A Summary of the Paycheck Protection Program Loans

Updated 4/9/2020

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). This information is changing rapidly. What is included here is accurate as of the date of publication. We will keep pace with the information and make updates as available.

Got Questions? We have answers…

What is it?

- The CARES Act provides almost $350 billion in loans.
- These loans, referred to as Paycheck Protection Program Loans (PPL), are 100% guaranteed by the federal government for loans issue through 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. Talk to your existing banker/lender about your eligibility.

- As of Friday April 3, 2020, Banks are authorized to accept PPL applications from businesses with employees. On April 10, 2020 banks will begin accepting PPL application from Independent contractors and self-employed individuals beginning April 10th. The roll out has not been entirely smooth, but banks are working hard to implement the program. Your best course of action is to talk to your existing banker about the PPL program and how your business may apply."

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 and before April 3, 2020, or
- $10 million

How are 'Payroll Costs' Defined?

- There has been much debate and confusion about how payroll costs are defined. As of now, we believe payroll costs **include**:
  - Wages, commissions, salaries, or similar compensation to an employee,
  - For an independent contractor or sole proprietor, wage, commissions, income, or net earnings from self-employment or similar compensation.
  - 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.
- In order to seek loan forgiveness at least 75% of the loan proceeds must be used for payroll costs.
- More detailed guidance on loan forgiveness will be issued by the SBA later, but generally 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.
  - An employer has until June 30, 2020 to restore its full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 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 deferments for at least 6 months.
- The remaining loan balance after the amount forgiven (and after the deferral) must be repaid over a term of up to 2 years, and at an annual interest rate of 1%

One Additional Note

Economic Injury Disaster Loan (EIDL) eligibility is expanded by the CARES Act. EIDLs obtained after January 31, 2020 and funded on or before April 3, 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 a PPL.

We are 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.