

National Savvy. Local Sensibility.

COVID-19 FINANCIAL RELIEF FOR THE CONSTRUCTION INDUSTRY

SUMMARY

- Coronavirus Aid, Relief, and Economic Security Act – the CARES Act
 - Signed into law on March 27, 2020
 - LARGEST STIMULUS BILL IN U.S. HISTORY - \$2.2 TRILLION
 - Key components include:
 - Paycheck Protection Program (PPP) loans
 - Employee Retention Tax Credit
 - Expanded unemployment benefits
 - Favorable business and individual income tax provisions
 - Advance refunds to all individual taxpayers
- EIDL and FAME loan programs
- Managing Cash Flow

EID LOANS

- SBA EID Loans
 - Originates with SBA
 - Changes qualifications to 500 or fewer employees
 - Stringent underwriting and application process made easier
 - Maximum Loan Amount = \$2,000,000
 - Term loan
 - 30 year amortization period
 - 3.75% interest rate
 - Deferred payments
 - All principal and interest is deferred for 12 months

EID LOANS / EID LOAN GRANTS

- Not prohibited from obtaining both EID and PPP loans
 - Loan amounts cannot be used for same costs
- EID Loan Grants
 - Generally EID Loans are not forgivable
 - \$10,000 grant (tax-free) delivered within 3-days
 - Loan not approved, then keep \$10,000
 - Website changes to accommodate loan grant on application
- Rollover to PPP loan – favorable rates

PPP LOANS

- PPP Loans
 - Originate with authorized SBA Bank
 - Normal SBA channels
 - Expanded SBA channels for this loan
 - Contact your bank...**YESTERDAY!**
 - Already contacted? Contact them again!
 - Most banks are processing
 - No personal guarantees or collateral
 - Interest rate is 1% per annum for 2 years
 - Expected to be 100% allocated by end of week
 - Pressure on Congress to expand

PPP LOANS

- Eligibility – 500 or fewer employees as of date of loan
 - Definition of employee = anyone
- Payroll costs DO include:
 - Salary, wage, commission or similar compensation
 - Cash tips or equivalent
 - Vacation, parental, family, medical or sick leave
 - Allowance for dismissal or separation
 - Group health care benefits, including insurance premiums
 - Payment of any retirement benefit
 - Professional Employer Organization (PEO)

PPP LOANS

- Payment of state or local tax assessed on compensation of employees (SUTA)
- Sole proprietors/Independent Contractors = Sum of payments of any compensation to or income that is a wage, commission, net earnings from self-employment, or similar compensation
 - Limited to \$100,000/year as prorated for the covered period
- Payroll costs do NOT include:
 - Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the covered period
 - Employer FICA
 - Compensation for employees living outside the U.S.
 - Payments made to independent contractors
 - Temporary help (current interpretation)
 - No double dipping on paid leave under the Families First Coronavirus Response Act (applies if you requested the credit)

PPP LOANS

- PPP Maximum Loan Calculation
 - Average monthly payroll costs for the 12 month period ending on the day the PPP loan is originated or 2019 calendar year
 - X 2.5
 - Not to exceed \$10,000,000
 - Add EID loans related to COVID-19 between January 31, 2020 and April 3, 2020. The grant award of up to \$10,000 is not added to the loan

PPP LOAN APPLICATION

- Other eligibility requirements
 - Were you in business as of February 15, 2020
 - Have employees to whom you paid wages and on behalf of whom you've paid payroll taxes
- SBA Size Standard (Small Business Concern)
 - N/A if below 500 employees
 - If over 500 employees, may qualify if meets the standard size revenue-base or employee-base threshold
 - Number of construction firms improperly rejected due to revenue size
- Good Faith Certification
 - Uncertainty of current economic conditions
 - Retaining workers and maintaining payroll, making mortgage payments, lease payments, and utility payments
 - No applications already pending for a loan under this subsection for the same purpose
 - From February 15, 2020 through December 31, 2020 won't receive duplicative amounts

PPP LOANS

- Allowable uses of loan proceeds
 - Payroll costs as previously defined
 - Payments of interest on any mortgage obligation
 - Rent (including rent under a lease agreement)
 - Utilities
 - Interest on any other debt obligations that were incurred before February 15, 2020
 - At least 75% of the loan proceeds must be used for payroll costs

