

*Paycheck
Protection
Program*
EXPLAINED

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What is it?

- Created by the CARES Act
- \$349 billion in emergency relief for small businesses in the form of **forgivable** loans
- Administered through the Small Business Administration (SBA)
- Available now through June 30, 2020 **UNTIL THE FUNDING RUNS OUT!**
- Recommend applying quickly



Who is eligible?

- Businesses with fewer than 500 employees, including:
 - Self-employed individuals (partnerships, PLLCs, PCs, LLCs, etc.)
 - Sole proprietors
 - Independent contractors
 - Nonprofits - sections 501(c)(3) or 501(c)(19)
 - Tribal business concerns
- Business must have been operating as of February 15, 2020



Who is **NOT** eligible?

- Engaged in illegal activity
- Household employer (employees are nannies or housekeepers)
- 20% or more owner is incarcerated, subject to criminal charges or convicted of felony w/i past 5 years
- Owner delinquent or default on SBA or Federal loan w/i past seven years

When and Where to Apply?

- Beginning April 10, 2020 the program is open to all eligible applicants
- Any existing SBA lender or federally insured depository institution
 - Check with current business bank/financial institution
 - Some professional organizations helping members find participating institutions
- Sample application:
<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf>

How much can I borrow?

- Lesser of \$10 million or,
- 2.5 times the company's average monthly payroll cost after applying the salary cap and EIDL (Economic Injury Disaster Loan) adjustments



What are the loan terms?

- Interest at 1% (100 basis points)
- Interest begins to accrue once applicant receives funds
- All payments (interest and principal) deferred for 6 months
- Amounts not forgiven must be repaid in 2 years
- No prepayment penalties or fees
- No collateral or personal guarantee required
- Forgiven loans not considered taxable income

What must I certify to the SBA/Lender?

- Loan necessary to support your ongoing operations
- Funds will be used to retain and/or rehire workers, maintain payroll, or make mortgage, lease, and utility payments
- You have not and will not receive another loan under the program
- You provided verification of FTE employees on payroll and the dollar amounts of payroll costs and covered mortgage interest, covered rent, and covered utilities payments

What is included in payroll cost?

- Salary, wages, commissions, or similar compensation
- Cash tips or the equivalent
- Paid time off (vacation, medical, sick, family leave)
- Allowance for separation or dismissal
- Payments for employee healthcare coverage and retirement
- State and local taxes assessed on employee compensation

What is NOT payroll cost?

- Compensation of an employee whose principal residence is outside of the U.S.
- Compensation of an individual employee in excess of an annual salary of \$100,000
- **Employer's** share of federal employment taxes, including FICA, and payments made for federal and state taxes withheld from employee compensation
- Wages for which a credit under sections 70001 or 7003 of the Families First Coronavirus Response Act
- Amounts paid to independent contractors

Maximum Loan Amount Example 1:

Annual payroll costs for 2019	500,000
Employer portion of health insurance	20,000
Employer retirement match and costs	<u>15,000</u>
Subtotal	535,000
Less: Employer portion of FICA	(38,000)
Less: Annual compensation paid in excess of \$100,000	<u>(25,000)</u>
Total Payroll Cost	472,000
Divided by 12 – avg monthly payroll	39,333
Multiply by 2.5 – Maximum loan amount	98,333

Maximum Loan Amount Example 2 – Sole Proprietor

Net Profit per Schedule C, Line 31 from 2019 Federal Tax return	150,000
Total annual payroll (subj to 100,000 cap)	150,000

$$\text{Max. Loan: } 100,000/12 \times 2.5 = 20,833$$

If you have not filed your 2019 Federal Income Tax return, you can use Net Profit per your Income and Expense Statement.

Economic Disaster Injury Loan (EDIL)

- If you have an outstanding EDIL balance on a loan made between January 31, 2020 and April 3, 2020 AND the proceeds were used for payroll costs, you must add that amount (principal only) to increase your Maximum Loan Amount. You must use your PPP loan to refinance your EDIL if you include it in the calculation.

What can be FORGIVEN?

- Up to full principal amount and accrued interest if used for **forgivable purposes** AND employee and compensation levels are maintained.
- **Forgivable Purposes** are costs incurred during the 8-week period following the date of the loan and include:
 - Total amount of payroll costs (same methodology)
 - Payments of interest on mortgage obligations
 - Payments of rent and utilities
 - Nonpayroll costs cannot exceed 25% of the loan forgiveness amount



Beware!

