



Paycheck Protection Program (PPP) Resource

-Last updated Sept. 15, 2021-

Notice: The PPP application period ended on May 31, 2021. Existing borrowers may be eligible for loan [forgiveness](#).

Overview. The [CARES](#) Act, signed into law on March 27, established the Paycheck Protection Program (PPP) to help small businesses maintain payroll and stay financially viable. With the quick rollout of the PPP, Congress and other stakeholders acknowledged that changes must be made to improve the program. On June 5, 2020, the Paycheck Protection Program Flexibility Act ([H.R. 7010](#)) was enacted, which made critical adjustments to the program. The Small Business Administration (SBA) will accept PPP loan applications until August 8, 2020. On Dec. 27, 2020, [legislation](#) (“Economic Aid Act”) was signed into law that made modifications to the PPP and extended the window to apply and receive a PPP loan through the end of March 2021.¹ On March 30, 2021, President Biden signed legislation into law that extends the deadline to apply for a PPP loan from March 31, 2021 to May 31, 2021.

Eligibility. Small businesses, sole proprietors, independent contractors, gig economy workers, and self-employed individuals are eligible. For purposes of this program, small businesses are defined as 500 or less employees unless the industry has an employee-based [size](#) standard provided by the SBA that is greater than 500 employees. 501(c)(3) and 501(c)(19) organizations with fewer than 500 employees are eligible as well. Following the passage of the Economic Aid Act, 501(c)(6) organizations with 300 employees or less can qualify as borrowers if they meet certain criteria regarding lobbying activities. SBA notes that even if a borrower meets these requirements, they may be ineligible for certain reasons such as the business was not in operation on Feb. 15, 2020, a member of the executive or legislative branch holds a controlling interest in the business, or your business is permanently closed and has no intention of reopening from receiving a PPP loan.²

Timeframe and Terms. The “covered period” was originally 8 weeks (56 days). H.R. 7010 extended the covered period to 24 weeks (168 days). However, the Economic Aid Act allows a borrower to choose a covered period in-between 8 and 24 weeks. For loans made on or after June 5, 2020, the maturity is five years. For loans made before June 5, 2020, the maturity is two years, but borrowers and lenders can mutually agree to extend the maturity of the loan to five years. The interest rate remains 1%. Borrowers cannot receive more than one First Draw PPP Loan, but some borrowers may be eligible for a Second Draw PPP Loan.

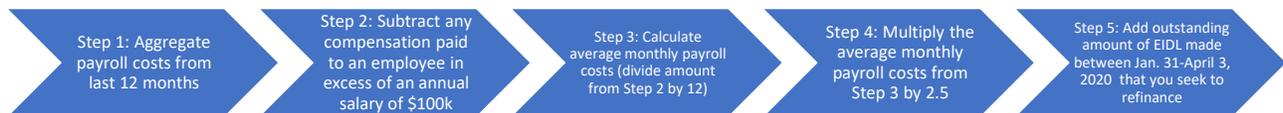
¹ Following the Economic Aid Act getting signed into law, SBA issued updated [guidance](#) on the modifications made in the Act.

² For the full list of reasons, see page 24 of the [interim final rule](#).

How and Where to Apply for Loan. Starting April 3, 2020, businesses seeking PPP loans could apply through an SBA approved lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating. Applicants must submit the Paycheck Protection Program Application [Form](#) (revised Jan. 8, 2021) and payroll documentation. See SBA's [website](#) for more information and a list of available lenders or find your local SBA Field [Office](#) for further assistance. Please note that these loans are "first come, first serve." Eligible borrowers can apply through March 31, 2021.

Loan Amounts. The maximum loan amount is calculated by taking the average total of monthly payroll costs incurred during the one-year period before the date on which the loan is made and multiplying it by 2.5. Borrowers who apply for PPP loans in 2021 and who are not self-employed are also permitted to use the precise 1-year period before the date on which the loan is made to calculate payroll costs if they choose not to use 2019 or 2020. The calculation is slightly different for employers of seasonal employees. The maximum loan amount is capped at \$10 million. The lender must make the first disbursement of the loan no later than 10 calendar days from the date of loan approval. SBA published a [document](#) on how to calculate maximum loan amounts.

