

# COVID-19 Business Assistance Series

6<sup>th</sup> Episode

## [WEBCAST] Update to Paycheck Protection Loan Program (PPP) – the 3 part

Dec 27, 2020 Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the Economic Aid Act)

**Presenters:**

Frank De Rego | Director of Business Development Projects, MEDB  
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# Mahalo to our Presenters!



**Frank De Rego Jr.**

Director of Business Development Projects  
Maui Economic Development Board (MEDB)



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Director  
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# Agenda

- 1) PPP Update Highlights and Background
- 2) Eligibility and How to Apply
- 3) Calculating Monthly Payroll
- 4) Use of Funds
- 5) Forgiveness
- 6) Changes in EIDL program's Advance
- 7) Q&A



# 3rd Round Paycheck Protection Program

## Key Updates:

- Congress/Trump re-authorized another \$284B in **PPP forgivable loans until 3/31/21.**
- Covered period can be any length **between 8 and 24 weeks** to best meet business needs;
- **Allows additional expenses:** operations expenditures, property damage costs, supplier costs, and worker protection expenditures;
- **Eligibility expanded** to include: 501(c)(6)s, housing cooperatives, direct marketing organizations, among other types of organizations;
- Greater **flexibility for seasonal employees;**
- Certain **existing PPP borrowers now eligible** to apply for a Second Draw PPP Loan.
- Clarifies that forgiven PPP, for tax purposes is not taxable gross income. Also, any otherwise deductible expenses paid with the proceeds of a forgiven PPP funds remain deductible.

# SBA PPP Background

- \$284B in PPP forgivable loans
- PPP specifically designed to provide job retention (payroll costs) and some limited other expenses.
- Loans intended to cover 8 to 24 weeks payroll
- Program Application:
  - First Draw PPP is open 1/19/21 - 3/31/2021
  - Second Draw PPP is available 1/19/2021 – 3/31/2021
- Limited other operating expenses:
  - mortgage interest,
  - rent and
  - utility costs
- and new for 2021 includes:
  - operations expenditures,
  - property damage costs due to public disturbance,
  - supplier costs, and
  - worker protection expenditures.

# SBA PPP First Draw 2021

- Forgivable Loan to small businesses (per SBA definition)
- Loan Amount “based on payroll costs incurred during the 1-year period before the date of the loan...” is equal to 2.5 x average monthly payroll costs (3 calc methods):
  - 2019 payroll costs divided by 12, or
  - 2020 payroll costs divided by 12, or
  - month’s payroll costs precisely 1-year before the date on which the loan is madeMaximum of \$2 million (*dropped from \$10M*).
- Interest 1%, non-compounding, non-adjustable
- Five-year payback on unforgiven amounts
- First payment deferred until forgiveness determination (which is due NLT 10 months at end of chosen covered period (interest accrues))
- No cost to apply. Loan thru SBA lenders/banks.

# SBA PPP Second Draw

A borrower is generally eligible for a Second Draw PPP Loan, maximum \$2M, if the borrower:

- Previously received a First Draw PPP Loan and will or has used the full amount only for authorized uses;
- Has no more than 300 employees;
- Demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020.
- Loan amount remains 2.5 times average monthly payroll costs in the one year prior to the loan, or calendar year 2019. Borrowers in accommodation and food services—e.g., hotels and restaurants NAICS 72—may receive loans of up to 3.5 times their average monthly payroll costs.



# SBA PPP Eligibility

- **Officially registered** small businesses operating legally under federal and state laws in operation as of Feb 15, 2020.
- Meets SBA **small business size criteria**
- Independent contractor, eligible self-employed individual, or sole proprietor, 501(c)(3) non-profit, eligible section 501(c)(6) organization, 501(c)(19) veterans, tribal business concern, a housing cooperative, eligible destination marketing organization, a news organization that is majority owned or controlled by a NAICS code 511110 or 5151.
- Different rules for NAICS 72 (accommodations and restaurants) and franchises.

