

# SBA Paycheck Protection Program (PPP) Dealer Q&A on Zoom

## **Resource websites:**

- Treasury website that has information on PPP:  
<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
- Loan Forgiveness Application: <https://www.sba.gov/sites/default/files/2020-05/3245-0407%20SBA%20Form%203508%20PPP%20Forgiveness%20Application.pdf>
- FIADA Coronavirus page: <https://www.fiada.com/page/corona>
- NIADA Dealer Resource page: <https://info.niada.com/covid19-dealer-resource-page>

## **Questions:**

- Timeframe for getting a loan and when will I get my loan?
  - Program expires June 30, 2020.
  - Once approved, funds are received within 10 days.
- How does this program work?
  - Apply with a bank that is an SBA lender. List available on Treasury site, <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
  - SBA guarantees 100% of the loan
  - Your bank becomes almost an administrator, not like going through a normal loan
  - Terms are part of a calculation that includes average monthly payroll (determined from a one-year) period multiplied by 2.5. That is your maximum loan amount. Interest rate is 1% and a payment deferral of 6 months. Repayment is over 2 years<sup>1</sup> (amortized over 18 equal monthly payments starting after the six-month deferral expires) for the balance of the loan that is not forgiven. You can prepay at any time.
  - There is a loan forgiveness component. Coverage period is the day you get your loan and count 8 weeks out. For payroll costs there is an alternative period that you can use that starts with the beginning of your first full pay period after you get the loan.
  - Eligible expenses for loan forgiveness: payroll costs, lease payments (real and personal property including copier leases, rent or if you are leasing vehicles, all count). Mortgage interest that was in place prior to February 15, 2020.
  - Complete the Loan Forgiveness Application:  
<https://www.sba.gov/sites/default/files/2020-05/3245-0407%20SBA%20Form%203508%20PPP%20Forgiveness%20Application.pdf>
  - 75% of the loan proceeds must be used for payroll costs.<sup>2</sup>
  - Payroll Costs: wages and salary, group health insurance, retirement plan contributions for employees. Doesn't include employers' side of payroll taxes and wages or salary paid to employees in excess of \$100,000 annualized or \$15,385 for eight weeks.

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<sup>1</sup> There are currently discussions in Congress about extending the loan term beyond two years.

<sup>2</sup> Congress is considering changes to PPP that would decrease this percentage to 60%.

- Payments made after the payment period but are incurred in the covered period (the period that eligible expenses count toward loan forgiveness) count.
- Payroll costs that were incurred before the covered period and were paid during the covered period are covered.<sup>3</sup>
- Two ways for reduction of the loan forgiveness amount:
  - FTE Reduction: SBA will compare the average FTE (40 hour per week) of a borrower from either Jan-Feb 2020, or February 15, 2019 – June 30 2019 (at borrower’s option) to the average FTE during the covered period (the period where eligible expenses can count toward loan forgiveness). Any reduction in FTE will result in a proportional reduction in the loan forgiveness amount. For example, if a borrower had an average FTE of 10 during January and February 2020 and an average FTE of 9 during the covered period, the borrower’s loan forgiveness amount would be reduced by 10%.
  - Wage Reduction: If a borrower reduces the salary or wages of an employee who makes \$100,000 or less (annualized) by more than 25% , if reduced by more than 25% from the average wage or salary that the employee earned in the first quarter of 2020 then the amount of that reduction during that covered period that exceeds 25% will be reduced from the borrower’s loan forgiveness amount. This reduction is on a per employee basis. For example, during the first quarter of 2020 an employee made \$15.00 per hour and that employee’s hourly rate during the covered period was \$10.00 per hour. This equals a 33% reduction in this employee’s wages. Assuming that the employee is full-time (40 hours per week) then the loan forgiveness amount would be reduced by \$400  $((\$15.00 \times 0.75) - \$10.00) \times 40 \text{ hours/wk}^4 \times 8 \text{ weeks}$
  - Safe Harbor: A borrower whose loan forgiveness is reduced as a result of the FTE reduction calculation or the wage reduction calculation can have those reductions eliminated entirely if f between Feb 15-April 26 the borrower had laid off or furloughed employees (for the FTE reduction) or reduced the wages of employees who make \$100,000 or less by more than 25% (for the wage reduction) and the borrower completely reverses such layoff, furlough or wage reduction by June 30, 2020.
- If a borrower makes a good faith offer to hire back a laid off or furloughed employee during the covered period and the employee refuses to come back then generally that employee will not count against the borrower (i.e. will be considered as if the employee is employed) when determining any potential reduction in the borrower’s loan forgiveness if (a) the offer to rehire was in writing, (b) the offer was for the same salary or wages and same number of hours as before the layoff or furlough, (c) the borrower maintains records of the offer and rejections and (d) and the borrower informed the state unemployment office of such employee’s rejection of reemployment within 30 days of the rejected offer.

