

PPP Loan 2.0

(Changes made by the Biden-Harris Administration)



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

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

Changes made by Biden-Harris Administration?

#1 - Two-week focus period for business owners with less than 20 employees

How is it different from before?

- The term “small business” traditionally applies to any business with less than 500 employees. This meant that many of the small businesses who received funding in the first cycle were not small businesses
- This new 14-day exclusive period, that really addresses the smallest of small businesses, opened on Wednesday, February 24th – March 9th .
- Revised PPP loan calculation formula for sole proprietors, independent contractors and self-employed applicants to ensure they receive more relief and establish a \$1 billion set aside for businesses in this category without employees located in LMI areas.
- You can be evaluated as your own small business if you list your income on Schedule C of a tax return.

#2 - Less restrictions on formerly incarcerated small business owners

How is it different from before?

- Then - In the original PPP legislation, small business owners with prior felony convictions were barred from obtaining relief. Business owners with pending felony charges or those currently on probation or parole for a felony offense committed in the last year, and five years for those with financial crimes, were still barred from eligibility.
- Now – they eliminated an exclusionary restriction on PPP access for small business owners with prior non-financial fraud felony convictions, consistent with a bipartisan congressional proposal

#3 - More access for immigrant small business owners

- Non-US Citizen small business owners who are lawful U.S. residents can apply for relief using their Individual Taxpayer Identification Numbers in lieu of a Social Security Number.
- Opportunity to get relief if you're a business owner currently living in the United States with a Green Card.

#4 - No more penalizing business owners with student loans

- The restriction preventing small business owners who are delinquent on their student loans from applying for PPP has been removed.
- Allowance for firm owners who are delinquent on their federal student loans to also receive a PPP loan.

Key Highlights

- No more restrictions on business owners without a payroll
- “Solopreneurs,” self-employed individuals, independent contractors, or any business without employees can expect more support in this PPP cycle.
- Despite the program keeping the name “Payroll Protection,” it’s critical that the Biden administration is making clear the loan amount doesn’t only have to be based on payroll, but on overall lost revenue to the business.
- Businesses simply needs to show “a revenue reduction of 25% or more in all or part of 2020 compared with all or part of 2019. This is calculated by comparing gross receipts in any 2020 quarter with an applicable quarter in 2019.

Updates March 1st 2021

- The Biden administration announced last week changes to how the SBA will calculate forgivable loans for sole proprietors and other small businesses without any employees. The updated formula — which will likely lead to larger loan amounts for non-employer firms, including sole proprietors and independent contractors — will be announced this week
- It's still unclear when in the week the SBA will update its guidelines, meaning that those who would benefit from the change should still wait to submit their applications for the program.
- For firms with employees, maximum PPP loans are 2.5 times average monthly payroll costs, per the SBA. As a stand-in for payroll costs for solo workers, the SBA used net profit information from tax returns, even though payroll and profit are different measures.
- In addition, the net profit line includes deductions, which reduced or eliminated profit numbers for some, yielding small loans or making them ineligible for the program.
- **The updated formula will instead use gross income as a stand-in for payroll costs, a larger number than net income, meaning many firms will get more money in forgivable loans.**

<https://www.cnbc.com/2021/03/01/self-employed-gig-workers-still-waiting-on-ppp-rules-for-bigger-loans.html>

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. But if you have less than 20 employees, apply by March 9, 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. But if you have less than 20 employees, apply by March 9, 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

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

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: 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

Questions

