Frequently Asked Questions

CARES Act Payroll Protection Program:
First-Time Borrowers

- **What is the Paycheck Protection Program?**
  The Paycheck Protection Program ("PPP") is a loan program designed to provide an incentive for small businesses to keep workers on payroll. The United States Small Business Administration ("SBA") reopened PPP for first draw loans the week of January 11, 2021. PPP loans are low-cost, unsecured loans. If the proceeds are used for permitted purposes, then repayment may be forgiven.

- **Is my business eligible to obtain a PPP loan?**
  Eligible borrowers include independent contractors, self-employed individuals (both with and without employees), sole proprietors with no employees, businesses with 500 or fewer employees, non-profits with 500 or fewer employees and businesses that satisfy existing federal requirements for being a "small business concern". To qualify the borrower must have been in operation as a business as of February 15, 2020 and cannot be the subject of a bankruptcy case. The borrower must certify in its application that “current economic uncertainty makes this loan request necessary to support ongoing operations.”

- **How do I determine the maximum size of my PPP loan?**
  The maximum loan size depends on payroll costs and, in general, is 2.5x the business's average monthly payroll during either 2019 or 2020. Calculation of this amount depends on the business's structure:
  - **Self-employed borrower with no employees (including independent contractors, sole proprietorships and LLCs that elect to be taxed as a sole proprietorship):**
    - **Maximum loan size:**
      - "Net profit" as shown on 2019 IRS Form 1040 Schedule C, line 31 (capped at $100,000 and if $0 or less, then not eligible).
      - Divide by 12 (for average monthly net profit) and multiple by 2.5 for maximum loan amount.
    - **Documentation needed:**
      - 2019 IRS Form 1040 Schedule C
      - Evidence of self-employment (2019 IRS Form 1099-K, invoice, bank statement, or book of record establishing you were self-employed in 2019)
      - Evidence you were in operation on February 15, 2020 (2020 invoice, bank statement or book of record establishing you were in operation on February 15, 2020)
    - **Calculation Example:**
      - Independent Contractor since 2019:
Self-employed borrower with employees (including independent contractors and sole proprietorships):

- **Maximum loan size:**
  - "Net profit" as shown on 2019 IRS Form 1040 Schedule C, line 31 (capped at $100,000 and if $0 or less, then set at $0)
  - 2019 wages and tips paid to employees (capped at $100,000 per employee and exclude any employees whose principal residence is outside the U.S.)
  - 2019 employer contributions for health insurance and retirement plans
  - 2019 employer state and local taxes assessed on employee compensation (unemployment insurance tax)
  - Add each of these amounts and divide by 12 (for average monthly payroll costs) and multiple by 2.5 for maximum loan amount

- **Documentation needed:**
  - 2019 IRS Form 1040 Schedule C
  - IRS Form 941 and state quarterly wage unemployment insurance tax reporting form for each quarter of 2019 or equivalent payroll processor records or IRS Wage and Tax Statements
  - Documentation of health insurance or retirement contributions included in loan balance
  - Evidence of self-employment (2019 IRS Form 1099-K, invoice, bank statement, or book of record establishing you were self-employed in 2019)
  - Evidence you were in operation on February 15, 2020 (a payroll statement or similar documentation establishing you were in operation and had employees on February 15, 2020)

- **Calculation Example:**
  - Small Cleaning Business since 2017:
    - "Net Profit" of $35,000 on 2019 Form 1040 Schedule C line 31
    - $35,000/12 = $2,916
    - $2,916 x 2.5 = $7,290
    - Partnership borrower (including LLCs that elect to be taxed as a partnership) (note the following calculations apply to loan sizes up to $10 million):
- **Maximum loan size:**
  - Note that net earnings from self-employment of an individual general partner whose principal residence is in the U.S. should be included in the PPP loan amount for the partnership (individual partners may not apply for separate PPP loans)
  - 2019 Schedule K-1 (box 14a) net earnings multiplied by 0.9235 (capped at $100,000 and if $0 or less, then set at $0)
  - 2019 wages and tips paid to employees (capped at $100,000 per employee and exclude any employees whose principal residence is outside the U.S.)
  - 2019 employer contributions for health insurance and retirement plans
  - 2019 employer state and local taxes assessed on employee compensation (unemployment insurance tax)
  - Add each of these amounts and divide by 12 (for average monthly payroll costs) and multiple by 2.5 for maximum loan amount

- **Documentation needed:**
  - 2019 IRS Form 1065 (including K-1s)
  - IRS Form 941 and state quarterly wage unemployment insurance tax reporting form for each quarter of 2019 or equivalent payroll processor records or IRS Wage and Tax Statements (if partnership has employees)
  - Documentation of health insurance or retirement contributions included in loan balance (if partnership has employees)
  - Evidence you were in operation on February 15, 2020 (if partnership has employees, then provide a 2020 payroll statement or similar documentation; if partnership has no employees, provide a 2020 invoice, bank statement or book of record establishing you were in operation on February 15, 2020)

- **Calculation Example:**
  - Clothing Store with 3 partners and 10 part-time employees:
    - Each partner's Form K-1 provides $40,000 net earnings for a total of $120,000 x 0.9235 = $110,820
    - Total payroll costs of $150,000
    - No retirement or health insurance payments, no unemployment insurance payments, no employee made more than $100,000, all employees reside in the US
      - $110,820 + $150,000 = $260,820
      - $260,820/12 = $21,735
      - $21,735 x 2.5 = $54,337
  - Corporations and Non-Profits (including Subchapter S Corporations and LLCs that elect to be taxed as a corporation):
    - **Maximum loan size:**
• 2019 wages and tips paid to employees (capped at $100,000 per employee and exclude any employees whose principal residence is outside the U.S.)
• 2019 employer contributions for health insurance and retirement plans
• 2019 employer state and local taxes assessed on employee compensation (unemployment insurance tax)
• Add each of these amounts and divide by 12 (for average monthly payroll costs) and multiple by 2.5 for maximum loan amount

