Information Regarding the Payroll Protection Program

First and foremost, the SBDC staff are mindful of the current difficult situation facing you, your business, and your families. Above all, we wish your continued safety and health during this pandemic and hope you are taking all the necessary steps to protect yourselves, your staff, and everyone's families.

Congress has given us several tools, and we are being proactive in reaching out to small businesses to help them navigate the various COVID-19 stimulus packages. This summary provides information on Payroll Protection Program (PPP).

The Payroll Protection Program was approved on March 27, 2020 as part of the CARES Act.

This loan program is **forgivable** if you maintain pre-crisis employments levels.

Business owners **may now** apply for funding through this program as of 4/03/2020. It will be delivered through the SBA's 7a Loan program, which is administered through Lending Institutions. The SBA is working diligently in writing guidelines for the program in order to give guidance to its bank partners on how to administer these loans. The legislation requires guidance be provided no later than April 10th, 2020.

If you do not have a bank, you can find a 7a lender through the SBA's website here: https://www.sba.gov/paycheckprotection/find

The highlights of this loan program are:

- Offers Loan Funding to ensure companies can keep pre-crisis employment levels.

How much can I get?

- 2.5x the average monthly payroll cost to the company over the previous year.

What is the criteria for loan forgiveness?

- I do not reduce the number of employees I have.
- I do not reduce overall payroll expenses by more than 25%

If I do any of the above can I get any forgiveness?

- You may get partial loan forgiveness, but those details remain unclear.

Where will I go to apply?

- You will be able to go to a bank to receive the 7a Loan. As stated before, the SBA is still writing the guidelines for the program. We will keep everyone up to date as this develops.

A suggestion: Even though this is a new funding mechanism, the 7a loan program has been around for a long time. While we may not know exactly what documents you need at this time, we should be prepared. These include historical tax returns and financial statements for the previous 2 years for both the company and the owner/s, personal financial statements, federal form 4506-T, and any other documents you may find to be pertinent to the situation of the loan.

Document Payroll Expenses – This will be essential in getting loan forgiveness.

Update 4/3/2020 PPP FAQ:

When will I have to begin paying principal and interest on my PPP loan?

You will not have to make any payments for six months following the date of disbursement of the loan. However, interest will continue to accrue on PPP loans during this six-month deferment.

Can my PPP loan be forgiven in whole or in part?

Yes. The amount of loan forgiveness can be up to the full principal amount of the loan and any accrued interest. That is, the borrower will not be responsible for any loan payment if the borrower uses all of the loan proceeds for forgivable purposes described in the rule and employee and compensation levels levels are maintained.

Do independent contractors count as employees for purposes of PPP loan calculations?

No, independent contractors have the ability to apply for a PPP loan on their own so they do not count for purposes of a borrower's PPP loan calculation.

Do independent contractors count as employees for purposes of PPP loan forgiveness?

No, independent contractors have the ability to apply for a PPP loan on their own so they do not count for purposes of a borrower's PPP loan forgiveness.

Are tax exempts eligible for PPP?

A tax-exempt nonprofit organization described in section 501(c)(3) of the Internal Revenue Code (IRC) is eligible

Are sole proprietor and independent contractors eligible?

You are also eligible for a PPP loan if you are an individual who operates under a sole proprietorship or as an independent contractor or eligible self-employed individual, you were in operation on February 15, 2020. You must also submit such documentation as is necessary to establish eligibility such as payroll processor records, payroll tax filings, or Form 1099-MISC, or income and expenses from a sole proprietorship. For borrowers that do not have any such documentation, the borrower must provide other supporting documentation, such as bank records, sufficient to demonstrate the qualifying payroll amount.

How do I calculate the maximum amount I can borrow?

The following methodology, which is one of the methodologies contained in the Act, will be most useful for many applicants.

i. Step 1: Aggregate payroll costs (defined in detail below in f.) from the last twelve months for employees whose principal place of residence is the United States.

ii. Step 2: Subtract any compensation paid to an employee in excess of an annual salary of $100,000 and/or any amounts paid to an independent contractor or sole proprietor in excess of $100,000 per year.

iii. Step 3: Calculate average monthly payroll costs (divide the amount from Step 2 by 12).

iv. Step 4: Multiply the average monthly payroll costs from Step 3 by 2.5.

v. Step 5: Add the outstanding amount of an Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020, less the amount of any "advance" under an EIDL COVID-19 loan (because it does not have to be repaid).

What qualifies as "payroll costs?
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Payroll costs consist of compensation to employees (whose principal place of residence is the United States) 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; and for an independent contractor or sole proprietor, wage, commissions, income, or net earnings from self-employment or similar compensation.

Is there anything that is expressly excluded from the definition of payroll costs?

Yes. The Act expressly excludes the following:
i. Any compensation of an employee whose principal place of residence is outside of the United States;

ii. The compensation of an individual employee in excess of an annual salary of $100,000, prorated as necessary;

iii. 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; and

iv. Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116–127).

How can PPP loans be used?

The proceeds of a PPP loan are to be used for:
i. payroll costs (as defined in the Act and in 2.f.);

ii. costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums;

iii. mortgage interest payments (but not mortgage prepayments or principal payments);

iv. rent payments;

v. utility payments;

vi. interest payments on any other debt obligations that were incurred before February 15, 2020; and/or

vii. 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.


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