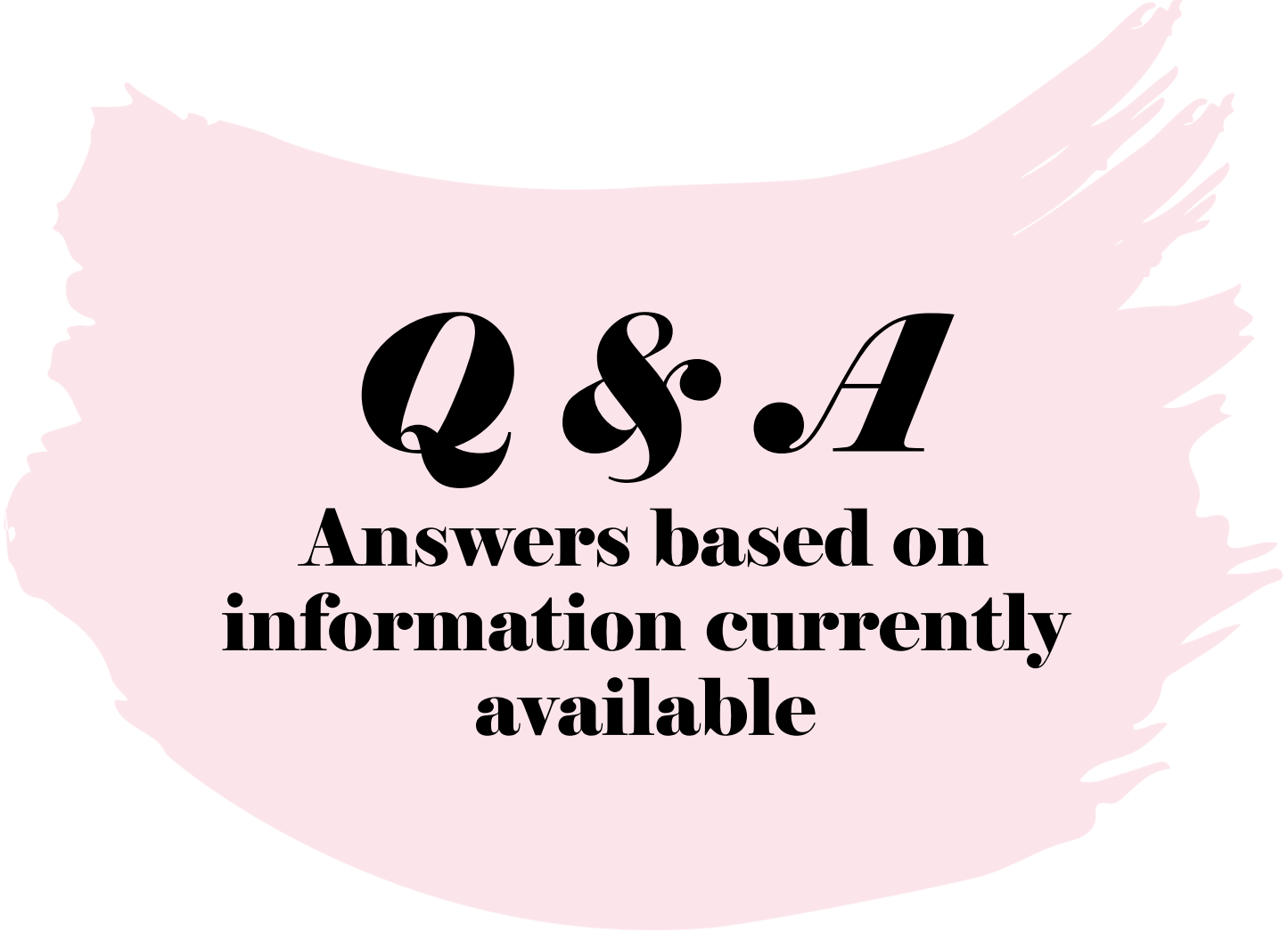
- Loan forgiveness will be reduced if you DECREASE your FT employee headcount
- Loan forgiveness will be reduced if you decrease salaries by more than 25% for employees that made less than \$100,000 in 2019
- You have until June 30, 2020 to restore FTE and salary levels for changes made between February 15, 2020 and April 26, 2020.

How to request loan forgiveness?

- Submit request to your lender once the 8-week period following the date of loan has past and loan proceeds are spent.
- Request includes documents verifying FT employee count and payroll, as well as eligible mortgage, lease, and utility payments made during the 8-week period.
- Lender has 60 days to make forgiveness decision.

Impact of PPP on Collaborative Divorce

- **Business valuations for small business owner spouses** - Will PPP, EDIL, and payroll tax deferral programs help the business recover? How does or should that impact the valuation now?
- **Child Support/Alimony/Family Support** - PPP forgiveness is not taxable income. Is it includable in income for purposes of determining support? What does your jurisdiction say?

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Q & A

**Answers based on
information currently
available**