

The Paycheck Protection Program: Offering Financial Support for Small Businesses

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The Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), signed into law on March 27, 2020, includes several small business-focused provisions designed to allow businesses to retain employees and to help them pay expenses during this difficult time. If you are a small business owner in need of financial support, here's what you should know.

What Programs Are Available?

There are two specific programs administered by the Small Business Administration (SBA): the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL) program.

Under the terms of the PPP, small business owners (defined as those employing 500 or fewer employees, or, if applicable, the size standard set by the SBA for the industry) will be eligible for government-backed small business loans. In addition, the CARES Act made modifications to the existing EIDL program.

How Much Can My Business Borrow Under the PPP?

Businesses are eligible for an amount equal to the lesser of 2.5 times their monthly payroll costs or \$10 million.

The eligible payroll cost is based upon the average monthly payroll costs incurred during the one-year period before the loan origination date. (For new businesses, this period is January 1, 2020, to February 29, 2020.) It excludes compensation greater than \$100,000 on an annualized basis for each employee.

Monthly payroll costs include wages, salaries, retirement contributions, health care premiums, state and local taxes assessed on compensation, and covered leave, with special rules for seasonal employers.

Which Businesses Are Eligible?

Small businesses, nonprofits, veterans' organizations, sole proprietors, self-employed individuals, and independent contractors who meet the applicable size standards are eligible for a PPP loan. Also covered under this plan are food service employers with 500 or fewer employees *per* physical location. The covered period is February 15, 2020, to June 30, 2020. Businesses must have existed on February 15, 2020, to be eligible.

Is There a Loan Forgiveness Provision?

A portion of your small business PPP loan may be eligible for forgiveness. The amount eligible for loan forgiveness is equal to qualified expenses incurred during the eight-week period following the loan origination date.

Qualified expenses include payroll costs, as well as mortgage interest, rent, and utilities payments on contracted services that existed before February 15, 2020. The SBA's "interim final

rules” state that a maximum of 25 percent of nonpayroll expenses (e.g., mortgage interest, rent, utilities) could be forgiven.

Because a key goal of the PPP is to help businesses retain employees, there will be a proportional reduction in the amount of loan forgiveness if an employer reduces the average size of its workforce or reduces salaries and wages by more than 25 percent (for those employees making less than \$100,000 annualized in 2019). Borrowers have until June 30, 2020, to restore loan forgiveness for employment or salary-level reductions made between February 15 and April 26, 2020.

The amount of the PPP loan that is forgiven is not subject to income tax. And the total amount of loan forgiveness for this period cannot exceed the amount of the loan.

To receive loan forgiveness, business owners will be required to submit an application and provide documentation showing how the funds were used. Details regarding this application process are forthcoming. Several experts recommend placing the loan amount in a separate business account and tracking and paying expenses through this separate account. Expect further guidance from the Treasury and SBA in the coming weeks.

What Else Should I Know About These Loans?

PPP loans are nonrecourse loans when used to pay for qualified expenses. There is no required collateral or personal guarantees. The loans are backed by the federal government.

What Are the General Application Requirements?

You do not need to demonstrate specific economic damage related to COVID-19 to qualify for a PPP loan. You will, however, be asked to complete a Good Faith Certification attesting that there is a need for this loan due to the continuing economic uncertainty of the pandemic. During the application process, you will be asked to certify that the loan is necessary to support ongoing business operations, that the loan will be used to retain employees and cover qualified expenses, and that you are not receiving other PPP loan assistance. Authorized banks will use their own application processes based upon the SBA guidelines and template application.

Each business is limited to one PPP loan. You may be eligible for a separate Economic Injury Disaster Loan through the SBA.

How Are Existing SBA Economic Injury Disaster Loans (EIDLs) Affected?

Due to the COVID-19 outbreak, the CARES Act also increased the amount and accessibility of SBA Economic Injury Disaster Loans (EIDLs). Eligibility is now expanded to include ESOPs and sole proprietor-owned businesses. Further, loan availability has been expanded to include employers with 500 or fewer employees during the period from January 31, 2020, through December 31, 2020.

Under this program, you may receive an emergency advance grant of \$10,000. This advance will be forgiven if used for the qualified expenses outlined in the program. Also, for these EIDL loans, the personal guarantee requirement is waived for loan amounts less than \$200,000.

Can I Refinance an EIDL Loan Taken Before Enactment of the PPP?

If you took an EIDL before the PPP was enacted, you are eligible to refinance the loan to a PPP loan to take advantage of loan forgiveness. Any \$10,000 emergency grant received under the EIDL program will be netted from the total loan forgiveness amount.

Where Can I Apply or Get More Information?

Many FDIC banks were authorized by the SBA to process PPP applications beginning April 3, 2020. Due to the confusion and delay surrounding the rules of the program, however, some banks may need more time before they can start offering the loans.

If you are looking for specific information, reach out to the banks where you do business. Also, the SBA offers information and resources for PPP loans and EIDLs on [its website](#). You would apply online via the SBA's website for the separate EIDL.

Be sure to keep an eye out for further guidance from the Treasury, IRS, and SBA in the coming weeks.

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