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<sup>3</sup> Some new guidance from SBA brings this into question; however there remains an argument that such expenses can be included within eligible payroll costs that can be forgiven.

<sup>4</sup> This is the average hours worked per week for the employee during the first quarter of 2020 and not the hours worked per week during the covered period.

- Any employee who voluntarily quits or is terminated for cause during the covered period will also not adversely affect a borrower's loan forgiveness amount. .
- The SBA will automatically review all PPP loans that are over \$2 million.
- What documents do I need for loan forgiveness?

### **PPP Loan Forgiveness Calculation Form**

#### **PPP Schedule A**

**Payroll Cost Documents:** Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or the Alternative Payroll Covered Period consisting of each of the following:

- a. Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
- b. Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
  - i. Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
  - ii. State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- c. Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the Borrower included in the forgiveness amount.

**FTE Documentation:** Documentation showing (at the election of the Borrower):

- a. the average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019;
- b. the average number of FTE employees on payroll per month employed by the Borrower between January 1, 2020 and February 29, 2020; or
- c. in the case of a seasonal employer, the average number of FTE employees on payroll per month employed by the Borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive twelve-week period between May 1, 2019 and September 15, 2019.

The selected time period must be the same time period selected for purposes of completing PPP Schedule A, line 11. Documents may include payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941) and state quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state. Documents submitted may cover periods longer than the specific time period.

**Nonpayroll Documentation:** Documentation verifying existence of the obligations/services prior to February 15, 2020 and eligible payments from the Covered Period.

- a. Business mortgage interest payments: Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.

- b. Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
- c. Business utility payments: Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments.

#### **Documents that Each Borrower Must Maintain but is Not Required to Submit**

PPP Schedule A Worksheet or its equivalent and the following:

- a. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
- b. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000.
- c. Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by any employee for reductions in work schedule.
- d. Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor.”

All records relating to the Borrower’s PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower’s certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower’s loan forgiveness application, and documentation demonstrating the Borrower’s material compliance with PPP requirements. The Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.

- Should funds be kept in a separate account?
  - Not required, you will need to show payments.
- I am a one-person employee S Corporation and receive my income from any profits. how will that affect me for payroll proof?
  - The loan forgiveness for owners of businesses that have no employees is capped at the lesser of \$15,385 or 15.38% of the owner’s total 2019 compensation (typically this amount is the amount of net profit shown on the owner’s 2019 Schedule C).<sup>5</sup>
- Are there other sources of assistance besides the PPP & 10K Advance?
  - The \$10K advance is part of the SBA’s Economic Injury Disaster Loan (EIDL) program, which is a direct lending program from the SBA. In that program a borrower can received up to a \$10,000 advance that is a grant (does not have to be repaid). However, if the borrower also receives a PPP loan the amount of any such advance will be deducted from the loan forgiveness for the PPP loan.

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<sup>5</sup> Recent additional guidance has clarified this issue.

