING

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MATH TIME

3 How much can I **BORROW?**

Loans can be up to 2.5 x the borrower's average monthly payroll costs, not to exceed **\$10 million**.

How do I calculate my average monthly **PAYROLL COSTS?**





WHERE TO APPLY

- Any current SBA 7(a) lender
- Department of Treasury is authorizing new lenders (including non-banks)
- Complete application form
 - <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program-ppp>
- Available through June 30, 2020
- BANKS WILL HAVE OWN INTERNAL FORMS TO FILL OUT/INTERNAL PROCEDURES
 - MOST BANKS – MUST HAVE BEEN A CUSTOMER PRIOR TO FEBRUARY 15, 2020



WILL YOU/WON'T YOU

- You will not have to:
 - Provide collateral
 - Execute personal guarantee
 - Have personal credit run
- You will have to:
 - Provide supporting documentation for payroll costs
 - Accurately complete all required documentation
 - Provide financials?
 - Maybe
 - Make certifications

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CERTIFICATIONS

- Current economic uncertainty makes the loan necessary to support your ongoing operations.
- The funds will be used to retain workers and maintain payroll or to make mortgage, lease, and utility payments.
- You have not and will not receive another loan under this program.
- You will provide to the lender documentation that verifies the number of full-time equivalent employees on payroll and the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight weeks after getting this loan.
- That you understand that loan forgiveness will be provided for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities and due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.
- All the information you provided in your application and in all supporting documents and forms is true and accurate. Knowingly making a false statement to get a loan under this program is punishable by law.

ALL MADE IN “GOOD FAITH”

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TERMS AND CONDITIONS

- Ask me again tomorrow...
- Things keep changing
 - Initially – any amounts not forgiven
 - 10-year max loan
 - First year – 0.5% interest rate – capped at 4% thereafter
 - Zero loan fee/zero prepayment fee
- TODAY
 - **TWO YEAR LOAN**
 - **1% fixed rate**
 - **6 months no payment – INTEREST DOES ACCRUE!**

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FORGIVENESS

- Just like life – not forgiven for everything you do
- Loan amount may be forgiven if used for: payroll costs, mortgage interest, rent, and utilities payments
- Paid over the 8 weeks after getting the loan
- Anticipated that not more than 25% of the forgiven amount may be for non-payroll costs
- TAKEAWAY--- **USE. IT. FOR. PAYROLL.**
 - ***TO THE EXTENT POSSIBLE**

IT IS ALL FORGIVEN...RIGHT?

- Not used for forgiven purpose – NO
 - Buy office supplies, pay for advertising – nope
- Reduced payroll/wages
 - Eliminated staff prior to time receive loan
 - Reduced wages by more than 25%
 - KEY—DID NOT RECTIFY PRIOR TO JUNE 30, 2020
 - **FORGIVENESS AMOUNT REDUCED – NOT ESSENTIALLY ELIMINATED**

FORGIVENESS

4

Will this loan be FORGIVEN?

Borrowers are eligible to have their loans forgiven.

How Much?

A borrower is eligible for loan forgiveness equal to the amount the borrower spent on the following items during the 8-week period beginning on the date of the origination of the loan:

- Payroll costs (using the same definition of payroll costs used to determine loan eligibility)
- Interest on the mortgage obligation incurred in the ordinary course of business
- Rent on a leasing agreement
- Payments on utilities (electricity, gas, water, transportation, telephone, or internet)
- For borrowers with tipped employees, additional wages paid to those employees

The loan forgiveness cannot exceed the principal.



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FORGIVENESS

How could the forgiveness be reduced?

The amount of loan forgiveness calculated above is reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees. Specifically:

Reduction based on reduction of number of employees



PAYROLL COST
Calculated on page 2

X

Average Number of Full-Time Equivalent Employees (FTEs) Per Month for the 8-Weeks Beginning on Loan Origination

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Option 1:

Average number of FTEs per month from February 15, 2019 to June 30, 2019

Option 2:

Average number of FTEs per month from January 1, 2020 to February 29, 2020

For Seasonal Employers:

Average number of FTEs per month from February 15, 2019 to June 30, 2019

Reduction based on reduction in salaries



PAYROLL COST
Calculated on page 2

—

For any employee who did not earn during any pay period in 2019 wages at an annualized rate more than \$100,000, the amount of any reduction in wages that is greater than 25% compared to their most recent full quarter.



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KEY

- Reduction in wages or employment that began on February 15, 2020 and ended 30 days after enactment of CARES
- Shall not reduce forgiveness if by June 30, 2020
 - Eliminated reduction in employees or wages

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KEY FORGIVENESS QUESTIONS

- QUESTION: If I reduced staff/payroll can I still get a loan?
 - ANSWER: Yes
- QUESTION: Do I have to bring back the “same” staff?
 - ANSWER: No! No requirement to bring back “same” staff, just staffing levels and payroll amounts
- QUESTION: What is an “FTE”
 - Full time = employed on average at least 30 hours per week.
 - Full-Time-Equivalent (FTE) refers to a combination of employees, each of whom individually is not a full-time employee because they are not employed on average at least 30 hours per week, but who, in combination, are counted as the equivalent of a full-time employee.
 - For example, two employees, each of whom works 15 hours per week, are the equivalent of one full-time employee.