How to calculate maximum loan amount



Example #1: No employees make more than \$100,000

Annual payroll: \$120,000
Average monthly payroll: \$10,000
Multiply by 2.5 = \$25,000
Maximum loan amount is \$25,000

Example #2: Some employees make more than \$100,000

Annual payroll: \$1,500,00
Subtract compensation amounts in excess of an annual salary of \$100,000: \$1,200,000
Average monthly qualifying payroll: \$100,000
Multiply by 2.5 = \$250,000
Maximum loan amount is \$250,000

Example #3: No employees make more than \$100,000, outstanding EIDL loan of \$10,000

Annual payroll: \$120,000
Average monthly payroll: \$10,000
Multiple by 2.5 = \$25,000
Add EIDL loan of \$10,000 = \$35,000
Maximum loan amount is \$35,000

Allowable Uses. PPP loans can be used to cover payroll costs; costs related to the continuation of group healthcare benefits during periods of paid sick, medical or family leave (and insurance premiums);

employee salaries, wages, commissions or similar compensations; payments of interest on any mortgage obligation (not including prepayment of or payment of principal on a mortgage obligation); rent; utilities (defined as electricity, gas, water, transportation, telephone or internet access); interest on any other debt obligations that were incurred before the covered period; refinancing an SBA EIDL loan made between Jan. 31, 2020 and April 3, 2020; covered operations expenditures; covered property damage costs; covered supplier costs; and covered worker protection expenditures.³ If PPP funds are used for unauthorized purposes, SBA will direct you to repay those amounts. If the borrower knowingly uses the funds for unauthorized purposes, he or she will be subject to additional liabilities.

 **Payroll includes:** Payroll costs consist of compensation to employees (whose principal place of residence is the United States) in the form of salary, wages, commissions, or similar compensation; cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips); payment for vacation, parental, family, medical, or sick leave; allowance for separation or dismissal; payment for the provision of employee benefits consisting of group health care or group life, disability, vision, or dental insurance, including insurance premiums, and retirement; payment of state and local taxes assessed on compensation of employees; and for an independent contractor or sole proprietor, wages, commissions, income, or net earnings from self-employment, or similar compensation.

 **Payroll does not include:** Compensation of an individual employee in excess of an annual salary of \$100k (as prorated for the covered period); taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code during covered period; any compensation of an employee whose principal place of residence is outside the US; or qualified family leave wages for which a credit is allowed under section 7003 of Families First Coronavirus Response Act (FFCRA) or qualified sick leave wages for which a credit is allowed under section 7001 of the FFCRA.

How and Where to Apply for Loan Forgiveness. Loans can be forgiven in whole or in part. Borrowers must complete and submit either the Loan Forgiveness [Application](#) (Form 3508) or the Loan Forgiveness Application [Form EZ](#) (Form 3508EZ) to their lender. Form EZ is a shorter, more straightforward application, that borrowers may elect to use if they meet **one** of the following three criteria:

- The borrower is a self-employed individual, independent contractor, or sole proprietor who had no employees at the time of the PPP loan application and did not include any employee salaries in the computation of average monthly payroll in the Application Form;
- The borrower did not reduce annual salary or hourly wages of any employee by more than 25% during the covered period/alternative payroll covered period compared to the period between Jan. 1, 2020 and March 31, 2020 (only count employees who received an annualized rate of pay

³ Refinancing an SBA EIDL loan made between Jan. 31, 2020 and April 3, 2020, covered operations expenditures, covered property damage costs, covered supplier costs, and covered worker protection expenditures were all added as acceptable ways to use PPP loans in the Economic Aid Act. For more information on what is included in these new covered costs, see page 49 of the [interim final rule](#). A borrower can receive forgiveness for the newly added nonpayroll costs described above only if SBA had not yet remitted a forgiveness payment on the borrower's loan to the borrower's lender as of Dec. 27, 2020.

under \$100,000) **AND** the borrower did not reduce the number of employees or the average paid hours of employees between Jan. 1, 2020 and the end of the covered period;⁴ or

- The borrower did not reduce annual salary or hourly wages of any employee by more than 25% during the covered period/alternative payroll covered period compared to the period between Jan. 1, 2020 and March 31, 2020 (only count employees who received an annualized rate of pay under \$100,000); **AND** the borrower was unable to operate during the covered period at the same level of business activity as before Feb. 15, 2020, due to compliance with requirements established or guidance issued between March 1, 2020 and Dec. 31, 2020 by HHS, CDC or OSHA, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.

