



PPP2 - FOR THOSE THAT MISSED IT THE FIRST TIME

WORKSHOP



PRESENTED BY: TOM TANNER

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DISCLAIMER

The information provided in this workshop is based on documents available as of January 7, 2021. We have made our best efforts to properly interpret the information. The SBA and other government entities may modify, change or delete any or all of the procedures. You should always consult your accountant or attorney if you have any questions, or before you submit any application or select to participate in any program.



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HR-133: COVID Relief Bill

Key Points for Small Businesses

- Additional Funding of \$284 Billion of PPP
- Additional program for Shuttered Venues
- Increase in allowance in PPP funds for restaurants, motels, RV parks, Food Trucks, Caterers and B&B
- Employee Retention Credits available for PPP recipients (not self-employed)
- Payroll tax deferment is extended until December 31, 2021
- FFCRA (credits for sick and family leave) extended until December 31, 2021
- 100% Write-off of business meals for 2021 and 2022 if provided by a restaurant and is strictly used to meet with customers
- The EIDL advance is not counted against your PPP forgiveness
- Expenses incurred as part of the PPP is considered deductible.
- Income from the PPP program is not considered as income.



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PPP2-New Rules

Summary

CARES ACT –PPP	\$349 billion
Second Installment	\$310 billion
COVID Relief Act	<u>\$284 billion</u>
Total	\$943 billion

2019 U.S. Budget \$4.5 trillion

Amount not used \$130 billion



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PPP2-New Rules

What's New

- All expenses incurred as part of the PPP program will be deductible for federal tax purposes.
- Any income from the PPP program will NOT be included as income for federal tax purposes.
- No basis increase will be denied (S-Corps)



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PPP2-New Rules

I received the 1st PPP, am I eligible for the 2nd?

- Yes, as long as the money you received from the 1st one is spent by the time you take the distribution from the 2nd one and you still qualify under the new requirements.



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PPP2-New Rules

What are the new requirements?

- Must have been in business on February 15, 2020
- Business has no more than 300 employees
- Must have had a 25% or greater loss in revenue during any quarter of 2020 compared to the same quarter in 2019.
- Must meet the necessity requirement
- If non-profit must be 501(c)(3), 501(c)(19), or 501(c)(6).



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PPP2-New Rules

How is the 25% or greater revenue deduction determined?

- Take gross revenue (not including any money received from the 1st PPP program) and:
 - Compare 1st quarter 2019 vs 1st quarter 2020 or
 - Compare 2nd quarter 2019 vs 2nd quarter 2020 or
 - Compare 3rd quarter 2019 vs 3rd quarter 2020 or
 - Compare 4th quarter 2019 vs 4th quarter 2020



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PPP2-New Rules

What is the necessity requirement?

“Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”

Note: The SBA has stated it will not question the necessity certification for loans under \$2 million. However, the list of recipients will be made public.



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PPP2-New Rules

What is the deadline to apply?

- March 31, 2021 (of course funds may run out, unknown if more will be provided by congress)

Where do I apply?

- There is no requirement to apply at the same location you did for the original PPP.
- At this TT2 time it is unknown who will participate as a lender for this program.
- Check with your lender from your first loan.
- There will also be alternative online lenders (local banks will provide more personal service, so check there first)



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PPP2-New Rules

How is the amount of PPP loan determined?

- You have the option of using your payroll amounts from 2019, or the 12 months prior to the application of PPP. (sole props & partnerships are different)
- Add up all your payroll costs (covered on next slide). Any employee that had total payroll cost more than \$100,000, reduce their cost to \$100,000.
- Divide the total by 12 then multiple by 2.5 (except for NAICS codes 72)



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PPP2-New Rules

What is included in payroll costs?

