A Summary of the Paycheck Protection Program – 3.28.2020

The Paycheck Protection Program (PPP) was introduced by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to help small businesses cover operating expenses and encourage said owners to rehire and/or retain employees. The PPP will be administered by the Small Business Administration (SBA). Got Questions? We have answers…

What is it?

- The CARES Act provides almost $350 billion in loans.
- These loans, referred to as Paycheck Protection Loans (PPL), are 100% guaranteed by the federal government through December 31, 2020.
    - Federal guarantees are reduced to 85% for loan amounts greater than $150,000 after December 31, 2020.
- The 'covered period' for this program is between February 15, 2020 and June 30, 2020.
    - This allows for workers who were furloughed/laid off after February 15th to be returned to company payrolls.

Who is Eligible?

- Small businesses with fewer than 500 employees, or those larger than that which meet applicable size standards for the industry(ies) as prescribed by the SBA
- This includes some non-profits, sole-proprietors, independent contractors, and other self-employed individuals

Where Can My Business Get One?

Banks and other commercial lenders currently authorized to make SBA loans will be most quickly authorized to administer the PPP. Although, other lending institutions not currently authorized will also be eligible to participate. The federal government and the SBA are working to have numerous lenders in place as soon as possible.

How Much Can My Business Receive?

The amount of the PPL is limited to the lesser of:

- The sum of the average monthly "payroll costs" for the one-year period ending on the date the loan was made, multiplied by 2.5, plus any SBA disaster loan funded after January 31, 2020 that has been refinanced into a paycheck protection loan, or
- $10 million.

How are 'Payroll Costs' Defined?

Payroll costs ***include***:

- Wages, commissions, salaries, or similar compensation to an employee or independent contractor,
- Cash tips,
- PTO, including vacation, parental, family, medical or sick leave,
- Dismissal and/or separation pay,
- Group healthcare benefits, including insurance premiums,
- Retirement benefits, and
- State or local taxes assessed on the compensation of employees.

Payroll costs ***exclude***:

- Annual compensation for an employee greater than $100,000,
- Payroll taxes,
- Payments to an employee whose principal place of residence is outside the U.S., and
- Sick leave or family medical leave under the Coronavirus Relief Act where the employer receives a credit.

How Does Loan 'Forgiveness' Work?

- The CARES Act has a provision allowing tax-free forgiveness of PPLs if the funds are used for payroll costs, rent, mortgage interest, and/or utility payments made by the borrower during the eight weeks after the date of the loan.
- To seek forgiveness, a borrower must submit to the lender an application that includes documentation verifying the number of employees and pay rates, and cancelled checks showing mortgage, rent, or utility payments.
- A reduction in the amount that may be forgiven will occur if the employer either:
    - reduces its workforce during the 8-week covered period when compared to other periods in either 2019 or 2020, or
    - reduces the salary or wages paid to employees who had earned less than $100,000 in annualized salary by more than 25% during the covered period.
    - This reduction can be avoided if the employer rehires or increases employees' pay by June 30, 2020.
- The 'forgiven' loan amount will not be subject to taxation.

What Happens for Amounts Not Eligible for Forgiveness?

For principal amounts that are ineligible for loan forgiveness:

- The borrower may defer payments of the remaining principal, interest, and any fee balances for a period of at least 6 months, and up to one year.
    - All borrowers may apply for a deferment and lenders must allow for such deferment for at least 6 months.
    - The federal government will cover loan payments for the first 6 months after the deferral is granted.
- The remaining loan balance after the amount forgiven (and after the 6- to 12-month deferral) can be repaid over a term of up to 10 years, and at an annual interest rate not to exceed 4%.

One Additional Note

Economic Injury Disaster Loans (EIDLs) eligibility is expanded by the CARES Act. EIDLs obtained after January 31, 2020 may be refinanced with proceeds of a PPL. In such cases the maximum available PPL amount will be increased by the amount of disaster loan(s) being refinanced. The refinanced loan proceeds then become subject to all the conditions and limitations of the PPP explained above.

We're keeping pace with information as it becomes available and are ready to help clients take advantage of the programs introduced by the CARES Act. Contact us at (408) 287-7911 today to discuss options and create a plan to help ensure your business will survive and thrive. Be well and stay safe.