

Optimizing Multiple Incentives and Financing Strategies for Growth: PPP, the Employee Retention Credit & the SBA



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Disclaimer

The materials presented are for informational purposes only and not for the purpose of providing tax or legal advice.

It is not designed to be, and should not be used as, the sole source of information when analyzing and resolving a business issue.

You should contact your accountant or attorney to obtain advice with respect to any particular issue or problem.



Agenda

- Cash Incentives
 - ERC Credits, PPP Loans, and NOL
- Financing Options
 - SBA Programs and Lending Options
- Growth
 - Additional Points to Consider





Cash Incentives

Paycheck Protection Program (PPP)

- Over \$800B allocated (\$88B remains)
- Second Draw Loan Eligibility
 - Reduction in Gross Receipts of at least 25% in any quarter of 2020 compared to the same quarter in 2019 (previously no requirement)
 - Will have, or will use full amount of PPP1 proceeds on eligible expenses prior to PPP2 funding
- Current Deadline of 3/31
 - 2-month extension likely
- Deadline to Submit Forgiveness Application
- Simplified Forgiveness Applications
- Potential Forgiveness Reductions



U.S. Small Business
Administration

Qualifying Expenses

- Payroll (Salary and Benefits) 60% minimum
 - Limited to \$100,000 annualized compensation
- Mortgage Interest
- Business Rent or Lease Payments
 - Related party limitations
- Business Utility Payments
- Expanded Expenses
 - Covered Operating Expenditures
 - Covered Property Damage
 - Covered Supplier Costs
 - Covered Worker Protection Expenditures



Employee Retention Credit

2020

- 50% Credit up to \$10,000 wages for the period 3/12/20-12/31/20
- Maximum Benefit \$5,000 / employee
- 50% decline in gross receipts as compared to corresponding prior year quarter
- 100 Full Time Employee Threshold

2021

- 70% Credit on up to \$10,000 wages for each Quarter in 2021
- Maximum Benefit \$28,000 / employee
- 20% decline in gross receipts as compared to corresponding prior year quarter
- 500 Full Time Employee Threshold
- Special Rules for 500 person companies
- Available to companies formed in 2020

Interplay of PPP and ERC

- Previously Mutually Exclusive – Changed with CCA
- Expenses can't be used for both
- Many taxpayers used payroll only on PPP Forgiveness
- Notice 2021-20 IRS Guidance
- Wages utilized for Forgiveness are deemed not eligible for the ERC
- Income Tax Impact of ERC
- Maximize non-payroll expenditures (40%)



Interplay of PPP and ERC - Example

- Gross Receipt decline of 55% in Q2 2020, 70% in Q3, and 40% in Q4
- PPP Loan of \$250k on 4/29/20
- 100% Loan Forgiveness in September 2020 using Payroll only
 - ERC from 4/1/20- 4/28/20
 - PPP from 4/28/20- 9/30/20
 - ERC from 10/1/20-12/31/20
 - Total Credit = \$75,000 – Amended Payroll Returns
- 2021 will utilize 40% non payroll costs on PPP application
- Each Situation is Different and Complex



Additional Cash Creators

- Net Operating Loss Carry-Backs
 - 5-year carryback
 - Losses originating in 2018-2020
- Research and Development Tax Credit
 - Three-year lookback study and credits available.
 - Several States have Credits
 - COVID R&D





Financing Options

What is the SBA 504 program?

- Provides lending solution for small business owners to **buy, expand or refinance major fixed assets** – such as commercial real estate, equipment, and machinery
- The 504 program mission supports:
 - ✓ Job Creation/Retention
 - ✓ Community Development
 - ✓ MBE, WBE and Veteran-Owned Businesses
- Functions as a public-private partnership with three key players – a small business borrower, a Certified Development Company like SomerCor, and a third party lender (i.e. your bank, credit union)

Who can use the SBA 504 Program?

- For-profit business
- Under \$15MM in tangible net worth
- Prior 2 years average after tax net income under \$5MM
- For CRE at least 51% applicant occupancy (60% for new construction)
- The 504 works for all these industries and more:
 - ✓ manufacturing
 - ✓ health care
 - ✓ storage facilities
 - ✓ restaurants
 - ✓ education & childcare
 - ✓ franchises
 - ✓ hospitality
 - ✓ professional services
 - ✓ retail
 - ✓ senior care facilities

Below-Market Interest Rates Means Lower Monthly Payments:

- ✓ Interest rates are among the lowest in program history - rates have been consistently below 4% since August 2019, current at 3.04%

Less Money Down Means Freed Up Working Capital:

- ✓ Up to 90% financing for established businesses - this financing structure frees up working capital that would normally be designated for paying off loans, to instead be reinvested back into growing the business

Long-Term Fixed Financing Means No Surprise Balloon Payments:

- ✓ Borrowers have the option of 10, 20 or 25 year loan terms - this eliminates surprise balloon payments and allows for more accurate long-term planning

Temporary Program Changes in Response to COVID-19

- ✓ Elimination of 0.5% SBA Participation Fee and the 1.5% CDC Fee (*ending Sept 30, 2021*)
- ✓ Three months of debt payment assistance for new 504 loans approved between Feb 1-Sept 30, 2021, capped at \$9,000 per loan per month (includes principal, interest and fees)
- ✓ Program changes are dependent on availability of appropriated funds.

For companies conserving and needing to shore up capital, the 504 Refi is a trusted, strategic debt restructuring solution, especially during an economic downturn.

