

SBA PPP Loan Forgiveness Application: What Small Business Owners Need to Know



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Disclaimer

It is not possible to cover every aspect of the law and regulatory changes enacted because of the COVID-19 pandemic. This webinar is an attempt to do a high-level overview of the changes for educational purposes.

No legal advice is being provided by the presenter, anyone needing legal advice should contact an attorney

The final PPP rules for loan forgiveness have still not been released

This information is believed to be accurate as of 1/1/2021 but changes in the laws, regulations, and how they are interpreted is expected.

Some lenders have different interpretations – Always follow your lenders requirements

Review of the Paycheck Protection Program.. ROUND 2!

Paycheck Protection Program

The SBA is authorized to guarantee new PPP funding under the Consolidated Appropriations Act of 2021

Congress authorized a program level of \$284,000,000,000 to provide guaranteed loans under this new 7(a) program.

The SBA will allow lenders to rely on certifications of the borrower in order to determine eligibility of the borrower and use of loan proceeds and to rely on specified documents provided by the borrower to determine qualifying loan amount and eligibility for loan forgiveness.

Program has been expended until March 31, 2021

Who Is Eligible?

FIRST DRAW:

- Your business has less than 500 full-time, part-time, or seasonal employees.
- Your business was operational before February 15, 2020 and remains operational.

SECOND DRAW

- Your business has less than 300 fulltime, part time, or seasonal employees. If you have multiple locations, you can not have more than 300 per location.
- You are able to demonstrate a revenue loss of more than 25% in the first second third quarter of 2020 compared to same quarter in 2019.
- You have used all of your first draw PPP
- Your business was operational prior to 2/15/2020 and remains operational.

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Who Is Eligible?

ELIGIBLE

- Sole proprietors
- Independent contractors
- Self-employed individuals
- Certain non-profits (the new bill has expanded eligible businesses to include certain [501\(c\)\(6\) non-profit organizations](#))
- Seasonal employers; the new bill has clarified the definition of these to be businesses that operate no more than seven months within a year or earn no more than a third of gross receipts within a six-month period
- Faith-based organizations that have less than 150 employees
- Housing cooperatives that employ less than 300 people

Who Is NOT Eligible?

INELIGIBLE

- Lobbying organizations
- Organizations involved in political activities or public policy
- Lenders or financial services businesses
- Cannabis businesses (or any other businesses that deal with products that are illegal at the federal level)
- Household employers (such as those who employ housekeepers or nannies)
- Businesses that have defaulted on SBA or federal loans
- Any business that is at least 20% owned by someone who is currently incarcerated, on probation, on parole, or subject to an indictment
- Any business that is at least 20% owned by someone who has been convicted of a felony within the last five years
- Entities affiliated with the People's Republic of China or Hong Kong or that have a member on their board of directors that is a resident of the People's Republic of China
- Registrants under the Foreign Agents Registration Act
- Entities that have received or will receive a grant under the Shuttered Venue Operator Grant program

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Paycheck Protection Loan Terms

All loans have an interest rate of 1% with a maturity of five years.

Lenders may not charge a yearly fee, charge a guarantee fee, charge a pre-payment penalty, request collateral or a personal guarantee.

Businesses that receive PPP loans may receive other loans from other financial institutions.

Limitations exist depending on if the loan is a first draw or second draw loan.

FIRST DRAW LOANS

The maximum amount a business that has not yet received a PPP loan can borrow is the *lesser* of:

- 2.5 times the average monthly payroll costs and healthcare costs
- \$10 million

There may be exceptions to these limits for restaurants and other hospitality businesses.

SECOND DRAW LOANS

Any business that is applying for a second draw will be subject to more stringent limitations. The maximum second PPP loan amount **is the lesser of:**

- 2.5 times the average monthly payroll costs and healthcare costs in the year prior to when the loan was received or within the calendar year
- 3.5 times the average monthly payroll costs and healthcare costs in the year prior to when the loan was received or within the calendar year for any business that is [classified under Code 72 by the North American Industry Classification System \(NAICS\)](#). (This is a list of hospitality and entertainment businesses like restaurants, hotels, and casinos; click the link to get the full list.)
- \$2 million

Paycheck Protection Loan Terms

PPP loan forgiveness

A major benefit of the PPP is streamlined and simplified loan forgiveness. The new legislation expands expenses that are eligible for forgiveness and makes applying for forgiveness even easier.

The covered period

In order for the loan to be eligible for forgiveness, the funds must be used within the covered period. If you have already received a PPP loan from the first round, nothing has changed. Your covered period remains the same.

