

Paycheck Protection Program

Overview and Best Practices

By Self-Help Federal Credit Union

Outreach Considerations

- **Target Group**- Nonprofits and Small Businesses owned by, employing, working in communities of color/underserved communities.
- PPP works well for entities that have a large % of their expenses tied up in salaries. It can provide the bulk of their operating capital for 2 months after they receive the loan.
- PPP may not work so well for businesses that have a significant amount of lower-wage workers in states where the unemployment system works well. The additional unemployment benefits can make it better for folks to be on unemployment than maintaining their jobs, in some cases. (One exception may be health insurance)
- We can help self-employed folks and independent contractors- but it requires a lot of paperwork, and is less useful for folks whose net profit is in the 20k range or less
- PPP can be helpful for faith-based groups/churches, particularly those with W-2 staff (v. contractors)

PPP Overview

- Goal: Keep employees paid and businesses alive
- How: \$ for 8 weeks payroll + these business expenses:
 - Interest on mortgage
 - Rent
 - Utilities
- Broad eligibility
- Forgivable loans

Ineligible Businesses

- Landlords (except: if they have actual employees on staff for building maintenance, grounds keepers, etc. that is eligible. If they contract for these services, landlord is not eligible.
- Businesses with 20%+ owners who are undocumented
- Illegal businesses (even if Legal in State, if not legal under federal law it is ineligible- ex. Marijuana related businesses)
- Socially worrisome businesses- prurient, gambling, pawn shops, check cashiers, etc.
- 20%+ owner incarcerated, on probation, parole, have criminal charges pending, or convicted of felony in past 5 years.
- 20%+ owner or business has been delinquent (60 days late) on or defaulted and caused a loss on federal loan in past 7 years
- Household employers (individuals employing household help)

Forgiveness for PPP

- 100% Principal and accrued interest forgiven if borrower documents that in 1st 8 weeks after disbursement:
 - At least 75% of loan proceeds spent on payroll costs
 - Up to 25% can be spent on business rent, mortgage interest, utilities
 - Retain employees or quickly re-hire
- Other uses are eligible loan uses but NOT eligible for forgiveness
 - Interest payments on other business debt in place before 02/15/2020
 - EIDLs that are refinanced into PPP (refi NOT recommended)

Loan Terms

- 1% interest
- 2 year term (1st 6 months are deferred)
- No personal guarantees
- No collateral
- No fees
- Loan amount based on 2.5x average monthly payroll costs, up to \$10 million

PPP and Economic Injury Disaster Loans (EIDL)

- EIDL is a separate relief program under the CARES Act
- Applicants should also apply with SBA directly at www.sba.gov for an EIDL and an EIDL advance up to \$10,000
 - Advance is a grant- totally forgiven- and should be issued relatively fast
 - SBA does credit score for EIDL and may decline some applicants- but advance does not have to be repaid

Calculating Loan Amount

- **Remember: Outside payroll services and accountants can assist!**
- **Gather (third-party) documentation:**
 - Form 941 quarterly payroll tax filings, or
 - Payroll service processing records, or
 - Payroll service processor PPP calculation, or
 - For sole proprietors and independent contractors: 2019 Schedule C and evidence of revenue.

What CAN be included in the PPP monthly payroll?

- Employee Gross Pay
 - +
 - Employer paid...
 - State and local taxes
 - Insurance and state disability insurance
 - Health care benefits
 - Retirement benefits
 - Sole Proprietors: include net income line of their Sch. C (assuming they attach 2019 Schedule C)

What CAN'T be included in the PPP monthly payroll?

- Employee gross pay that exceeds \$100k
- The employer portion of federal employment taxes (i.e. Social Security and Medicare)
- Payments to independent contractors (However, independent contractors themselves can apply for a PPP loan based on their 1099 income)
- Works compensation premiums
- Federal unemployment tax
- Compensation of employees whose principal place of residence is outside the U.S.
- Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act

Sole Proprietors

- Can claim net profit + wages or benefits paid to owner and/or employees
- Need 2019 Schedule C and 12 months of bank statements
- Sole Proprietorships without employees have substantial documentation requirements. And processing time can take longer

Independent Contractors

- Need 2019 Schedule C as well as 1099's for 2019
- Ave monthly payroll is based on net profit from Schedule C

What time period can applicants use to calculate “average monthly payroll”?

- **Most businesses:** may use either
 - 1. January 2019-December 2019 or
 - 2. The most recent 12-month period as the basis for their payroll calculations
- **New businesses:** For businesses that do not have the full 12 months of payroll records use average monthly payroll costs of the period of January 1, 2020 through February 29, 2020
- **Seasonal businesses:** if business is seasonal, base your calculation on average monthly payroll for the period between
 - 1. February 15, 2019 or March 1, 2019 and
 - 2. June 30, 2019

Some learnings from PPP 1.0

- Signer on all documents- SBA application, loan note, and Self-Help membership application- must all be the same person
- SBA Form (app) is short (2 pages only) but we received many missing signatures, initials, or checking the “type of businesses box” - accuracy here will help us process faster!
- Providing proof of payroll expenses is the most complex task- ideally, third party payroll documents are all we need, but in their absence, we’ve provided tools to make this easier
- Documentation such as completed SBA app, appropriate proof of payroll, and color copy unexpired DL of the owner/ED/signer of documents is required for submission to SBA