

Bridging the cash flow gap

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Federal Loans

Interplay of the Federal loan programs

What is working and not working?

Keeping your loan forgivable (or not)

Interplay of the federal loan programs

Economic Injury Disaster Loan Program (EIDL)

- Up to \$2 million for working capital needs such as fixed debt and payroll
- can request a **\$10,000 grant** for working capital

Paycheck Protection Loans (PPP)

- Maximum loan amounts based on formula:
 - Average monthly payroll costs (only first 100k per EE) for 12-month period preceding the loan date (or calendar year 2019) x 2.5; or
 - \$10 million
 - Whichever is *less*
- Example: if business had an average monthly payroll of \$900,000 over the prior year, it would be eligible for a loan of \$2.25 million (\$900,000 average monthly payroll x 2.5).
- DO NOT INCLUDE FEDERAL PAYROLL TAXES

What is working and not working?

- It is not too late
- Walk expeditiously, but do not run
- Use your own bank
- Fill in the form (completely)

How does forgiveness work?

- The amount of the loan forgiveness will be reduced by:
 - The average number of employees during the 8 week forgiveness period compared with either:
 - Average number of employees during the period of February 15 - June 30, 2019, or
 - January 1 – February 29, 2020.
- The amount of the loan forgiveness will be reduced by:
 - The amount of any reduction in total salary or wages of any employee in excess of 25 percent of the total salary or wages of the employee during the most recent full quarter during which the employee was employed before the covered period.

NOTE: For reduction in employees, the borrower can use either comparison time period above.

NOTE: Reductions to employees who make more than \$100k do not affect forgiveness analysis.

Loan forgiveness: Joe's Tiger Corporation



- Joe's Tiger Corporation manufactures stuffed tigers. It has potential debts of \$250k of payroll costs, \$40k of rent obligations, \$5k of utility obligations and \$5k of interest obligations. Joe's begins with a maximum eligible forgiveness amount of \$300k.
- Joe had 25 full-time equivalent employees during the covered period, which is the 8-week period beginning on the date of his loan, which he took out on March 30, 2020.
- Divide 25 by 30 (average number of full-time equivalent employees during the Choice Period (e.g., February 15, 2019 to June 30, 2019). Results in a quotient of 0.833. Multiply 0.833 by \$300k, which equals \$250k.
- Joe's forgiveness amount has been reduced by \$50k because of the 5 employee reduction.

Loan forgiveness: Kool Kats and Kittens



- Kool Kats and Kittens is owned and managed by Carole, and pays all of its employees, including Carole's husband Howard, the same average wage and salaries, except that it has decreased Howard's salary by 50% because it decreased some of his duties.
- Howard's salary goes from \$40k during the most recent full quarter to \$20k during the Forgiveness Period.
- 50% reduction. Recall that wage reductions above 25% reduce loan forgiveness.
- Excess 25% reduction = \$10k.
- The \$250k loan forgiveness amount is reduced by another \$10k, resulting in a final forgiveness amount of \$240k.

Protecting forgiveness (or not)

- **Bringing back employees or restoring wages**
 - Any reduction in the amount of loan forgiveness will be completely avoided if the employer re-hires all employees laid off (going back to February 15, 2020), or increases their previously reduced wages, no later than June 30, 2020.
 - These provisions are designed to provide an incentive to employers to not lay off workers (or rehire them) and to not decrease wages and instead utilize the loan amounts to pay payroll and other expenses.
 - This exception only applies to layoffs and salary reductions occurring between ***February 15 and April 27***.

Documenting forgiveness

- **Proof of payroll payments:**
 - Full-time equivalents and pay rates for the relevant period
 - Payroll tax filings reported to the IRS (or equivalent), and
 - State income tax, payroll and unemployment insurance filings (or equivalent)
 - Verification of other expenses
 - cancelled checks, payment receipts, etc.
- **Certification from the company that:**
 - The documentation is true and correct, and
 - The amount of the forgiveness was used for the intended purposes
- **Any other documentation the SBA/lender requires.**

What do I give up with a PPP loan?

EMPLOYEE RETENTION TAX CREDIT

- Employee retention credit for employers subject to closure due to COVID-19
- Tax credit of 50% of first \$10,000 in qualified wages paid during COVID-19 crisis, March 13, 2020 to end of year
- Available to employers whose:
 - Operations were fully or partially suspended due to COVID-related “shut down” orders, OR
 - Gross receipts declined by more than 50% when compared to the same quarter in previous year
 - Cannot utilize this program if you also get a PPP Loan
 - Cannot get credit for wages paid under the FFCRA (sick pay)

What do I give up with a PPP loan?

