



# KWG ADVISORS

## YOUR PERSONAL CFO

January 18, 2021

### PPP Loan Updates

On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act (the Act) became law as a part of the Consolidated Appropriations Act, 2021. Why do you care? The Act provides \$284.5 billion of additional funding for the Paycheck Protection Program (PPP). This means that if you missed out on the first round of PPP funding or are in need of additional funding to get you through this difficult winter or you think you might be, you are in luck. The following is a summary of the law along with information on the first round of PPP and the Employee Retention Credit that was updated and extended to providing another option for business' in need.

PPP- "first draw" updates – with the new clarity on the following items, I am now recommending that all clients that have PPP loans outstanding work with their lenders to start the application for forgiveness process – KWG is available to assist:

- Simplified forgiveness for loans of \$150,000 & less (previously this was \$50,000 or less) and this provision applies to both first & second draw and should consist of the following:
  - o Sign and submit a one-page form • Attest to complying with PPP requirements • Report loan amount • Report number of employees retained • Report estimate of loan amount spent on payroll • Retain records - 4 years for employment - 3 years for other • Will be required to provide documentation to substantiate loss of revenue when apply for forgiveness of a second draw loan
- Deductibility - The Act also provides welcome news for borrowers by stating that for federal income tax purposes, expenses paid with a PPP loan are deductible if otherwise eligible. The forgiveness of the PPP loan is not taxable either. **\*\*MN has yet to conform to this aspect of the law**, feel free to contact your state legislators to voice your support of conformity

PPP – "first draw" reopened for entities that didn't apply for a loan and/or those that would like to reapply for an amount that they would have qualified for if the updated rules now in place were in place from beginning.

PPP – "second draw" The loans are available to entities with a 25% reduction in gross receipts full year or in any quarter vs comparable quarter.





# KWG ADVISORS

## YOUR PERSONAL CFO

Eligibility The following entities may be eligible if they were in operation on February 15, 2020 and received a first draw previously: • 300 employees or less (Note: first draw loans are available for borrowers with 500 or fewer employees) – This is based on headcount and includes all full- or part-time 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 (recommend seeking forgiveness before applying) – 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. This may include a requirement that the borrower has spent at least 60% of first draw funds on payroll costs. It is not a requirement that forgiveness of the first loan has been applied for or been received.

Amount of loan Second draw loans for borrowers with employees are calculated **as 2.5 times average monthly payroll costs**, up to \$2 million. Borrowers with a **NAICS code that begins with 72** (such as hotels and restaurants) are eligible for loans up to **3.5 times average monthly payroll costs**. • Borrower has options on how to calculate – 2019, 2020, or 12-month period prior to when loan is made.

Form 1040, Schedule C will also be able to borrow **2.5 times (or 3.5 times for NAICS codes beginning with 72) their average monthly net profit based on line 31 of their 2019 or 2020 Schedule C**.

Calculating decline in gross receipts • For borrowers in operation all four quarters of 2019, compare gross receipts during the first, second, third, or fourth quarter in 2020 to the same quarter in 2019 to determine if there was a 25% or greater revenue reduction. – *For example*, an applicant that had gross receipts of \$50,000 in the second quarter of 2019 and had gross receipts of \$30,000 in the second quarter of 2020 experienced a 40 percent revenue reduction between these two quarters. • Borrowers can choose to use annual 2020 gross receipts compared to 2019 to simplify the calculation. Annual tax forms will be required to substantiate the decline.

First draw PPP loans and EIDL loans/advances are excluded from gross receipts. There is still an outstanding question as to whether other relief funds, such as Provider Relief Funds, Higher Education Emergency Relief Funds, state and local grants, etc. should be included.







# KWG ADVISORS

## YOUR PERSONAL CFO

### Covered period for first and second draw

The Act allows borrowers to select their loan forgiveness covered period. The covered period begins on the date the loan proceeds are disbursed and ends on any date the borrower chooses that is between 8 weeks and 24 weeks after the covered period begins.

### Ability of PPP borrowers to use Employee Retention Credits:

The Act provides additional relief to entities by allowing the use of *both* PPP loans and Employee Retention Credits (ERC). ERC allows eligible entities to receive a refundable payroll tax credit on qualified wages. This provision is retroactive to 2020. However, a borrower cannot use the same wages for PPP and ERC. Many borrowers may be able to qualify for full forgiveness of their PPP loan using only payroll costs. However, because the Act makes ERC available to PPP borrowers, utilizing non-payroll costs for forgiveness (subject to the 60-40 payroll requirement) may provide access to ERC. A discussion of ERC is outside the scope of this resource and guidance from the IRS is needed. The AICPA is actively developing resources to assist entities in understanding how to apply for these credits.

KWG is here to assist in any way that we can, please contact us with any questions and we will continue to keep you updated on an evolving landscape.