- From your 941 forms- take line 5c, column 1
- Employer & Employee (pre-tax) contributions from
 - Health insurance
 - FSA, HAS, etc.
 - Disability, dental or vision insurance
 - Retirement contributions
 - Payments for state unemployment insurance

Not included:

- Employees located outside the U.S.
- Compensation of ANY employee over \$100,000 (lower to \$100,000)
- Employer's or Employee's FICA taxes
- Qualified sick and family leave wages which credit was received



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941 for 2019: Employer's QUARTERLY Federal Tax Return 950117
OMB No. 1545-0047

Form 941 (Rev. January 2019) Department of the Treasury Internal Revenue Service

Employer identification number (EIN)

Name (not your trade name)

Trade name (if any)

Address

City State ZIP code

Foreign country name Foreign postal code

Report for this Quarter of 2019
 (Check one)
☐ 1: January, February, March
☐ 2: April, May, June
☐ 3: July, August, September
☐ 4: October, November, December
 Go to www.irs.gov/Form941 for instructions and the latest information.

Read the separate instructions before you complete Form 941. Type or print within the boxes.

Part 1 Answer these questions for this quarter.

1 Number of employees who received wages, tips, or other compensation for the pay period including: Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), or Dec. 12 (Quarter 4) 1

2 Wages, tips, and other compensation 2

3 Federal income tax withheld from wages, tips, and other compensation 3

4 If no wages, tips, and other compensation are subject to social security or Medicare tax ☐ Check and go to line 6.

	Column 1	Column 2
5a Taxable social security wages $\times 0.124 =$	<input type="text"/>	<input type="text"/>
5b Taxable social security tips $\times 0.124 =$	<input type="text"/>	<input type="text"/>
5c Taxable Medicare wages & tips $\times 0.029 =$	<input type="text"/>	<input type="text"/>
5d Taxable wages & tips subject to Additional Medicare Tax withholding $\times 0.009 =$	<input type="text"/>	<input type="text"/>
5e Add Column 2 from lines 5a, 5b, 5c, and 5d	<input type="text"/>	<input type="text"/>
5f Section 3121(g) Notice and Demand—Tax due on unreported tips (see instructions)	<input type="text"/>	<input type="text"/>
6 Total taxes before adjustments. Add lines 3, 5e, and 5f	<input type="text"/>	<input type="text"/>
7 Current quarter's adjustment for fractions of cents	<input type="text"/>	<input type="text"/>
8 Current quarter's adjustment for sick pay	<input type="text"/>	<input type="text"/>
9 Current quarter's adjustments for tips and group-term life insurance	<input type="text"/>	<input type="text"/>
10 Total taxes after adjustments. Combine lines 6 through 9	<input type="text"/>	<input type="text"/>
11 Qualified small business payroll tax credit for increasing research activities. Attach Form 8974	<input type="text"/>	<input type="text"/>
12 Total taxes after adjustments and credits. Subtract line 11 from line 10	<input type="text"/>	<input type="text"/>
13 Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (SS), 941-X (SEP), or 941-X (SEP) filed in the current quarter	<input type="text"/>	<input type="text"/>
14 Balance due. If line 12 is more than line 13, enter the difference and see instructions	<input type="text"/>	<input type="text"/>
15 Overpayment. If line 13 is more than line 12, enter the difference	<input type="text"/>	<input type="text"/>

☐ You MUST complete both pages of Form 941 and SIGN it.
 For Privacy Act and Paperwork Reduction Act Notice, see the back of the Payment Voucher.

Cat. No. 170012 Form 941 (Rev. 1-2019)

VIRGINIA SBDC ROANOKE

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PPP2-New Rules

Additional funds for NAICS code 72:

- If you operate any of the following, instead of using a 2.5 multiplier, you are allowed to use a 3.5 multiplier.

Code 72 includes: All accommodations and food services.

Traveler accommodations, Hotels, Motels, B&B, RV parks, Recreation camps, boarding houses, caterers, mobile food services, restaurants, snack bars.



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PPP2-New Rules

How do I apply?

- Complete SBA application Form 2483-SD
- Provide copies of 4 quarters of 941 (or payroll processor records) for period you are using as basis (2019, 2020, prior 12 months)
- State unemployment reports for same periods
- Provide proof that you were paying employees on February 15, 2020
- Provide proof that your business has sustained at least a 25% decrease in revenue for any quarter.



