

Paycheck Protection Program Loan Forgiveness & SBA EIDL Update

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Presenters



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Today's Discussion

Paycheck Protection Program - Overview

Paycheck Protection Program – Loan

Paycheck Protection Program – Forgiveness

**Updates to SBA Economic Injury Disaster
Loans (EIDL)**

Q&A

Paycheck Protection Program – Overview

What is the Paycheck Protection Program?

- Part of the Coronavirus Aid, Relief, and Economic Security Act (CARES) signed into law March 27, 2020
- Allows qualified businesses to apply for a loan with an approved SBA 7(a) lender, with the potential for a portion, up to 100%, of that loan to be forgiven:
 - All information subject to SBA interpretation & guidance to those lenders

Paycheck Protection Program – Section 1102

How Do I Qualify?

- In operation on February 15, 2020
- Applicant shall make a good faith certification of uncertainty of the current economic conditions, which make the loan request necessary to support the ongoing operations
- Business paid payroll expenses and payroll taxes or independent contractors

Paycheck Protection Program – Section 1102

How Do I Qualify? (continued)

- Small business concerns, as well as any business concern, 501(c)(3) nonprofit organization, 501(c)(19) veterans organization, or Tribal business concern described in section 31(b)(2)(C) that has fewer than 500 employees (reference affiliation rules) or the applicable size standard as provided by the SBA for the NAICS code of the business
- Individuals who operate a sole proprietorship or as an independent contractor & eligible self-employed individuals

Paycheck Protection Program – Section 1102

How Do I Qualify?

- Any business concern that employs not more than 500 employees per physical location of the business concern and that is assigned a NAICS code beginning with 72, for which the affiliation rules are waived
- Affiliation rules are also waived for any business concern operation as a franchise that is assigned a franchise identifier code by the SBA, and company that receives funding through a Small Business Investment Company

Paycheck Protection Program – Section 1102

Maximum Loan Amount

- The **lesser** of:
 1. Average Monthly Payroll Costs incurred in the one-year period prior to the loan date
 - Seasonal Employers (as defined by SBA): average total monthly payments for the 12-week period beginning 2/15/19 or 3/1/19 (borrower election)
 - New Employers: average total monthly payments for the period beginning 1/1/2020 through 2/29/2020
 - Multiplied by 2.5
 - Plus the outstanding amount of EIDL taken out after 1/31/2020 and before the date on which PPP loans are made available to be refinanced
- 2. OR \$10 Million

Paycheck Protection Program – Section 1102

What are Payroll Costs?

- Payroll Costs Include:
 - Salary, wages, commission and similar compensation including cash tips
 - Payments for vacation leave
 - Payments for parental, family, medical or sick leave
 - Payments for dismissal or separation
 - Payment of any retirement benefits
 - Group health care benefits, including insurance premiums
 - State and local payroll taxes assessed on the compensation of employees
 - The sum of payments to (or income of) a sole-proprietor or independent contractor that is in an amount not more than \$100k in 1 year, prorated for the covered period

Paycheck Protection Program – Section 1102

What are Payroll Costs?

- Payroll Costs **DO NOT** Include:
 - Compensation of an individual employee in excess of an annual salary of \$100,000, prorated for the covered period
 - Taxes imposed or withheld under chapters 21, 22 or 24 of IRC (i.e. federal payroll taxes)
 - Compensation of employees whose principal residence is outside of the United States
 - Any qualified sick or family leave wages for which a credit is allowed under 7001 or 7003 of FFCRA (payroll credit for paid sick or family leave)

Paycheck Protection Program – Section 1102

Allowable Use of Funds

- Payroll costs
- Continuation of group health care benefits under family, medical or sick leave, including premiums
- Employee wages
- Interest on mortgage (which does not include prepayments) incurred prior to covered period
- Rent (including rent under a lease agreement)
- Interest on other debt obligations incurred prior to covered period
- Utilities: electricity, gas, water, transportation, telephone, internet

Paycheck Protection Program – Section 1102

How Do I Apply?

- Contact your 7(a) Lender (not the SBA)
- Begin to gather documentation

Paycheck Protection Program – Section 1106

What Loans Can be Forgiven?

- Forgiveness cannot exceed principal
- May apply to amounts spent within the 8-week period following origination for:
 - **Payroll** (using same definition as in Section 1102)
 - **Interest** payment on any mortgage incurred prior to 2/15/2020
 - **Rent** on any lease in force prior to 2/15/2020
 - Payments on any **Utility** (electricity, gas, water, transportation, telephone, or internet) for which service began prior to 2/15/2020

Paycheck Protection Program – Section 1106

Potential Reductions to Forgiveness #1

- If the number of average monthly FTE's was reduced in the covered period (8 weeks following origination date) compared to the average monthly employees between 2/15/2019 and 6/30/2019 OR 1/1/2020-2/29/2020 (based on the applicant's election)
 - Seasonal employers use 2/15/2019-6/30/2019

Paycheck Protection Program – Section 1106

Potential Reductions to Forgiveness #2

- If the employee's rate was decreased during the covered period (8 weeks following the origination date) by greater than 25%, compared to the most recent full quarter of which the employee was employed prior to the covered period
 - **Exception:** Employees earning an annualized rate more than \$100,000 are excluded from this calculation

Paycheck Protection Program – Section 1106

Potential Reductions to Forgiveness #3

- If you are awarded an emergency advance from an Economic Injury Disaster Loan (EIDL), the amount awarded is deducted from the forgiveness

Paycheck Protection Program – Section 1106

Rehiring is Permitted

- Reductions in employment of wages occurring between February 15, 2020 and ending 30 days after the enactment of the CARES Act (April 26, 2020) shall not reduce the amount of loan forgiveness if the borrower eliminates the reduction by June 30, 2020

Paycheck Protection Program – Section 1106

Loan Forgiveness – Important Notes

- The 7(a) Lender will approve the Forgiveness
- Forgiveness is not taxable to the borrower

Paycheck Protection Program – Section 1106

Loan Forgiveness – Application Process

- Exact process is unknown:
 - It will be handled through your 7(a) lender
- You will need backup information such as verification of employee counts and rates, payroll reports, payroll tax filings, cancelled checks for interest, lease, and utility payments, etc.

Paycheck Protection Program – Section 1106

Loan after Forgiveness

- 10 years maximum amortization
- Interest rate not to exceed 4%
- Option to defer payment (principal, interest, and fees) at least 6 months, but no longer than a year

Economic Injury Disaster Loans (EIDL)

SBA EIDL Provisions - Original

- Economic Injury Disaster Loans (EIDL)
 - \$2 million maximum term loan
 - Supports working capital
 - 3.75% interest rate for small businesses
 - 2.75% interest rate for non-profits
 - 30-year maximum amortization
 - Deferral for first year principal, interest still accrued
 - No early-payment penalty
- To Apply:
 - Sba.gov/disaster
 - No fees
 - Complete required information – SBA contacts for more

EIDL – Section 1110

SBA EIDL Provisions – **NEW!**

- CARES Adjustments
 - Cannot use Paycheck Protection Program and EIDL for same purposes (EIDL for other than Payroll costs)
 - Emergency Advance up to \$10,000 within 3 days of applying
 - Advance does not need to be repaid
 - If you receive both a Paycheck Protection Program and EIDL Loan, or if you refinance the EIDL Loan into a Paycheck Protection Program Loan, the advance awarded will be subtracted from the amount forgiven in the Paycheck Protection Program.
 - No personal guarantee under \$200,000
 - Relaxed requirements



Questions




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Thank You and Stay Well!



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