Small businesses can use the refi to **leverage built-up equity and take money out for eligible working capital expenses** - the cash out piece ranges up to 20% of the appraised value of the commercial property

Eligible Operating Expenses for Cash-Out Funds:

- ✓ Salaries (non-owners)
- ✓ Rent
- ✓ Utilities
- ✓ Inventory
- ✓ Business line of credit and business credit card debt

Ineligible Uses of Cash-Out Funds:

- ✗ Capital expenditures
- ✗ Personal expenses
- ✗ Acquiring a new business or business partnership buyout

*New rules about what projects are eligible for 504 refi are under consideration at SBA, expected later this year.

For businesses that are growing and need to expand and renovate to meet demand, the SBA 504 loan structure requires less money down, and provides long-term, fixed financing at below market interest rates.

Eligible costs that can be funded with a 504 Loan:

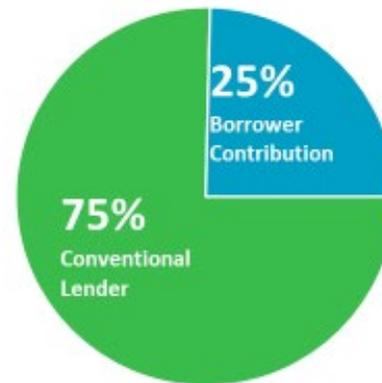
- ✓ Land and building acquisition
- ✓ Construction
- ✓ Remodeling
- ✓ Equipment
- ✓ Fixtures
- ✓ Certain soft costs and professional fees

Ineligible Uses

- ✗ Working capital
- ✗ Inventory
- ✗ Goodwill
- ✗ Business stock
- ✗ Vehicles
- ✗ Franchise fees
- ✗ Legal fees

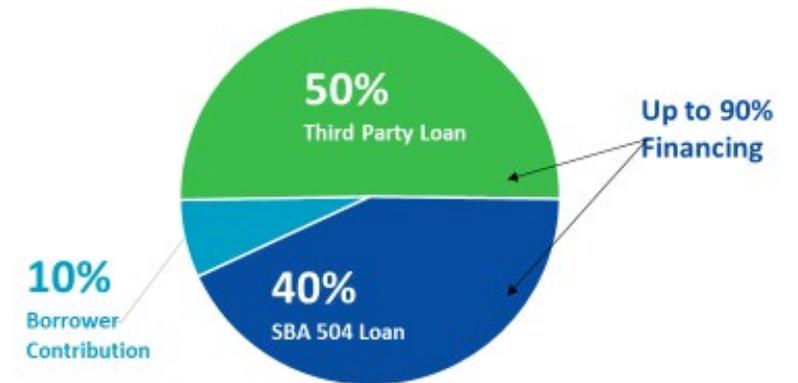
Typical \$2 Million Project:

Conventional Financing



Bank Only:
\$1,500,000 Bank Loan
\$ 500,000 Equity

The 504 Advantage



SBA 504 Project:
\$1,000,000 Bank Loan
\$ 800,000 SBA 504
\$ 200,000 Equity

Example SomerCor Projects



Aquascape, Inc. sets the industry standard for residential and commercial water features. Most recently, the TEAM completed a massive water feature installation project at the home of former NBA superstar, Shaquille O’Neal.

In 2016, SomerCor partnered with Aquascape to restructure the existing debt on their North American corporate headquarters in St. Charles, IL, dubbed Aqualand. The 15-acre site includes a 207,785SF building with a corporate atrium, retail store, and warehouse space. **With a total project size of \$12,100,000, the SBA 504 Refi meant an annual savings of \$540,000!** This improved cashed flow positioned the company to better address unforeseen challenges.



The Ultimate Paint Shop provides complete collision repair, detailing, and other services for all vehicles – but specializes in luxury car brands. Serving Chicagoland for more than 35 years, this family business is certified to service Audi, Lamborghini, Porsche, Bentley, and Tesla vehicles.

After renting their space in Lake Bluff for 32 years, Joe and Lois Young partnered with the SomerCor team on an SBA 504 loan to purchase the 21,600 square foot building. At the heart of the decision was the expectation that two of their daughters, already involved in daily operations, would take over the business one day. **Plus, by owning the space instead of renting, the company saves \$65,000 a year!**

March 2021 SBA 504 Debenture Pricing was Completed on March 11, 2021:



25 Year Term 3.04%
20 Year Term 3.00%
10 Year Term 2.68%

Rates include monthly servicing fees to CDC, SBA, and central servicing agent; based on SBA FY21 fees. Refi rates are approximately 4 basis points higher.

March SBA 504 & 504 Refi Program Handouts

Included in Monthly Rate Blast email [Signup here](#)

Click images to download



SBA 504



SBA 504 Refi

SBA 7(a) Program

- Financing up to \$5.0MM – all industries; 90% government guaranty, no SBA government guaranty fees; finances acquisitions, permanent working capital, inventory purchases and available on deals where there is a shortage of collateral

SBA Express Loan

- Permanent working capital loan – 50% government guaranty – capped at \$1.0MM

SBA CAPLine

- SBA Line of Credit – up to \$5.0MM, borrowing based certificate(BBC), advanced on 80% of eligible accounts receivables and 50% of inventory. Monthly monitoring with lock box option required on lines over \$1.0MM. 1% annual fees.



Growth

Growth

- How does a company position itself for additional capital through an SBA loan?
- Are there opportunities to use SBA funding to do business acquisitions?
- What is a good way to lock in a low-rate SBA loan today?
- What are the benefits for a 504 program?





Questions

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