Questions and Answers to Your Paycheck Protection Program (PPP) FAQs

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Key insights

- The Paycheck Protection Program is designed to bring relief to eligible organizations/individuals affected by the coronavirus pandemic.
- The PPP is a loan through the SBA designed to provide a direct incentive for small business to keep themselves/their workers on the payroll.
- SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for covered expenses (payroll, rent, mortgage interest, or utilities.
- “Forgiven loan” means the loan will become a tax-free grant
- Each individual and business circumstances are different and benefits under enhanced unemployment benefit should be weighed against the benefits of the PPP program
- Guidance continues to be released.
- Read through these frequently asked questions for more information.

As organizations, sole proprietors, independent contractors and self - employed individuals start digging into the details of the Paycheck Protection Program (PPP), many are finding they have more questions than answers. The Department of the Treasury and the Small Business Administration (SBA) recently released additional guidance. We’ve sifted through their updates to help bring clarity around the details. There continues to be guidance issued.

1. What size business qualifies for the PPP loan?

The following entities may all be eligible for the PPP loan: businesses, sole proprietors, independent contractors, self-employed individuals, 501(c)(3) nonprofits, 501(c)(19) veterans’ organizations, and 31(b)(2)(C) Tribal business concerns. General eligibility is based on not exceeding any of the following:

- 500 employees, or
- The employee thresholds set by industry in the SBA size standards, or
- The SBA’s “alternative size standard” as of March 27, 2020:

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1. Maximum tangible net worth of the business is not more than $15 million, and
2. The average net income of the business, after federal income taxes (excluding any carry-over losses), for two full fiscal years before the date of the application is not more than $5 million.

2. Is the PPP available to independent contractors and self-employed individuals?

Yes. The PPP is an SBA loan, and became available Friday April 10, to independent contractors, and self-employed individuals. This was the first day independent contractors and self-employed individuals could apply for the loans under the Paycheck Protection Program, but they've had to do it without guidance that had been expected from the Treasury Department.

To qualify for the loan, you must have been in operation on February 15, 2020, and you must have been harmed by COVID -19 pandemic.

This includes:

Sole proprietors who report income and pay taxes on a Schedule C in your personal tax return.

Independent contractors who collect 1099-MISC forms.

Gig economy workers who take on-call jobs provided by companies such as Uber, Lyft, TaskRabbit, and Instacart.

3. How does an independent contractor apply for a PPP loan and determine loan amount?

- You can apply through any existing SBA 7(a) lender.
- Consult with your local financial institution/lender.
- It is important to apply through your existing banking/lending relationship.
- Independent contractors who file their tax returns using 1099 forms – should apply for the PPP using the same loan form that small business use and substitute their own income for the average monthly payroll.

- For 1099s and independent contractors, your payroll is your net earnings from self-employment,

- One issue still lacking clarity is ~~whether~~ how PPP loans received by 1099 workers ~~can~~ will be forgiven.

4. How should the proceeds be used?

- Replacement for your normal 1099-MISC or net self-employment income (capped at $100,000 on an annualized basis for each employee);
- Interest on mortgage obligations, incurred before February 15, 2020;
- Rent, under lease agreements in force before February 15, 2020; and
- Utilities, for which service began before February 15, 2020.

5. What is the maximum loan amount?

The maximum loan size is 2.5 times your average monthly 1099-MISC or net self-employment income for the past 12 months. That amount is subject to a $10 Million cap. If you are a seasonal or new business, you will use different application time periods for your calculation.

6. How long is the Program available?

The loan is available through June 30,2020.

7. Are independent contractors collecting unemployment benefits eligible for the PPP Loan?

It is important to note that you cannot receive both Unemployment benefits and a PPP loan at the same time. You should consider the benefits of each program to determine which is the best fit for you.

8. What are the current provisions of unemployment benefits that I should consider in evaluation of the stimulus benefits that are right for me?

The coronavirus CARES Act introduced three main changes to how unemployment benefits work.

1. Additional $600 a week

The first is an additional $600 to the weekly benefit amount an eligible (laid off) employee would otherwise receive. An employee who's eligible for NY state maximum in unemployment benefits ($504) would therefore be receiving $1,104 total, if they were to be laid off.

