

Holsinger PC Presents PPP Loan Forgiveness: How to Calculate



Agenda

- Loan Forgiveness Calculation
- SBA FAQ Question 31
- Section 265 and what it means
- Main Street Lending Program



PPP: Loan Forgiveness



Step 1: Calculate Forgivable Expenses



Step 2A: Employee Reduction Test



Step 3A: Exemption for Re-Hire Test



Step 2B: Salary & Wage Reduction Test



Step 3B: Exemption for Re-Hire Test

PPP: Loan Forgiveness

Payroll Protection Program ("PPP")	
Loan Forgiveness Calculation	
Amount Funded	\$ 700,000
Disbursement Date	4/24/2020
End "Covered Period"	6/19/2020
1. Amount Forgivable	\$ 117,962
2A. Penalty (# Employees)	\$ 29,491
2B. Penalty (Salary Reduction)	\$ 8,462
3A/3B. Exemption for Re-Hire Pass?	Yes
Remaining PPP Principle	\$ 582,038
Accrued Interest*	\$ 2,910
Total PPP Payable	\$ 584,948
Loan Payable Date	10/24/2020

All items with blue lettering are meant for manual entry.

All items with black lettering are autocalculated from the blue inputs with formulas already in the model.

If Yes, items 2A and 2B are automatically reduced to \$0 and not added to the Remaining PPP Principle.

Summary Page



Step 1: Forgivable Expenses

Step 1		
Calculate Forgivable Expenses		Source
Track forgivable expenses over the "covered period," or the 8-week period beginning on the date funds are received.		1) CARES - 1106 (b)
Forgivable expenses include:		
(A) payroll costs	including:	1) CARES - 1102
	(AA) salary, wages, commission or similar compensation	(i), (A), (viii), (I)
	(BB) payment of cash tip or equivalent;	
	(CC) payment for vacation, parental, family, medical, or sick leave;	
	(DD) allowance for dismissal or separation;	
	(EE) payments of group health care benefits, including premiums;	
	(FF) payment of retirement benefits	
	(GG) payment of State or local tax assessed on the compensation of employees	
(B) covered mortgage interest	interest on any mortgage entered into before February 15, 2020	1) CARES - 1106 (a), (2)
(C) covered rent	payment on any rent obligation under a leasing agreement before February 15, 2020	1) CARES - 1106 (a), (4)
(D) covered utility payments	payment for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020	1) CARES - 1106 (a), (5)
and exclude:	(aa) compensation of an individual employee in excess of an annual salary of \$100,000	1) CARES - 1102, (i), (A), (viii), (II)
	(bb) taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code of 1986	
	(cc) any compensation of an employee whose principal place of residence is outside of the United States	
	(dd/ee) qualified sick and family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act	
Adjust per 75%/25% rule	The Administrator has determined the non-payroll portion (i.e. B-D above) will be limited to 25% of the forgivable loan amount.	2) IFR - 2, o, pgs 13-14

Step 1: Forgivable Expenses

Date	Transaction	Type	Amount
4/24/2020	Regular Pay-COGS	Wages	\$ 75,374
4/24/2020	PTO Pay - COGS	Vacation or Leave	\$ 183
4/24/2020	Medical Insurance - COGS	Health Care Benefits	\$ 5,993
4/24/2020	Retirement - COGS	Retirement Benefits	\$ 2,107
4/24/2020	S&W - Regular Pay - Admin	Wages	\$ 14,735
4/24/2020	S&W - PTO Pay - Admin	Vacation or Leave	\$ 176
4/24/2020	Medical Insurance - Admin	Health Care Benefits	\$ 1,624
4/24/2020	Retirement - Admin	Retirement Benefits	\$ 726
5/1/2020	Office Rent - HQ	Rent	\$ 7,633
5/1/2020	Office Rent Remote	Rent	\$ 4,292
5/1/2020	Telephone	Utility	\$ 1,322
5/1/2020	Natural Gas	Utility	\$ 207
5/1/2020	Electricity	Utility	\$ 696
5/1/2020	Water/Sewage	Utility	\$ 57
5/1/2020	Internet	Utility	\$ 2,837

