





PAYCHECK
PROTECTION
PROGRAM

January 2021

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What's new with PPP
Loans?



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Significant Changes to the PPP program in the Economic Aid Act of 2020

Eligible uses of funds

- Eligible payroll, rent, interest, utilities
- ALSO eligible PPE, “operations expenditures,” “property damage costs (riots),” “supplier costs”...*
- Still must spend 60% (or more) on payroll for full forgiveness
- **HINT: *Spend it all on payroll***

*as long as you haven’t applied for forgiveness yet



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Significant Changes to the PPP program in the Economic Aid Act of 2020

Covered Period

- Begins the day the borrower received the funds
- Ends somewhere 8-24 weeks after that (you pick)
- First- and Second-draw covered periods CANNOT overlap
- All first draw funds must be spent before you are eligible to apply for a second draw loan
- No more alternative payroll covered period



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Opportunities for additional funding

- New First Draw
- First Draw Recalculation
- Second Draw
- Applications submitted to *your* PPP lender, who submits to SBA
- Additional fraud checks
- Approvals are not immediate



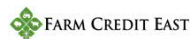
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NEW FIRST DRAW LOANS



New PPP Loans “First Draw”

- Borrowers who did not apply or were not eligible in earlier rounds of PPP may apply for a loan if now eligible
- Special carve out for Farmers – **sole proprietors** who file a 1040 with a Schedule F will qualify on Gross Income as opposed to Net Income.



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FIRST DRAW LOAN RECALCULATIONS

Existing PPP Loans “First Draw” Recalculations

- SOME borrowers may request additional funds on their existing loan (modifications)
 - Partnerships who applied early and did not include eligible partner income
 - Box 14A of Schedule K-1
 - Borrowers who returned their loans in the safe harbor period
 - Borrowers who did not accept the full amount for which they were approved
 - Sole proprietors who file a 1040 with a Schedule F will qualify on gross income (as opposed to net income)
 - Certain “Seasonal” businesses
- **There are NO do-overs for mistakes**



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WHAT'S A SEASONAL BUSINESS ACCORDING TO SBA?

You were in business for less than seven (7) months of the year

OR

You received 75% or more of your gross income in 6 months of the year

AND

You were in business on 2/15/2020

OR

You were in business for 12 consecutive weeks between 2/15/19 and 2/15/20



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SECOND-DRAW LOANS



- For those who received a first-draw PPP loan
- Have spent it all

AND

- Have a 25%+ reduction in **GROSS INCOME** when comparing
 - 2020 to 2019
 - Or any quarter of 2020 to the SAME quarter in 2019

Jan 1 – March 31	April 1 – June 30
July 1 – Sept 30	Oct 1 – Dec 31
- Use the accounting method on your tax return

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SECOND-DRAW cont'd



- Only businesses with 300 or fewer employees (vs. 500 in first draw)
- Maximum loan of \$2 Million (vs. \$10 Million in first draw)
- Sole proprietor farmers and ranchers may use the gross income method for calculating self employment income eligibility (must adjust for payroll)

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CALCULATING AMOUNTS FOR SECOND-DRAW LOANS



- All eligible borrowers can elect to use 2019 **OR** 2020 when calculating PPP loans
- Still 2.5x average monthly payroll
- You **must** first meet the established eligibility criteria
- If you're eligible for a second-draw loan, and you complete an application, *your lender* can use the previously-submitted documentation and make a duplicate loan.
- If you choose to use 2020 payroll for your second-draw application, you'll need to provide a lot more documentation.



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SUMMARY: PPP CHANGES



First Time PPP borrowers – previously ineligible or voluntarily did not participate

- Sole Proprietor farmers who had a Schedule F loss in 2019

Existing Loans: loan modifications – recalculation of eligible funds for certain borrowers on existing PPP loans

- Sole Proprietor farmers who had less than \$100,000 Net Schedule F Income in 2019
- Partnerships who applied early and did not include amounts from Box 14A of their K-1s
- Some seasonal businesses

Second-draw loans – previous received (and spent) a PPP loan, and experienced a 25% or greater revenue decline (2020 vs 2019 – annual or individual quarter) = eligible for an additional loan

Borrowers can hire and pay for assistance in completing their applications



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WHERE DO I APPLY?

Go to your first draw note holder



If that was Kabbage, you'll work with Kabbage again
 If it was the First National Bank, you'll work with the First National Bank again
 If your lender sold your note, you'll work with the current note holder

If you did not get a first draw loan yet,



and you are eligible

Farm Credit East will take your application **IF** you are a current credit or financial services customer.



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HOW DO I APPLY?

- Watch (or re-watch) this webinar recording to complete your understanding!
- Complete the PPP Eligibility Tool (*Live link shown at end of webinar!*)
- Use the results & the link it gives you for applications and instructions if you are eligible

- Send your **completed application** to

Your current PPP lender if you already got a loan (Kabbage, your local bank, etc.)

