

PPP Loan 2.0

(Second Draw PPP Loans)



Highlights of PPP 2.0 (Second Draw PPP Loans)

The U.S. Government has made \$284 billion available for small businesses to support employment.

- Additional funding for new PPP loans
- The ability to obtain a second PPP loan for small businesses facing significant revenue declines in any quarter of 2020 compared to the same quarter in 2019
- Clarifications providing for the deductibility of business expenses paid with forgiven PPP loans (a material change from existing IRS guidance)
- Loan eligibility for not-for-profit organizations for the first time
- \$15 billion for live venues, independent movie theaters and cultural institutions
- \$20 million for the Economic Injury Disaster Loan Program (EIDL)

First Draw Loan: Who can Apply?

I. First-time Applicants for PPP Loans must have

- 500 or fewer employees
- Includes nonprofits, veterans' organizations, tribal concerns, self-employed individuals, sole proprietorships, and independent contractors

III. First Draw PPP Loans can be used for

- Payroll costs, including benefits.
- Pay for mortgage interest, rent, utilities
- Worker protection costs related to COVID-19
- Uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations

II. To get a first PPP loan

- Must be in business prior to February 15, 2020
- If eligible, you can receive up to 2.5 times your average monthly payroll
- Maximum loan amount is \$10 million

IV. Technical change in the program

- When calculating the loan amount;
 - May use the payroll costs of 2019, 2020, or
 - Any 1-year period before the date on which the loan is made

First Draw Loan: Loan Forgiveness

I. Full Forgiveness Terms

If during the 8- to 24-week covered period following loan disbursement;

- Employee and compensation levels are maintained
- The loan proceeds are spent on payroll costs and other eligible expenses
- At least 60% of the proceeds are spent on payroll costs

II. How to Apply for Loan Forgiveness

- Once all loan proceeds for which the borrower is requesting forgiveness have been used
- Any time up to the maturity date of the loan
- If borrowers do not apply for forgiveness within 10 months after the last day of the covered period;
 - PPP loan payments are no longer deferred
 - Borrowers will begin making loan payments to their PPP lender

III. Loan Forgiveness for Existing Borrowers

Existing PPP borrowers that did not receive loan forgiveness by December 27, 2020 may;

- Reapply for a First Draw PPP Loan if they previously returned some or all of their First Draw PPP Loan funds, or
- Under certain circumstances, request to modify their First Draw PPP Loan amount if they previously did not accept the full amount for which they are eligible

Second Draw Loan: Who can apply?

All businesses that previously received a PPP loan are eligible to apply for a second loan if:

- You have received and have already used the full amount or will use the full amount of your first PPP Loan
- Your business has 300 or fewer employees
- Maximum loan amount is \$2 million
- You can prove that you have at least a 25% reduction in gross revenue between comparable quarters between 2019 and 2020 (for example, Q2 2019 vs. Q2 2020)

Maximum Loan Amount

- Maximum Loan Amount: 2.5x average monthly 2019 or 2020 payroll costs up to \$2 million
- Accommodation and Food Services, Maximum Loan Amount: 3.5x average monthly 2019 or 2020 payroll costs up to \$2 million

What are Gross Receipts?

The SBA has defined gross receipts to include revenue from all sources, including from;

- The sales of products or services
- Interest, dividends, rents, royalties, fees or commissions reduced by returns and allowances
- PPP monies received in 2020 are excluded from a borrower's gross receipts

Second Draw Loan: Loan Forgiveness

I. Full Forgiveness Terms

If during the 8- to 24-week covered period following loan disbursement;

- Employee and compensation levels are maintained in the same manner as required for the First Draw PPP loan
- The loan proceeds are spent on payroll costs and other eligible expenses
- At least 60% of the proceeds are spent on payroll costs

II. How and when to apply for loan forgiveness

- Once all loan proceeds for which the borrower is requesting forgiveness have been used
- Any time up to the maturity date of the loan
- If borrowers do not apply for forgiveness within 10 months after the last day of the covered period
 - PPP loan payments are no longer deferred
 - Borrowers will begin making loan payments to their PPP lender

Documentation Requirements

I. Payroll Cost

- Payroll cost calculations are generally the same as the documentation required under the original PPP (e.g., payroll processor records or payroll tax filings)
- A borrower that used calendar year 2019 figures to determine its original PPP loan amount is not required to submit additional documentation *if*
 - The borrower relies on the same calendar year 2019 for determining the Second Draw loan amount
 - The borrower uses the same lender

II. Revenue Reduction

- For loans greater than \$150,000, the applicant must;
 - Submit documentation with its application to establish that it experienced a reduction of 25% or greater in 2020 relative to 2019
 - Such documentation may include relevant tax forms, quarterly financial statements or bank statements
- For loans less than \$150,000, this documentation is not required to be submitted at the time of the application.
 - Must be submitted on or before the date the borrower applies for loan forgiveness

Documentation Required to show at least a 25% Reduction in Gross Receipts

- Quarterly financial statements for the entity
 - If the financial statements are not audited, you must sign and date the first page of the financial statement and initial in all other pages, attesting to their accuracy
- Quarterly or monthly bank statements for the entity showing deposits from the relevant quarters
 - You must annotate, if it is not clear, which deposits listed on the bank statement constitute gross receipts (e.g., payments for purchases of goods and services) and which do not (e.g., capital infusions)
- Annual IRS income tax filings of the entity (required if using an annual reference period)
 - Since you have not yet filed a tax return for 2020, you can fill out the return forms, compute the relevant gross receipts value, and sign and date the return, attesting that the values that enter the gross receipt's computation are the same values that will be filed on the entity's tax return

Please discuss this with your accountant

When can you apply?