Summary	
Category	Amount
Wages	\$ 90,109
Cash Tips	\$ -
Vacation or Leave	\$ 359
Allowance for Dismissal	\$ -
Health Care Benefits	\$ 7,617
Retirement Benefits	\$ 2,833
State or Local Taxes	\$ -
Mortgage Interest	\$ -
Rent	\$ 11,926
Utility	\$ 5,119
Total Payroll Costs	\$ 100,917
Total Non-Payroll Costs	\$ 17,045
Total Forgivable Amount	\$ 117,962

Interpretation Issues within Step 1		
Item	Interpretations	Source
(A) "payroll costs" - Bonuses	Favorable	are included as "similar compensation"
	Unfavorable	are NOT included as "similar compensation"
"costs incurred and payments made"	Favorable	means all costs incurred and/or paid (no difference between cash/accrual)
	Unfavorable	means all costs were BOTH incurred AND paid within the 8-week period (affects timing of payroll, mortgage, utilities, etc.)
Rent	Favorable	Includes both real estate and payments for leased equipment
	Unfavorable	Includes only real estate

1) CARES - 1102, (i), (A), (viii), (I) (a) (AA)

1) CARES - 1102, (i), (A), (viii), (I) (a) (AA)

1) CARES - 1106, (a), (8)

1) CARES - 1106, (a), (8)

1) CARES - 1106, (a), (7), (C)

1) CARES - 1106, (a), (7), (C)

Step 2A & 3A: FTE Tests

Step 2A			Step 3A	
Employee Reduction Test		Source	Exemption for Re-Hire Test	Source
(i) Track average full-time equivalent ("FTE") employees per month employed by the eligible recipient during the covered period		1) CARES - 1106	(I) Calculate the number of FTEs as of February 15, 2020 and	1) CARES - 1106, (d), (5), (B), (i)
Divide by either:		(d), (2), (A), (i)	as of April 26, 2020.	
(aa) Average FTE per month during the period from February 15-June 30, 2019. Seasonal employers are to choose this option.		1) CARES - 1106	If there was a reduction, then	Same
(bb) Average FTE per month during the period from January 1-February 29, 2020		(d), (2), (A), (ii), (I & II)	(II) Calculate the number of FTEs as of June 30, 2020.	
Multiply the result by the amount in Step 1 to determine the new loan forgiveness total.		1) CARES - 1106 (d), (2), (A)	Compare FTEs at June 30, 2020 to FTEs at February 15, 2020.	
			If the reduction has been eliminated, penalties for Step 2A and Step 2B are reduced to \$0.	1) CARES - 1106, (d), (5), (A)

Step 2A & 3A: FTE Tests

Step 2A		Average FTE Employees
Covered Period		75
Feb 15 - Jun 30, 2019		200
**OR Jan 1 - Feb 29, 2020		100
Amount Not Forgivable	\$	<u>29,491</u>

*Based on Avg FTE Covered Period / the lesser of AVG FTE during the period in 2019 or the period in 2020.

Step 3A		FTE Employees
February 15, 2020		80
April 26, 2020		65
June 30, 2020		80
Exemption Met?		Yes

*If there was a decrease in FTE from February 15 to April 26 (30 days after CARES Act) 2020, eliminating the reduction waives any reduction in forgiveness from this step.

