



SBA Programs, Cashflow
Forecasting +
Recovery Readiness –
Planning For the Big Day

SBA Loan Update + Recovery Readiness

Today we'll cover:

- EIDL & PPP Loans Update
- Relief options for Sole Proprietors & Independent Contractors
- IRS – Employee Retention Credit
- The Importance of Cashflow Forecasting
- Recovery Readiness for the day when you can start to return to normal

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SBA Loan Update EIDL & PPP:

- EIDL & PPP Loan Update – All new EIDL loan applications are still closed as the backlog of applications are being processed. New PPP applications are being accepted but funds are limited.
- Legislation has passed Congress to add funding to extend the programs. \$310 Billion for PPP and \$50 Billion for EIDL. EIDL Applications were so numerous that SBA processing has taken 3-5 weeks. Those who first applied began receiving funds on Friday April 10th. Most applicants have yet to be contacted.
- PPP bank processing has been very slow but funding on approved loans began on Monday April 13th.

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EIDL Program Overview:

If you have already applied and want to check your loan status call the 800 number below. If and when applications open up again, apply quickly.

- [EIDL https://covid19relief.sba.gov/#/](https://covid19relief.sba.gov/#/)
- Customer Service Center at **1-800-659-2955**
- To get the status of your EIDL loan, Call the 800 number and ask for a Tier 2 person.

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Economic Injury Disaster Loan (EIDL) Program:

- Processing time – 3 to 5 weeks
- Unsecured collateral up to \$25K. Available collateral will be requested for over \$25K. Personal Guarantees are required.
- Interest rate is 3.75% for for-profit and 2.75% for non-profit. Term is either 15 or 30 years. Payment deferral period is 1 year.
- Loan Usage is for operational expenses only such as payroll, general expenses, accounts payable, lines of credit, bridge loans, returns of customer deposits, etc.
- EIDL cannot be used to pay down long-term debt

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Paycheck Protection Program (PPP):

- New applications for the PPP are being accepted by some lenders but Funds will be limited.
- If you know you have already applied check with your lender regarding your status.
- New PPP loan portals are Intuit, Square, Paypal and Kabbage. These may be a better option for new applications over a big bank that may have a bigger backlog of existing applications.
- Smaller community banks that you have a relationship with may be good options too,

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Paycheck Protection Program (PPP) Overview:

- Provides small business with funds to pay up to 8 weeks of payroll cost including benefits and taxes.
- Interest on mortgage obligations, Rent on lease agreements and Utilities – all for which agreements or contracts were initiated before February 15, 2020.
- All or portions of the loan amount will be forgiven if certain conditions are met
- Independent Contractors cannot count as employees for purposes of a PPP loan; they can apply for their own PPP loan

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Paycheck Protection Program (PPP):

- The loan amount should be two months of your average historic monthly payroll costs from the last year plus 25% of that amount or 2.5 times the historic average calculated
- 75% of the Loan can/should be used for payroll. 25% can be used for mortgage interest, rent and utilities.
- Loan forgiveness is requested from the lender servicing the loan.
- There are no prepayment penalties or fees. No collateral or personal guarantee is required.

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Paycheck Protection Program (PPP):

- Borrowers will owe on the loan if they decrease their FTE headcount or they do not use 75% of the loan amount for payroll during the 8-week period following loan funding.
- You have until the end of the 8-week period, to restore your full-time employment (FTE) and salary levels.
- In other words you have to return to your pre-February 15th FTE and salary level to earn PPP loan forgiveness.

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Paycheck Protection Program (PPP):

- Your loan forgiveness request will include documents that verify, FTE headcount, pay rates and payments made for rent, utility and mortgage interest costs.
- You will be required to certify that the documents are true and that you used the forgiveness amount for the proper purposes.
- If the proceeds are used for fraudulent purposes the federal government will pursue criminal charges.
- If you owe on the loan, the interest rate is 1%, term is 2 years, payments are not required for the first six months.