DEFERRAL OF EMPLOYER PAYROLL TAXES

- Deferral of Social Security tax on wages paid beginning on March 27, 2020 and ending on December 31, 2020
- A deferral is also permitted for the equivalent portion of self-employment taxes
- Deferred amounts are payable in two installments, with 50% due on December 31, 2021, and the remainder due on December 31, 2022
- Deferral is not permitted where the employer has had a covered loan forgiven, as previously discussed

PPP Loans and the FFCRA

- Employers may receive both FFCRA tax credits attributable to mandatory sick pay and family medical leave and a PPP loan.
- The amount of payroll costs included in the PPP loan will not include the amount of wages/expenses for leave under FFCRA
- PPP loan proceeds may not be used for wages/expenses for leave for which a tax credit is allowed.

Employee retention credits and the FFCRA

- Employers must carve out any leave payments made under the FFCRA from wages counted under the Employee Retention Credit.
- The Employee Retention Credit encourages companies to keep employees on their payroll by providing a fully refundable tax credit for employers equal to up to 50 percent of qualified wages paid not exceeding \$10,000. FFCRA sick or family leave wages paid entitle an employer to a refundable tax credit dollar for dollar the amounts paid. The same wages cannot be counted for both credits.

Additional relief

State relief programs

Operational costs

Contributions to benefits

Insurance policies

State relief programs

CALIFORNIA

- San Francisco, Los Angeles, Sacramento (relief currently exhausted), South County
 - Various relief programs