Interpretation Issues within Step 2A & 3A		
Item	Interpretations	Source
Average FTE Employees	Average Full-Time Equivalent Employees (FTEs) are determined by calculating the average number of full-time equivalent employees for each pay period falling within a month	1) CARES - 1106, (d), (2), (B)
FTE Employees	Assumed calculation = hours worked per week / 40 hours per week = # FTE <i>Ex. Employee that works 20 hours/week = 0.5 FTE</i>	Industry Convention
Limits on Rehiring	Can an employer rehire for a completely different position?	More guidance needed
	Do temporary employees or interns count?	More guidance needed
	Can a business owner hire family to bump up payroll costs and headcount?	More guidance needed
	Other/Misc	More guidance needed

Step 2B & 3B: Exemption for Re-Hire Test

Step 2B		Step 3B	
Salary & Wage Reduction Test	Source	Exemption for Re-Hire Test	Source
(A) Track the salary & wages of any/all employees over the covered period whose annualized wages or salary < \$100,000	1) CARES - 1106, (d), (3), (A & B)	(I) Calculate the salary & wages of any/all employees as of February 15 and April 26, 2020.	1) CARES - 1106, (d), (5), (B), (ii)
(B) Calculate average salary & wages of same employees over the most recent full quarter (4Q19/1Q20) during which the employee was employed before the covered period. Multiply this amount by 75%.	Same	If there was a reduction in salary of one or more employees, then	
(C) If the result of B > the result of A, then subtract A from B for any/all employees in which this applies. Calculate the total for all employees listed in A & B.	Same	(II) Calculate the salary & wages of such employees as of June 30, 2020. If the reduction has been eliminated, penalties for Step 2A and Step 2B are reduced to \$0.	1) CARES - 1106, (d), (5), (A)
Subtract the result of C from the amount in Step 1 to determine the new loan forgiveness total.	Same		

Step 2B: S&W Compensation Test

Step 2B		Compensation Rate						
Employee	Previous Quarter of Employment		8-Week Covered Period		Percentage (%)		Total Amount Not Forgivable	
	Actual*	Annualized	Actual*	Annualized	Decrease	Penalty	\$ 8,462	
Employee 1	\$ 18,750	\$ 75,000	\$ 8,077	\$ 52,500	30%	\$ 577	<i>*Actual means total amount paid over defined period</i>	
Employee 2	\$ 21,250	\$ 85,000	\$ 9,154	\$ 59,500	30%	\$ 654		
Employee 3	\$ 12,500	\$ 50,000	\$ 3,846	\$ 25,000	50%	\$ 1,923		
Employee 4	\$ 12,500	\$ 50,000	\$ 5,385	\$ 35,000	30%	\$ 385		
Employee 5	\$ 16,250	\$ 65,000	\$ 4,615	\$ 30,000	54%	\$ 2,885		
Employee 6	\$ 8,750	\$ 35,000	\$ 5,385	\$ 35,000	0%	\$ -		
Employee 7	\$ 8,750	\$ 35,000	\$ 5,385	\$ 35,000	0%	\$ -		
Employee 8	\$ 8,750	\$ 35,000	\$ 2,000	\$ 13,000	63%	\$ 2,038		
Employee 9	\$ 11,250	\$ 45,000	\$ 6,923	\$ 45,000	0%	\$ -		
Employee 10	\$ 12,500	\$ 50,000	\$ 7,692	\$ 50,000	0%	\$ -		
Employee 11	\$ 13,750	\$ 55,000	\$ 8,462	\$ 55,000	0%	\$ -		
Employee 12	\$ 14,375	\$ 57,500	\$ 8,846	\$ 57,500	0%	\$ -		
Employee 13	\$ 15,000	\$ 60,000	\$ 9,231	\$ 60,000	0%	\$ -		
Employee 14	\$ 18,750	\$ 75,000	\$11,538	\$ 75,000	0%	\$ -		
Employee 15	\$ 8,125	\$ 32,500	\$ 5,000	\$ 32,500	0%	\$ -		
Employee 16	\$ 11,000	\$ 44,000	\$ 6,769	\$ 44,000	0%	\$ -		
Employee 17	\$ 9,750	\$ 39,000	\$ 6,000	\$ 39,000	0%	\$ -		
Employee 18	\$ 23,750	\$ 95,000	\$14,615	\$ -	100%	\$ -		
Employee 19	\$ 7,500	\$ 30,000	\$ 4,615	\$ -	100%	\$ -		
Employee 20	\$ 11,500	\$ 46,000	\$ 7,077	\$ -	100%	\$ -		