The lender has 60 days to review the application and issue a decision on forgiveness to SBA. The decision may take the form of an approval (in whole or in part), a denial, or a denial without prejudice due to a pending SBA review of the loan. SBA issued an Interim Final [Rule \(revised\)](#) on 6/22/20) on the loan review process, where it said it will review PPP loans of any size at its discretion. See both forms for a list of documents that must be provided along with the application and what documentation must be maintained by the borrower for six years. In September 2021, SBA issued a [final](#) rule which covers borrower appeals of final SBA loan review decisions.

Loan Forgiveness Details.

- Elimination of “Alternative payroll covered period.” Under the Economic Aid Act, borrowers may now select a covered period between 8 and 24 weeks. Therefore, SBA is eliminating their previous “alternative covered period” definition.
- Costs forgiven. Borrowers shall be eligible for forgiveness of their PPP loan in an amount equal to the sum of the eligible payroll and nonpayroll costs incurred and payments made during the covered period. Eligible nonpayroll costs **cannot** exceed 40% of the total forgiveness amount. However, if a borrower does not meet the requirement that 60% of the loan be spent on payroll costs, the borrower is still eligible for partial forgiveness.
- Costs incurred and paid. Payroll costs paid or incurred during the covered period are eligible for forgiveness. Borrowers may seek forgiveness for payroll costs beginning on either: (1) the date of disbursement of the borrower’s PPP loan proceeds from the lender or (2) the first day of the first payroll cycle in the covered period. If payroll costs are incurred during the covered period, but paid after the covered period, they are eligible for forgiveness if they are paid no later than the first regular payroll date thereafter. The same policy is in effect for nonpayroll costs, meaning the costs are eligible for forgiveness if they were: (1) paid during the covered period or (2) incurred during the covered period and paid on or before the next regular billing date. See *loan forgiveness IFR for examples*. SBA recently clarified its forgiveness [FAQs](#) that payroll and nonpayroll costs incurred before the covered period but paid during the covered period are eligible for loan forgiveness.

⁴ Do not count reductions that arose from an inability to rehire individuals who were employees on Feb. 15, 2020 if the borrower was unable to hire similarly qualified employees for unfilled positions on or before Dec. 31, 2020 or reductions in an employee’s hours that the borrower offered to restore and the employee refused.

- **Cash compensation.** For each individual employee, the total amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000 as prorated for the covered period. Meaning, the total for an 8-week covered period is \$15,385 and the total for a 24-week covered period is \$46,154.
- **Owner-employees and self-employed individuals.** The amount of loan forgiveness requested for owner-employees, self-employed individuals, or general partners is dependent on business type and whether the borrower elects an 8-week or 24-week covered period. The amount of loan forgiveness requested for owner-employees and self-employed individuals' payroll compensation is capped at \$20,833 per individual in total across all businesses in which he or she has an ownership stake. If a borrower received a PPP loan before June 5, 2020 and elects to use an 8-week covered period, the cap is \$15,383. For information on specific types of owners, see Question #8 in SBA's [FAQs](#). Owner-employees with less than a 5% ownership stake in a C- or S-Corporation are not subject to the owner-employee compensation rule. See SBA's [IRF](#) (Question #1) here for more information.

Loan Forgiveness Reductions. The amount of loan forgiveness will be reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees. To ensure that borrowers are not doubly penalized, SBA established that the salary/wage reduction applies only to the portion of the decline in salary/wages that is NOT attributable to FTE reduction. SBA [states](#) that borrowers may submit a loan forgiveness application any time on or before the maturity date of the loan (including before the end of the covered period) if the borrower has used all the loan proceeds.

FTE reduction. To be eligible for full forgiveness, borrowers must not reduce FTE count during the covered period, but this requirement is subject to exceptions.

Safe harbors.

1. The borrower reduced its FTE employee levels between Feb. 15, 2020 and April 26, 2020 and the borrower then restored its FTE employee levels by Dec. 31, 2020⁵ to its FTE employee levels in the borrower's pay period that included Feb. 15, 2020; or
2. The borrower, in good faith, is able to document that business was unable to operate between Feb. 15, 2020 and the end of the covered period at the same level of business activity as before Feb. 15, 2020 due to guidance issued between March 1, 2020 and Dec. 31, 2020 by HHS, CDC or OSHA related to sanitation, social distancing and worker or customer safety requirements and standards related to COVID-19.

Additional FTE reduction exemptions. Borrowers are exempt from reduction in loan forgiveness based on reduction in FTE employees, if:

1. The borrower made a good-faith, written offer to rehire an individual who was an employee on Feb. 15, 2020 and the borrower was unable to hire similarly qualified employees for unfilled positions on or before Dec. 31, 2020;
2. The borrower made a good-faith, written offer to restore any reduction in hours (at the same salary/wages) during the covered period and the employee rejected the offer;⁶ or

⁵ Or not later than the last day of the loan's covered period for loans made on or after Dec. 27, 2020.

