Grant Thornton

# Government funding to explore during COVID-19

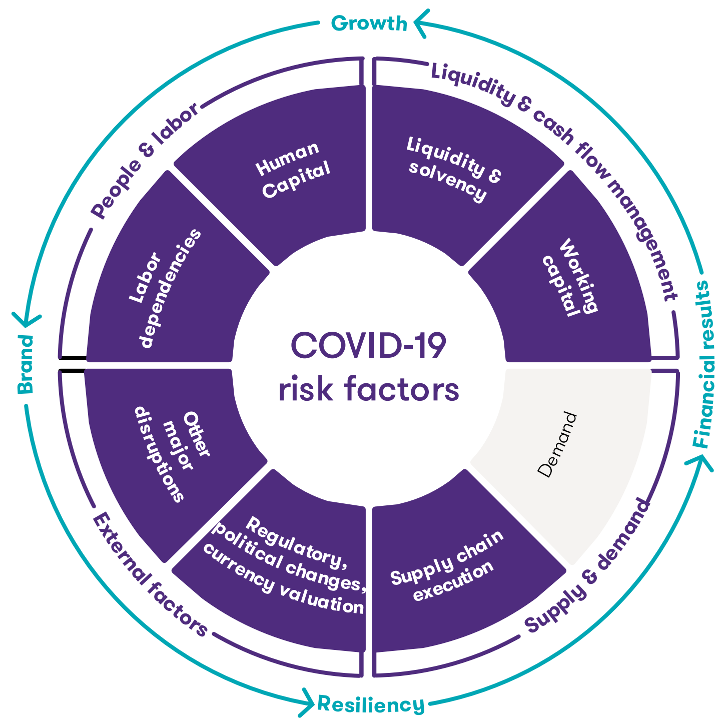
Respond and restore. Together.

## Immediate actions you can take

As companies weigh options to maintain liquidity and solvency, including workforce scaling, they should factor government funding opportunities into the equation. Below is a summary of funding currently available along with tax implications.

### If intending to retain workforce in full or in large part

- **Any size company in severely distressed sectors and retaining existing workforce.** You can apply for a loan under the Treasury's Exchange Stabilization Fund to cover employee wages and benefits. The Treasury broadly defines "severely distressed sectors." Loan considerations include:
  - You must maintain the same level of existing payroll.
  - The loan can't exceed five years and will be publicly disclosed.
  - Limits exist on employee and executive total compensation for salaries above $425,000, including severance pay or "golden parachutes" until one year after the loan is no longer outstanding.
  - Corporate stock buybacks are prohibited (unless contractually obligated) for the duration of the assistance plus one year after the loan.
- **Companies with 500 - 10,000 employees and retaining 90% of workforce at full wages.** You can apply for a loan from a middle market loan facility being set up by the treasury secretary (or other loan facilities created) with no principal or interest due for the first six months and an interest rate not exceeding 2%. Loan considerations include:
  - Funds must be used to retain 90% of workforce (calculated as of February 1, 2020) at full wages and benefits through September 30, 2020.
  - No buybacks or dividend payments through loan life.
  - No outsourcing / job offshoring for the loan life plus two years.
  - No abrogating collective bargaining for the term of the loan plus two years after completing repayment (borrowers must also remain neutral in union organizing activities).




## Tax implications for funding

Companies receiving a Small Business Administration (SBA) loan under the CARES Act will not be able to claim the employee retention tax credit. Certain loan forgiveness under the CARES Act will make companies ineligible for payroll tax payment deferral. However loan forgiveness under the CARES Act Paycheck Protection Program is not considered income.