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HOW DO YOU GET “FORGIVEN”

- Apply through your lender
- Must include:
 - Information verifying number of employees/pay rates
 - IRS and state payroll tax filings
 - Unemployment insurance filings
 - Documentation verifying payments on mortgage, lease and utility obligations
 - Certification that information is true and loan was used in accordance with guidelines
- Amounts not forgiven must be repaid in accordance with loan

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PPP KEYS

- May apply for multiple different types of loans – cannot be used for same purpose
 - Cannot receive disaster loan to cover payroll costs and also PPP
- PPP may be reduced by disaster grant (\$10,000.00)
- **SHOULD PUT FUNDS IN SEPARATE ACCOUNT**
 - DO NOT COMINGLE FUNDS SO YOU CAN ESTABLISH USE FOR FORGIVENESS



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ECONOMIC INJURY DISASTER LOANS/EMERGENCY GRANTS

- APPLY THROUGH SBA -- <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/economic-injury-disaster-loan-emergency-advance>
- GRANT:
 - Been in existence since January 31, 2020
 - Available until December 31, 2020
 - Provides an emergency advance of up to \$10,000 to small businesses and private non-profits
 - Harmed by COVID-19
 - “Paid” within three days of applying for an SBA Economic Injury Disaster Loan (EIDL)
 - Must first apply for an EIDL and then request the advance
 - Key: The advance does not need to be repaid under any circumstance, and may be used to keep employees on payroll, to pay for sick leave, meet increased production costs due to supply chain disruptions, or pay business obligations, including debts, rent and mortgage payments.
- 10 BILLION – FIRST COME/FIRST SERVED

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DISASTER LOAN

- Substantial economic injury
- Businesses and non-profits are eligible
 - 500 or fewer employees
 - Sole proprietor
 - Independent contractors
 - Cooperatives and employee owned businesses
- Excludes certain entities (same for PPP):
 - Principally engaged in teaching, instructing, counseling, or indoctrinating religion or religious beliefs.
 - Gambling
 - Life insurance (carriers not brokers)
 - Illegal entities (obviously)

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EIDL

- WHAT CAN EIDL BE USED FOR:
 - Lower interest loans up to \$2 million
 - Available for expenses that could have been paid without the disaster
 - Includes payroll and other operating expenses
 - Can use to cover payroll beyond the PPP
 - Remember only 2.5 months

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IMPACT ON PPP

- Not mutually exclusive
 - If get Economic Injury Grant or refinance any EIDL into PPP loan (which is possible)
 - Amount would be subtracted from the amount forgiven by PPP
 - Why \$10k grant is already forgiven



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SMALL BUSINESS DEBT RELIEF

- Relief to small businesses with non-disaster SBA loans
 - 7(a) and 504 loans
- SBA will cover all loan payments on these SBA loans, including principal, interest, and fees, for six months.
- This relief will also be available to new borrowers who take out loans within six months of the President signing the bill into law.
- Only SBA portion (40% generally)
- Still need to pay other portion of the loan

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WHAT ARE 7(a) and 504 LOANS?

- 7(a)
 - Up to \$5 million
 - Lack credit elsewhere
 - Banks share portion of the risk with SBA
- 504
 - Up to \$5.5 million
 - Real estate/buildings/machinery
- APPLY THROUGH SBA



WHAT ELSE?

- Employee Retention Credit for Employers Subject to Closure or Experiencing Economic Hardship
- Delay of Payment of Employer Payroll Taxes

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EMPLOYEE RETENTION CREDIT

- CLOSURE OR ECONOMIC HARDSHIP
- Refundable payroll tax credit for 50 percent of wages paid by eligible employers to certain employees during the COVID-19 crisis.
- The credit is available to employers, including non-profits, whose operations have been fully or partially suspended as a result of a government order limiting commerce, travel or group meetings.
- The credit is also provided to employers who have experienced a greater than 50 percent reduction in quarterly receipts, measured on a year-over-year basis

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EMPLOYEE RETENTION CREDIT

- Employees who are furloughed or face reduced hours as a result of their employer's closure or economic hardship are eligible for the credit.
- Employers with 100 or fewer full-time employees:
 - All employee wages are eligible, regardless of whether an employee is furloughed.
 - The credit is provided for wages and compensation, including health benefits, and is provided for the first \$10,000 in wages and compensation paid by the employer to an eligible employee.
 - Wages do not include those taken into account for purposes of the payroll credits for required paid sick leave or required paid family leave, nor for wages taken into account for the employer credit for paid family and medical leave
- NOT AVAILABLE IF GETTING PPP



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DELAY OF PAYROLL TAXES

- Defer paying the employer portion of certain payroll taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021, the other at the end of 2022.
- Payroll taxes that can be deferred include the employer portion of FICA taxes, the employer and employee representative portion of Railroad Retirement taxes (that are attributable to the employer FICA rate), and half of SECA tax liability.
- **IF YOU CAN PAY, PAY = OTHERWISE POTENTIAL FUTURE ISSUE**
- **Deferred does not equal forgiven**
- **IF RECEIVE PPP YOU ARE NOT ELIGIBLE**



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Questions & Answers

Please submit questions in the attendee control panel.

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Thank you for attending!

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