# SBA PPP How Do I Apply?

SBA PPP Online **Form 2483** – First Draw Borrower Application (*Updated 1/8/21*):

<https://www.sba.gov/document/sba-form-2483-paycheck-protection-program-borrower-application-form>

SBA PPP Online **Form 2483-SD** – Second Draw Borrower Application (*Updated 1/8/21*):

<https://www.sba.gov/document/sba-form-2483-sd-ppp-second-draw-borrower-application-form>

Most Lenders require utilizing their own Online application web portal instead of the above paper forms- **Contact an approved SBA Lender for online application web address (Hawaii list provided...)**

# SBA PPP How to Apply cont.

Depending on your lender you'll need to provide some or all of the following **Documentation**:

- Tax Returns for 2019
- Payroll reports showing clearly monthly average payroll costs (one of the following):
  - IRS Form 941
  - IRS Form 1099 and/or Schedule C or F (Self-employed & Independent Contractor Only)
  - Payroll Provider Documentation
  - Payroll Schedule from CPA, Bookkeeper
- Legal Company formation documents, ownership
- Certification that all employees live within the United States
- Certification that COVID-19 has negatively impacted your business



U.S. Small Business Administration

# SBA Lenders Accepting PPP loan applications for Hawaii

*As of January 12, 2021 (subject to change)*

SBA Approved Lender	Existing Customers	New Customers	Requirement(s)
American Savings Bank	Yes	Yes	Borrower must have business checking account w/ASB
Bank of Hawaii	Yes	No	Existing Customers Priority
Central Pacific Bank	Yes	Yes	Borrower must have existing business checking account or open a new business checking account with CPB –Hawaii-based only
First Hawaiian Bank	Yes	No	Existing Customers Priority
Gather FCU	Yes	Yes	2nd Draws to members and non-members
Hawaii Central FCU	Yes	No	Membership required
Hawaii National Bank	Yes	No	Existing Customers Priority
HawaiiUSA FCU	Yes	No	2nd Draws to members only
Home Street Bank	Yes	No	2nd Draws to members only
Kauai Government Employees FCU	Yes	Yes	Only available to Kauai-based businesses, membership required
Territorial Savings Bank	Yes	No	
Fintech Company: QuickBooks Capital	Pending	Pending	PPP portal being updated. Elig customers will be notified
Fintech Company: Kabbage via KServicing	Yes	No	PPP portal being updated
Fintech Companies: PayPal, SquareUp, Fundera	No	No	Information Unknown

**Hawaii Approved Lender List per SBA website (not confirmed as PPP lender participant)**  
<https://www.sba.gov/offices/district/hi/honolulu/resources/hawaii-lender-list>



# Applying: Calculating Eligible Monthly “Payroll Costs” - What to Include/Not Include

Eligible payroll expenses for calculating PPP loan amount include:

- Compensation (salary, wages, commission, or similar compensation, cash tips, etc.)
- Payment for vacation, family, medical, and sick leave (that’s not part of Family First Coronavirus Response Act)
- Allowance for employee dismissal or separation
- Payment for group health-care benefits, including insurance premiums
- Payment of employee retirement benefits
- Payment of state and local taxes imposed on the compensation of employees (Employers contribution, not withholding)

SOURCE: <https://taxfoundation.org/sba-paycheck-protection-program-cares-act/>

# Applying: Calculating Eligible Monthly “Payroll Costs” - What to Include/Not Include

Eligible payroll expenses for calculating PPP loan amount include:

- Compensation (salary, wages, commission, or similar compensation, cash tips, etc.)
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- Allowance for employee dismissal or separation
- Payment for group health-care benefits, including insurance premiums
- Payment of employee retirement benefits
- Payment of state and local taxes imposed on the compensation of employees (Employers contribution, not withholding)

PPP does **NOT** allow the following expenses when calculating ‘Payroll Costs’:

- Any compensation over \$100,000 per employee
- Taxes imposed under chapters 21 (payroll taxes), 22 (railroad taxes and retirement benefits), and 24 (income taxes withheld on wages) of the Internal Revenue Code (IRC)
- Compensation of employees whose principal place of residence is outside the United States
- Qualified sick and family leave for which a credit is already allowed under other sections (i.e., 7001 and 7003) of the Family First Coronavirus Response Act
- Loans used for duplicate purposes of another SBA loan program already claimed by the applicant