If you are applying for a first- or second-draw PPP loan, you may choose a covered period that is anywhere from **eight to 24 weeks after receiving the loan**. This gives you the flexibility to choose a covered period that works best for you.

Paycheck Protection Loan Terms

Covered expenses

In order to get full or partial PPP loan forgiveness, it is critical that you spend the loan money on covered expenses. The new bill has expanded covered expenses for PPP.

Below is the full list of covered expenses for PPP. Certain items are covered for all PPP recipients, round 1 and round 2, but certain items are only covered for first-draw borrowers of PPP round 2, second-draw borrowers of PPP round 2, and borrowers of PPP round 1 whose loans have not yet been forgiven.

We break these down on the next slide....

Paycheck Protection Loan Terms

Covered expenses

At least 60% needs to be spent on these items...

	1st Draw	2nd Draw	Non Forgiven	Forgiven
	PPP Round 2	PPP Round 2	Round 1	Round 1
Employee Payroll Costs	YES	YES	YES	YES
Group Insurance Payments	YES	YES	YES	YES
Dental & Vision Plans	YES	YES	YES	YES
Disability Benefits	YES	YES	YES	
Life Insurance	YES	YES	YES	
Owner Compensation	YES	YES	YES	YES

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Paycheck Protection Loan Terms

Covered expenses

Up to 40% can be spent on these items...

	1st Draw	2nd Draw	Non Forgiven	Forgiven
	PPP Round 2	PPP Round 2	Round 1	Round 1
Paid time Off	YES	YES	YES	YES
Pension & Retirement	YES	YES	YES	YES
FICA & Federal Taxes	YES	YES	YES	YES
State Unemployment	YES	YES	YES	YES
Utilities	YES	YES	YES	YES
Rent	YES	YES	YES	YES
Mortgage Interest	YES	YES	YES	YES
Cost to repair Looting Damage	YES	YES	YES	
Essential Suppliers	YES	YES	YES	
COVID related Accomodations	YES	YES	YES	
Business Software	YES	YES	YES	

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TAX DEDUCTIBILITY OF FORGIVEN EXPENSES

The new bill has clarified the taxability of PPP loans and the deductibility of expenses paid for with PPP loan proceeds. **These are effective as of March 27, 2020 (the date CARES was enacted); and remain effective under the new bill for both first- and second-draw loans:**

- The gross income a business is required to report will not include any PPP loan amount that is forgiven
- **Any expenses paid for with PPP loan proceeds that are forgiven will be tax-deductible**

QUESTIONS

I wasn't able to get a first-round PPP loan; should I try for one in the second round?

Yes, as long as you are eligible and can adhere to the terms of the loan. With the creation of the new bill, Congress has set aside allocations for community lenders and institutions that can help smaller businesses, businesses owned by POC, and those who operate in lower-income areas access capital.

I returned part or all of my PPP loan; can I apply for another PPP loan?

Yes. Within 17 days of the enactment of this bill, the SBA is required to release guidance to lenders on allowing borrowers who have returned loans to access PPP capital.

Is the PPP the only loan or funding option under the new bill?

No. This is very important; both the CARES Act and the new bill offer have allocated money to a number of different loan and grant programs outside of PPP. If you do not qualify for PPP, you have other options to access capital.

APPLICATIONS

[Paycheck Protection Program Loan Forgiveness Application](#)

Anyone who has applied for a PPP

This was the first PPP forgiveness application released; it was revised on June 16, 2020 and remains in use.

[PPP Loan Forgiveness Application Form 3508EZ](#) (also known as the **EZ Loan Forgiveness Application**)

•Any employer who has not reduced employee wages by more than 25% during the covered period (or alternative covered period)
•Sole proprietorsSelf-employed individuals
•Independent contractors

This is a simpler, more streamlined PPP loan forgiveness application.

[PPP Loan Forgiveness Application Form 3508S](#) (also known as the **Simplified Loan Forgiveness Application**)

Any PPP borrower who has borrowed less than \$50,000

This simpler, streamlined forgiveness application was released in October of 2020 under an interim final rule that indicated borrowers of less than \$50,000 would be exempt from forgiveness reductions based on reductions in FTE employees and reductions in employee salaries or wages.

Simple Loan Forgiveness Application

Any PPP borrower who has borrowed less than \$150,000

•This is a new forgiveness application under the new bill and has not yet been released; it will be a simple-one pager and will make obtaining forgiveness easier for borrowers.

The one-pager will require the borrower to sign and certify a description of: the number of employees the borrower was able to retain because of the loan
•the estimated total amount of the loan spent on payroll costs
•the total loan amount

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Any Questions?