

Paycheck Protection Program

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides financial relief to businesses and families that have been adversely affected by the coronavirus (COVID-19) pandemic. The centerpiece of the new economic stimulus plan for the business sector is the massive Paycheck Protection Program (PPP). This program — which kicked off on April 3 — provides a wide range of benefits for businesses on the front lines of the COVID-19 pandemic.

However, the PPP has experienced some glitches and confusion over how it will operate and what it covers. Here are answers to eight FAQs about this Small Business Administration (SBA) program.

1. What are the main benefits?

The CARES Act provides the framework for approving up to \$349 billion in loans to qualified businesses so they can continue to pay their employees during the COVID-19 crisis. The loans are forgivable under the program if certain requirements are met.

Specifically, loan proceeds must be used to cover the following expenses by employers affected by COVID-19:

- Payroll costs or employee benefits,
- Mortgage interest incurred before February 15, 2020,
- Rent and utilities under lease agreements in effect before February 15, 2020, and
- Utilities where services began before February 15, 2020.

At least 75% of the loan proceeds must be used to cover payroll costs. The rest is discretionary within the other categories.

2. What counts as a "payroll cost" for this purpose?

The SBA has indicated that payroll costs include the following:

- Salary, wages, commissions or tips of up to \$100,000 a year for each employee,
- Employee benefits, such as costs for vacation time, parental or family leaves, medical or sick leaves, allowances for separation or dismissal, payments required for the provisions of group health care benefits (including insurance premiums), and payment of retirement benefits, and
- State and local taxes assessed on compensation.

For self-employed individuals and independent contractors, payroll costs may include wages, commissions, income or net self-employment earnings of up to \$100,000 per employee.

3. What businesses are eligible to participate?

The benefits of the PPP are generally available to organizations — including small businesses, not-for-profit organizations, certain tribal business concerns and veteran groups — with fewer than 500 employees. (There are exceptions for businesses with more than 500 employees in certain industries.) Self-employed individuals, independent contractors and sole proprietors can also get in on the action. To be eligible, an organization must have been in existence as of February 15, 2020.

4. How do you apply for a loan?

The program officially launched for small businesses and sole proprietors on April 3, but some lenders were still putting the mechanics in place on that date. Loans for self-employed individuals and independent contractors start on April 10.

According to an SBA fact sheet, you can apply through any existing SBA lender or any federally insured depository institution or federally-insured credit union, as well as participating Farm Credit System institutions. Other regulated lenders may provide loans after they've been approved and have enrolled in the program. (However, some businesses have complained that banks won't take an application from them unless they have a preexisting lending relationship.)

Visit the SBA website for the application form. Once you've collected all the information required on the form, contact an approved lender to start the application process. At last count, the SBA had established a network of more than 1,800 approved lenders.

The loan application process for the PPP is designed to be easy and user-friendly. Eligible borrowers are supposed to receive approval on the same day that they apply for a loan. "Speed is the operative word ... with lenders using their own systems and processes to make these loans. We remain committed to supporting our nation's more than 30 million small businesses and their employees, so that they can continue to be the fuel for our nation's economic engine," said SBA Administrator Jovita Carranza.

5. Do you have to prove that losses are related to COVID-19?

The SBA says that loans under the program are available to any eligible business for which current economic uncertainty makes the loan necessary to support ongoing operations. After you submit an application, your lender will determine the need for your business based on the prevailing SBA guidelines.

Currently, there's no provision for separate SBA reviews, but the rules in this area are still evolving. Keep an eye out for new developments that may affect your business.

6. What's the loan limit?

The limit on loan proceeds from the PPP depends on the needs of your business. Generally, loans can be for up to two months of your average monthly payroll costs in 2019, plus an extra 25% of that amount to cover other operating expenses. However, there's a \$10 million cap on the total. If you operate a seasonal or new business, you're required to use a different applicable time period for your calculation. Payroll costs are capped at \$100,000 per year per employee.

7. How are loans forgiven?

According to the SBA, your business will owe money when your loan is due if you use the proceeds for purposes other than the specified costs during the eight-week period after you've received the loan proceeds. Due to the high demand, it's expected that no more than 25% of the forgiven amount may be for nonpayroll costs.

Furthermore, your loan forgiveness will be reduced if you decrease salaries and wages by more than 25% for any employee that earned less than \$100,000 in 2019 on an annualized basis. Your business has until June 30, 2020, to restore its full-time employment and salary levels for any changes made between February 15, 2020, and April 26, 2020.

To request loan forgiveness, you must submit a request to the lender servicing the loan. The request should include documents verifying the number of full-time equivalent employees and pay rates, as well as the payments on eligible mortgage, lease and utility obligations. In addition, you must certify that the documents are accurate and that you used the forgiveness amount to retain employees and make qualified payments. The lender is required to make a decision on the forgiveness request within 60 days.

8. What's required for certification?

As part of your loan application, you'll need to certify, in good faith, the following points:

- The current economic uncertainty makes the loan necessary to support your ongoing operations.
- The funds will be used to retain workers and maintain payroll or to make mortgage, lease and utility payments.
- You haven't received, nor will you receive, another loan under this program.
- You'll provide to the lender documentation verifying the number of full-time equivalent employees on payroll and the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments and covered utilities for the eight weeks after getting the loan.
- All the information you provided in your application and in all supporting documents and forms is true and accurate. Knowingly making a false statement to get a loan under this program is punishable by law.

You also must acknowledge that the lender will calculate the eligible loan amount using the tax documents you submitted. And you must allow your lender to share your organization's tax information with SBA-authorized representatives, including authorized representatives of the SBA Office of Inspector General, when appropriate.

Additional Questions

These questions cover just the basics. The SBA and other federal agencies continue to provide details. But it's important to realize that this is a limited-time opportunity. The program ends on June 30, 2020, or when the program has given out the \$349 billion in funds allocated to it under the CARES Act. So, contact your financial and business advisors as soon as possible to maximize your benefits.

Another Relief Option for Small Businesses

The PPPP isn't the only relief for small businesses provided by the CARES Act. Among other provisions, the new law also expands the SBA Express Bridge Loan program.

This program was created in 2017 to help businesses in federally designated areas expedite SBA loans of up to \$25,000. This option has now been extended to small businesses affected by the coronavirus (COVID-19) outbreak.

An Express Bridge Loan may be obtained through any qualified SBA Express lender that has a relationship with the business seeking the loan. If your business qualifies, you may get your hands on the money within 45 days of the application date.

For more information about the SBA Express Bridge Loan program and other SBA resources relating to the COVID-19 outbreak, visit the SBA website or contact your financial advisor.

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