SOURCE: <https://taxfoundation.org/sba-paycheck-protection-program-cares-act/>

# What PPP Loan Funds May Be Used For:

-within 8-24 week “covered period”

## 1) Payroll Costs (to retain employees) at least 60% of Loan:

- Employee Compensation (under \$100K annualized), group health benefits, insurance.
- Employer contribution for employee state and local taxes.  
*(Workman’s Comp and TDI NOT eligible)*
- Forgiveness Application submitted to Bank/Lender who originated the loan and has forgiveness authority.

2)....

# What PPP Loan Funds May Be Used For:

-within 8-24 week “covered period” cont.

## 2) Select Operating Costs not to exceed 40% of Loan:

- Payments of interest on any mortgage obligations (*not including prepayment fees or payment of principal on the mortgage itself*)
- Rent (*including rents under a lease agreement*)
- Utilities
- Operations expenditures: business software or cloud computing service that facilitates business operations, product or service delivery, the processing, payment, or tracking of payroll expenses, human resources, sales and billing functions, or accounting or tracking of supplies, inventory, records, and expenses.
- Supplier costs on existing contracts and purchase orders for goods that are essential to the borrower’s operations, including the cost for perishable goods
- Worker protection expenditures: protective equipment (PPE) and facilities adaptive costs for physical barriers to maintain sanitation and social distancing standards.
- Costs related to property damage and vandalism tied to public disturbances during 2020, which were not covered by insurance or other compensation.



# SBA PPP Forgiveness

- Loan forgiveness can be applied for (at originating lender) when all proceeds have been used for payroll costs and other allowed expenses in the 8-24 week covered period.
- And, Employee headcount is maintained. If FTE decreases, or payroll decreases 25% or more, it may impact forgiveness.
- Must use 60% or more towards payroll.
- Forgiveness Application at Bank/Lender who originated the loan and has forgiveness authority.
- Simplified forgiveness process for small loans \$150,000 or less just requires one-page online or paper form to their lender. Loans between \$150,001 and \$2 million will also have simplified documentation requirements.

SBA Economic Injury Disaster  
Loan (EIDL) Advance  
(Economic Aid Act)

# EIDL Advance (GRANT) Update

- \$20B added to EIDL Advance (grant) program, applications accepted through December'21.
- For Business owners who have not already gotten full \$10,000 in EIDL Advance:
  - Are located in a low-income community,
  - Have suffered an economic loss of greater than 30 percent and
  - Employ less than 301 employees
- For working capital. Normal operating expenses (i.e. continuation of health care benefits, rent, utilities, and fixed debt payments)
- Repeals the EIDL advance deduction from PPP loan Forgiveness
- Makes the EIDL grants non-taxable and the expenses paid with such funds tax deductible.

<https://www.sba.gov/funding-programs/disaster-assistance>

# SBA PPP vs EIDL

## Can I have both a PPP and EIDL Loan?

- Yes, they are different programs; BOTH Loan products can be applied for. You must meet the respective eligibility requirements
- PPP may ask if you also have an EIDL. Previously EIDL Advance reduced what is awarded to you, but that was deleted by Economic Aid Act.
- Conceptually when utilizing respective funds, there is no “double dipping” of using two separate sources to pay the same bill (important to document where every dollar of any Loan taken is spent.

# SBA PPP Economic Aid Act

## Final Thoughts

- Apply NOW!
- Consider in advance how you will comply
- Make sure the right people participate (20% ownership)
- Talk to your lender

### Useful Links:

SBA PPP Website:

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

SBA EIDL Website:

<https://www.sba.gov/funding-programs/disaster-assistance>

# Q&A

Please use the Q&A tab to ask a question. Upvote questions you already see.

# CONTACTS

For questions, assistance or virtual appointments, email us at:



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MAHALO!