

# Understanding the Paycheck Protection Program (CARES Act)

## Updates:

<https://www.score.org/coronavirus>

*Here is a link to lenders eligible to offer PPP by zip code*

<https://www.sba.gov/paycheckprotection/find>

# CARES Act

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- Our nation's small businesses are facing an unprecedented economic disruption due to the Coronavirus (COVID-19) outbreak. On Friday, March 27, 2020, the President signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which contains \$376 billion in relief for American workers and small businesses.
- The CARES Act provided the Small Business Administration (SBA) with several programs and initiatives to financially assist small businesses, certain non-profits and other employers as well as some additional tax provisions that are outside the scope of the SBA

# CARES Act – SBA Programs

- In addition to traditional SBA funding programs, the CARES Act established several new temporary programs to address the COVID-19 outbreak.



**Paycheck Protection Program**

This loan program provides loan forgiveness for retaining employees by temporarily expanding the traditional SBA 7(a) loan program.



**EIDL Loan Advance**

This loan advance will provide up to \$10,000 of economic relief to businesses that are currently experiencing temporary difficulties.



**SBA Express Bridge Loans**

Enables small businesses who currently have a business relationship with an SBA Express Lender to access up to \$25,000 quickly.



**SBA Debt Relief**

The SBA is providing a financial reprieve to small businesses during the COVID-19 pandemic.

# CARES Act – Which program is right for me?

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- Do you need capital to cover the cost of retaining employees?
  - Then the **Paycheck Protection Program** might be right for you
- Do you need a quick infusion of a smaller amount of cash to cover you right now?
  - You might want to explore an Emergency Economic Injury Grant and Economic Injury Disaster Loans (EIDL)
- To ease your fears about keeping up with payments on your current or potential SBA Loan?
  - The Small Business Debt Relief Program could help
- Do you need some quality, free counseling to help you navigate this uncertain economic time?
  - SCORE and other SBA resource partners are here to help

# Paycheck Protection Program (PPP) – What is it?

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- The Paycheck Protection Program (PPP) is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll
- The PPP authorizes up to \$349 billion in forgivable loans to small businesses to pay their employees during the COVID-19 crisis. ***All loans terms will be the same for everyone.***
- SBA will forgive loans if all employees are kept on the payroll for eight (8) weeks and the money is used for payroll, rent, mortgage, interest or utilities
- Lenders may begin processing loan applications on April 3, 2020. The PPP will be available through June 30, 2020

# PPP – Who Can Apply?

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- Businesses and entities must have been in operation on February 15, 2020
- You are eligible if you are:
  - A small business with fewer than 500 employees
  - A small business that otherwise meets the SBA size standard
  - A 501 © (3) with fewer than 500 employees
  - An individual who operates as a sole proprietor
  - An individual who operates as an independent contractor
  - A self-employed individual who regularly carries on any trade or business
  - A Tribal business concern that meets the SBA size standard
  - A 501 © (19) veteran's organization that meets the SBA size standard

# PPP – Who Can Apply?

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- Special rules for affiliated businesses:
  - If you are in the accommodation and food services sector (NAICS 72), the 500-employee rule is applied on a per physical location basis
  - If you are operating as a franchise or receive financial assistance from an approved small business investment company, the normal affiliation rules do not apply
- **REMEMBER:** The 500-employee threshold includes all employees: full-time, part-time and any other status

# PPP – When and Where can I Apply?

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- April 3, 2020 - small businesses and sole proprietors
- April 10, 2020 – independent contractors and self-employed individuals
- Application form is available at <https://home.treasury.gov/cares>
- You can apply through any existing SBA lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating.
- Other regulated lenders will be available to make these loans as soon as they are approved and enrolled in the program
- **CONTACT YOUR BANKING INSTITUTION FIRST**
- **4/9/2020 FinTech accepting PPP applications to asset banks**



# PPP – Loan Details

<b>Covered Period</b>	<b>2/15/2020 through 6/30/2020</b>
Loan Amount	2.5 times the average total monthly payroll costs for the 12 months prior to loan origination date – up to \$10 million
Interest Rate	Fixed rate of 1%
Loan Duration	2 years; no prepayment penalties or fees
Collateral Required	No
Personal Guarantee Required	No
Payment Deferral	6 months, including interest
Forgiveness Available	Yes

# PPP – What can I use the loan for?

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- Payroll costs
- Costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums
- Payments of interest on any mortgage obligation (which shall not include any prepayment of principal on a mortgage)
- Rent (including rent under a lease agreement)
- Utilities
- Interest on any other debt obligations that were incurred before February 15, 2020
- Refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020

