



Paycheck Protection Program (PPP) Resource

-Last updated August 25, 2020-

****As of August 8, 2020, SBA is no longer accepting PPP applications****

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.

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.

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 covered period cannot extend past Dec. 31, 2020. Borrowers still must submit their applications to an approved lender by August 8, 2020.¹ 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 PPP loan.

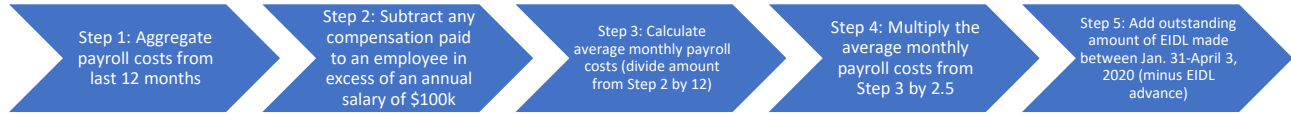
How and Where to Apply for Loan. Starting April 3, 2020, businesses seeking PPP loans could apply through an SBA approved lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating. Applicants must submit the Paycheck Protection Program Application [Form](#) (revised June 12, 2020) 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.”

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. If the borrower was not in business during Feb. 15 through June 30, 2019, then multiply the average total monthly payroll costs incurred during Jan. 1 through Feb. 29, 2020 by 2.5. The calculation is slightly different for employers of seasonal employees. The maximum loan amount is capped at \$10

¹ Congress passed S. 4116 which extended the application period from June 30 to August 8.

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, 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); and interest on any other debt obligations that were incurred before the covered period. 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:** 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 coverage, 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. 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 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;² 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.

² 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.

Loan Forgiveness Details.

- “Alternative payroll covered period.” Borrowers with a biweekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs during the 8-week or 24-week period that begin on the first day of the first pay period following their PPP loan disbursement date. The alternative payroll covered period does not apply to nonpayroll costs.
- 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.
- 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, 2020 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;³ or
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.

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.

Overlap with EIDL. If you received an SBA EIDL loan from Jan. 31, 2020 through April 3, 2020, you can apply for a PPP loan. However, a PPP loan must be used to refinance the full amount of the EIDL loan when: (1) the PPP borrower received funds from the EIDL loan from Jan. 31, 2020 through April 3, 2020 and (2) the PPP borrower used the EIDL loan funds to pay payroll costs. For purposes of forgiveness, proceeds from the EIDL advance (typically \$10,000) will be deducted from the PPP loan forgiveness amount. SBA released a [notice](#) on June 22, 2020 regarding the refinancing and lender remittance of EIDL loans.

³ The borrower must maintain records documenting the offer and its rejection.

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

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