

Changes Ahead for the Paycheck Protection Program

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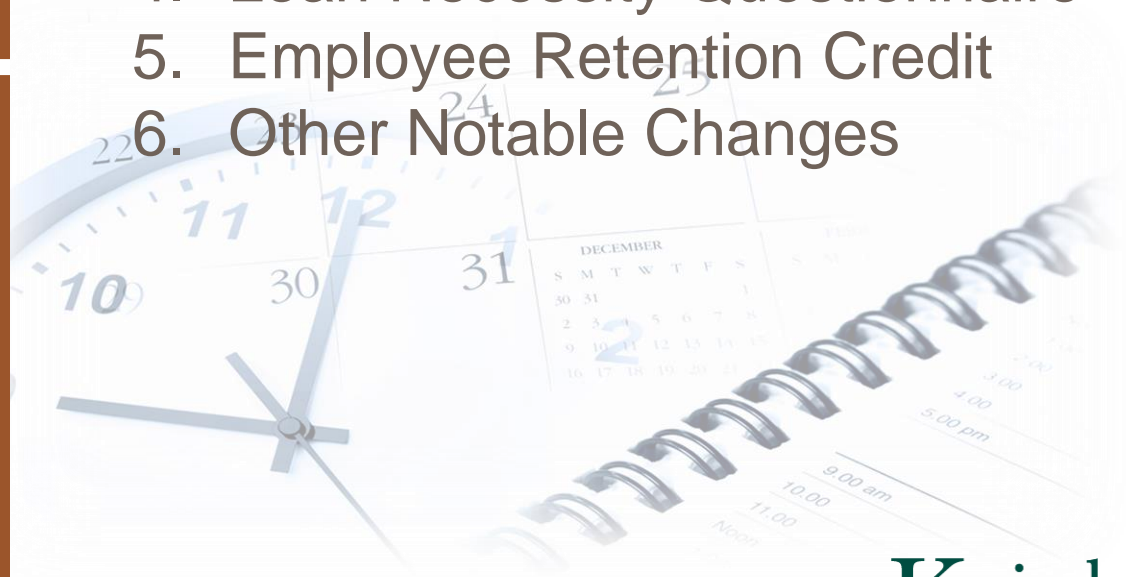
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Agenda

1. PPP Tax Changes
2. 2nd Round of PPP
3. Changes to Original PPP
4. Loan Necessity Questionnaire
5. Employee Retention Credit
6. Other Notable Changes



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PPP Forgiven Expenses - Deductible

- Loan forgiveness shall not be included in gross income
- No deduction shall be denied
- No tax attribute shall be reduced
- No basis increase shall be denied
 - S corporations and partnerships will receive the step-up in basis
 - Basis increase will occur when forgiveness is confirmed



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PPP and PPP Second Draw

- \$284,450,000,000 allocated to PPP and PPP 2
- Program expires March 31, 2021
- Prior qualified first time PPP borrowers - 500 employee limit and gross receipts reduction does not apply

PPP second draw qualifications:

- 300 employees or less (NAICS 72 - Accommodation & Food Service is 300 per location)
- Gross receipts reduction $\geq 25\%$ in Q1, Q2, Q3, **OR** Q4 of 2020 vs same quarter in 2019
 - New business in 2019 or by 2/15/20 special quarterly reduction rules
 - New entity after 2/15/2020 - quarterly reduction is not addressed
- \$150K \leq loan – simplified certification of revenue test for loan application
- Excluded - lobbying/politics, China, Hong Kong, publicly traded companies



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Gross Receipts – 25% Reduction Example

	Gross Receipts			
	<u>2020</u>	<u>2019</u>	Change	Qualified
Q1	400,000	250,000	60%	No
Q2	250,000	300,000	-17%	No
Q3	200,000	325,000	-38%	Yes
Q4	300,000	300,000	0%	No
Total	1,150,000	1,175,000	-2%	

PPP Second Draw Amount

- Maximum loan amount \$2 million, cannot exceed \$10 million combined for PPP and PPP 2
- General calculation - 2.5x avg. monthly payroll (1 year period before loan application or calendar year 2019)
- Seasonal employers - 2.5x avg. monthly payroll (12-week period selected between 2/15/19 and 2/15/20)
- New entities – 2.5x the quotient obtained from the sum of the monthly payroll / the number of months those payroll costs were paid or incurred
- NAICS 72 (Accommodation & Food Service) – 3.5x avg. monthly average payroll



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Additional Covered Expenses

- Covered Operational Costs
- Covered Property Damage Costs
- Covered Supplier Costs
- Covered Worker Protection Expenditures
- All previously Covered Expenses **STILL APPLY!**
- New Covered Costs apply for all PPP loans, with the exception of already forgiven loans.



