

February 25, 2021

Paycheck Protection Program (PPP) Update

For entities that did not previously received a PPP loan (first draw)

Eligible entities who did not receive a first draw PPP loan in 2020 may now apply under the same basic terms as the previous round. The following entities may be eligible if they were in operation on February 15, 2020.

- First draw loans for borrowers with employees are calculated as 2.5 times average monthly payroll costs, up to \$10 million.
 - Average monthly payroll costs can be based on calendar 2019, calendar 2020 or the 12-month period prior to loan application.
- For seasonal employers the loan amount is based on 2.5 times the average monthly payroll costs for any 12-week period between Feb. 15, 2019 and Feb. 15, 2020.
- Entities that did not exist for the full one-year period before Feb. 15, 2020, should calculate the maximum loan amount based on 2.5 times payroll cost paid or incurred as of the date of the application divided by the number of months costs were paid or incurred.
- Self-employed borrowers who have no employees and file a Form 1040, Schedule C and are applying for a first draw will also be able to borrow 2.5 times their average monthly net profit based on line 31 of their 2019 or 2020 Schedule C. Net profit for this calculation is capped at \$100,000.
- Self-employed borrowers with employees and file a Form 1040, Schedule C will be able to borrow 2.5 times their average monthly payroll costs (as earlier defined), determined by dividing the sum of their 2019 or 2020 Schedule C line 31 amount (capped at \$100,000) and payroll costs paid to their employees by 12.
- First draw borrowers who received an Economic Injury Disaster Loan (EIDL) between January 31 and April 3, 2020 can refinance the outstanding amount into the PPP loan at the time of the PPP loan application if they choose to do so.
 - This does not include EIDL emergency advances, only the EIDL loan.

For entities that previously received a PPP loan (second draw)

Eligible borrowers are able to receive a second PPP loan. These loans are available to entities with a 25% reduction in gross receipts and are for borrowers with fewer employees than first draw entities.

Eligibility requirements are listed below:

- 300 employees or less (Note: first draw loans are available for borrowers with 500 or fewer employees)

- 25% reduction in gross revenue between comparable quarters in 2019 and 2020 (Note: this is not a requirement of first draw loans)
- Has used or will use all first draw PPP funds (including the amount of any increase of a first draw) on eligible expenses on or before expected date of the second draw loan disbursement
 - The SBA will require lenders to delay funding the second draw until the borrower has fully used all of the first draw funds. For the second draw application, the borrower will be required to attest that they have used or will use the full amount of the first draw funds on eligible expenses.
 - A second draw may be approved but for it to actually be received, the borrower will need to certify that the first draw funds have, in fact, been used.
 - It is not a requirement that forgiveness of the first draw loan has been applied for or been received. However, some lenders are requiring that the application for forgiveness for the first draw has been submitted.

Documentation Requirements for entities that previously received a PPP loan

- For loans greater than \$150,000, documentation of revenue reduction is necessary at the time of the loan. Documentation may include relevant tax forms, including annual tax forms, quarterly financial statements, or bank statements.
- For loans of \$150,000 or less, documentation is not required with the loan application, but will be required with loan forgiveness application.
- Other documentation requirements as to payroll costs will vary depending on whether the borrower is using the same payroll information as the first draw application and the same lender.

Provision to Modify the amount of a first draw

If a borrower received their first draw PPP loan prior to December 27, 2020, the loan amount for the first draw can be increased if changes in guidance result in an increased original loan amount. For example, seasonal employers and farmers and ranchers may be eligible for an increased first draw loan.

- In addition, the following borrowers can reapply or request an increase in their first draw PPP loan amount if forgiveness has not been obtained:
 - If a borrower returned all of a PPP loan, the borrower may reapply for a PPP loan in an amount the borrower is eligible for under current PPP rules.
 - If a borrower returned part of a PPP loan, the borrower may reapply for an amount equal to the difference between the amount retained and the amount previously approved.
 - If a borrower did not accept the full amount of a PPP loan for which it was approved, the borrower may request an increase in the amount of the PPP loan up to the amount previously approved.

Forgiveness of a first or second draw PPP loan

Borrowers can qualify for forgiveness of PPP loans up to the full principal amount of the loan and accrued interest if:

- The loan proceeds are used for forgivable purposes during the borrower's covered period

- And employee and compensation levels are maintained or, if not, an applicable safe harbor or exemption applies.
- Additionally, at least 60 percent of the PPP loan proceeds are required to be used for payroll costs to achieve full forgiveness of the loan.

Cost eligible for forgiveness include

- Payroll costs (or owner income replacement for self-employed borrowers)
 - Payroll costs used in determining the Employer Retention Credit are not eligible for loan forgiveness
- The Act expands allowable payroll costs to include group insurance payments for vision, dental, disability and life insurance.
- Mortgage interest incurred before February 15, 2020
- Mortgage interest paid to related parties is not eligible for forgiveness.
- Rent on leases dated before February 15, 2020
 - Rent to related parties is subject to limitations based on the amount of mortgage interest the related party pays during the covered period.
- Utilities for service that began before February 15, 2020
- Covered operations expenditures*
- Covered property damage costs*
- Covered supplier costs*
- Covered worker protection expenditures*
- The additional categories of eligible expenses can be used in determining the amount of costs for any PPP loans (whether first draw or second draw) if the loan hasn't already been forgiven.

Generally, a reduction in the number of employees or the rate of pay affects the forgiveness of the loan.

- If a borrower decreases salaries and wages by more than 25% for any employee who made less than \$100,000 annualized in 2019, loan forgiveness will be reduced.
- If the number of FTEs decreases, loan forgiveness will be reduced.
- Safe harbors and exceptions are available in some circumstances.

More information regarding COVID-19 for businesses and individuals can be found [here](#). If you have further questions or need additional guidance, please leave a message at (616) 575-3482 or email info@ehtc.com. Thank you for choosing EHTC as your strategic partner.