Step 3B: S&W Exemption Test

Step 3B											Exemption Test Passed?	
Employee	February 15, 2020			April 27, 2020			June 30, 2020			New Penalty	No	
	Active?	Comp*	Annualized**	Active?	Comp	Annualized	Active?	Comp	Annualized			
Employee 1	Yes	\$ 2,885	\$ 75,010	Yes	\$ 2,885	\$ 75,010	Yes	\$ 2,885	\$ 75,010	\$ -		
Employee 2	Yes	\$ 3,269	\$ 84,994	Yes	\$ 3,269	\$ 84,994	Yes	\$ 2,288	\$ 59,488	\$ 654		
Employee 3	Yes	\$ 1,923	\$ 49,998	Yes	\$ 1,923	\$ 49,998	Yes	\$ 1,923	\$ 49,998	\$ -		
Employee 4	Yes	\$ 1,923	\$ 49,998	Yes	\$ 1,923	\$ 49,998	Yes	\$ 1,346	\$ 34,996	\$ 385		
Employee 5	Yes	\$ 2,500	\$ 65,000	Yes	\$ 2,500	\$ 65,000	Yes	\$ 1,154	\$ 30,004	\$ 2,885		
Employee 6	Yes	\$ 1,346	\$ 34,996	Yes	\$ 1,346	\$ 34,996	Yes	\$ 1,346	\$ 34,996	\$ -		
Employee 7	Yes	\$ 1,346	\$ 34,996	Yes	\$ 1,346	\$ 34,996	Yes	\$ 1,346	\$ 34,996	\$ -		
Employee 8	Yes	\$ 1,346	\$ 34,996	Yes	\$ 1,346	\$ 34,996	Yes	\$ 500	\$ 13,000	\$ 2,038		
Employee 9	Yes	\$ 1,731	\$ 45,006	Yes	\$ 1,731	\$ 45,006	Yes	\$ 1,731	\$ 45,006	\$ -		
Employee 10	Yes	\$ 1,923	\$ 49,998	Yes	\$ 1,923	\$ 49,998	Yes	\$ 1,923	\$ 49,998	\$ -		
Employee 11	Yes	\$ 2,115	\$ 54,990	Yes	\$ 2,115	\$ 54,990	Yes	\$ 2,215	\$ 57,590	\$ -		
Employee 12	Yes	\$ 2,212	\$ 57,512	Yes	\$ 2,212	\$ 57,512	Yes	\$ 2,212	\$ 57,512	\$ -		
Employee 13	Yes	\$ 2,308	\$ 60,008	Yes	\$ 2,308	\$ 60,008	Yes	\$ 2,308	\$ 60,008	\$ -		
Employee 14	Yes	\$ 2,885	\$ 75,010	No	\$ -	\$ -	Yes	\$ 2,885	\$ 75,010	\$ -		
Employee 15	Yes	\$ 1,250	\$ 32,500	No	\$ -	\$ -	Yes	\$ 1,250	\$ 32,500	\$ -		
Employee 16	Yes	\$ 1,692	\$ 43,992	No	\$ -	\$ -	Yes	\$ 1,692	\$ 43,992	\$ -		
Employee 17	Yes	\$ 1,500	\$ 39,000	No	\$ -	\$ -	Yes	\$ 1,500	\$ 39,000	\$ -		
Employee 18	Yes	\$ 3,654	\$ 95,004	No	\$ -	\$ -	No	\$ -	\$ -	\$ -		
Employee 19	Yes	\$ 1,154	\$ 30,004	No	\$ -	\$ -	No	\$ -	\$ -	\$ -		
Employee 20	Yes	\$ 1,769	\$ 45,994	No	\$ -	\$ -	No	\$ -	\$ -	\$ -		