⁶ The borrower must maintain records documenting the offer and its rejection.

3. Employees who during the covered period or the alternative payroll covered period
 - a. Were fired for cause;
 - b. Voluntarily resigned; or
 - c. Voluntarily requested and received a reduction of their hours.

Salary/Wage Reduction. Generally, a reduction in an employee's salary or wages in excess of 25% will result in a reduction in loan forgiveness. The reduction calculation is on a per employee basis, not in the aggregate. *See loan forgiveness IFR for an example and page 4 of Form 3508 for instructions on calculating salary/wage reduction.*

Loans of \$150,000 or less. An eligible borrower that received a loan of \$150,000 or less shall not, at the time of its application for loan forgiveness, be required to submit any application or documentation in addition to the certification, but must retain records that prove compliance with PPP requirements (4 years for employment records and 3 years for all other records). SBA retains its right to review and audit these loans. SBA released an abbreviated loan forgiveness [application](#) for loans under \$150,000 (Form 3508S).

Deferment. Lenders must provide complete payment deferment relief for impacted borrowers with covered loans. The deferral period ends on the date that is 10 months after the last day of the borrower's covered period. Therefore, borrowers must apply for forgiveness within 10 months after the last day of the borrower's covered period.

Deductibility. Despite previous guidance from the IRS stating the opposite, the Economic Aid Act states that forgiven PPP loans are [tax deductible](#).⁷

SBA is [discontinuing use of the Loan Necessity Questionnaire](#)

Loan Necessity Questionnaire. Borrowers who received loans of \$2 million or more must complete a Loan Necessity Questionnaire (SBA Form [3509](#) or [3510](#)). Form 3509 is for for-profit borrowers and Form 3510 is for non-profit borrowers. SBA claims that the information contained in the questionnaire will help SBA assess borrowers' certification in their loan application that "current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant" as required by the CARES Act. SBA will provide questionnaires to lenders, who are responsible for providing the forms

⁷ **OLD IRS policy:** Before the Economic Aid Act, IRS's official position was that PPP loans that are forgiven are not deductible. Guidance released in November 2020 from IRS further [clarifies](#) that if a borrower has a "reasonable expectation of reimbursement," the deduction is inappropriate. Meaning, borrowers cannot deduct PPP expenses paid if they reasonably believe the loan will be forgiven. IRS also provides a [safe harbor](#) which allows taxpayers to claim a deduction in 2020 if: (1) eligible PPP expenses were paid or incurred during the 2020 taxable year, (2) the borrower submitted an application to the lender by the end of the 2020 taxable year or as of the end of 2020 intends to submit an application in a subsequent taxable year, and (3) the lender notifies the borrower that total or partial forgiveness of the covered loan is denied. The safe harbor also applies to borrowers who decide not to seek forgiveness for some or all of the covered loan. The amount of deduction is limited to the principal amount of the borrower's covered loan for which forgiveness was denied or will no longer be sought.

to borrowers. Upon request from their lender, borrowers should return the completed questionnaire to their lender within 10 business days of receipt. Once a borrower submits the completed questionnaire, SBA may request additional information to complete its review and borrowers will have an opportunity to provide a narrative response to explain the circumstances that provided the basis for their good-faith loan necessity certification. For more information, see [#53](#) in SBA's FAQs.

Overlap with EIDL. The Economic Aid Act repealed the CARES Act provision requiring SBA to deduct EIDL Advance Amounts received by borrowers from the forgiveness payment amounts remitted by SBA to the lender. Any EIDL Advance Amounts previously deducted from a borrower's forgiveness will be remitted to the lender, together with interest to the remittance date.

Second Draw PPP Loans. The Economic Aid Act created a Second Draw PPP Loan that gives borrowers the ability to receive a second PPP loan if they meet certain criteria. The Second Draw PPP Loan application can be found [here](#).