# PPP – How much can I BORROW?

	Loan amount
Non-seasonal businesses in operation in 2019	<b>2.5 times</b> the average total monthly payroll costs for the 12 months prior to the loan origination
Non-seasonal businesses not in operation in 2019	<b>2.5 times</b> the average total monthly payroll costs during January and February 2020
Seasonal employers	<b>2.5 times</b> the average total monthly payments for payroll costs during the 12-week period beginning February 15, 2019 <b>or</b> March 1, 2019 (at the applicant's discretion and ending June 30, 2019)

**If you took out an Economic Injury Disaster Loan (EIDL) between February 15, 2020 and June 30, 2020 and you want to refinance that loan into a PPP loan, you would add the outstanding loan amount to the payroll sum**

The maximum loan size is always **\$10 million**

# PPP – How do I calculate MONTHLY PAYROLL COSTS?



# PPP – What costs are eligible for payroll?

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- Compensation (salary, wage, commission, or similar compensation, payment of cash tip, stipend or equivalent)
- Payment for vacation, parental, family, medical or sick leave
- Allowance for dismissal or separation
- Payment required for the provisions of group health care benefits, including employer portion of insurance premiums
- Payment of any retirement benefits
- Payment of State or local taxes assessed on the compensation of employees
- For a sole proprietor or independent contractor: wages, commissions, income or earnings from self-employment

# PPP – What costs are NOT eligible for payroll?

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- Employee/owner compensation over \$100,000 on an annualized basis
- Sole Proprietor or Independent Contractor compensation/net earnings over \$100,000 on an annualized basis
- Compensation for employees whose principal place of residence is outside of the U.S.
- Qualified sick and family leave for which a credit is allowed under sections 7001 and 7003 of the *Families First Coronavirus Response Act* (FFCRA)
- Taxes imposed or withheld under chapter 21, 22 and 24 of the IRS Code (payroll taxes, railroad taxes and income taxes)

# PPP – Loan Amount Calculation Example

- Example 1 – No employees make more than \$100,000

Annual Payroll	\$120,000
Average Monthly Payroll	\$10,000
Multiply by 2.5	\$25,000
Maximum Loan Amount	\$25,000

# PPP – Loan Amount Calculation Example

- Example 2 – Some employees make more than \$100,000

Annual Payroll	\$1,500,000
Subtract compensation amounts in excess of annual salary of \$100,000	\$1,200,000
Average Monthly Payroll	\$100,000
Multiply by 2.5	\$250,000
Maximum Loan Amount	\$250,000



# PPP – Loan Amount Calculation Example

- Example 3 – No employees make more than \$100,000; outstanding EIDL loan of \$10,000

Annual Payroll	\$120,000
Average Monthly Payroll	\$10,000
Multiply by 2.5	\$25,000
Add EIDL loan of \$10,000	\$35,000
Maximum Loan Amount	\$35,000

# PPP – Loan Amount Calculation Example

- Example 4 – Some employees make more than \$100,000; outstanding EIDL loan of \$10,000

Annual Payroll	\$1,500,000
Subtract compensation amounts in excess of an annual salary of \$100,000	\$1,200,000
Average Monthly Payroll	\$100,000
Multiply by 2.5	\$250,000
Add EIDL loan of \$10,000	\$260,000
Maximum Loan Amount	\$260,000

# PPP – Will this loan be FORGIVEN?

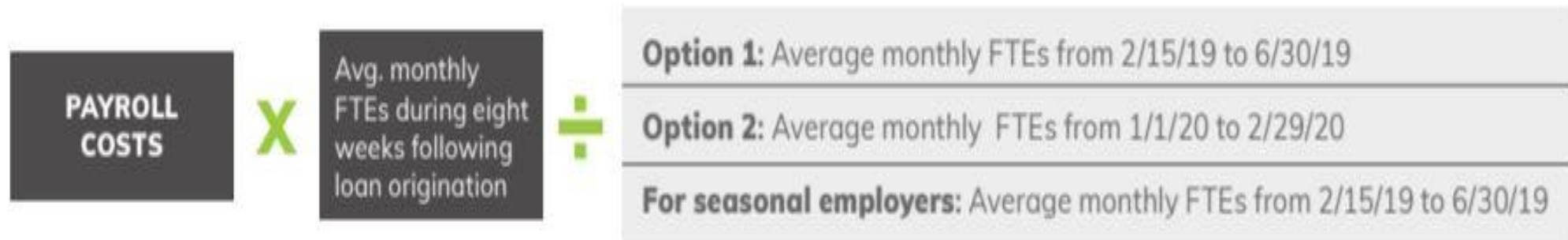
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- Borrowers are eligible for loan forgiveness equal to the amount the borrower spent during the eight (8) week period – beginning on the date the loan originated.
- The following items qualify for loan forgiveness:
  - Payroll costs
  - Costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums
  - Payments of interest on any mortgage obligation (which shall not include any prepayment of principal on a mortgage)
  - Rent (including rent under a lease agreement)
  - Utilities
  - Interest on any other debt obligations that were incurred before February 15, 2020
  - Refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020
- *Note: Loan forgiveness cannot exceed the principal. At least 75% of the forgiven amount must have been used for payroll costs and employee compensation levels must be maintained*

