CORONA CONFUSION

The Dilemma facing Small & Midsize Employers

Loan or Refundable Credits?

The federal government passed the CARES (Corona Virus Aid, Relief and Economic Security) Act on March 27, 2020. The Act provides $349 Billion in Small Business Administration loans for certain qualified employers. Importantly, as will be discussed below, the Act provides that the loan amount may be forgiven in its entirety should certain contingencies be met. The Act also provides several tax provisions for employers, one of which is an employee retention credit for up to $5,000 per employee for employers impacted by COVID-19. **An employer cannot avail itself of both the SBA loan provision and the tax credit provision.** This information bulletin provides a brief summary of each program to assist employers in deciding which opportunity best accomplishes the goal of employee retention and business survival in this unprecedented economic turmoil.

PAYCHECK PROTECTION PROGRAM (SBA Loans)

- Business must employ fewer than 500 employees and have been in operation before February 15, 2020.
- Businesses in the restaurant and hospitality segment can count employees per location vs. total regarding the 500-employee maximum.
- The loan amount is calculated by multiplying 2.5 times the average monthly payroll costs for all employees up to $100,000 in salary per employee. Businesses can borrow up to $10,000,000 depending on its average payroll amount for the 12 months ending on 2/15/20.
- The loan amount can be forgiven if, during the 8 weeks after its receipt, at least 75% of the loan amount is used for payroll with the balance used for rent/mortgage, utilities and health care benefits.

  BUT:
- The details of the process to determine loan forgiveness remain unknown.
- Rent/mortgage, utilities and health care benefit obligations must have existed before 2/15/20.
- Loan forgiveness is dependent upon maintaining staff numbers and payroll amounts used to determine the loan amount (loan forgiveness is reduced proportionate to staff/payroll reduction***). Companies have until June 30, 2020 to return to these thresholds***
- Employee FICA payments are not included in "payroll" for forgiveness determination.
- Unforgiven loan amount incurs 1% interest charge for 2 years (payments deferred for 6 months, but interest accrues with no pre-payment penalty).

OR

EMPLOYEE RETENTION TAX CREDIT

-Any private sector or non-profit employer, regardless of its size, may be eligible for the credit during calendar year 2020.

- To be eligible, the business must:

A. be fully or partially suspended due to government order due to COVID-19, or

B. incur a 50% decline in gross receipts from the same quarter in 2019, between 3/13/20 through 12/31/20.

- The credit is equal to 50% of qualified wages paid per employee. The Act places a $5,000 total cap on the credit per employee for the 2020 tax year.

-"Qualified wages" varies depending on the number of employees with all wages/healthcare costs qualifying for businesses with 100 or fewer employees.

-The credit can be claimed against the employer's portion of employment taxes, including Social Security and Railroad Retirement. Should the credit exceed the amount due, it is treated as an overpayment and is refundable to the employer.

The refundable can be claimed monthly and is claimable through the quarter following the employers return to 80% of gross receipts as compared to the prior year.

- **The employer does not have to repay the credit if it meets the initial requirements to receive it**.

- The credit is available for qualified wages from 3/13/ 20 through 12/31/20.

Now that you've learned the basics of each CARES Act opportunity, how do you determine which provision best meets your company's needs? Unfortunately, the answer most likely is a function of math. At the highest level of analysis, any employer that has reduced its workforce significantly either through layoffs, furloughs or reduced hours/wages is at risk of not having the loan forgiven after the 8 week performance period and once the loan is taken there is no switching back over to the credit.

"Based upon our modeling, employers with employees earning less than $25,000 annually and that do not expect their sales to rebound to 80% of prior year sometime sales until after second quarter will benefit more by the credit as the credit can accrue against a longer time period of wages than 2.5 months" states Jim Brown, President of Synergi Partners.

Luckily, Synergi Partners has developed a proprietary tax credit estimator to assist you in this determination. You can calculate your PPP loan eligibility amount, then utilize the Synergi Partners tax credit estimator to arrive at your tax credit amount. Once you've considered the risks and benefits of each program along with the estimated numbers, you'll be armed with the information needed to make the right decision for your business. Or course, Synergi Partners remains ready and willing to assist as needed.

For more information or to see what may be the best option for your company, please visit our estimator tool at https://covid19.synergipartners.com/app/synergi/start or email us at info@synergipartners.com

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