



ECONOMIC INJURY DISASTER LOAN VS. PAYCHECK PROTECTION PROGRAM LOAN

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There is an incredible amount of uncertainty surrounding the Federal disaster relief efforts available to small businesses today. The Government was forced to move quickly and attempt to provide capital, and the side-effect is disorganization and misinformation amongst business owners.

The most frequent question we have received from our advisors is “which loan is right for us or should we do both?”

While there is not a one-size fits all solution, here are a few questions you should ask.

The first question to consider is business qualification:

WHO QUALIFIES?

EIDL: To qualify, you must be

1. A small business, cooperative, ESOP or tribal business with 500 or fewer employees;
2. An individual who operates as a sole proprietorship, with or without employees, or as an independent contractor; or
3. A private non-profit or small agricultural cooperative
4. Your business must be directly affected by COVID-19

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PPP: The following businesses may be eligible:

- Small businesses or non-profit 501(c)(3) organizations with 500 or fewer employees; small businesses;
- 501(c)(19) veteran's organizations or tribal concerns that meet the SBA size standards
- Sole proprietors or independent contractors;
- Businesses in the food or hospitality industry (NAICS codes beginning in 72) may be eligible on a per location basis; normal affiliation rules are waived for franchises or businesses receiving financial assistance from an SBIC.

Must Be in Business By:

- EIDL: January 31, 2020
- PPP: February 15, 2020

Assuming you meet those broad requirements, the next step is to determine which program is best suited for your needs.

HERE IS A COMPARATIVE CHECKLIST OF BOTH THE EIDL AND PP LOANS:

| EIDL | PPP Loans |
|--|---|
| Maximum Loan Amount: \$2,000,000 | Maximum Loan Amount: \$10,000,000 |
| Grant (You don't need to repay): Up to \$10,000 | Forgivable Amount: 8 weeks of eligible expenses (see below) |
| Interest Rate: 3.75% (2.75% for non-profits) | Interest Rate: 1.0% on remaining balance after forgiveness |
| Repayment Period: 10 Years (No prepayment penalty) | Repayment Period: 2Years (No prepayment penalty) |
| First Payment Deferral Period: 1 year | First Payment Deferral Period: 6 months |
| Personal Guarantee Required: Loans over \$200,000 | Personal Guarantee Required: No |
| Collateral Required: Loans over \$25,000 | Collateral Required: No |

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The key to coordination between these two relief efforts are that you cannot “double dip” in benefits. This does not mean you cannot apply and receive both benefits, but it does mean that you cannot apply the same benefit dollar to the same expense.

For example, you could not use the \$10,000 grant from the EIDL to pay the same payroll expense being considered in the forgivable amount of the PPP loan.

In terms of the emergency grant of up to \$10,000 under EIDL, these grants do not have to be repaid as long as funds are used for:

- Providing paid sick leave to employees unable to work due to the direct effect of the COVID-19;
- Maintaining payroll to retain employees during business disruptions or substantial slowdowns;
- Meeting increased costs to obtain materials unavailable from the applicant’s original source due to interrupted supply chains;
- Making rent or mortgage payments; and
- Repaying obligations that cannot be met due to revenue losses.

If you get a PPP loan, you can request forgiveness of the principal portion of the loan for the eight-week period after you get the loan that covers:

- Payroll costs
- Interest on a mortgage
- Rent
- Utilities

No more than 25% of the forgiven amounts may be for non-payroll costs. Your loan forgiveness will be reduced if you decrease your full-time employee headcount. It will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annually in 2019.

NOW THAT YOU HAVE AN UNDERSTANDING OF THE LOANS, HERE ARE SOME FURTHER CONSIDERATIONS:

1. HOW QUICKLY DO YOU NEED THE LOAN?

The EIDL loan can provide up to \$10,000 within three days of application. PPP Lenders will begin to accept applications beginning April 3, 2020 for small businesses and sole proprietors and April 10, 2020 for independent contractors and self-employed individuals at it is expected the loans may be available within two weeks after the application process.

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2. HOW WILL YOU USE THE MONEY?

EIDLs are working capital loans that may be used to pay fixed debts, payroll, accounts payable, and other bills that could have been paid had the disaster not occurred. The loans are **not** intended to replace lost sales or profits or for expansion. Funds **cannot** be used to pay down long-term debt.

PPP Loan proceeds may be used for payroll costs; costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums; employee salaries, commissions, or similar compensations; payments of interest on any mortgage obligation (but not to pay principal or to prepay a mortgage) rent (including rent under a lease agreement); utilities; and interest on any other debt obligations that were incurred before the covered period refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020.

3. HOW MUCH COULD BE FORGIVEN?

Under the EIDL, the grant portion up to \$10,000 does not need to be repaid. Even if your application for EIDL is turned down, you can still keep the grant.

Under the PPP, any amount used to pay for payroll costs, interest on a mortgage, rent, or utilities in the proceeding 8-week period after accepting the money will be forgiven.

Since your PPP loan amount is calculated as 2.5x your 2019 monthly average payroll expense (wages capped at \$100,000 per person, no 1099 contractor payments included, healthcare and retirement benefits paid by employer count), you could potentially receive a larger benefit under PPP and EIDL if your average 2019 payroll expense is greater than \$4,000.

If you have enough eligible expenses to consume the entire \$10,000 grant as well as your full PPP loan amount, it may make sense to apply for both programs.

If you own more than one business, you may be eligible to apply for each business. You are not able to individually apply for multiple loans under the same program though.

MORE

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HERE IS AN EXAMPLE:

Bob is an owner of Roberts Management, Inc., an S-Corp which has eligible average monthly payroll expense (including his own W-2 wages) of \$18,000 in 2019. Based on this information, he is eligible for a \$45,000 PPP loan. Assuming that over the next 8-weeks he incurs \$45,000 of eligible expenses, all \$45k will be forgiven. If in fact he had \$55,000 of eligible expenses, he could also have used the EIDL grant of up to \$10,000.

In addition to Roberts Management, Inc. S-Corp, Bob receives 1099 income from consulting, as fees which he doesn't process through his S-Corp. Bob has no other staff and reports this income on the Schedule C of his tax return. Under this scenario, Bob is also eligible to apply for the PPP based on his self-employment income. If he also contributes to a SEP IRA or has employer healthcare costs, those would also be included in his benefit. In this example, let's say Bob has \$150,000 in net self-employment income and contributes \$27,950 to a SEP IRA. In this case Bob's payroll expense would be \$150,000 of self-employment income and \$27,950 of retirement contributions for a total of \$177,950. We then exclude compensation over \$100,000 (\$50,000) to arrive at a total eligible payroll expense of \$127,950. The monthly average would be \$10,662.50 ($\$127,950 / 12$ months). At a 2.5 multiplier, Bob would be eligible for a PPP loan amount of \$26,656.25.

Of course, the rules are constantly being updated and the Treasury and SBA is continuing to provide guidance to the lending institutions, but at this time the final decision is going to come down to your lending institution.

We highly recommend you use this information as a guide but work with your lender to identify the best loan solution for you and your business.

We will continue to keep you updated as new information is made available. Call or email us as needed.



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