Small Business Paycheck Protection Program

The Paycheck Protection Program (PPP) was enacted to help small businesses cover their near-term operating expenses during the COVID-19 crisis and provide a strong incentive for employers to retain their employees. This is a new $349-billion SBA lending program, with a 100% government guarantee, as opposed to the 75% guarantee for traditional SBA 7(a) loans.

Eligibility

Small businesses, 501(c)(3) nonprofits, tribal business concerns, and veterans organizations that:

- Have no more than 500 employees or the applicable industry size standard as provided by the SBA,
- Are NAICS 72 (lodging and hospitality, food and beverage retailing and catering services) with no more than 500 employees at a location,
- Are franchisees operating under an SBA assigned franchise identifier code, or
- Are sole proprietors, self-employed and independent contractors.

Covered loan period

February 15, 2020 through June 30, 2020

Maximum loan amount

The lesser of:

- (Average pre-loan 12-month gross payroll costs X 2.5) + outstanding amount of certain SBA loans made between January 31, 2020, to date of this new loan to be refinanced
- $10,000,000

Prior EIDL loans

Prior EIDL loans made after January 31, 2020, that were not used for payroll costs, do not prohibit the application for a PPP loan (see other key terms below regarding new EIDL applications).

Payroll costs

- Include gross wages, bonuses, commissions, employer group benefits and retirement plan contributions and payroll taxes.
- Individual compensation is limited to $100,00 per year.
- Sick and FMLA paid under FFCRA is excluded.

Allowable uses

- Payroll costs, healthcare benefits (including paid sick or medical leave, and insurance premiums)
- Interest on any mortgage
- Interest on other debt obligations incurred before February 15, 2020
- Rent obligations and utility payments

Other key terms

- Maximum loan rate of 4%; no personal guarantees and non-recourse so long as spent on allowable uses; no collateral required; no “credit elsewhere” test; no SBA guarantee fees, and 100% government guarantee of loan.
- Borrower to self-certify that uncertain economic times make the loan necessary to support ongoing operations, that funds will be used for allowable purposes, and that there is no other such applications pending.

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Effect on other stimulus and existing SBA debt

- PPP borrowers are not eligible for the employee retention tax credit in the CARES Act.
- There is no “double dipping” of PPP loan allowable uses with any new EIDL loan application.
- Still eligible for payroll tax credits for sick leave and expanded FMLA under FFCRA.
- SBA will pay the next six months of scheduled payments for the borrower with existing 7(a) loans in place.

Terms of loan forgiveness

PPP loan forgiveness is the amount expected to be expended over an eight-week period following the loan origination (the “Covered Period”) for the following:

- Payroll costs
- Interest (not principal) on a covered mortgage or other loan secured by real or personal property incurred before February 15, 2020
- Payments on a covered rent obligation (lease agreement in place before February 15, 2020)
- Utility costs

The term “payroll costs” does not include:

- The compensation of an individual employee in excess of $100,000 as pro-rated during the covered period,
- Qualified sick leave wages or FMLA paid under FFCRA, or
- Compensation to employees whose principal place of residence is outside the U.S.

Loan forgiveness is treated as canceled indebtedness by the lender but under Section 1106(i) is excluded from gross income. Any remaining balance is eligible for a maximum maturity of 10 years, at a rate not to exceed 4%, and shall continue to be guaranteed by SBA.

Loan forgiveness reduction: The “Layoff and Pay Cut Penalty Rules”

Loan amount forgiven is limited to the eligible amount times the percentage obtained by dividing:

- The average number of FTEs per month employed during the covered period; by at the borrower’s option,
- The average number of FTEs per month employed during the period February 15, 2019, through June 30, 2019, or
- The average FTEs during the period January 1, 2020, through February 29, 2020.

Reduction in rate of compensation: For any employee who earned less than $100,000 in 2019 on an annualized basis, the loan forgiveness amount is reduced dollar for dollar for any reduction in wages paid during the covered period that is more than 25% of the wages paid to that employee in the most recent full quarter before the covered period.

Special provision allows, in general, for employees rehired by June 30th to be excluded from the above loan forgiveness reduction calculation

Please reach out to a trusted Wipfli advisor to further understand the details of the program and find out if you qualify. This chart is for general guidance only. Wipfli does not undertake any obligation to update the chart for subsequent changes to the law.

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