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Paycheck Protection Program
Borrower Application Form Revised June 24, 2020

OMB Control No.: 3245-0487
Expiration Date: 12/31/2023

Check One: ☐ Sole proprietor ☐ Partnership ☐ C-Corp ☐ S-Corp ☐ LLC
☐ Independent contractor ☐ Eligible self-employed individual
☐ 501(c)(3) nonprofit ☐ 501(c)(19) veterans organization
☐ Tribal business (Sec. 31(b)(2)(C) of Small Business Act) ☐ Other

Business Legal Name _____ **DBA or Tradename if Applicable** _____

Business Address _____ **Business TIN (EIN, SSN)** _____ **Business Phone** _____

Primary Contact _____ **Email Address** _____

Average Monthly Payroll: \$ _____ **2.5 x EIDL, Net of Advance (if Applicable)** \$ _____ **Number of Employees:** _____

Purpose of the loan (select more than one): ☐ Payroll ☐ Lease / Mortgage Interest ☐ Utilities ☐ Other (specify): _____

Applicant Ownership
List all owners of 20% or more of the equity of the Applicant. Attach a separate sheet if necessary.

Owner Name	Title	Ownership %	TIN (EIN, SSN)	Address

If questions (1) or (2) below are answered "Yes," the loan will not be approved.

Question	Yes	No
1. Is the Applicant or any owner of the Applicant presently suspended, debarred, proposed for debarment, declared insolvent, voluntarily excluded from participation in this transaction by any Federal department or agency, or presently involved in any bankruptcy?	<input type="checkbox"/>	<input type="checkbox"/>
2. Has the Applicant, any owner of the Applicant, or any business owned or controlled by any of them, ever obtained a direct or guaranteed loan from SBA or any other Federal agency that is currently delinquent or has defaulted in the last 7 years and caused a loss to the government?	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the Applicant or any owner of the Applicant an owner of any other business, or have common management with any other business? If yes, list all such businesses and describe the relationship on a separate sheet identified as addendum A.	<input type="checkbox"/>	<input type="checkbox"/>
4. Has the Applicant received an SBA Economic Injury Disaster Loan between January 31, 2020 and April 3, 2020? If yes, provide details on a separate sheet identified as addendum B.	<input type="checkbox"/>	<input type="checkbox"/>

If questions (1) or (2) are answered "Yes," the loan will not be approved.

Question	Yes	No
5. Is the Applicant (if an individual) or any individual owning 20% or more of the equity of the Applicant previously incarcerated or, for any felony, presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction? Initial here to confirm your response to question 5: _____	<input type="checkbox"/>	<input type="checkbox"/>
6. Within the last 5 years, for any felony involving fraud, bribery, embezzlement, or a false statement in a loan application or an application for federal financial assistance, or within the last year, for any other felony, has the Applicant (if an individual) or any owner of the Applicant been convicted, 2) pleaded guilty, 3) pleaded nolo contendere, or 4) commenced any form of parole or probation (including probation before judgment)? Initial here to confirm your response to question 6: _____	<input type="checkbox"/>	<input type="checkbox"/>
7. Is the United States the principal place of residence for all employees of the Applicant included in the Applicant's payroll calculation above?	<input type="checkbox"/>	<input type="checkbox"/>
8. Is the Applicant a franchise that is listed in the SBA's Franchise Directory?	<input type="checkbox"/>	<input type="checkbox"/>



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Examples of Loan Amounts

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: \$1,500,000

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



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Examples of Loan Amounts

Example 3 – NAICS code 72

No employees make more than \$100,000

Annual payroll: \$120,000

Average monthly payroll: \$10,000

Multiply by 3.5 = \$35,000

Maximum loan amount is \$35,000



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PPP2-New Rules

For Sole proprietors or Independent Contractors (Self-Employed)

- You can use either your 2019 or 2020 1040 schedule C
- Look at line 31 (net profit)
- If this value is over \$100,000 then use \$100,000
- Take the value of line 31 divide by 12 multiple by 2.5 = PPP amount
- If you have employees, you use the same formula as others and add to you line 31 amount.

What do I need to submit to lender?

