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## Everything You Need to Know About the Second Round of Paycheck Protection Program (PPP) Loans

December 22, 2020

On December 20<sup>th</sup>, 2020, Congress came to a bipartisan agreement on a second, \$900 billion stimulus package in response to the COVID-19 pandemic. This bill serves as a follow-up to the \$2 trillion CARES Act, passed in late March of 2020, which created the Paycheck Protection Program and provided other forms of federal aid. It is expected to be signed into law in the coming weeks.

### What will be included?

- \$286 billion towards direct payments and unemployment benefits
- \$325 billion towards relief for small businesses, including \$284 billion in additional funding for the Paycheck Protection Program (PPP), and \$20 billion for Economic Injury Disaster Loans (EIDLs)
- \$82 billion towards schools
- \$69 billion towards public health measures, including vaccination and testing
- \$45 billion towards transportation, including relief for airlines
- \$25 billion towards rental assistance
- \$13 billion towards SNAP, or food assistance programs



### What will direct relief look like?

- Individuals earning up to \$75,000 will receive a one-time direct payment of \$600.
- Married couples earning up to a combined income of \$150,000 will receive a one-time direct payment

of \$1200.

- Individuals with a dependent child under the age of 17 will receive an additional \$600 per child.
- Direct payments will be phased out for single people earning over \$87,000, or married couples earning over \$174,000. The payments will be reduced by \$5 for each additional \$100 of income over \$75,000.
  - Note: This phaseout is for a lower income level than established by the CARES Act.
- Unemployed individuals will receive an additional \$300 per week in unemployment benefits, down from the \$600 weekly payment established by the CARES Act.

## What is the Paycheck Protection Program?

Established by the CARES Act, the Paycheck Protection Program (PPP) provides loans to [small businesses](#) affected by the COVID-19 pandemic. It was created to incentivize businesses to maintain their employee headcount, overall wages, and overall hours. If spent according to federal guidelines, the loan can potentially be 100% forgiven.

## What are the PPP guidelines?

The general guidelines for the PPP loan are as follows:

- The loan can be used on payroll, mortgage interest, rent, and utility payments.
- **At least** 60% of the loan must be spent on payroll.
- Expenses eligible for forgiveness must be spent over a 24-week period.
  - The spending deadline for the first round of the PPP is December 31<sup>st</sup>, 2020. The spending deadline for the 2021 PPP is to be announced.
- Employers must both maintain their employee headcount and 75% of employee wages.
- Forgiveness is reduced based on two calculations for headcount and wage reduction.

## How will the new stimulus bill affect the PPP?

One significant change is that expenses paid for by a forgiven PPP loan can be included in tax deductions.

Earlier in 2020, the IRS released guidance which stated that expenses paid for with the forgiven loan cannot be included in any tax deductions.

However, the new stimulus bill clarifies that no deduction or tax attribute will be denied or reduced.

## Additional PPP Changes

- Businesses that received a PPP loan in 2020 can be eligible for a second PPP loan if they meet the eligibility requirements.
  - They must show a 30% loss in revenue in 2020 over 2019.
  - They cannot have more than 300 employees.
- Loan amounts will be capped for seasonal businesses, new entities, and businesses with more than one physical location, based on the following:
  - Seasonal Businesses: Maximum loan amount will be 2.5x the average monthly payroll costs for a 12-week period selected by the borrower, not exceeding \$2 million.
  - New Entities: Maximum loan amount will be 2.5x the average monthly payroll costs up through

the application date, not exceeding \$2 million.

- Businesses with Multiple Locations: The total amount of all covered loans cannot exceed \$2 million. Each location cannot have more than 500 employees.
- Borrowers that have more than 20% ownership by Chinese entities are ineligible for a PPP loan.
- Loan amounts are capped at \$2 million, rather than the \$10 million cap under the CARES Act.
- For loans totaling \$150,000 or less, the application process will be simplified.
- Businesses in bankruptcy are ineligible for a PPP loan.
- Businesses can choose between the 8-week period and 24-week period for PPP coverage. Headcount and wages must only be maintained until the end of the covered period. These levels must match pre-February 15<sup>th</sup>, 2020 levels.

