

# COVID STIMULUS:

## PAYCHECK PROTECTION PROGRAM – ROUND 2

On Sunday, December 27, a new COVID-19 stimulus package was signed into law. The \$900 billion deal is a 5,000+ page bill that features many meaningful programs that affect individuals, small businesses, nursing homes, communities, colleges, universities and K-12 schools.

The new law also includes a continuation of the Paycheck Protection Program (PPP) loans, which is the focus of this article.

### Paycheck Protection Program Loans – Round 2 (PPP2) - What's Included?

As part of the \$325 billion in aid for small businesses, the stimulus package specifically allots \$284 billion for PPP small-business loans, including both first- and second-time borrower loans. PPP2 is very similar to PPP1 but does have some significant differences in terms of who is eligible to apply and the loan terms.

#### Eligibility

PPP2 Loans will be available to **first-time borrowers**, including the following:

- Businesses with 500 or fewer employees
- Sole proprietors, independent contractors, and eligible self-employed individuals
- Not-for-profit businesses, including 501(c)(3) and 501(c)(6), and veterans' organizations 501(c)(19)
- Businesses in the accommodation and food services sector (NAICS 72) with multiple locations must have fewer than 300 employees per physical location

In addition, Section 312 of the law (*INCREASED ABILITY FOR PAYCHECK PROTECTION PROGRAM BORROWERS TO REQUEST AN INCREASE IN LOAN AMOUNT DUE TO UPDATED REGULATIONS*) states **that eligible borrowers who returned or did not accept their full loans as part of PPP1 may reapply:**

*(1) in the case of an eligible recipient that returned all or part of an included covered loan, the eligible recipient may reapply for a covered loan for an amount equal to the difference between the amount retained and the maximum amount applicable; and*

*(2) in the case of an eligible recipient that did not accept the full amount of an included covered loan, the eligible recipient may request a modification to increase the amount of the covered loan to the maximum amount applicable, subject to the requirements of section 7(a)(36) of the Small Business Act (15 U.S.C. 636(a)(36)).*

PPP2 loans will also be available to **borrowers seeking a second PPP loan** if the following are true:

- The business has 300 or fewer employees.
- The business has used or will use the full amount of their first PPP loan.
- The business can show a 25% gross revenue decline in any 2020 quarter compared with the same quarter in 2019.

## Loan Terms

As with PPP1, payroll, rent, covered mortgage interest, and utilities are forgivable expenses. However, PPP2 loans will also allow the following to be forgivable:

- Investments in worker protections or facility modifications, such as personal protective equipment, in order to comply with federal health and safety guidelines.
- Payments to suppliers that are essential to business operations.
- Operating costs, such as software, cloud computing services, accounting, and so on.

As with PPP1, borrowers will need to spend no less than 60% of loan funds on payroll. Borrowers can choose between an 8- or 24-week covered period in order to achieve forgiveness.

While borrowers may receive a loan of up to 2.5 times their average monthly payroll costs in the year prior (hotels and restaurants may get 3.5 times their average monthly payroll costs), the maximum loan amount has been cut from \$10 million to \$2 million.

## Loan Application Deadline

We don't know the application deadline yet, and we expect at least some additional regulations to address questions associated with this program. However, our feeling is that this process will move forward with a high sense of urgency. Most of the rules are already written, the banks and the SBA have established processes now for both loan origination and forgiveness, and the need and demand are high.

***For our payroll clients:*** Please let us know if you are interested in applying for a second PPP loan, and we will be prepared to gather your data. We believe time is of the essence because there are limited funds, and it is possible these funds could quickly run out similar to the first tranche of PPP1, which was depleted in a matter of weeks in April.

## Forgiveness Application

The stimulus package specifies that borrowers with loans of \$150,000 or less will be able to complete a simplified forgiveness application that is not more than 1 page in length.

## Tax Deductions

In very welcome news, the stimulus package states that expenses paid with PPP loan funds are tax deductible. This reverses prior IRS guidance issued in April and later restated in November that stipulated exactly the opposite. This will have a substantial, positive tax and cash flow impact on all borrowers who were affected by COVID-19 and participated in PPP1.

## Emergency Injury Disaster Loan (EIDL) Advances (Grants)

In other welcome news for borrowers who may have received an earlier \$10,000 EIDL Advance/Grant, the stimulus package repeals the requirement for the borrower to deduct the amount of their EIDL advance from the PPP forgiveness amount. This allows the advance to be treated as a grant, consistent with the intent of the CARES Act.

Also in the new law, Congress allocated \$20 billion for new EIDL grants. To qualify for the full \$10,000 grant, a business must:

- Be located in a low-income community,
- Have suffered an economic loss greater than 30%,
- Employ not more than 300 employees,
- Be a small business, sole proprietorship, an independent contractor or private non-profit
- Have been in operation by January 31, 2020.

## For More Information

We will continue to monitor news on the PPP and provide updates. We will also follow-up with additional pieces related to COVID requirements, like FFCRA leave and Employer Retention Credits.

For more information or assistance from our team, please contact us at **210-495-8474**, toll-free at **1-888-757-2104**, or **Info@BFGonline.com**.



### **BusinessFinancialGroup.com**

210-495-8474 / 1-888-757-2104

Business Financial Group provides corporate services, including human resources consulting, compliance and administration support, payroll and employee benefit program development and maintenance. We also provide group retirement and personal financial planning services.

---

Securities and advisory services offered through Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Adviser. Human resources services and consulting, payroll processing services, employee program development and maintenance services, fixed insurance products and services offered by Business Financial Group are separate and unrelated to Commonwealth. Business Financial Group is located at 500 North Loop 1604 East, Suite 250, San Antonio, Texas 78232.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.