PPP LOANS

- Loan Forgiveness
 - Amounts expended on the following items during the 8-week period following loan origination are eligible for forgiveness (not to exceed the original principal balance and accrued interest on the loan):
 - Payroll costs as previously defined
 - Interest on mortgages that existed as of February 15, 2020
 - Rent for leases that existed as of February 15, 2020
 - Utilities that existed as of February 15, 2020
 - Accrued interest
 - No more than 25% of the loan forgiveness can be attributable to non-payroll costs
 - Planning opportunities

PPP LOANS

- Reductions to amounts forgiven
 - Headcount
 - Salary reduction
- Re-hire provisions
 - No reduction in debt forgiveness if re-hired and compensation is restored before June 30, 2020
 - Certain conditions required
- Complicated and poorly written law. We're hoping for clarification in the Regulations
- Detailed debt forgiveness worksheet at arbcpa.com

PPP LOANS

- Taxation of amounts forgiven

TAX-FREE

PPP LOANS

- Remaining balances on loan
 - Continues to be guaranteed
 - Maximum amortization period of 2 years
 - Interest not to exceed 1%
 - No prepayment penalties
- Deferral of payments
 - Principal and Interest
 - Deferral 6 months
 - Interest accrues

FAME LOAN PROGRAMS

- Relief Interim SBA Finance Loan Program
 - Bridge loan until SBA financing has been funded
 - Up to \$100K, WSJ minus 1%, 90 day term
 - Interest only
 - Security and guarantees required
- Relief Business Direct Loan Program
 - Up to \$50K, WSJ minus 1%
 - Program capped at \$5M
 - 12 month term with extension if necessary
 - Security and guarantees required
 - As of April 14th, requests have exceed \$5M, but not all approved

CARES TAX PROVISIONS

- Employee Retention Credit
 - Credit for employment taxes for a business that is forced to suspend or close due to COVID-19 but continues to pay its workers during this time or
 - In a calendar quarter after December 31, 2019, gross receipts are less than 50% of gross receipts of same quarter in prior year
 - The credit is 50% of qualified wages paid during this time
 - Qualified wages, including health benefits, are limited to \$10,000 per employee
 - Employers with less than 100 FTE employees, all employee wages are eligible regardless if employee is providing services
 - Eligible wages paid through December 31, 2020
 - The employee retention credit is not available if the taxpayer takes a payroll protection loan (PPP)
 - Credit claimed against employment tax deposits

CARES TAX PROVISIONS

- Payroll Tax Deferral
 - Employer share of Social Security taxes due through December 31, 2020 can be paid one-half on December 31, 2021 and one-half on December 31, 2022. Self-employed individuals can defer paying 50% of his/her self-employment tax with one-half the deferral due December 31, 2021 and the remainder due December 31, 2022.
 - The payroll deferral is not available if the taxpayer takes a payroll protection loan (PPP)

CARES TAX PROVISIONS

- Net Operating Losses (NOL)
 - Net operating losses from 2018, 2019, and 2020 can be carried back 5 years
 - Net operating losses in 2018 carried forward to 2019 and 2020 can offset 100% of taxable income in those years. The \$500,000 net business loss limitation has been eliminated retroactive to January 1, 2018.
- Qualified Improvement Property (QIP)
 - The technical correction was made to correct the life of qualified improvement property to 15 from 39 years retroactive to January 1, 2018. This will allow bonus depreciation to be taken on qualified improvement property.
- Opportunities to amend tax returns and claim refunds

MANAGING CASH FLOW

- Prepare 13-week rolling cash flow forecasts
 - Identify cash shortfall
 - Tool available at arbcpa.com
- Loan deferrals
- Vendor payment arrangements
- Contact customers regarding payment expectations
- Access to personal capital (HELOC, investments, real estate equity)
- Accelerate billings and manage cash collections
- Monitor subcontractors and suppliers distress signals
- Partial release of retainage

MANAGING CASH FLOW

- Inventory reduction
- Bill for stored materials - check contract
- Review business interruption insurance
- Restrict discretionary expenses
- Sale-leaseback of equipment to finance company
- Increase line of credit
 - Waiver for possible covenant default
- Close out projects quickly
- Negotiate favorable payment terms on new contracts