

Paycheck Protection Program

Year Round Business Operations



* This document reflects PPP changes through June 26, 2020.

Extended Deadline to Apply: August 8, 2020.

Key Changes in the Paycheck Protection Program Flexibility Act of 2020:

- Employers may now spend 60 percent of loan on payroll to qualify for forgiveness (reduced from previous 75 percent requirement).
- Employers now have additional time to spend the money and still qualify for loan forgiveness.
- Loan repayment period is extended to five years for loans made after June 5, 2020 – applies if loan is not forgiven.
 - Loans received prior to June 5, 2020 may request the five-year extension from their lender.
- Vessel owners can include 1099 payments to crewmembers as part of payroll calculation under new rule June 25, 2020.

Qualifying for Loan Forgiveness under the Revised Program:

- All loan funds must be used for a qualifying expense, including payroll costs, mortgage interest, rent and utilities.
- 60 percent of loan must be used to cover payroll, 40 percent for other qualifying expenses.
- Funds must be spent within 24 weeks (expanded from original 8-week period).
 - The 24-week period begins on the day the loan funds are disbursed.
 - PPP loans received before June 5, 2020 may choose to use the new 24-week time period if they wish (instead of original 8 weeks).
- The full amount of the loan, plus accrued interest, is eligible for loan forgiveness but actual forgiveness will depend on the following factors.

Payroll Provisions of Loan Forgiveness:

- Payroll costs include salary, wages and tips up to \$100,000/year per employee (this includes bonuses and hazard pay).
 - For 8-week period: Max of \$15,385 per employee
 - For 24-week period: Max of \$46,154 per employee
- Payroll costs also includes covered benefits for employees during this time.
 - Includes health care expenses, retirement contributions and state taxes on employee payroll that is paid by the employer (includes unemployment insurance premiums)
- Fishing Boat Owners may include payments made to crewmembers as IRS Form 1099-MISC up to \$100,000/year per crewmember (per new rule 6.25.2020).
 - Unless the crewmember received his own PPP loan and is seeking forgiveness of the loan based on compensation from this Fishing Boat Owner
 - In other words, two people cannot claim the same money for loan forgiveness.

Rule: <https://home.treasury.gov/system/files/136/PPP--IFR--Certain-Eligible-Payroll-Costs.pdf>

- Owner-Employee (IRS Schedule C) salary compensation is limited to a percentage of 2019 net profits.
 - For 8-week period: 8/52s of 2019 profit, Max of \$15,385
 - For 24-week period: 2.5 months of 2019 profit, Max of \$20,833
 - Applies to 1099 Self-Employed Owner-Employees, including crewmembers receiving a PPP loan
 - Includes S Corporation and C Corporation Owner-Employees
 - C Corporation Owner-Employees may include retirement and health insurance contributions.
 - S Corporation Owner-Employees may not include employer health insurance contributions.

Non-Payroll Provisions Eligible for Loan Forgiveness:

- All expenses must be expenses the business had before February 15, 2020 and qualify for business tax deduction on Form 1040 Schedule C.
 - Mortgage interest – but not principle
 - Rent payments for the business
 - Utility payments for the business

Maintaining Employees for PPP Loan Forgiveness:

- Salary reductions
 - No employee making less than \$100,000 can have their salary cut more than 25 percent.
 - If the reduction is greater than 25 percent but is restored to original salary by December 31, 2020 then the reduction will not decrease the PPP loan forgiveness amount.
 - If the reduction is greater than 25 percent and is not restored by December 31, 2020, then the PPP loan forgiveness amount will be proportionally reduced.
- Full Time Employee (FTE) reductions (40 hours = 1 FTE)
 - If an employer has to reduce its FTEs, the employer may restore FTE by December 31, 2020 without reducing their PPP loan forgiveness amount.
 - If an employer does not restore the FTEs by December 31, 2020, then the loan forgiveness will be proportionally reduced.

FTE Reduction Exceptions: Owner/Employers will not be penalized for reductions in FTEs if any of the following conditions apply.

- The employer has made a good-faith, written offer to rehire an individual who was an employee on February 15, 2020 and the employer is unable to hire similarly qualified employees for unfilled positions before December 31, 2020.
- The employer has made a good-faith, written offer to restore any reduction in hours at the same salary or wages, and the employee rejected the offer.
- Employees who are fired for cause, voluntarily resign or voluntarily request a reduction in hours will not reduce the amount of loan forgiveness for the Owner/Employer.
- The employer, in good faith, is able to document that it was unable to operate between February 15, 2020 and the end of the loan period at the same level of business activity due to compliance with COVID-19 restrictions related to sanitation, social distancing or any other worker or customer safety requirement.

When to Apply for Loan Forgiveness:

- Employers can apply for loan forgiveness following the end of their covered period.
- The “covered period” is the time period elected by the employer, which is used to calculate the percentage of covered “uses” of the loan, either 8 or 24 weeks from disbursement.