# PPP – How is the forgiveness amount calculated?

- The amount of loan forgiveness will be reduced if there is a reduction in the number of employees

Reduction based on reduction of number of employees



- *Note: You have until June 30, 2020 to restore your full-time employment levels for any changes made between February 15, 2020 and April 26, 2020*

# PPP – How is the forgiveness amount calculated?

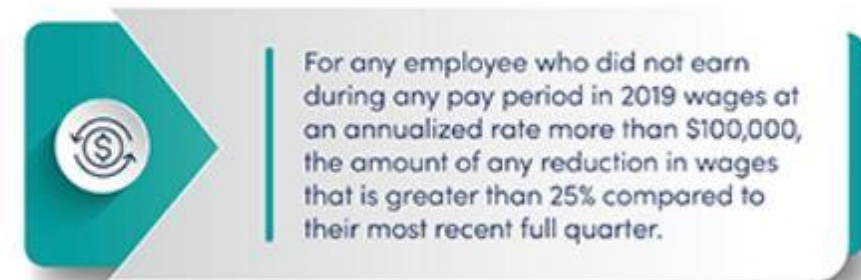
- The amount of loan forgiveness will be reduced if there is a reduction of greater than 25% in wages paid to employees

- *Note: You have until June 30, 2020 to restore salary levels for any changes made between February 15, 2020 and April 26, 2020*

Reduction based on reduction in salaries



**X**



# PPP – How do I get forgiveness on my PPP loan?

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- You must apply through your lender for forgiveness on your loan. In this application you must include:
  - Documentation verifying the number of employees on payroll and pay rates, including IRS payroll tax filings and State income, payroll and unemployment insurance filings
  - Documentation verifying payments on covered mortgage obligations, lease/rent obligations and utilities
  - Certification from a representative of your business or organization that is authorized to certify that the documentation provided is true and that the amount that is being forgiven was used in accordance with the program's guideline for use
- The lender must decide on the forgiveness within 60 days

# PPP – What happens after the forgiveness period?

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- Any loan amounts not forgiven are carried forward as an ongoing loan for 2 years at 1% interest.
- All payments are deferred for 6 months; however interest will continue to accrue over this period
- There are no prepayment penalties or fees associated with the loan

# PPP – Documentation Needed

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- In addition to the PPP Application, assemble the following documentation:
  - 2019 IRS Quarterly 940, 941 or 944 payroll tax reports
  - 2020 (first quarter) IRS 940, 941 or 944 payroll tax report
  - Payroll summary reports for a twelve-month period (ending on your most recent payroll date) plus first quarter of 2020, which will show the following information:
    - Gross wages for each employee, including officer(s) if paid W-2 wages, which includes PTO, vacation, paid sick leave
    - State and local taxes assessed on an employee's compensation
  - Documentation of payments required for the provisions of group health care benefits, including insurance premiums
  - Documentation of payments of all retirement plan benefits that were paid by the company (excluding employee deferral withholding)
- For independent contractors – 1099-MISC for 2019
- **Best contact your Bank for online application, guidelines updated after announcement.**



# PPP – Next Steps

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- If you are not sure whether the PPP is right for your business, discuss the matter with your accountant, or trusted advisor
- If the PPP is right for you, contact your banking institution and tell them you want to apply for the PPP loan
- Assemble the recommended documentation
- Complete the application and make an appointment with your lender

# PPP – Summary

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- The Paycheck Protection Program (PPP) is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll
- Funding is limited - \$349 billion total
- PPP loans will be awarded on a first-come, first-served basis
- Some or all of the loan can be forgiven
- Program ends 6/30/2020

# PPP & CARES Act – Useful Resources

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- SBA Funding Programs: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>
- SBA 7(a) Lenders: <https://www.sba.gov/article/2020/mar/02/100-most-active-sba-7a-lenders>
- SCORE Coronavirus SBA Loans and CARES Act Assistance: <https://www.score.org/coronavirus-sba-loans-and-cares-act-assistance>
- PPP Loan Application: <https://home.treasury.gov/cares>

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