- The Schedule C that you used to figure the amount
- Bank statement that shows you were in business on February 15, 2020
- If you have employees need to provide the same documentations as others.



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PPP2-New Rules

For Farmers

- You can use either your 2019 or 2020 1040 schedule F
- Look at line 9 (gross income)
- If this value is over \$100,000 then use \$100,000.
- Take the value of line 9 divide by 12 multiple by 2.5 = PPP amount
- If you have employees, there is a much more complicated formula

What do I need to submit to lender?

- The Schedule F that you used to figure the amount
- Bank statement that shows you were in business on February 15, 2020
- If you have employees need to provide the same documentations as others.



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PPP2-New Rules

For Partnerships (**the partnership must submit the application, not partners**)

- Net earnings from **self-employment** of general partners.
- Use either 2019 or 2020 IRS Form 1065 K-1, **line 14** (not line 1)
- Subtract Section 179 claimed deductions, Line 12
- Subtract unreimbursed expenses claimed
- Multiply the above by .9235
- Take this total by partner (if over \$100,000 then use \$100,000)
- Take the total/12 x 2.5
- If you have employees use same as for other businesses

What do I need to submit to lender?

- Tax form 1065 with all K1s.
- Bank statement that shows you were in business on February 15, 2020
- If you have employees need to provide the same documentations as others.



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PPP2-New Rules

Special Rules for S-Corporations

- Only S-Corps with payroll qualify for PPP, if you only took distributions, you would not qualify for this program.
- For owners that are less than 2% ownership then health insurance expenses can be counted towards payroll expenses
- For owners that are 2% or more ownership, then health insurance expenses cannot be counted towards payroll expenses
- Company retirement contributions can be counted as payroll expenses for all owners. (some restrictions for 2% or more)



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PPP2-New Rules

How does a seasonal employer calculate PPP amount?

- Defines seasonal as a business that does not operate more than 7 months in a calendar year or
- During the preceding calendar year had gross receipts for any 6 months of that year that were not more than 33.33% of the gross receipts for the other 6 months.
- If seasonal employer as defined above, select any 12 week period beginning on February 15, 2019 and ending on February 15, 2020 as your period.



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PPP2-New Rules

What can I spend the PPP funds on?

- 60% must be spent on payroll expenses
- The other 40% can be spent in any of the following categories
 - Rent (lease signed prior to Feb 15, 2020)
 - Payments of interest on any mortgage or loans that were incurred prior to Feb 15, 2020
 - Utilities
 - Worker protections products, or leasehold improvements for protection of workers.
 - Software or cloud services that improve business operations
 - Covered supplier costs (anything that is necessary for operation of the business)



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PPP2-New Rules

Covered Operations Expenditures

covered operations expenditures (payments for any 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);⁷⁹



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PPP2-New Rules

Covered Worker Protection Expenditures

covered worker protection expenditures ((A) operating or a capital expenditures to facilitate the adaptation of the business activities of an entity to comply with requirements established or guidance issued by the Department of Health and Human Services, the Centers for Disease Control, or the Occupational Safety and Health Administration, or any equivalent requirements established or guidance issued by a State or local government, during the period beginning on March 1, 2020 and ending the date on which the national emergency with respect to the COVID-19 expires related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19; (B) such expenditures may include—(i) the purchase, maintenance, or renovation of assets that create or expand—(I) a drive-through window facility; (II) an indoor, outdoor, or combined air or air pressure ventilation or filtration system; (III) a physical barrier such as a sneeze guard; (IV) an expansion of 51

additional indoor, outdoor, or combined business space; (V) an onsite or offsite health screening capability; or (VI) other assets relating to the compliance with the requirements or guidance described in subparagraph (A), as determined by the Administrator in consultation with the Secretary of Health and Human Services and the Secretary of Labor; and (ii) the purchase of—(I) covered materials described in section 328.103(a) of title 44, Code of Federal Regulations, or any successor regulation; (II) particulate filtering facepiece respirators approved by the National Institute for Occupational Safety and Health, including those approved only for emergency use authorization; or (III) other kinds of personal protective equipment, as determined by the Administrator in consultation with the Secretary of Health and Human Services and the Secretary of Labor; and (C) such expenditures do not include residential real property or intangible property).



