CARES Act: Paycheck Protection Program

June 12, 2020

One of the most significant provisions in the CARES Act, the Paycheck Protection Program (PPP) is a nearly $659-billion program intended to provide American small businesses with up to 24 weeks of cash-flow assistance through 100 percent federally guaranteed loans.

What's the Purpose of the PPP?

The PPP was created to provide cash flow and incentive for small businesses to keep employees on their payroll during the COVID-19 pandemic.

Do You Qualify for the PPP?

This program is more extensive than the SBA Economic Injury Disaster Loan (EIDL). The following entities qualify:

- Sole Proprietor
- Partnership
- C-Corp
- S-Corp
- LLC
- Independent Contractor
- Eligible self-employed individual
- 501(c)(3) nonprofit
- 501(c)(19) veterans organization

Each type of organization is required to submit different information when applying for the program.

How Is the PPP Different Than the SBA EIDL?

To compare the two loan offerings, we've created a side-by-side comparison chart of each program.

How Much Funding Can You Receive?

The maximum amount you can receive under the PPP from your SBA-approved lender is determined by your average monthly payroll cost for 2019 multiplied by 2.5, but no more than $10 million.

Payroll costs include wages, commissions, health insurance, retirement benefits and state and local taxes assessed on employee compensation and for independent contractor or sole proprietor, wage, commissions, income, or net earnings from self-employment or similar compensation. If you are a seasonal employer, the monthly average cost will be calculated differently.

For new businesses, average monthly payroll may be calculated using the time period from Jan. 1, 2020 to Feb. 29, 2020, excluding costs over $100,000 on an annualized basis for each employee.

PPP loans issued before June 5 are made for two years at a 1% fixed rate with payments deferred for 10 months. If the borrower and lender agree, the loan can be for five years. Loans issued after June 5 are for five years at a 1% fixed rate.

What Can You Use the PPP Funds For?

The PPP requires you to acknowledge that the funds will be used for any of the following:

- Payroll and commission payments;
- Group health care benefits/insurance premiums;
- Mortgage interest payments;
- Other interest payments;
- Rent and lease payments;
- Utilities; or
- Owner compensation replacement.

Is the Loan Forgivable?

Loans issued under the PPP are potentially forgivable in full. The amount eligible for forgiveness is first based on spending the loan proceeds within 24 weeks of loan origination on qualified expenses (see above list.) Qualified expenses for non-payroll costs cannot exceed 40% of the loan amount when determining loan forgiveness. Borrowers can elect an eight-week covered period.

Forgiven amounts will not constitute cancellation of indebtedness income for federal income tax purposes. Expenses used to qualify for loan forgiveness are currently not deductible for income tax purposes.

Time Is Running Out

As of June 12, there is $130 billion available for PPP funds. Applications must be submitted no later than June 30, 2020.

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