

## Help your employees and keep your business afloat with a forgivable loan\*

The main driver of small business stimulus in the [CARES Act](#) is contained in the Paycheck Protection Program (PPP). The \$349 billion funded under the Small Business Administration (SBA)—[Business Loans Program Account](#) is intended to provide loans to businesses to guarantee eight weeks of payroll and other costs to help those businesses remain viable and allow their workers to pay their bills.

Understanding what the PPP business loan program is, how it works, and how to apply will help you navigate this massive federal stimulus program and possibly get the funds you need as quickly as possible.

### KEY TAKEAWAYS

- The PPP loan program is expected to be restarted, following the appropriation of new funding Fri. Apr. 24, 2020.
- PPP loans will be available for the lesser of \$10 million or 2.5 times your average monthly payroll.
- 100% of your loan could be forgiven if you follow guidelines.
- You can apply for both a PPP and EIDL loan.
- Check eligibility before you apply.
- You can apply through any SBA approved 7(a) lender.

Source: H.R. 748<sup>1</sup>

### PPP Eligibility

In addition to meeting the size requirement (500 or fewer employees for most companies), you must show that your business has been negatively impacted by the coronavirus. You will do this, in part, by certifying on your PPP application that *current economic uncertainty makes the loan request necessary*.<sup>2</sup>

Eligibility is further broken down to include:

- Any business categorized under "Accommodation or Food Services," such as restaurants and hotels that have 500 or fewer employees per location
- Tribal businesses
- Independently owned franchises
- Self-employed workers, independent contractors, gig workers, and sole proprietors.<sup>1</sup> The PPP loan application for those people went live April 10, 2020, according to the SBA.

The deadline to apply for a Paycheck Protection Program Loan is June 30, 2020. Beware of scammers offering a way to get a PPP loan; the Federal Trade Commission filed a case against one such company on April 17, 2020.

## Where to Apply for PPP

As noted above, PPP loans are being administered by approved SBA lenders and are actually a new form of the existing [SBA 7\(a\) loan program](#). [You can apply for your PPP loan](#) through any of the 1,800 participating SBA approved 7(a) lenders or through any participating federally insured depository institution, federally insured credit union, and Farm Credit System institution.

Other lenders will be available to make PPP loans once they are approved and enrolled in the program. Start by consulting with your local lender as to whether it is participating. If you have trouble locating a lender, try using the SBA Paycheck Protection Program [lender search tool](#).<sup>3</sup>

Do not use any other road to apply for a PPP loan; scammers are already going after small business owners, reports the Federal Trade Commission, which filed a case against one such company on April 17. <sup>4</sup> Only apply by first going to the SBA website. And know that the SBA will never ask for Social Security numbers, or bank account or credit card numbers up front, the FTC cautioned.

A recent Treasury Dept. FAQ clarifies that to qualify for a PPP loan you must have 500 or fewer total employees (full and part-time). Forgiveness, however, depends on the number of full-time equivalent employees (FTEEs).<sup>5</sup>

## How to Apply for PPP

Lenders are expected to begin accepting applications from small businesses beginning Mon. Apr. 27, 2020. The deadline to apply is **June 30, 2020**, when the PPP loan program ends. To learn more about the program, you can start by downloading and filling out the [application form](#) on the SBA website. The application includes instructions and is pretty straightforward.

Be prepared to prove that your business was operational on Feb. 15, 2020, that you had employees, and the amount of your average monthly payroll costs following instructions on the application form.<sup>6</sup>

Businesses that decide that it was a mistake to apply for and receive a PPP loan, had until May 14, 2020, to return the money and "be deemed by SBA to have made the required certification in good faith," avoiding possible government scrutiny and negative repercussions. <sup>7</sup>

## How PPP Loan Forgiveness Works

All or part of the loan you receive under PPP could be forgiven provided you keep all full-time equivalent employees (FTEEs) on payroll—or rehire them by June 30, 2020. Payroll costs must be 75% or more of your approved loan amount. Only 25% of the amount forgiven can be used on non-payroll expenses. The forgiveness won't happen until the end of the eight-week period of employment following receipt of your loan.<sup>1</sup>

**Employee Payroll Costs:** Salary, wages, commissions, tips (capped at \$100K per employee); Benefits including vacation, parental, family medical or sick leave; State and local taxes assessed on compensation.

