April 7, 2020

Paycheck Protection Program Summary

The Federal Government has designated funds to support small businesses during the COVID-19 Crisis. The Paycheck Protection Program authorizes up to $349 billion in forgivable loans for small businesses. This summary provides a condensed version of what you need to know to take advantage of this program. Do not rely on this information when submitting your application; be sure to consult with your CPA as well as financial counsel when applying for this loan.

What is the Paycheck Protection Program?

The Payroll Protection Program (PPP) provides a forgivable loan to cover payroll costs, mortgage interest, rent, and utility costs. The program is intended to keep employees on payroll for the eight-week period between February 15, 2020 and June 30, 2020. . For that reason, the loan is only forgivable if the funds are spent on approved expenses. These are:

- Payroll costs, including benefits (health insurance);
- Rent;
- Mortgage interest;
- Utilities;
- Interest on any other debt obligations that were incurred before February 15, 2020.

Who is eligible for this loan?

Small businesses under 500 employees as well as sole proprietors, independent contractors, and self-employed individuals are eligible. You must have been operating on February 15, 2020 to apply.

Restaurants, hotels, and businesses with the NAICS code 72 qualify, as well as 501(c)(3) nonprofits, including religious organizations, 501(c)(19) veterans' organizations, and tribal businesses are eligible. If you own a franchise with under 500 employees approved by the SBA, or a business with over 500 employees that has an employee-based size standard from the SBA, you are also eligible.

A business must make a good-faith certification that it is suffering an economic injury due to the COVID-19 crisis and that it has NOT already received SBA loans for these purposes

How is my maximum loan amount calculated?

The loan is capped at 2.5 times your average monthly payroll costs of the previous year, up to $10 million dollars.

- Brokers - What are "payroll costs?"
  - Salary, wages, commissions, or tips (capped at $100,000 annually per employee);
  - Employee benefits costs:
    - Vacation, parental, family, medical, or sick leave;
    - Allowance for separation or dismissal;
    - Group healthcare costs and insurance premiums; and
    - Costs of retirement benefits.
  - State and Local taxes on compensation.

    Note: Brokers cannot include amounts paid to 1099 independent contractors.
- Agents - For a sole proprietor or independent contractor, calculate wages, commissions, income, or net earnings from self-employment, capped at $100,000 on an annual basis for each employee.

How do I have the loan forgiven?

Loans under the PPP are 100% forgivable, if funds are spent properly. Remember, the program is intended to keep employees on payroll. For this reason, at least 75% of the loan should be spent on payroll costs, with the remaining amount being spent on the approved expenses above: health care benefits rent, mortgage interest, interest on other debt and utilities.

Additionally, you need to maintain your level of employees and payroll. If you decrease your number of employees, your forgiveness will be reduced. If you decrease salaries and wages by more than 25% for any employee that made less than $100,000 in 2019, your forgiveness will be reduced. If you have already made these changes, you will have until June 30, 2020 to restore employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

What if I spend the loan on other business expenses?

If loan proceeds are spent on any business expenses other than the approved expenses, or any portion of the loan is not forgiven, your loan will be due in 2 years, with a 1% interest rate. All loan payments will be deferred for 6 months, though interest will continue to accrue.

When can I apply?

Small businesses and sole proprietors have been able to apply since April 3, 2020. Independent contractors and self-employed individuals are able to apply starting April 10, 2020. The program is "first come, first serve" so don't wait to apply. The deadline to apply is June 30, 2020.

Where do I apply?

Contact your current lender first. Some banks have said they will only lend to those with a previous business relationship, and some have even reached their cap for lending under this program. If your current lender isn't willing to work with you, check the SBA website for approved lenders.

To find an SBA Lender

How do I apply?

You will need to provide all documentation of your payroll costs to your lender, along with the PPP application which is available on the SBA website. Documentation to submit may include:

- Payroll tax filings to the IRS;
- Forms 1099-MISC; and/or
- Income and expenses from the sole proprietorship.

For independent contractors such as real estate agents: documentation showing your average monthly income for the year prior (i.e. Form 1099-MISC or other supporting documents).

Paycheck Protection Program Application