*Comp based on most recent 2-week paycheck prior to date

**Annualized based on above defined "Comp" multiplied by 26

Interpretation Issues within Step 2B & 3B

Item	Interpretations	Source	
8-weeks vs previous quarter	Favorable	Common sense prevails and the comparison is between ANNUALIZED salary & wages of the covered period versus ANNUALIZED salary & wages from the previous quarter.	1) CARES - 1106, (d), (3)
	Unfavorable	The total salaries & wages from the full 8-week covered period is compared as needing to reach 75% of the total salaries & wages from the full 12-week previous quarter.	1) CARES - 1106, (d), (3)
What if an employee doesn't return?	Favorable	Anybody who quits/retires/or refuses to comeback is designated "not an employee" and is withdrawn from this analysis	1) CARES - 1106, (d), (3), (B)
	Unfavorable	100% of the salary & wages missing from the covered period is applied toward the penalty	1) CARES - 1106, (d), (3), (B)

A Few Disclosures

Holsinger, P.C. ("Holsinger") has created this model in an effort to provide guidance related to potential forgiveness of Paycheck Protection Program ("PPP") Loans received under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").

The calculations and guidance within this model does not constitute a guarantee that you or the Company will be approved for any of the available loan and tax relief programs, nor does it guarantee any portion of any funds will be forgiven.

You and the Company are solely and completely responsible for the information submitted for the program and adhering to the guidelines necessary for forgiveness of the PPP loan.

In the instances where the original legislative text has multiple potential interpretations, we have outlined the various scenarios, favorable and unfavorable to the borrower, in the subsequent tabs and worksheets.

All Sources referenced in these calculations are listed below with links attached.

Sources	
1	"CARES" - Full Text of the CARES Act, March 27, 2020 https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf *Sec. 1102 "Paycheck Protection Program" for an overview on the program, funding, and allowable expenses. *Sec 1106 "Loan Forgiveness" for details on forgivable expenses, forgiveness penalties, and rules on exemption.
2	"IFR" - Full Text of PPP Interim Final Rule, April 3, 2020 https://home.treasury.gov/system/files/136/PPP--IFRN%20FINAL.pdf
3	"FAQ" - Frequently Asked Questions (FAQs). Published by SBA, in consultation with the Department of Treasury, April 17, 2020 https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf



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SBA FAQ Question 31



31. Question: Do businesses owned by large companies with adequate sources of liquidity to support the business’s ongoing operations qualify for a PPP loan?

- **Answer:** In addition to reviewing applicable affiliation rules to determine eligibility, all borrowers must assess their economic need for a PPP loan under the standard established by the CARES Act and the PPP regulations at the time of the loan application. Although the CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act), borrowers still must certify in good faith that their PPP loan request is necessary. Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that “[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business. For example, it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and such a company should be prepared to demonstrate to SBA, upon request, the basis for its certification. Lenders may rely on a borrower’s certification regarding the necessity of the loan request. Any borrower that applied for a PPP loan prior to the issuance of this guidance and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith.

Additional FAQ's relating to Q31



37. **Question:** Do businesses owned by private companies with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?

- **Answer:** See response to FAQ #31.

39. **Question:** Will SBA review individual PPP loan files?

- **Answer:** Yes. In FAQ #31, SBA reminded all borrowers of an important certification required to obtain a PPP loan. To further ensure PPP loans are limited to eligible borrowers in need, the SBA has decided, in consultation with the Department of the Treasury, that it will review all loans in excess of \$2 million, in addition to other loans as appropriate, following the lender's submission of the borrower's loan forgiveness application. Additional guidance implementing this procedure will be forthcoming. The outcome of SBA's review of loan files will not affect SBA's guarantee of any loan for which the lender complied with the lender obligations set forth in paragraphs III.3.b(i)-(iii) of the Paycheck Protection Program Rule (April 2, 2020) and further explained in FAQ #1.
- <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>