**Sole Proprietors:** Wages, commissions, income, or net earnings from self-employment (capped at \$100K)

**Seasonal businesses:** Average monthly payroll between Feb. 15 and Jun. 30 (capped at \$100K per).

**New Businesses:** Average monthly payroll from Jan 1 to Feb 29 (capped at \$100K per employee).

**Other Eligible Forgivable Costs:** Interest on mortgages; Rent under lease agreements; Utilities.

You must request forgiveness of your loan from your lender in writing. Your request should document the number of FTEEs, pay rates, your payments on an eligible mortgage or lease, and utility payments. Your lender has 60 days to reply.<sup>6</sup>

But what happens to the loan if laid-off employees receiving that extra \$600/week on unemployment insurance refuse to return to work when they are offered their jobs back under the PPP? As the Journal of Accountancy reported on May 4: "SBA and Treasury plan to issue a new rule excluding laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours) from the loan forgiveness reduction calculation spelled out in the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136."<sup>8</sup> Meantime, note the preliminary information issued in an FAQ quoted below.

An employer will not lose Paycheck Protection Program loan forgiveness if they make a good-faith, written offer to rehire a laid-off employee (same hours, same wages) and have documented evidence of being turned down by the employee.

Instead, that borrower can exclude that employee from the loan-forgiveness reduction calculation required under the Act, according to a new Treasury Dept. FAQ .<sup>9</sup>

## **PPP vs. EIDL**

The Paycheck Protection Program is one of two programs designed to help small businesses during the coronavirus crisis. The other is the [Economic Injury Disaster Loan \(EIDL\) program](#). While both programs are designed to help struggling businesses get back on their feet financially, they have slightly different goals which are suggested by the names of the two programs.

The *Paycheck Protection Program* business loans account is a new stimulus package designed to help companies retain workers by covering eight weeks of payroll plus some other costs of remaining in business. This loan is 100% forgivable if you follow forgiveness guidelines.

The *Economic Injury Disaster Loan* program is an established program that helps small businesses overcome the loss of revenue during a declared disaster such as a hurricane, major fire, or, in this case, the COVID-19 pandemic. This loan includes an up to \$10,000 advance (if you apply) that is automatically forgiven.<sup>1</sup>

The EIDL loan program is expected to reopen Apr. 27, 2020 just like the PPP loan program. Submitted applications "will be processed on a first-come, first-serve basis."<sup>10</sup>

## **You Can Get Both**

Many small business owners do not know they can apply for both an EIDL loan and a PPP loan for the same COVID-19 disaster. There are rules, including the key requirement that you can't use money from both loans for the same thing. For example, if you use the proceeds from a PPP loan for payroll, you can't use an EIDL loan for payroll also.

Before you apply for a PPP loan, you may want to look more [closely at the EIDL program](#) to see if it might be a better fit or to decide if applying for both loans makes sense in your case. The table below provides a basic comparison of the two programs. Both loan programs apply to small businesses of 500 or fewer employees (more in certain industries).<sup>11</sup>

	<b>PPP LOAN</b>	<b>EIDL LOAN</b>
Loan Administrator	SBA approved lenders	SBA
Max Amount	Lesser of \$10 million or 2.5 times average monthly payroll	Up to \$2 million
Term	2 years	Up to 30 years
Interest Rate	1%	3.75%
Deferral	6 months (interest accrues)	1 year (interest accrues)
Prepay Allowed?	Yes	Yes
Can Be Used For	Payroll, benefits, mortgage interest, rent, utilities, other debt	Payroll, benefits, accounts payable, other expenses
Refinance Debt?	Yes for EIDL	No
Collateral Required?	No	For loans over \$25,000
Forgiveness	Yes, if 75% payroll	Yes, for \$10,000 advance
Guarantee Required?	None	No for loans under \$200K