PAYCHECK PROTECTION PROGRAM SUMMARY

PAYCHECK PROTECTION PROGRAM (PPP)

The CARES Act introduced the Paycheck Protection Program (PPP) to help small businesses by providing loans through the SBA. The PPP provides small businesses with funds to pay up to eight weeks of payroll costs including certain benefits. Funds can also be used to pay interest on covered mortgages, rent, and utilities. PPP loans are unique in that they can be forgiven if used for payroll and other approved costs (depending on various factors).

On Thursday, April 2, an updated application for the PPP was released, as well as interim final guidance from the Small Business Administration. While this guidance answered some questions, there are still many questions that remain. These applications became live on Friday, April 3, for banks to submit to the SBA for funds. Banks are working to adapt their requirements for this latest information available.

Quick Facts:

- If used correctly (see details below), the entire loan will be forgiven.
- Loan portions not forgiven will have a maturity of two years and an interest rate of 1%.
- Payments on these loans will begin six months after the date the funds are disbursed. Interest will accrue during this six month period.
- Maximum loan amount will be 2.5 times average monthly payroll costs (see details below), plus any EIDL advances received prior.

HOW TO APPLY:

1. The PPP loan applications will be submitted at the local bank level. Check with your bank to determine what they need to submit the application to SBA.
2. Complete the borrower application Form 2483.
   a. Calculate the average monthly payroll costs and multiply by 2.5 and add the outstanding amount of an EIDL made between 1/31/20 and 4/3/20.
      i. What qualifies as "payroll costs?"
         - Payroll costs consist of compensation to employees (US Residents) in the form of salary, wages, commissions, or similar compensation;
         - Cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips);

- Payment for vacation, parental, family, medical, or sick leave;
- Allowance for separation or dismissal;
- Payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums, and retirement;
- Payment of state and local taxes assessed on compensation of employees;
- For an independent contractor or sole proprietor: wage, commissions, income, or net earnings from self-employment or similar compensation.

ii. What does NOT qualify as "payroll costs?"

- Any compensation of an employee whose principal place of residence is outside of the United States;
- The compensation of an individual employee in excess of an annual salary of $100,000 (just the portion over $100K), prorated as necessary;
- Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020, including the employee's and employer's share of FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes, and income taxes required to be withheld from employees;
- Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act;
- Independent contractors have the ability to apply for a PPP loan on their own so they do not count as employees for purposes of a borrower's PPP loan calculation.

b. List owners over 20% and answer application questions and certifications. Note that electronic signatures can be used.

HOW CAN PPP FUNDS BE USED?

1. Payroll costs (as defined above);
2. Costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums;
3. Mortgage interest payments (but not mortgage prepayments or principal payments);
4. Rent payments;
5. Utility payments;
6. Interest payments on any other debt obligations that were incurred before February 15, 2020;
7. Refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020. If you received an SBA EIDL loan from January 31, 2020 through April 3, 2020, you can apply for a PPP loan. If your EIDL loan was not used for payroll costs, it does not affect your eligibility for a PPP loan. If your EIDL loan was used for payroll costs, your PPP loan must be used to refinance your EIDL loan. Proceeds from any advance up to $10,000

on the EIDL loan will be deducted from the loan forgiveness amount on the PPP loan.

You must document your use of the funds for payroll costs in order to determine the amount of forgiveness. At least 75% of the funds must be used for payroll costs.

QUESTIONS?

We can assist in completing many of these schedules and forms as well as providing other guidance and assistance as needed. In addition to the PPP loan program, there is the EIDL loan program mentioned above as well as other options for employment tax credits, payment deferrals, and various tax planning and retirement plan strategies that do not involve lending, depending on how the entity and workforce is being impacted. There are many other provisions of the CARES Act and FFCRA that may apply to your business, and in many cases, are mutually exclusive. Again, we can assist in evaluating these options.

Visit our COVID-19 resource page on our website for more information.