- **Eligibility:** Borrowers must have (1) previously received a First Draw PPP loan; (2) have used, or will use, the full amount of its First Draw PPP Loan (including the amount of any increase on such First Draw PPP Loan) on or before the expected date on which the Second Draw PPP loan will be disbursed; (3) have 300 or fewer employees; and (4) have experienced a revenue deduction in 2020 relative to 2019.
 - *How to calculate revenue reduction:* The applicant must show that gross receipts during the first, second, third, and fourth quarter in 2020 demonstrate at least a 25% reduction from the applicant's gross receipts during the same quarter in 2019.⁸
 - *Definition of gross receipts:* Gross receipts include all revenue in whatever form received or accrued (in accordance with the entity's accounting method) from whatever source, including from the sales of products or services, interest, dividends, rents, royalties, fees, or commissions, reduced by returns and allowances. Generally, receipts are considered "total income" (or in the case of a sole proprietorship, independent contractor, or self-employed individual "gross income") plus "cost of goods sold," and excludes net capital gains or losses as these terms are defined and reported on IRS tax return forms. Gross receipts do not include the following: taxes collected for and remitted to a taxing authority if included in gross or total income (such as sales or other taxes collected from customers and excluding taxes levied on the concern or its employees); proceeds from transactions between a concern and its domestic or foreign affiliates; and amounts collected for another by a travel agent, real estate agent, advertising agent, conference management service provider, freight forwarder or customs broker. All other items, such as subcontractor costs, reimbursements for purchases a contractor makes at a customer's request, investment income, and employee-based costs such as payroll taxes, may not be excluded from gross receipts.⁹

⁸ For guidelines on how to calculate a reduction in revenue if the applicant was not in business during certain quarters in 2019 can be found on page 21 of the [interim final rule](#).

⁹ The Economic Aid Act did not include a definition of "gross receipts," so SBA is defining it to be consistent with the definition of receipts in [13 C.F.R. 121.104](#).

The amount of any forgiven First Draw PPP Loan shall not be included toward any borrower's gross receipts.

- Payroll cost calculation: The maximum amount of a Second Draw PPP Loan is calculated as the lesser of \$2 million or multiplying the average total monthly payment for payroll costs incurred or paid during 2019 or 2020 by 2.5.¹⁰
- Application and documentation requirements: Applicants must submit to lender SBA Form 2483-SD (Paycheck Protection Second Draw Borrower Application Form) or the lender's equivalent form. Applicants do not need to submit the following documentation if the applicant used CY 2019 figures to determine both its First Draw PPP Loan amount and its Second Draw PPP Loan amount, and the lender is the same for both the First and Second Draw PPP Loans: Applicant's Form 941 (or other tax forms containing similar information), state quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or 2020 (whichever was used to calculate payroll), and evidence of any retirement and employee group health, life, disability, vision and dental insurance contributions. If applicant is self-employed, see [interim final rule](#) for relevant documentation. For loans with a principal amount greater than \$150,000, the applicant must submit documentation to establish that the applicant experienced a reduction in revenue at the time of the application. For loans with a principal amount of \$150,000 or less, the applicant must submit documentation to establish a reduction in revenue on or before the date the borrower submits an application for forgiveness or at SBA's request.
- Loan forgiveness: Second Draw PPP Loans are eligible for loan forgiveness on the same terms and conditions as First Draw PPP Loans, except that Second Draw PPP Loan borrowers with a principal amount of \$150,000 or less are required to provide documentation of revenue reduction if such documentation was not provided at the time of the loan application.

SBA PPP loan level data can be found [here](#).

SBA PPP loan forgiveness FAQ can be found [here](#).

On Feb. 22, 2021, SBA [announced](#) several modifications to the PPP, including:

- Instituting a 14-day period where only businesses with fewer than 20 employees can apply for a PPP loan;
- Revising the funding formula for sole proprietors, independent contractors, and self-employed individuals so they can receive more financial support;
- Eliminating a previous restriction that would prevent small business owners from obtaining a PPP loan if that business owner had a prior non-fraud felony in the previous year (unless the applicant is incarcerated at the time of the application);
- Eliminating a previous restriction that would prevent small business owners from obtaining a PPP loan if the business owner was delinquent on their federal student loans; and
- Ensuring access for non-citizen small business owners who are lawful residents of the U.S. by clarifying they may use Individual Taxpayer Identification Numbers (ITINs) to apply for relief.

The White House's fact sheet on these modifications can be found [here](#).

¹⁰ For how to calculate the maximum loan amount for seasonal employers, see page 28 of the [interim final rule](#).

Note: This resource is intended as a high-level guide to the PPP. For more information, the regulations mentioned in this resource are linked throughout. MGMA recommends speaking with legal counsel and/or tax professionals with further questions regarding how this program relates to your medical practice.