CONNECTICUT

- 0% Bridge loans and 3.75% disaster relief loans

MASSACHUSETTS, NEW JERSEY, NEW YORK

- Bills pending

Illustrative only, not exhaustive

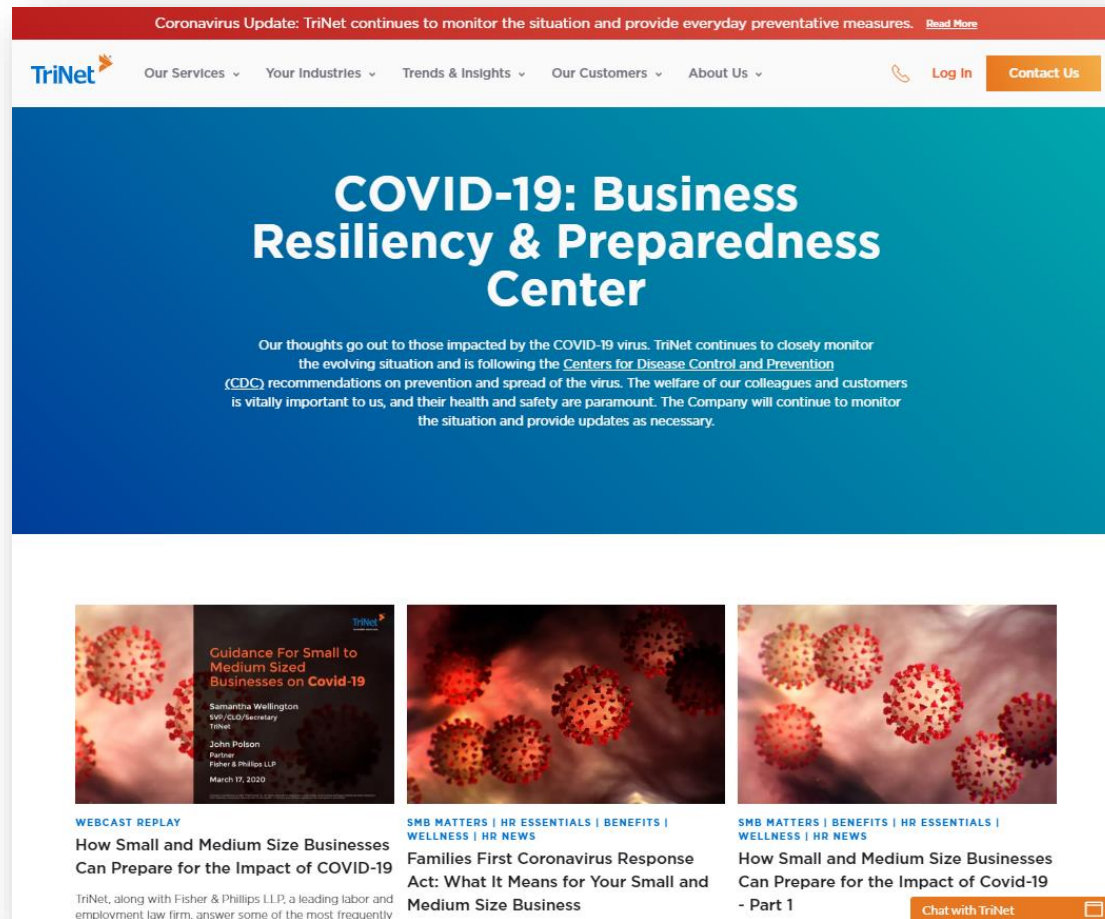
Operational costs

- Pause large, non-essential projects
- Cancel Subscriptions/Services
 - Janitorial Services
 - Car/Gas Stipends
 - Software
- Marketing (pivot)
- Negotiate with vendors, landlords

Benefits contributions

- Retirement contributions: 401k match
- Health and other benefit contributions
- Engage with employees
- Review policies

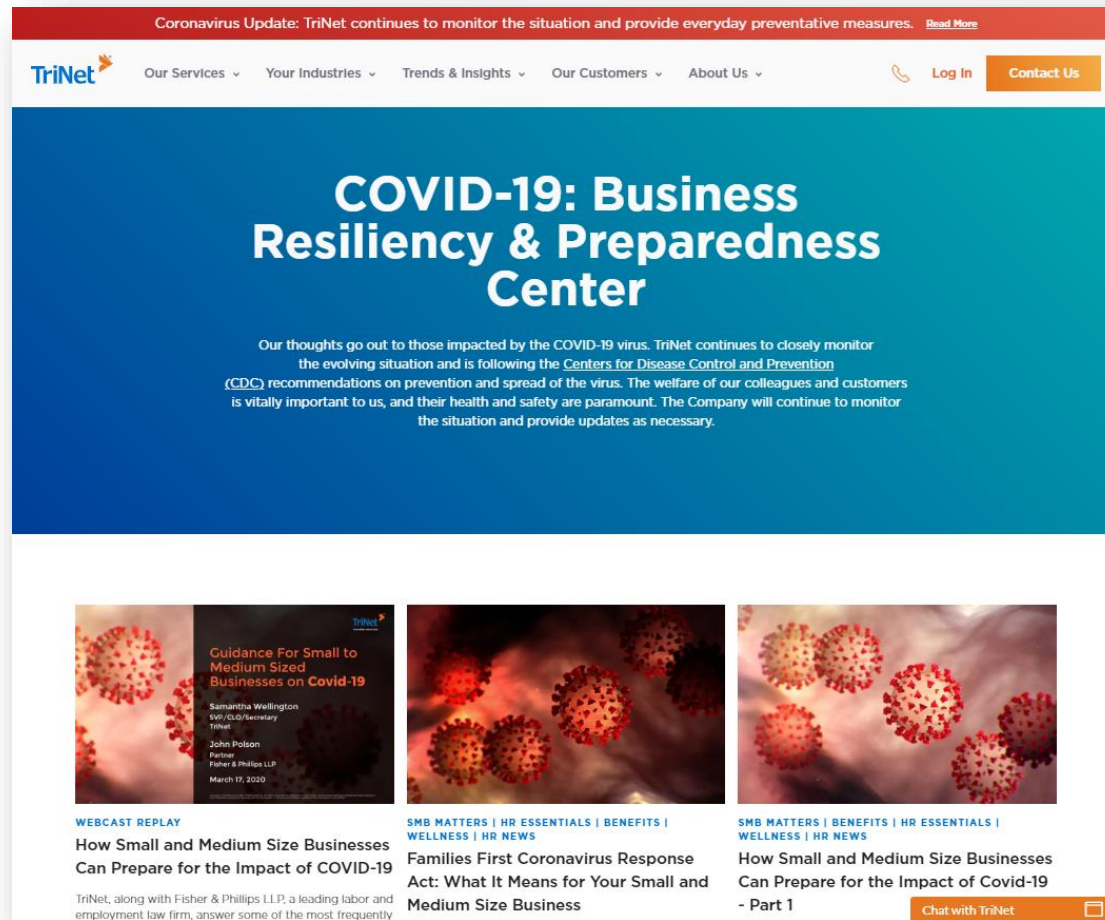
Additional Resources



For Webcast replay and additional information, visit...

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