## How do I apply for a PPP loan?

The SBA approved several lenders in each state to process PPP applications and loans. You can find a list of participating lenders through the SBA website, [available here](#).

Loans are directly managed through your individual lender rather than the SBA. The lender is responsible for making disbursement and forgiveness decisions. However, the SBA will have final approval on loan forgiveness decisions. Loans made above \$2 million are also subject to audits.

## Which forgiveness application form should I use?

As a final note, there are now three forgiveness applications for your clients whose covered period ends on December 31<sup>st</sup>, 2020.

- Use [Form 3508](#) if the business reduced wages, employee headcount.
- Use [Form 3508 EZ](#) if the business **did not** reduce wages, employee headcount, or hours.
- Use [Form 3508S](#) if the PPP loan totaled \$50,000 or less

## What does the forgiveness timeline look like?

1. Submit your PPP forgiveness application to your lender.
2. Your lender must give you a forgiveness decision within 60 days. If your loan will not be forgiven, or only partially forgiven, there is a 10-month deferral period before you must begin to make payments.
3. The SBA will evaluate your lender's forgiveness decision within 90 days.

## Will there be further changes?

After the CARES Act was passed, a series of addendums, changes, and statements were made by the IRS and the SBA in the following months. It is likely that, as time progresses, we will receive further guidance, updated forms, and additional changes.

If you receive a PPP loan, it is important to stay up to date on changes, as well as to communicate with your lender.

## What other aid is available to small businesses?

The new stimulus package includes the following:

- Expanded relief for non-profits and news outlets

- Expanded relief for live venues, theaters, and other cultural institutions
- Tax deductions for business meal expenses, a piece that was added with the intention of stimulating the food service industry.
- Targeted EIDL funds for minority, low-income, and otherwise underserved communities.

### **What is the EIDL?**

- The Economic Injury Disaster Loan provides loans of up to \$2 million to small businesses through the SBA. Applications are available directly through the SBA's portal.
- Unlike the PPP loans, these are non-forgivable (unless specific circumstances apply). EIDLs do have a low interest rate of 3.75% for businesses and 2.75% for non-profits, deferred payments for 12 months, and a 30-year term.
- An advance grant of \$10,000 is available to applicants, which does not need to be repaid. Advance grant funding ran out in July of 2020 but may be renewed in the second stimulus package.
- Credit checks are required for applicants, and recipients must provide documentation on how their funds were spent.

### **What can I use my EIDL funds for?**

Approved expenses include:

- Fixed debts
- Payroll
- Accounts payable
- Regular business expenses

You cannot use the EIDL for:

- Dividends and bonuses
- Disbursements to owners
- Repayments of other loans
- Expansion of facilities or acquisition of assets
- Repair for physical damages
- Refinancing long-term debt
- Relocation

### **Is it worth it to get an EIDL?**

An EIDL can be a good option for small businesses, as interest rates are low, and funds are government-backed. However, only \$20 billion of the stimulus will be allocated to EIDLs, as opposed to the \$284 billion for the Paycheck Protection Program. Funds may run out quickly, and loan processing may be delayed.

### **Can I get both a PPP loan and an EIDL?**

Yes, a borrower can receive both a PPP loan and an EIDL.

However, if both loans are received, the EIDL may need to be refinanced into the PPP loan. Any advance grant must also be deducted from the total forgiven PPP loan amount.

For further guidance, application help, fund management, or forgiveness application help, please contact

NOW CFO.

For questions, reach out to the Training or Marketing Department at [training@nowcfo.com](mailto:training@nowcfo.com) and

[marketing@nowcfo.com](mailto:marketing@nowcfo.com)

## GUIDE TO THE 2ND Paycheck Protection Program

Second Stimulus Package Provides Additional Funding to the Paycheck Protection Program: on December 20th, 2020, Congress came to a bipartisan agreement on a second, \$284 billion stimulus package in response to the COVID-19 pandemic. This bill serves as a follow-up to the \$2 trillion CARES Act, passed in late March of 2020, which created the Paycheck Protection Program and provided other forms of federal aid.

### REFRESHER: WHAT IS THE PPP?

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### HOW WILL THE NEW STIMULUS BILL AFFECT THE PPP?

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