



May 4, 2020

## DEALERSHIP INFORMATIONAL ADVISORY **COVID-19 UPDATE #20**

### **READY FOR BUSINESS GRANT UPDATES**

In the Covid-19 Update #19 bulletin we announced that Governor Hutchinson was rolling out a grant opportunity for businesses called the Ready for Business Grant Program. The program is designed to assist companies in protecting their employees and visitors while establishing customer confidence by providing grants from \$1,000 to \$100,000, depending on the number of employees, to assist with COVID-19-related expenses, such as personal protective equipment (PPE), deep cleaning, signage, hand sanitizer dispensers, marketing and more.

We indicated in the bulletin that you needed to apply fast as the money was likely to go quick. Little did we know the available \$15 million dollars committed to this grant would last about 30-minutes.

As a result of this obvious need, it appears the program will get an influx of additional money following a legislative review. As soon as we know more about the availability of these funds, we will update you.

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### **LATEST PAYCHECK PROTECTION PROGRAM (PPP) UPDATES**

This week there were several important updates issued by SBA, Treasury, and the IRS on the CARES Act and PPP loans. Unfortunately, we are still waiting for additional guidance on some loan forgiveness questions and are hopeful these will be announced next week.

Below is a listing of the updates from this week, and the latest analysis as well as other resources relative to the CARES Act and PPP:

1. NADA's analysis addressing PPP loan eligibility for businesses owned by large companies can be found [HERE](#). This comes as the SBA now requires borrowers to certify that they need the money; SBA guidance states "Large companies with adequate sources of liquidity to support the business' ongoing operations ... must certify in good faith that their PPP loan request is necessary."

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2. The updated version of NADA's [CARES Act FAQs](#), which address **new elements of the Paycheck Protection Program** (updated April 30).

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3. The attached IRS notice (<https://www.irs.gov/pub/irs-drop/n-20-32.pdf>), which was released on Thursday, April 30, 2020, explaining that **forgiven PPP loan expenses** that are excluded from income under the CARES Act may not be deducted for federal income tax purposes.

The IRS on Thursday, April 30, 2020, released guidance stating that expenses related to forgivable loans through the Paycheck Protection Program (PPP) won't be tax-deductible. Under the PPP, a small business loan program created as part of the third, \$2.2 trillion coronavirus relief bill, small businesses wouldn't have to repay the low-interest loan they received as long as the loan went to essential expenses such as maintaining payroll. Usually, wages are deductible expenses and forgiven debt counts as taxable income. But under the coronavirus relief law, the PPP loan forgiveness is not counted as taxable income. The IRS said in its guidance Thursday that expenses that result in forgiveness of a PPP loan are not tax deductible in order to prevent a "double tax benefit."

The agency cited Section 256 of the tax code, which states that deductions can't be taken if they are tied to a certain class of tax-exempt income. If desired, Congress could override the IRS's stance by passing a law that explicitly allows the deductions.

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4. The IRS released [FAQs on Employee Retention Tax Credit](#) under the CARES Act. The **tax credit** is fully refundable for employers, equal to 50% of qualified wages that eligible employers pay their employees. The maximum amount of qualified wages per employee is \$10,000, so that the maximum credit for qualified wages paid to any employee is \$5,000.

**Please note:** employers who have received loans through the PPP are not eligible to benefit from the Employee Retention Tax Credit.

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5. The U.S. Treasury Department's updated Paycheck Protection Program Loans: FAQ's for borrowers and lenders was also updated on April 29, 2020, and can be found [HERE](#).

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## **MAIN STREET LENDING PROGRAM CHANGES ANNOUNCED BY FEDERAL RESERVE BOARD**

Yesterday, the Federal Reserve Board (FRB) [announced](#) several favorable changes to its **Main Street Lending Program (MSLP)**, which was developed under the CARES Act to help provide small- and medium-size businesses additional liquidity to respond to the pandemic. The program as initially announced precluded Main Street Loan recipients from paying dividends or other capital distributions for any purpose for up to 12 months after the loan is outstanding. In [comments to the FRB](#), NADA explained that this broad restriction would unnecessarily preclude pass-through entities from paying dividends to satisfy shareholder tax obligations. In response, the FRB changed this limitation to provide that "an S corporation or other tax pass-through entity that is an Eligible Borrower may make distributions to the extent reasonably required to cover its owners' tax obligations in respect

of the entity's earnings." This essential change removes an element of the MSLP that would have precluded dealers from considering it as a viable means to enhance their liquidity. Dealers who receive a loan through the Paycheck Protection Program **are eligible** for an MSLP loan if they otherwise qualify. Dealers are encouraged to review the FRB's [revised term sheets](#) for its various MSLP lending facilities as well as the [frequently asked questions](#) it issued yesterday to explain the program in greater detail.

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## **BUSINESS REOPENING DIRECTIVES**

Over the last few days, the Governor has announced several directives for reopening Arkansas businesses, such as restaurants, gyms, salons, etc. that were closed as a result of COVID-19. As you know, we were fortunate that dealerships were not included in these closures.

The Department of Health (DOH) has released the criteria for these openings. For information on these directives as well as all recommendations from the DOH on businesses operating in this environment, [CLICK HERE](#).

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## **ADDITIONAL AND HELPFUL LINKS**

For additional information related to maintaining your dealership as safe, we would recommend monitoring updates from the CDC, [link](#), and OSHA, [link](#).

Please go to our website for links to information your dealership needs at [AADA coronavirus update](#).

AADA will work to keep you updated on this situation, but a firm commitment to maintaining a safe and clean work environment for your employees and customers will help you navigate this health crisis.

If you have any questions about this bulletin please don't hesitate to call, 501-372-2596, or email Greg Kirkpatrick [greg@arkautodealers.com](mailto:greg@arkautodealers.com).