Tax Implications of Loan Forgiveness

- Section 1106 of the CARES Act states that amounts forgiven on a PPP loan “shall be excluded from gross income.” However, Section 265 of the Internal Revenue Code provides that expenses “allocable to” tax-exempt income **are not deductible**; this prevents a “double dipping” of sorts, whereby a taxpayer would otherwise get both a deduction and tax-exempt income related to the same transaction or investment.
- Rev Rul 83-3 says an expense is ALLOCABLE to tax exempt income (TEI), if that expense is INCURRED FOR THE PURPOSE OF PRODUCING TEI. The payroll and costs we incur in the Covered Period mathematically produce the forgiven income
- IRC Section 362(c) and 118(a) – when a corporation received (in essence Government Grants), it cannot depreciate the property acquired from the grant.
- IRC Section 108 governs taxation of forgiveness of indebtedness. **GENERALLY & OVERSIMPLIFYING, *in special circumstances*** (i.e. ***certain*** bankruptcies) the cancellation of debt is forgiven. However, the price of this is a reduction of tax attributes. In essence free cash cannot produce tax deductions..
 - What is amazingly unclear is if Section 1106 of the CARES ACT, trumps IRC Section 108.
- Tony Nitti’s Forbes Article articulated a few of these principles in “Ten Things We need to Know About Paycheck Protection Program Loan Forgiveness” <https://www.forbes.com/sites/anthonymitti/2020/04/15/ten-things-we-need-to-know-about-paycheck-protection-program-loan-forgiveness/#4ba61fed3291>



IRC §265 Court Cases

- Christian v. United States (201 F. Supp. 155 (E.D. La. 1962))
 - School teacher was denied deductions for expenses incurred for literary research trip to England because the expenses were allocable to a tax-exempt gift and fellowship grant
- Banks V. Commissions (17 T.C. 1386 (1952))
 - Certain educational expenses paid by the Veterans' Administration that were exempt from income tax were not deductible
- Heffelfinger v. Commissioner (5 T.C. 985 (1945))
 - Canadian income taxes on income exempt from U.S. tax are not deductible in computing U.S. taxable income
- Manocchio v. Commissioner (78 T.C. 989 (1982))
 - Taxpayer attended a flight-training course that maintained and improvised skills required in the taxpayer's trade or business. As a veteran, the taxpayer was entitled to an educational assistance allowance from the VA pursuant to 38 U.S.C. section 1677(1976) equal to 90 percent of the costs incurred. Because the payments received were exempt from taxation under 38 U.S.C. section 310(a) (1976), the taxpayer did not report them as income. The taxpayer did, however, deduct the entire cost of the flight training course, including the portion that had been reimbursed by the VA. In a reviewed opinion, the court held that the reimbursed flight-training expenses were nondeductible under section 265(a)(1) of the Code.

Loan Forgiveness: The counter-reality

During the Savings and Loan Crisis from the late 1980's, the US Government backed larger financial institutions to take over failing S&L's assets. The US Government's payments to cover the Participating Bank's losses were clearly not taxable income. (a.k.a. PPP loan forgiveness is not taxable income).

What was unclear was could the Participating Bank's loan losses from the failing S&L's (a.k.a. costs in the PPP Covered Period) be deductible?

Enter Centex Corp v. United States, 395 F.3d 1283 (Fed. Cir. 2005).

After decades of fighting, Centex won and a double benefit (no taxable income from government subsidy, and tax deductions for the subsidy).

Tax Implications – What is the answer?

This is purely my conjecture and opinion.

1. We are spending unprecedented funds and there is now way this issue gets un-noticed by the IRS who will take their most aggressive position. \$1T x a Tax Rate is hard to miss, and even a big number for Congress
2. There is some precedent for taxpayers to claim the double benefit.
3. I believe Treasury will produce regulations (proposed or otherwise) saying it's taxable.
4. Congress should clarify. If they don't, it will go to court.
5. And in 20 years (a.k.a the Centex Case) we will know the answer.

In the meantime, don't spend 37% of your loan forgiveness and call us in 2021.



The Answer has Arrived for IRC §265

At 8:15 PM on April 30, 2020 we got the answer from IRS Notice 2020-32!