### Additional options for small businesses with up to 500 employees

- **Paycheck Protection Program.** The Paycheck Protection Program provides one of the best opportunities if you meet Small Business Administration size standards, generally up to 500 employees, with isolated exceptions by industry (view SBA size standards tool). The program is available to small firms and non-profits as well. In spirit, the program covers payroll for two months. If you maintain headcount and don't reduce payroll costs by more than 25%, your loan is forgiven. This is a new program, not to be confused with other SBA loan programs. Eligible companies should consider applying first for the Paycheck Protection Program before pursuing other avenues. Based on preliminary guidance:
  - Loan forgiveness is available if you maintain payroll and use funds according to the purpose. The purpose is to retain workers, maintain payroll, make mortgage or lease payments and pay utilities. Forgiveness allows up to 25% to be allocated to the nonpayroll costs associated with the loan's purpose.
  - Reducing headcount or lowering salaries / wages by 25% for any employee making less than $100,000 decreases forgiveness. If you do not receive full forgiveness, the interest rate that applies is a .50% fixed rate.
  - SBA's "no credit elsewhere" standard test is waived.
  - No personal guarantee / collateral is required.
  - Lenders will defer fees / principal / interest for six months.
  - Loans can be up to 2.5 times the borrower's average monthly payroll costs, not to exceed $10 million. Payroll costs exclude compensation amounts paid to individuals, including the self-employed, in excess of $100,000 a year.
  - The SBA has waived its affiliation standards for small businesses in the hotel and food services industry (NAICS 72) code, franchises in the SBA Franchise Directory and entities that receive financial assistance from small business investment companies licensed by the SBA.
- **SBA Debt Relief.** A great second option for companies that meet the SBA size criteria is to seek a loan under the agency's regular 7(a) program. This program is available to small firms, but not available to non-profits. For both existing borrowers and any new borrowers who take out loans through September 27, 2020, SBA will make scheduled principal and interest payments for six months on behalf of the borrower.
- **SBA Economic Injury Disaster Loan.** If neither of the above options are a right fit for you, but you meet the size criteria of SBA, you can apply for an SBA Economic Injury Disaster Loan (solely on credit scores), which provides an advance "grant" of $10,000 within three days of application and up to $2 million of funding at 3.75% interest (2.75% for non-profits). Provisions:
  - Must be used to pay for expenses that could have been met if pandemic had not occurred.
  - Loans below $200,000 don't require personal guarantee.
  - $10,000 advance forgiven if used for paid leave, maintaining payroll, increased costs due to supply chain disruption, mortgage or lease payments, or repaying obligations that cannot be met due to revenue losses.
  - EIDL loans cannot be used for the same purpose as any amounts provided to a borrower under the Paycheck Protection Program.

### Options for U.S. companies that export goods / services

- **Export Import Bank programs.** The Export Import Bank (EXIM) has introduced funding options to provide liquidity into the market and ease the cash flow burden. Several opportunities include:
  - A one-year, short-term loan or loan guarantee through the Temporary Bridge Financing Program.
  - One year of financing through the Temporary Progress Delivery Payment Financing program if buyers are not receiving long-term financing through EXIM (typically this funding has been for large capital goods but is now extended to manufacturing sectors whose international buyers have not participated in pre-export payment).

> **NOTE**
> Any loans under the above two EXIM programs are subject to standard due diligence and credit analysis, and can be structured as guaranteed or direct loans.

  - EXIM has also extended the guarantee level, relaxed criteria for the Supply Chain Finance Guarantees and expanded eligibility for all inventory that could be exported, as well as increasing the guarantee level for the Working Capital Guarantee Expansion.

## At the ready to help you

As you work to quickly stabilize your business during these unprecedented times, our professionals can help you formulate the best funding approaches for your business based on the nuances and trade offs. We can provide additional insights, on-call technical support as well as application and compliance assistance. Living our values of collaboration, leadership, excellence, agility, respect and responsibility, you can count on us to:

- Bring a calm and deliberate approach to discussing key considerations.
- Respond at the speed of your need, bringing care and building trust in everything we do.
- Work with you to create actionable plans that make sense.

## Contact

**Greg Wallig**
Metro DC-Arlington
Managing Principal
**T** +1 703 847 7611
**E** greg.wallig@us.gt.com

## Additional subject matter specialists

**Kathleen Sifer**
Managing Director
Public Sector Advisory LLC
**T** +1 703 637 3023
**E** kathleen.sifer@us.gt.com

**Dustin Stamper**
Managing Director
Washington National Tax Office
**T** +1 202 861 4144
**E** dustin.stamper@us.gt.com

**Douglas Criscitello**
Managing Director
Public Sector Advisory LLC
**T** +1 703 637 2770
**E** douglas.criscitello@us.gt.com

**Ellen Martin**
National Managing Director
Strategic Federal Tax Services
**T** +1 202 521 1513
**E** ellen.martin@us.gt.com

Grant Thornton