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PPP Forgiveness Application Changes

- Simplified Forgiveness Application for Loans of \$150,000 or less.
- Changes to the Application Process for Forgiveness of Loans between \$150,000 and \$2,000,000.
- EIDL Advances **NO LONGER** are required to be deducted from borrower loan forgiveness.



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Increased Original PPP Loan Amount

- Included covered loan – covered loan which as of the date of this act borrower had not received forgiveness
- Can increase amount borrowed if:
 - Returned all or part of an included covered loan (reapply for the difference between retained and maximum)
 - Did not accept the full amount of the included covered loan (request modification to increase the amount up to maximum)
 - Interim final rule updates allow for included covered loan increase (submit a request for an increase even if original borrowed is fully spent)



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Modification to Covered Period

- Begins on origination date of loan
- Ends on date selected by borrower **between**
 - 8 weeks after origination
 - 24 weeks after origination
- This applies to the original PPP loans and PPP 2 loans
- Previously could apply early between 8 and 24 weeks
 - if there was wage reduction greater than 25% had to project reduction over the full 24 weeks. Will that apply now?



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Loan Necessity Questionnaire

- Applicable to PPP loans between \$2-10MM
- Form 3509 (For-Profit Borrowers) & Form 3510 (Non-Profit Borrowers)
- The Lender will provide applicants questionnaire
- Borrower has 10 business days after receipt of questionnaire to submit your response.
- Questions focus on Business Activity Assessment and Liquidity Assessment.



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Loan Necessity Questionnaire

- SBA's assessment of a borrower's certification will be based on the totality of the borrower's circumstances through a **multi-factor analysis**.
- This certification is required to have been made in good faith at the time of the loan application, even if subsequent developments resulted in the loan no longer being necessary.
- In its review, **SBA may take into account the borrower's circumstances and actions both before and after the borrower's certification** to the extent that doing so will assist SBA in determining whether the borrower made the statutorily required certification in good faith at the time of its loan application.
- After a borrower submits its completed questionnaire, SBA may request additional information, if necessary, to complete its review. When additional information is requested, **borrowers will have an opportunity to provide a narrative response to SBA explaining the circumstances that provided the basis for their good-faith loan necessity certification**. SBA will make a final determination that a borrower lacked an adequate basis for its loan necessity certification after reviewing any additional information that a borrower chooses to submit.



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2020 Employee Retention Credit

	Original Retention Credit as part of CARES ACT	Retroactively Amended
Eligibility	Business in 2020 with quarters that had 1) full or partial shut-downs due to government orders, or 2) decline in gross receipts of 50% or more compared to the same quarter in previous year (2019)	No change
PPP borrowers	Ineligible for the credit	Eligible, can't double dip using same wages
Credit	Payroll tax credit for 50% of qualified wages	No change
Qualified wages	Employers over 100 employees - wages limited to amounts paid to employees not providing services.	No change
	Employers 100<= employees - wages includes all wages paid to employees during the applicable quarter	No change
Wage Limit	\$10,000 total per employee for all eligible quarters (leading up to a maximum \$5,000 credit per employee)	No change
Applicable wages	Wages paid after March 12, 2020 and before January 1, 2020	No change

2021 Employee Retention Credit Expansion

	Employee Retention Credit Expansion January 1, 2021 to July 1, 2021
Eligibility	Businesses in 2021 with quarters that had 1) full or partial shut-downs due to government orders, or 2) decline in gross receipts of 20% or more compared to the same quarter in calendar year 2019 . If not in existence in 2019 substitute same quarter in 2020.
PPP borrowers	Eligible for the credit, can't double dip using same wages
Credit	Payroll tax credit for 70% of qualified wages
Qualified wages	Employers over 500 employees - wages limited to amounts paid to employees not providing services.
	Employers 500<= employees - wages includes all wages paid to employees during the applicable quarter
Wage Limit	\$10,000 for any calendar quarter (a maximum \$7,000 credit per employee per quarter and \$14,000 per employee if qualify in Q1 and Q2 2021)
Applicable wages	Wages paid after December 31, 2020 and before July 1, 2021

Other Notable Items

- Families First Coronavirus Response Act (FFCRA):
 - FFCRA leave is no longer required
 - FFCRA credit is available through March 31, 2021
- 501(c)(6) organizations are eligible
 - Chambers of commerce, business leagues, boards of trade
 - Lobbying receipts must be less 15% of total receipts
 - Lobbying activities are less than 15% of total activities
 - Cost of lobbying activities does not exceed \$1 million
 - Cannot employ more than 300 employees



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*Thank you
for your participation!*

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