Notice 2020-32

PURPOSE

This notice provides guidance regarding the deductibility for Federal income tax purposes of certain otherwise deductible expenses incurred in a taxpayer's trade or business when the taxpayer receives a loan (covered loan) pursuant to the Paycheck Protection Program under section 7(a)(36) of the Small Business Act (15 U.S.C. 636(a)(36)). Specifically, this notice clarifies that no deduction is allowed under the Internal Revenue Code (Code) for an expense that is otherwise deductible if the payment of the expense results in forgiveness of a covered loan pursuant to section 1106(b) of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Public Law 116-136, 134 Stat. 281, 286-93 (March 27, 2020) and the income associated with the forgiveness is excluded from gross income for purposes of the Code pursuant to section 1106(i) of the CARES Act.

<https://www.irs.gov/pub/irs-drop/n-20-32.pdf>





Main Street Lending Program:

On April 9, 2020, The Federal Reserve has announced that it is establishing a \$600 billion Main Street Lending Program to support lending to small and medium-sized businesses that were in good financial standing before the onset of the COVID-19 pandemic. Then, on April 30, 2020, the Federal Reserve Board announced it is expanding the scope and eligibility for the program.

The program will now operate through three facilities:

1. The Main Street New Loan Facility (MSNLF) for loans originated by lenders on or after April 8, 2020
2. The Main Street Expanded Loan Facility (MSELF) for loans originated by lenders before April 8, 2020.
3. The Main Street Priority Loan Facility (MSPLF)

Firms that have taken advantage of the PPP may also take out Main Street loans.

The program will be administered directly by the Federal Reserve, not the SBA and the loans will come from private banks

Start date of the program has yet to be announced.

The Programs FAQs can be found here: <https://www.federalreserve.gov/monetarypolicy/files/main-street-lending-faqs.pdf>

Main Street Lending Program Loan Options	New Loans (MSNLF)	Priority Loans (MSPLF)	Expanded Loans (MSELF)
Term	4 years	4 years	4 years
Minimum Loan Size	\$500,000	\$500,000	\$10,000,000
Maximum Loan Size	Lesser of \$25M or 4x 2019 adjusted EBITDA	Lesser of \$25M or 6x 2019 adjusted EBITDA	Lesser of \$200M, 35% of outstanding and undrawn available debt, or 6x 2019 adjusted EBITDA
Risk Retention	5%	15%	5%
Payment (year one deferred for all)	Years 2-4: 33.33% each year	Years 2-4: 15%, 15%, 70%	Years 2-4: 15%, 15%, 70%
Rate	LIBOR + 3%	LIBOR + 3%	LIBOR + 3%

Main Street Lending Program

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200430a.htm>

Eligible Borrowers:



An Eligible Borrower is a Business¹ that:

1. Was established prior to March 13, 2020
2. Is not an Ineligible Business²
3. Meets at least one of the following two conditions:
 - i. Has 15,000 employees or fewer
 - ii. Had 2019 annual revenues of \$5 billion or less
4. Is created or organized in the US or under the laws of the US with significant operations in and a majority of its employees based in the US
5. Does not participate in another Main Street Lending Program
6. Has not received specific support pursuant to the Coronavirus Economic Stabilization Act of 2020 (Subtitle A of Title IV of the CARES Act)³

¹ A Business is an entity that is organized for profit as a partnership; a limited liability company; a corporation; an association; a trust; a cooperative; a joint venture with no more than 49 percent participation by foreign business entities; or a tribal business concern as defined in 15 U.S.C. § 657a(b)(2)(C), except that “small business concern” in that paragraph should be replaced with “Business” as defined herein. Other forms of organization may be considered for inclusion as a Business under the Facility at the discretion of the Federal Reserve.

² An Ineligible Business is a type of business listed in 13 CFR 120.110(b)-(j) and (m)-(s), as modified by regulations implementing the Paycheck Protection Program established by section 1102 of the CARES Act (“PPP”) on or before April 24, 2020. The application of these restrictions to the Facility may be further modified at the discretion of the Federal Reserve.

³ For the avoidance of doubt, Businesses that have received PPP loans are permitted to borrow under the Facility, provided that they are Eligible Borrowers.