Thomas.Daly@Farmcrediteast.com IF you are a current Farm Credit East customer who did not get a PPP loan yet



To hire a Farm Credit East consultant for loan calculations OR forgiveness,
[Farmcrediteast.com/pppconsult](https://farmcrediteast.com/pppconsult)

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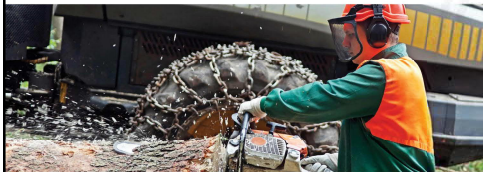


WHEN CAN I APPLY?

- Farm Credit East Viewpoint: **RIGHT** not rushed
- SBA believes they have plenty of money
 - So far, 60,000 applications for \$5 billion
 - \$285 billion total
- Farm Credit East will accept eligible applications beginning **February 1**
- **Deadline is March 31** *(as of date of this webinar)*
- SBA is now conducting fraud checks before issuing approval, which results in slower approval times



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What's new with PPP Forgiveness?



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Forgiveness Updates

- Same timeline: lender has 60 days, SBA has 90
- EIDL Advances ARE NOW FORGIVEN
- IF SBA determines ineligibility for PPP, PPP loan is not forgivable
- If you do not apply for forgiveness within 24 weeks and 10 months after receiving the funds, your lender will notify you when repayment must begin



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Owner compensation eligible for forgiveness

- Loans made in 2020: Based on 2019 compensation
- Loans made in 2021: Based on the year used to calculate the loan amount
- Pro-rated for the covered period you choose
- Owner compensation forgiveness is capped at \$20,833 ACROSS ALL BUSINESSES
- Based on \$100k of qualifying comp for any ONE person



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What counts as owner compensation?

ALL are based on the tax year for which you provided the loan documentation

- **Sole proprietors:** Sch C - net profit
Sch F - difference between gross income and employee wages
- **Partnerships:** net earnings from self employment (Box 14A of Schedule K-1) multiplied by .09235
- **S-corp:** wages and retirement benefits, capped by prorated actual amounts paid (for ≥5% owners)
- **C-corp:** wages, retirement, & *health* benefits, capped by prorated actual amounts paid (for ≥5% owners)
- **LLCs:** find your tax type above
- **Fishing vessel owners:** cannot receive forgiveness if crew seeks forgiveness on their own loans



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Forgiveness Reductions

- Remain the same for reductions in wages (by 25% or more) or FTEs
- Reductions not cured will have forgiveness reduced proportionally
- These will not count against you:
 - Documented good faith efforts to rehire (you had to let unemployment know)
 - Firing for cause
 - Employee's idea to leave
- Borrowers with loans of \$50k or less are not subject to forgiveness reductions



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Which form do I use?

- Loans of \$50,000 or less can use **3508S**, are exempt from forgiveness reductions
 - Still have to document expenditures (even if you don't have to submit this documentation)
- Loans of \$150,000 or less, please use **3508S**
 - Still have to document expenditures (even if you don't have to submit this documentation)
 - Still have to do the math to prove you didn't reduce wages or FTEs even if you don't have to submit it!
- Loans over \$150,000 can use **3508EZ** if no reduction in wages or FTEs
 - Must submit documentation of expenditures
 - Still have to do the math to prove you didn't reduce wages or FTEs even if you don't have to submit this documentation
- Everyone can use **3508** to make sure you have the complete documentation



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"I read it on the internet, it must be true."

- Abraham Lincoln

There are NO forgiveness applications that allow you to ignore the documentation.



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Required documentation

- You need to do additional calculations that do not need to be submitted in order to correctly complete your application
- What needs to be submitted varies by form, business type, and what you spent the money on
- Requirements are detailed in the instructions
- Each borrower is required to maintain this information for 6 years and make available upon request to SBA
 - Length of time is slightly less for loans under \$150,000



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Strategy

- You got funds for 10 weeks of payroll
- You had 24 weeks to spend it
- When gathering eligible expenses, payroll should cover it all AND you have to demonstrate at least 60% was on payroll anyway
- DO NO MORE THAN IS NECESSARY
- If employee wages cover it, don't mess with the benefits or taxes or owner comp
- Remember: the more you give your lender, the more they need to wade through
 - that will take a lot longer than necessary
 - and increases the likelihood you forget something!



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Your Key Resource Links



Farm Credit East COVID-19 Resource Hub
[Farmcrediteast.com/ResourceHub](https://farmcrediteast.com/ResourceHub)

PPP Eligibility Calculator
[Farmcrediteast.com/PPPEligibility](https://farmcrediteast.com/PPPEligibility)

Request PPP Consulting
Loan Calculations OR Forgiveness
[Farmcrediteast.com/PPPconsult](https://farmcrediteast.com/PPPconsult)