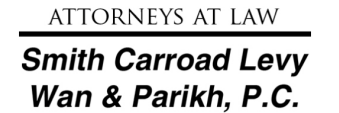




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SBA PPP LOAN: How did I get here and what do I do now?

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This presentation is designed to be a general overview of the PPP Loan with a specific focus on loan forgiveness. Each lender may have different issues specific to your loan.

Background on the PPP Loan

- ❖ Loan applications opened back in April 2020
- ❖ Loans closed on August 8, 2020
- ❖ SBA approved 5.2 MM loans for about \$525B



- ❖ If you are one of the 5.2 million borrowers, you have PPP funds to use in your business.
- ❖ What can you do with that money?

What can the PPP Loan Money be used for?

What is covered?

- ❖ Payroll costs
- ❖ Employer expenses for group employee health care
- ❖ Employer expenses for employee retirement plans
- ❖ Leases and mortgages
- ❖ Utilities
- ❖ Owner compensation



Payroll Costs

- ❖ Includes payroll incurred BEFORE the covered period but paid AFTER the covered period
- ❖ Use the gross amount before deductions for taxes, benefits, etc.
- ❖ Includes all forms of cash compensation
 - ❖ Commissions
 - ❖ Bonuses
 - ❖ Hazard Pay
- ❖ Limit is \$100,000 annualized amount per employee
 - ❖ \$46,154 if you are using the 24-week period*
 - ❖ \$15,385 if using the 8-week period
- ❖ Must be at least 60% of your total loan usage (changed from 75% by the PPP Flexibility Act in June 2020)



Owner Compensation



❖ **C Corporations:**

- ❖ Eligible for loan forgiveness up to 2.5/12 of his/her 2019 employee cash compensation (i.e. salary) as well as state and local taxes, health insurance costs and retirement contributions (capped at the same 2.5/12 ratio). In other words, not for K1 income, for example.

❖ **S Corporations:**

- ❖ Same ratio as C Corp, i.e. 2.5/12 of the 2019 cash compensation, along with taxes, employer health and retirement contributions, capped the same way.
 - ❖ However, not employer health insurance contributions for employees with at least a 2% ownership because those are considered cash compensation under 26 USC 318 family attribution rules.

❖ **Self-employed Schedule C Filers:**

- ❖ Same ratio (2.5/12) of the 2019 net profit reported on line 31 of Schedule C. Health insurance contributions, taxes and retirement contributions are **not** eligible.

❖ **General Partners:** same ratio (2.5/12) of 2019 net earnings that is subject to self-employment tax (i.e. K1 income – box 14) reduced by expenses following the computation of self-employment tax.

❖ **LLC Owners:** follow the instructions that apply to your tax filing for 2019 (or anticipated 2020 if new business).

COVERED PERIOD



- ❖ 24 weeks (168 days) beginning on the disbursement date of the loan or
- ❖ If you received the loan prior to June 5, 2020, the borrower may ELECT to use the 8-week (56 day) period after the disbursement.

- ❖ If you have a bi-weekly or more frequent payroll schedule, you can calculate payroll from the start of the first payroll period following disbursement.

- ❖ If you use a payroll service (e.g. Paychex, ADP), contact them as many of them have created algorithms to calculate these amounts automatically for you.

FORGIVENESS



How do I get forgiveness of my SBA PPP loan?

- ❖ 2 applications – Which should I use?
 - ❖ 3508 – long and complicated form
 - ❖ 3508EZ – shorter form
 - ❖ Used if
 - ❖ No employees at the time of disbursement
 - ❖ No reduction of wages by more than 25% for any worker
 - ❖ No reduction in FTEs or average paid hours
 - ❖ best for
 - ❖ Sole proprietors
 - ❖ Self-employed
 - ❖ Independent contractors
 - ❖ Individuals with no employees
- ❖ Lenders may have their own equivalent of the forms ***so check with your lender for the specific form***



When should I apply?

- ❖ Applications opened as of August 10, 2020, but each lender may be different in terms of when they make their portal live.
 - ❖ **Why might some banks wait?** Source *American Banker*, August 10, 2020
 - ❖ Some banks are electing to hold off on accepting forgiveness applications for two reasons:
 - ❖ Hoping to get authority for automatic forgiveness for loans of \$150,00 and below; that will cut down on paperwork and labor on those smaller loans
 - ❖ Hoping for a more streamlined application process for loans under \$2,000,000
- ❖ If you submit within 10 months of completion of the Covered Period, no payments are required to be made until the forgiveness amount is remitted from the SBA to the lender.
 - ❖ Lender is responsible for notifying the borrower of remittance of the forgiveness amount and the date of first payment due if less than the full amount is forgiven.
- ❖ Lender must make a decision within 60 days of submission; SBA has 90 days decide
- ❖ As noted on the Loan Forgiveness Application Form, the borrower must retain PPP documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.