First Draw PPP

- This applies to all businesses applying for the first time
- These eligible businesses can apply for the loan from Jan 11 to Mar 31, 2021
 - SBA Form 2483

Second Draw PPP

- This applies to all businesses applying for the second time
- These eligible businesses can apply for the loan from Jan 13 to Mar 31, 2021
 - Portal's full open date Jan 19th, 2021
 - SBA Form 2483-SD

Where can you apply?

- Contact your bank to understand if they are participating. Understand their process and how you can submit the application form and other documentations.
- Seek out a local community bank for your PPP loan, especially if your lender is not participating or you typically work with a large national bank.
 - That includes applications from [CDFIs](#), Minority Depository Institutions, Certified Development Companies and Microloan Intermediaries.
 - You can [use this tool](#) from the Opportunity Finance Network to find a community development financial institution in your area.
 - You can [find a lender](#) from SBA List
 - Fintech [List](#)

Application Form:

- First Draw Applicants can start by filling out this [application](#) form
- Second Draw Applicants can start by filling out this [application](#) form

In Summary

You can use PPP loans to fund the following:

- Payroll costs, including benefits
- Mortgage interest, rent, utilities
- Worker protection costs related to COVID-19
- Uninsured property damage costs caused by looting or vandalism during 2020
- Certain supplier costs and expenses for operations

You will need to prove your total payroll costs, which include any employer-paid insurance and retirement benefits, for either calendar year 2019, 2020 or the 12 months prior to the loan

To qualify for a second PPP loan, you need to prove your business lost 25% in annual gross receipts or in one quarter of 2020 compared with the same quarter in 2019

Work with your lender closely:

Your lender reviews your forgiveness application. And they send their decision to SBA.

Gather quarterly financial statements, bank statements and any relevant tax forms to show you qualify

How to Calculate Maximum Loan Amount

Case 1: Self-employed and have no employees

Step 1: Find your 2019 IRS Form 1040 (Schedule C Line 31) net profit amount. If this amount is over \$100,000, reduce it to \$100,000. If this amount is zero or less, you are not eligible for a PPP loan

Step 2: Calculate the average monthly net profit amount (divide the amount from Step 1 by 12)

Step 3: Multiply the average monthly net profit amount from Step 2 by 2.5

Your 2019 IRS Form 1040 (Schedule C) must be provided to substantiate the applied-for Second Draw PPP Loan amount

You must also provide

- 2019 IRS Form 1099-Misc detailing non-employee compensation received
- IRS Form 1099-K
- Invoice, bank statement, or book of record establishing you were self-employed in 2019
- Invoice, bank statement, or book of record establishing you were in operation on February 15, 2020

How to Calculate Maximum Loan Amount

Case 2: Self-employed and have employees

Step 1: Compute your 2019 payroll costs by adding the following;

- 2019 IRS Form 1040 (Schedule C Line 31) for net profit amount;
 - If this amount is over \$100,000, reduce it to \$100,000; if this amount is less than zero, set this amount at zero
- 2019 gross wages and tips paid to your employees, up to \$100,000 per employee, which can be computed using:
 - 2019 IRS Form 941 Taxable Medicare wages & tips (Line 5c- Column 1) from each quarter,
 - Plus
 - Any pre-tax employee contributions for health insurance or other fringe benefits excluded from Taxable Medicare wages & tips,
 - Minus
 - Any amounts paid to any individual employee in excess of \$100,000
 - Any amounts paid to any employee whose principal place of residence is outside the United States
- 2019 employer contributions for employee group health, life, disability, vision, and dental insurance (IRS Form 1040 Schedule C Line 14)
- 2019 employer contributions to employee retirement plans (IRS Form 1040 Schedule C Line 19)
- 2019 employer state and local taxes assessed on employee compensation, primarily state unemployment insurance tax (from state quarterly wage reporting forms)

How to Calculate Maximum Loan Amount

Case 2: Self-employed and have employees – Cont'd

Step 2: Calculate the average monthly payroll costs amount (divide the amount from Step 1 by 12)

Step 3: Multiply the average monthly payroll costs amount from Step 2 by 2.5

The following documents must be provided

- Your 2019 IRS Form 1040 Schedule C
- IRS Form 941 and state quarterly wage unemployment insurance tax reporting form from each quarter (or equivalent payroll processor records or IRS Wage and Tax Statements)
- Documentation of any retirement or group health, life, disability, vision, and dental insurance contributions

A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish you were in operation and had employees on that date.

COVID-19 Economic Injury Disaster Loans (EIDL)

Small business owners, including agricultural businesses, and nonprofit organizations can apply for an EIDL

Purpose

To meet financial obligations and operating expenses that could have been met had the disaster not occurred

Terms

- 3.75% for businesses (Fixed)
- 2.75% for nonprofits (Fixed)
- 30 years
- No pre-payment penalty or fees

Use of Proceeds

Working capital and normal operating expenses. E.g., health care benefits, rent, utilities, fixed debt payments

Collateral Requirements

- Required for loans over \$25,000
- SBA uses a general security agreement (UCC-1) designating business assets as collateral, e.g., machinery and equipment, furniture and fixtures, etc.

Forgivable

- NO – EIDL Loan
 - Maturity: 30 Years
 - Payments: Deferred 1 year; interest still accrues. Borrower may make payments if they choose to do so
 - Interest Rate: 3.75% for small businesses. 2.75% for non-profits
- YES – EIDL Advance
 - Advance funds have been fully allocated and are not currently available

Questions