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Referred to as the Federal Pandemic Unemployment Compensation (FPUC) provision, this will be available for all weeks of unemployment between April 5, 2020 and July 31, 2020 and will be paid out for any week where the individual receives unemployment benefits.

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2. Additional 13 weeks of unemployment benefits

The second is an increase to the maximum number of weeks an individual is eligible to receive benefits. As part of the Pandemic Unemployment Emergency Compensation (PUEC) provision, an additional 13 weeks of unemployment benefits are available extending what is typically capped at 26 weeks to 39 weeks. These additional weeks will also include the additional $600 as outlined in the FPUC provision so long as they are before July 31, 2020.

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3. Unemployment benefits for self-employed individuals and independent contractors

The third change is the Pandemic Unemployment Assistance (PUA) provision which expands the program to apply to workers who would otherwise not qualify for unemployment benefits. Now, self-employed individuals and independent contractors are eligible for unemployment benefits if they find themselves unemployed, partially unemployed, or unable to work due to COVID-19.

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Since these programs are state run, it's best to reference your state's Department of Labor guidelines to estimate the full amount of unemployment benefits you would be eligible for.

Self-employed individuals also qualify for the $600 weekly unemployment benefit under the Pandemic Unemployment Emergency Compensation provision.

Key insights

- Each individual and business circumstances are different and benefits under enhanced unemployment benefit should be weighed against the benefits of the PPP program.

11. Can I apply for other assistance?

SBA Disaster Loan

There is a second important coronavirus-related business loan: the SBA Disaster Loan (or the Economic Injury Disaster Loan—EIDL). The qualifications for the EIDL are based on ~~your sales revenue, cost of goods sold, and~~ your being financially affected by the COVID-19 pandemic.

Unlike the PPP, the EIDL doesn't have any payroll-related conditions or restrictions. However, these loans cannot be forgiven and may require personal guarantees depending on the loan amount.

9. What is the potential forgiveness amount of the PPP?

The PPP loan forgiveness is based upon the eight-week period beginning with the origination of the loan. The sum of the following enters the forgiveness computation: payroll costs ~~(described above)~~, including group health care benefits and retirement benefits, mortgage interest payments, rent, and utility

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payments. The mortgage, rent agreements, and utility agreements must have been in place before February 15, 2020.

After computing that total, there may be reductions for non-payroll costs and for items mentioned in question 15. Non-payroll costs are limited to 25% of the forgiveness amount.

10. How is the reduction in the loan forgiveness determined?

The maximum forgiveness of the loan is reduced based upon employee retention and average pay.

The maximum loan forgiveness amount is multiplied by a fraction that measures employee retention based on the average number of full-time equivalent employees (FTEs). The borrower chooses which fraction to use. The numerator of both fractions is the average number of FTEs employed during the eight-week period. The denominator is either:

1. The monthly average FTEs for February 15, 2019, through June 30, 2019; or
2. The monthly average FTEs for January 1, 2020, through February 29, 2020.

In addition, the maximum loan forgiveness amount is further decreased if any employee's pay has declined by more than 25% during the eight-week period, relative to the most recent completed quarter (this should be the first quarter of 2020). Employees who earned an annualized pay of more than $100,000 during any single 2019 pay period are excluded from this computation.

In the event you had a reduction of employees during the period from February 15, 2020, through April 26, 2020, as long as you rehire those employees no later than June 30, 2020, the FTE calculation for the number in the fraction will treat those rehired employees as if they were included in the FTE for the entire 8-week period. Please note that while a delayed rehire date won't cause issues with the employee retention fraction, it may cause you to spend less than the required 75% threshold on payroll costs, and therefore would result in a reduction in the amount of loan forgiven.

Both the average reduction in FTE and reduction in pay must be restored to eliminate the reduction in loan forgiveness.

Most guidance from the SBA and U.S. Department of the Treasury has been related to matters associated with loan sizing thus far, **and we expect significant guidance on the forgiveness calculations will be forthcoming.**

11. What is the interest rate on the PPP loan?

SBA has set the rate at 1.00%.

12. What is the maturity date of the PPP loan?

The maturity date is two years from date of funding. No payments are due for the first six months; interest will accrue from the date of loan funding.