Required Borrower Certifications and Covenants:

In addition to other certifications required by applicable statutes and regulations, the following certifications and covenants⁴ will be required from Eligible Borrowers:

- The Eligible Borrower must commit to refrain from repaying the principal balance of, or paying any interest on, any debt until the Eligible Loan is repaid in full, unless the debt or interest payment is mandatory and due.⁵
- The Eligible Borrower must commit that it will not seek to cancel or reduce any of its committed lines of credit with the Eligible Lender or any other lender.
- The Eligible Borrower must certify that it has a reasonable basis to believe that, as of the date of origination of the Eligible Loan and after giving effect to such loan, it has the ability to meet its financial obligations for at least the next 90 days and does not expect to file for bankruptcy during that time period.
- The Eligible Borrower must commit that it will follow compensation, stock repurchase, and capital distribution restrictions that apply to direct loan programs under section 4003(c)(3)(A)(ii) of the CARES Act, except that an S corporation or other tax pass-through entity that is an Eligible Borrower may make distributions to the extent reasonably required to cover its owners' tax obligations in respect of the entity's earnings.
- The Eligible Borrower must certify that it is eligible to participate in the Facility, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.

Retaining Employees: Each Eligible Borrower that participates in the Facility should make commercially reasonable efforts to maintain its payroll and retain its employees during the time the Eligible Loan is outstanding.

⁴ An Eligible Lender is expected to collect the required certifications and covenants from each Eligible Borrower at the time of origination of the Eligible Loan. Eligible Lenders may rely on an Eligible Borrower's certifications and covenants, as well as any subsequent self-reporting by the Eligible Borrower.

⁵ For the MSPLF and MSELF, the Eligible Borrower may, at the time of origination of the Eligible Loan, refinance existing debt owed by the Eligible Borrower to a lender that is not the Eligible Lender.

Thank you for attending!

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Please feel free to reach out to us if you have any additional questions!

WILLIAM R. COLLIER, CPA, MST

Education and Certifications:

B.S. in Accounting, Grove City College

Masters in Taxation, Robert Morris University

Certified Public Accountant, Pennsylvania

Experience:

In his role as Vice President and Tax Partner-In-Charge, Bill Collier manages the firm's tax operations, family office group and M&A team. He applies his highly skilled expertise to develop tax saving ideas for our clients business challenges. He develops internal standards governing the delivery of tax services to clients and maintains a close pulse on the legislative and regulatory changes impacting our client's tax positions, both domestically and internationally.

University

ANDY BIANCO, CPA/MT

Education and Certifications:

B.S. in Accounting, St. Vincent College with a minor in Finance

Masters of Taxation, Villanova University School of Law

Certified Public Accountant, Pennsylvania

Experience:

As a Shareholder at Holsinger, has over a decade of experience in the areas of tax, accounting, auditing, forensic accounting, mergers and acquisitions and general business consulting services. Andy has served both domestic and international clients in a broad range of industries during his career in the accounting profession. He consistently proves value through quality service, attention to detail and unique perspective.

WILLIAM L. STUNKEL, CPA

Education and Certifications:

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Experience

While being the Director of Holsinger's Business Solutions ("HBS") group, Wil has over fourteen years of experience in areas of accounting, tax planning, payroll and financial literacy. Wil has extensive experience with private companies in a broad range of industries including manufacturing, construction, restaurants, professional services, non-profit organizations, home healthcare, and others. He has worked extensively with clients in structuring compensation for themselves as well as for clients' employees to ensure the most efficient tax treatment. He specializes in working with small business owners to give them the attention and analysis they want while helping them increase their income.

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Experience:

Jessica, a Tax Manager at Holsinger is a CPA with over 18 years of experience in tax preparation, tax planning, research and consulting. Her main focus has been multistate and consolidated business returns which includes both domestic and foreign entities. Jessica also has extensive experience in tax research, resolving client issues with state and federal authorities and developing tax planning strategies for multistate and multinational corporations along with owners of pass through entities.