What goes with the application?

- ❖ You need supporting documents showing proper use of all of the covered funds during the covered period.
- ❖ Can I use scanned documents?
 - ❖ Yes
 - ❖ Lenders can accept e-signatures as long as they comply with the Electronic Signatures in Global Commerce Act



What will be forgiven and what will not?

- ❖ What can be forgiven?
 - ❖ Principal
 - ❖ Interest: Interest accrues from the date of disbursement through the date of remission by the SBA. Borrower only pays interest on amounts not forgiven.
- ❖ What has to be paid and when?
 - ❖ Any amount not forgiven must be paid (i.e. any amounts outside the criteria discussed)
 - ❖ 5-year maturity
 - ❖ Low interest rate – 1%
 - ❖ 1st payment must be made 10 months after disbursement (unless forgiveness application is pending)
- ❖ What about my EIDL (Economic Injury Disaster Loan) loan?
 - ❖ If you received an EIDL loan, that loan amount will be reduced from your forgiveness amount.

What might reduce my forgiveness amount?

- ❖ Reduction in FTE (full-time equivalents)
 - ❖ Borrower may exclude FTE reduction if
 - ❖ Inability to rehire individuals who were employees on 2/15/2020;
 - ❖ Must notify state unemployment office of the rejected rehire offer within 20 days of rejection;
 - ❖ Must show written offer and written rejection
 - ❖ Inability to hire similarly qualified individuals for unfilled positions by 12/21/2020;
 - ❖ Must show written proof of efforts to fill the spot
- ❖ Pay reduction during the Covered Period:
 - ❖ If the salary or wage of a covered employee is reduced by more than 25%, the portion in excess of 25% is not eligible for forgiveness unless the borrower satisfies the reduction safe harbor requirements of the Form 3508 (see the Schedule A worksheet on the form).

Once the Bank sends my application to the SBA, what happens?



❖ SBA Loan Review

- ❖ SBA reserves the right to review any PPP loan for
 - ❖ borrower eligibility – See CFR § 120.110 and § 121.301
 - ❖ <https://ecfr.federalregister.gov/current/title-13/chapter-I/part-120/subpart-A/subject-group-ECFR964e92fb435e13c/section-120.110> for a list of types of businesses NOT eligible
 - ❖ <https://ecfr.federalregister.gov/current/title-13/chapter-I/part-121/subpart-A/subject-group-ECFR58449ce55c5fb4a/section-121.301> for the size standards and affiliation principles
 - ❖ whether the loan amount was calculated correctly
 - ❖ whether the loan proceeds are being used for appropriate reasons as authorized by the CARES Act
 - ❖ whether a borrower is entitled to forgiveness
- ❖ Any borrower that, together with its affiliates, received a PPP loan with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.

What's the recent scoop?



- ❖ 9/8/2020 - Republican party rolls out scaled down \$300B stimulus bill
 - ❖ Includes a second round of PPP lending for businesses that have a demonstrated loss in revenue
 - ❖ Senate vote is expected today (Thursday 9/10), but it is not expected to pass
 - ❖ Seen by some as the Republican party trying to protect vulnerable senators by giving them a chance to appear as if they are supporting stimulus in advance of the looming election
 - ❖ Source: [The Wall Street Journal](#), “Republicans Roll Out Skinny Stimulus Bill as Talks with Democrats Remain Stalled,” September 8, 2020
- ❖ 9/8/2020 – JP Morgan Chase investigating possible fraud
 - ❖ On Tuesday JP Morgan Chase said it uncovered evidence that some customers and employees may have participated in fraudulent and possible criminal acts in its distribution and use of PPP Loan proceeds, along with unemployment benefits and other government programs.
 - ❖ JP Morgan funded more PPP loans than any other bank (\$28B)
 - ❖ Source: [CBS News](#), “JP Morgan Chase investigating customers and employees for possible fraud involving Paycheck loans,” September 8, 2020



What if I need more help?

- PPP Loan FAQ (8/11/2020): <https://www.sba.gov/document/support-faq-lenders-borrowers>
- Loan Forgiveness Application: <https://www.sba.gov/document/sba-form-paycheck-protection-program-loan-forgiveness-application>
- Application Instructions: <https://www.sba.gov/document/sba-form-paycheck-protection-program-loan-forgiveness-application-instructions-borrowers>
- SBA PPP Page: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>
- Department of Treasury CARES ACT Information: <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
- Federal Register on PPP Loan Review Guidelines: <https://www.federalregister.gov/documents/2020/06/01/2020-11533/business-loan-program-temporary-changes-paycheck-protection-program-sba-loan-review-procedures-and>

Thank You and Good Luck!

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