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What you need to consider when you get your PPP loan:

- Call your employees back to work.
- If the business owner does not call the employees back at the same FTE, he/she won't qualify for the loan forgiveness.
- If he does call the employees back and they refuse to work, they no longer qualify for unemployment.
- If they lie on their weekly unemployment claim they will be required to repay the unemployment dollars back.
- The unemployment program was not designed as a windfall for employees.

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Options for Sole Proprietors & Independent Contractors – depending on loan availability:

- EIDL Loan is one option but it may be too late to apply if you have not yet done so.
- PPP is an option for Independent Contractors and Sole Proprietors, but you will need certain documentation.
- Washington Unemployment – CARES Act Changes to the WA State ESD unemployment program (Also called the Pandemic Unemployment Assistance).

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Who is an Independent Contractor from a Federal Perspective:

- Federal income tax and FICA (Social Security and Medicare) is due on **ALL** earned income.
- If you are a W-2 employee this is done through deductions, you receive on your paycheck.
- If you receive 1099 statements from a business, you are an Independent Contractor to that business. Independent Contractors should have a license to do business in Washington (DOR) and pay federal & state taxes.
- If you receive funds other than through W-2 or 1099 you are required to report that income to the IRS on a quarterly basis.

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Who is an Independent Contractor from a Federal Perspective:

- In Washington State there are different forms of business entities. The most common are: Sole Proprietor, General Partnership, Limited Liability Company (LLC), Corporation.
- From a Federal perspective an LLC can elect to file Federal Taxes as an S-Corp.
- In a Sole Proprietor or an LLC, all profits including owner draws are taxable. Owners cannot receive W-2 wages.
- In an S-Corp, the owner(s) can receive W-2 wages.

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EIDL and Schedule C filers:

- Under our current guidance, both the EIDL and the EIDL advance can be used to cover net earnings (Schedule C) of an Independent Contractor or Sole Proprietor.
- The EIDL Advance which is up to \$10,000 at \$1,000 per employee is an actual grant.
- The EIDL is a loan at 3.75%. Sole Proprietors and Independent Contractors have to decide if they want to borrow funds that they want to use to cover their income.
- If you use EIDL loan proceeds for owner income, that will impact usage of funds from the PPP. You may have to refinance the EIDL into the PPP.

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PPP and Independent Contractors and Sole Proprietors:

- Limited Liability Companies who have elected to file as an S-Corp and where the owner(s) receive W-2 wages can include those in the payroll calculations for PPP
- If the business entity does not file as an S-Corp, look at your 2019 Federal Tax Return Schedule C, Line 31 – Net Profit. Divide that amount by 12 and multiple the result by 2.5. That is the amount you would apply for under the PPP. If you have employees, you add those W-2 wages in.
- For businesses with multiple partners, owners who make over \$100,000 or who used the EIDL for payroll, there are additional details and impacts.

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Washington Unemployment for Independent Contractors and Sole Proprietors:

- The Federal CARES Act is changing state's unemployment programs in three ways: 1) Expands benefits to self employed, 2) Increases the weekly benefit by \$600 above the state determined amount, 3) Extends benefits from 26 weeks to 39 weeks.
- CARES Act. changes are live at WA ESD on Sunday April 19th.
- New WA unemployment applications require you to apply for WA unemployment first if you have less than 685 hours in W-2 wages, you will be denied. When you have been denied, you can apply for the Pandemic, Unemployment Assistance (PUA).

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IRS – Employee Retention Credit:

- Tax credit on 50% of qualified wages (max \$10K) paid between March 13th and December 31st, 2020. The max credit per employee is \$5000 with no cap on credits per employer (less employer's share of SocSec Tax) as a reduction on 941 filing.
- The business must have been suspended (partially/fully) from a government order and experience a 50+% decline in gross revenues in a calendar quarter. Self employed individuals are not eligible for this tax credit.
- Employers are not eligible for this tax credit if they receive a PPP loan. PPP may be better for most small businesses, but the tax credit should be considered as an alternative.

