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Your Paycheck Protection Program Loan is Funded – Now What?

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For Today's Discussion

What comes next for small businesses that have received the PPP loan and how to prepare your business for the forgiveness process

Updates on PPP Program

- On July 4, President Trump signed an updated bill extending the deadline for PPP applications
- \$130 Billion Still Remains in the Program
- Each borrower can only get one (1) PPP loan
- You can apply at www.prestamosloans.org/ppp

- **Overview of the program**
- **Forgiveness Requirements**
 - Payroll Requirements
 - Other Eligible Expenses Requirements
- **New Safe Harbor Rules**
- **FICA Deferment**
- **Recordkeeping**
- **Applying for Forgiveness**
- **FAQ's**
- **Live Q&A**

Program Overview

- The PPP is a forgivable loan from The SBA if certain requirements are met
- You will apply for forgiveness directly through your PPP lender
- Your loan term starts the day PPP funds are deposited into your account
- You can apply for forgiveness once you use all your funds; you don't have to wait until the end of the term
- You must apply for forgiveness within 10 months of the end of your loan term
- Loans (or portions of loans) that are not forgiven have the following terms:
 - Loans funded prior to June 5, 2020: 2 year term at 1% with a 6-mo deferral
 - Loans funded after June 5, 2020: 5 year term at 1% with a 10-mo deferral

Forgiveness Requirements

- **For full forgiveness on your loan, you must meet the following:**
 - At least 60% is used for W2 payroll expenses
 - The remaining 40% should go to other eligible expenses:
 - Rent/lease, utilities, or interest on mortgages or fixed loan interest for contracts in place prior to February 15, 2020
 - Restore employee headcount by December 31, 2020 or meet Safe Harbor
 - Headcount based on 2/15/19 – 6/30/19 OR 1/1/20 – 2/29/20
 - Per employee, compensation must be at least 75% of the prior quarter

Forgiveness Requirements

- **Payroll Expenses are considered:**
 - Amounts paid to W2 employees (taxes are withheld from paychecks) up to the first \$100,000 in compensation with principal residence in The US
 - Salary, Hourly Wages, Commission or Similar, Cash Tips or Equivalent , payments for Leave, Sick Time, Paid Time Off
 - Employee Benefits including group healthcare and retirement plans
 - Payments of state and local taxes
 - Owner compensation replacement
 - For 8-week terms: 8/52 of 2019 Schedule C Line 31 Net Profit
 - For 24-week terms: 2.5 times monthly net profit from 2019 Schedule C line 31

Forgiveness Requirements

- **Other Eligible Expenses are considered:**
 - Rent or Lease payments for contracts in effect prior to Feb 15, 2020
 - Any amounts that are included in a lease agreement, such as monthly rent, sales tax, CAM charges, etc
 - Utilities for contracts in effect prior to Feb 15, 2020
 - Water & Sewer
 - Electricity
 - Telephone (including cell phone)
 - Internet
 - Gas/Propane
 - Transportation
 - Interest portion only for mortgages or fixed loans

Safe Harbor Rules – Inability to Rehire

- **You now have until December 31, 2020 to restore FTE to pre-COVID numbers**
 - Exemption in forgiveness reduction for:
 - (1) an inability to rehire individuals who were employees of the borrower on February 15, 2020; and
 - (2) an inability to hire similarly qualified individuals for unfilled positions on or before December 31, 2020
 - Borrowers must provide a written offer to the employee to restore the reduced hours, the same salary/wages, same hours and must maintain written copy of rejection by employee
 - Borrowers are required to inform the applicable state unemployment insurance office of any employee's rejected rehire offer within 30 days of the employee's rejection of the offer

Safe Harbor Rules - Compliance

- **New, Extended Exemption for the following:**
 - Inability to return to the same level of business activity as the borrower was operating at before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention (CDC), or the Occupational Safety and Health Administration
 - Related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19

FICA Deferment

- Employers may defer the deposit and payment of the employer's portion of Social Security tax (6.2%)
- The Form 941, Employer's QUARTERLY Federal Tax Return, will be revised for the second calendar quarter of 2020 (April - June, 2020)
- Employers can continue to defer payroll taxes after they obtain a PPP loan, and can continue to do so up to the date they receive a forgiveness decision from their lender, which as stated above is not expected to occur until September or October at the earliest
 - This IRS will allow this deferral without any deposit or failure to pay penalties, and the deferred amounts do not need to be repaid until the dates listed in the statute – half by December 31, 2021, and the balance by December 31, 2022

Recordkeeping & Applying for Forgiveness

- **Best practices for recordkeeping:**
 - If possible, establish a second bank account to keep transactions separate
 - Keep a file with copies of leases and utility contracts, payroll records, invoices, copies of checks, other backup data for how you spent the funds in addition to written offers of employment and rejections
 - If you take draws, do so monthly and make a memo in the check or transfer line that this is “Draw X for Month”
- Work with your lender to apply for forgiveness within 10-months of the end of your PPP term and be prepared to provide all of the documentation requested
- Lenders have 60 days to make a determination before sending to The SBA

FAQ's

- **What if I have an EIDL advance?**
 - EIDL advances are subtracted from the PPP loan forgiveness amount
- **Can I pay 1099 contractors?**
 - No, these are not considered W2 employees
- **Are the following considered utilities?**
 - Janitorial/Cleaning Services – NO
 - Pest Control – NO
 - Grease Trap Removal – NO
 - HOA/Association Fees – NO
 - Insurance Costs – NO
 - IT Services - NO

FAQ's

- **Can a home office be considered in loan forgiveness?**
 - The expenses for home office that are eligible for PPP forgiveness are mortgage interest, utilities, and rent.
 - There must be a designated area in the home that is used only for business for this to apply.
 - These expenses are prorated based on the percent of space used as home office. Even if the sole proprietor did not claim these expenses in 2019, (s)he may do so for the PPP forgiveness.
 - FYI - The expenses claimed on PPP cannot be claimed on 2020 tax returns
- **Can I pay my employees a bonus or “hazard pay”?**
 - Yes, as long as the amount does not exceed the equivalent of \$100K per year, in the case of 8-weeks that is \$15,385 and in case of 24-weeks \$46,154

Live Q&A Session

- Feel free to follow up with me by emailing me at amber.Cordoba@cplc.org
- Feel free to connect with me on LinkedIn at <https://www.linkedin.com/in/ambermwilliams/>
- If you have not applied for a PPP and would like to, Prestamos is accepting applications online at www.prestamosloans.org/ppp