### Documentation needed:
• IRS Form 941 and state quarterly wage unemployment insurance tax reporting form for each quarter of 2019 or equivalent payroll processor records or IRS Wage and Tax Statements
• Documentation of health insurance or retirement contributions included in loan balance
• Evidence you were in operation on February 15, 2020 (payroll statement or similar documentation establishing you had employees and were in operation on February 15, 2020)

### Calculation Example:
• Daycare organized as a corporation:
  • 2019 wages and tips paid to 20 employees of $400,000
  • The above amount includes retirement and health insurance payments, and unemployment insurance payments, no employee made more than $100,000, all employees reside in the US
  • $400,000/12 = $33,333
  • $33,333 x 2.5 = $83,332

• Can a partner in a partnership apply for his or her own PPP Loan?
  No, the partners self-employment income should be included in the PPP loan application for the partnership.

• Can an independent contractor apply for a PPP loan?
  Yes, an independent contractor can apply for a PPP loan. He or she should not include any W-2 wages he or she receives as an employee, only the amount on IRS Form 1040 Schedule C line 31 (capped at $100,000).

• Where can I obtain additional information on how to calculate my PPP loan amount?
• **What are the terms of a PPP loan?**
  o The loan is a term loan that is disbursed when the loan documents are signed.
  o The interest rate is fixed at a rate of 1.0% per annum.
  o The loan has a 5-year term.
  o No collateral is required. No personal guarantees are required.
  o The lender may not charge the borrower any application or loan fee.
  o So long as you file your forgiveness application within 16 months of receiving your PPP loan, no payments are due (interest or principal) until the forgiveness process is completed.
  o The lender may not charge you a prepayment fee or penalty for repaying the loan early.

• **What are the permitted uses of proceeds of a PPP loan?**
  o To obtain forgiveness of your PPP loan, the proceeds must be used for permitted purposes **within 24 weeks of receiving the loan**, which include:
    ▪ For self-employed individuals and partnerships, replacement of your compensation as a business owner is permitted but capped at the lesser of 2.5 months' worth of 2019 compensation or $20,833 per owner/partner. This effectively prevents diversion of PPP loan funds that were obtained based on employee wages.
    ▪ Employee payroll costs, including wages (capped at $100,000 annualized per employee), employer contributions for health insurance and retirement plans, and employer state and local taxes assessed on employee compensation.
    ▪ Business-related mortgage interest payments.
    ▪ Business-related utility payments.
    ▪ Business-related cloud computing costs.
    ▪ Business-related property damage repair costs.
    ▪ Business-related supplier costs.
    ▪ Worker protection expenditures (PPE or business restructuring).

• **What uses would not qualify for forgiveness?**
  o If the proceeds of your PPP loan are used for anything other than the permitted uses, then you will not be entitled to forgiveness of the portion of the loan used for purposes that are not permitted:
    ▪ Non-business purposes.
    ▪ Payment of principal on loans.
    ▪ Employee compensation in excess of $100,000 on an annualized basis.
    ▪ Owner compensation in excess of the lesser of 2.5 months' worth of 2019 compensation or $20,833 per owner/partner.
    ▪ Dividends to shareholders.
• **How quickly do I need to use the proceeds of my PPP loan?**
  Within 24 weeks of receiving it.

• **What steps do I need to take to obtain forgiveness of my PPP loan?**
  o Step 1: Spend the PPP loan funds on permissible expenses within 24 weeks of receipt
  o Step 2: If your business has employees, you may also need to retain wage/salary levels and the number of employees (or the amount of forgiveness can be reduced)
  o Step 3: Assemble documentation that shows how you spent the loan proceeds
  o Step 4: Complete a Forgiveness Application with your lender
    - Loans of $50,000 or less - use SBA Form 3508S and certify the total amount of requested forgiveness
    - Loans of $50,000 - $150,000 - use SBA Form 3508S, certify the total amount of requested forgiveness and certify compliance with any reductions in forgiveness as a result in changes in the number of full-time equivalent employees or wages
    - Loans greater than $150,000 - use SBA Form 3508 or 3508Z and provide documentation of (i) payroll costs (including bank account statements or third party payroll provider reports, tax forms (IRS Form 941 and state quarterly unemployment tax forms), payment receipts, cancelled checks or account statements showing health insurance premiums and retirement plan contributions), (ii) non-payroll costs (documentation evidence existence of the obligations and verifying payment of the obligations), and (iii) FTE employee and wage/salary information.
  o Step 5: Your lender will process and submit the Forgiveness Application to the SBA
  o Step 6: The SBA will review and submit repayment to your lender
  o Step 7: Any amount which is not forgiven and repaid to your lender by the SBA will be payable by the borrower over the remaining life of the loan

• **What happens if only a portion of my loan is forgiven?**
  If you make a timely application for forgiveness, you are not obligated to make any payments of principal or interest until the forgiveness process is completed. At that point, you will be obligated to make equal monthly payments of principal and interest for the remainder of the 5-year term of the loan. For example, if, after completion of the forgiveness process, you have a remaining principal balance on your PPP loan of $5,000 and 4 years remaining until its maturity, you would make equal monthly payments of $106.31. There would be no penalty for paying early.