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PPP2-New Rules Covered Supplier Costs

covered supplier costs (expenditures made by a borrower to a supplier of goods for the supply of goods that—(A) are essential to the operations of the borrower at the time at which the expenditure is made; and (B) is made pursuant to a contract, order, or purchase order—(i) in effect at any time before the covered period with respect to the applicable covered loan; or (ii) with respect to perishable goods, in effect before or at any time during the covered period with respect to the applicable covered loan)



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PPP2-New Rules

How long do I have to spend the PPP funds?

- You can select either a 8 week or 24 week period beginning on the date of fund disbursement
- You can select any date that is between 8-24 week as the ending date.
- Date selection is important as there is still workforce reduction penalties



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PPP2-New Rules

How much of the loan can be forgiven?

- Up to 100% providing the funds are used as listed in previous slide
- That employee wages are not reduced by more than 25%
- That number of employees are not reduced between February 15, 2020 and during the covered period unless a safe harbor is selected
- Application is filed within the 10 months from the end of the covered period.



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Safe Harbor Rules for Employees

- Borrower made a good-faith, written offer to rehire an individual who was an employee on February 15, 2020 and the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020
- Any positions for which the Borrower made a good-faith, written offer to restore any reduction in hours, at the same salary or wages, during the Covered Period or the Alternative Covered Period and the employee rejected the offer
- Any 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.



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Safe Harbor Rules for Employees only one needed

- Borrower, in good faith, is able to document that it was unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.
- The Borrower is exempt from the reduction in loan forgiveness based on a reduction in FTE employees described above if both of the following conditions are met: (a) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and (b) the Borrower then restored its FTE employee levels by not later than December 31, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.



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PPP2-New Rules

How does the forgiveness process work?

- You must submit for forgiveness to your lender within 10 months after the end of the covered period. If not, you will have to start paying principal and interest on the entire amount.
 - The bank will have 60 days to send to the SBA
 - The SBA will have 90 days to provide answer
 - Loan term is 5 years at 1% for unforgiven amount.
- You have the option of using the following forms
 - 3508S – for loans less than \$50,000
 - 3508-EZ – if you did not reduce your employee's wages by more than 25% and did not reduce the number of employees during the covered period (still questions how this will work)
 - 3508- If you had reductions in wages or employees
 - New SBA form for loans less than \$150,000. Simplified form.



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Purchase of Business

Section 1102 of the CARES Act provides that PPP loans are available only to applicants that were “in operation on February 15, 2020.” Is a business that was in operation on February 15, 2020 but had a change in ownership after February 15, 2020 eligible for a PPP loan?

Answer: Yes. As long as the business was in operation on February 15, 2020, if it meets the other eligibility criteria, the business is eligible to apply for a PPP loan regardless of the change in ownership. In addition, where there is a change in ownership effectuated through a purchase of substantially all assets of a business that was in operation on February 15, the business acquiring the assets will be eligible to apply for a PPP loan even if the change in ownership results in the assignment of a new tax ID number and even if the acquiring business was not in operation until after February 15, 2020. If the acquiring business has maintained the operations of the pre-sale business, the acquiring business may rely on the historic payroll costs and headcount of the pre-sale business for the purposes of its PPP application, except where the pre-sale business had applied for and received a PPP loan. The Administrator, in consultation with the Secretary, has determined that the requirement that a business “was in operation on February 15, 2020” should be applied based on the economic realities of the business’s operations.



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Employee Retention Credits - ERC

If you have plans to claim an ERC for either 2020 or 2021. Be sure that you do not use the PPP funds to pay for the same wages that are being claimed by the ERC, that is double dipping and illegal.



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We help you turn your big ideas into bigger bottom lines by providing strategic guidance, digital tools, and interactive events that empower action.

Regional Advising Team

Tom Tanner, Lead Advisor

Cheryl Tucker, NRV Advisor

Heather Fay, Botetourt + Regional Program Director

Amanda Forrester, Director

www.roanokesmallbusiness.org/advising