<https://www.irs.gov/coronavirus/employee-retention-credit>

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Importance of Cash Flow Forecasting

- Recessions cause negative cash flow
- Cash flow forecasting will **empower** you to make decisions based on the information you have today.
- You always need to know your cash position and be able to anticipate future inflows and outflows of cash
- With a cash flow forecast you will be able to determine if you need to make more cuts.
- It will show you if cutting cash outflows is enough and if you need to either put more in or borrow money.

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- For more information on our Cash Flow Forecasting webinar, go to <https://wsbdc.org/protect-your-business/coronavirus-business-survival/>
- We will show you what steps to consider.
- We will walk you through the steps to do a cash flow forecast.
- Do not delay in taking control of you cash management. Empower yourself today!

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Recovery Readiness: What We Know

There are 3 main effects of this particular disruption:

- (1) Absenteeism
- (2) Interruptions in Supply & Delivery Chain
- (3) Changes in Patterns of Commerce and Consumer Behavior

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Recovery Readiness: How do we mitigate?

There are 3 main effects of this particular disruption:

- (1) Absenteeism – **Get Your House in Order**
- (2) Interruptions in Supply & Delivery Chain – **Business Continuity Planning**
- (3) Changes in Patterns of Commerce and Consumer Behavior – **Create a Recovery Marketing Plan**

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Recovery Readiness: Get Your House in Order

Focus on setting up a system to monitor employees who need to be absent **AND** set up a process to facilitate and encourage them to return to work.

Starting Point: 5 Policies to Get You Started

- 1) Flexible work schedules
- 2) Telecommuting
- 3) Travel and expenses
- 4) Absenteeism and extended medical leave
- 5) Recall of employees

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Recovery Readiness: Business Continuity

Identify customers, suppliers and shareholders who are likely to be affected by the pandemic (e.g., due to border closures or travel restrictions).

Starting Point: 3 Things to Consider

1. Identify alternate suppliers of key services, components and/or goods and **make a plan** for how and when to activate your alternate suppliers.
2. Make a plan for how and when to activate **alternate delivery means** to customers.
3. Take this time to **pre-qualify** alternative suppliers from unaffected areas. If no alternative supplier is available, **increase inventory** levels if appropriate.

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Recovery Readiness: Create a Recovery Marketing Plan

Starting Tips for ANY Entrepreneur:

- 1) Seek Community** (examples include Slack groups, Facebook groups, Zoom meetings)
- 2) Stay Visible:** Continue to share and post content. This will fuel your business when things pick up again.
- 3) Update ALL the Things:** Use this quieter period to update all the things you never get around to in your business because you are focused on your main service or product.
- 4) Build Workflows:** These can be simple to start, so don't feel like you must set up a workflow for every process. **Just start with one.**

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Recovery Readiness: Create a Recovery Marketing Plan

Starting Ideas for What to Post Online During This Time:

- 1) **An Honest Update:** Don't be afraid to show behind-the-scenes and let people in. Humans are looking for connection in this isolation, so keeping it real will likely serve you well.
- 2) **Ask for Support:** How can your people who have the means to help offer a hand? Do you have gift cards available? Do you have specific products or services that would be especially helpful during this time? Don't be afraid to ask for what you need.
- 3) **Encouragement & Free Value:** Giving away value will endear your people to you more strongly and continue building a strong foundation of realness and trust.

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Recovery Readiness: Create a Recovery Marketing Plan

Recovery Takeaways from Today:

- 1) Checklist for Service-Based Businesses
- 2) Checklist for Product-Based Businesses
- 3) Links and Articles to Help Assess Recovery Readiness

Final Thoughts on Recovery: It's challenging to know how and where we should be spending our time, but we want to encourage you to spend what you can building out systems that will support you when things pick up again. While we don't have the luxury of revenue right now, we have the luxury of time. Use it wisely to improve your systems, skills, and strategies.

Find the Nearest Advisor:

<https://wsbdc.org/contact-an-advisor/>