- A borrower cannot use the funds from a PPP loan and an EIDL loan for the same expenditures.
- I received a loan for 1,000 will that be the loan? or just part of the 10k advance?
  - The advances should come before the loan documents.
- I applied on April 7th. The bank will not give me any updates. They responded to my email that they would let me know if they needed anything. Should I apply at another bank? | If I applied on April 5th should I apply again?
  - Yes, apply with another bank, but only accept one offer.
  - List of eligible lenders: <https://www.sba.gov/paycheckprotection/find>
- How is payroll to 1099 "employees" considered? | Do 1099 payments qualify for the forgiveness?
  - 1099 employees are not considered in the PPP program and cannot be used calculate your loan amount or your loan forgiveness. Independent contractors can apply for a PPP loan for themselves.
- What about floor plan interest and utilities?
  - Floor plan interest does not count toward loan forgiveness
  - Utility expenses are an eligible expense for loan forgiveness.
  - At this time only 25% of the total loan forgiveness amount can be for non-payroll costs (lease payments, utilities, interest on mortgages)<sup>6</sup>
- Can a bonus be paid to employees to offset loss wages from terminated employees?
  - That is a business decision, the program does not prohibit providing hazard bonus or any other type bonus to employees to come back to work.
  - Keep in mind there is a cap of \$100,000 (annualized or \$15,385 for eight weeks) per employee for salary and wages.
  - The bonus can only be made for the covered period not future performance.
- Are internet and cell phones bills covered? | what utilities are included? | does cell phone, internet access count as utilities | What about dumpster and portable restroom? Both are used at our store.
  - Electricity, gas, water, transportation, telephone, or internet are all covered utility expenses. No, dumpsters and portable restrooms are not considered a utility and are not covered as a forgivable amount.
- Trash removal is on the water bill. Do we have to break that out?
  - No, you do not need to break it out if it is part of the utility bill. If it is a separate bill, then it has not been specifically included as a utility payment.
- What happens if employee insists to stay home, do I still need to pay them?
  - This is a business decision. If there is a legitimate reason that the employee is needed at work then you could potentially consider this a rejection of a rehire offer.
- Is the EIDL forgivable??
  - The maximum amount provided up to \$10,000 is forgivable, but they do not have to give you the full amount.
- Is the EIDL still available?

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<sup>6</sup> As stated above, Congress is considering adjusting the 75% rule mentioned above for payroll costs. If this changes then this percentage would also change.

- Yes, it is a program that the SBA has in existence.
- Marketing services or insurance for the business can be included?
  - No, these are not expenses that are eligible for loan forgiveness
- Do you apply for the EIDL loan through SBA or through my bank?
  - The EIDL goes through SBA, must apply through them. It is a direct loan.
- I applied through the SBA website should I applied through my bank?
  - Talk to your bank, especially if you are having challenges with length of time it is taking.
- What can I use EIDL loan for to help my business?
  - Proceeds from an EIDL loan can generally be used for working capital needs of a business
- Just to clarify, the RENT PAYMENTS are considered in the 75% or in the 25% that are not salary or business expenses?
  - Rent is an eligible nonpayroll expense and considered part of the 25%.
- Can you go over arrears expenses again? For instance, payroll for June will be paid in July after covered period. Is that ok?
  - Yes, the salary portion that is paid in June is covered when paid in July. As long as, it is paid in the next payroll period.<sup>7</sup>
  - For payroll, the day you receive the funds then count 8 weeks after for the coverage period. If you're a bimonthly or monthly, you can shift the alternative coverage period (but it only applies to payroll), to match your payroll periods for the 8 weeks.
- Understand the payroll part, but what about the payroll taxes for June period that is not due until July 15th is that ok to pay under PPP?
  - The employer side of payroll taxes are not included in forgiveness.
- If I was paying with 1099's, in order to get the forgiveness for the loan, can I change those employees to regular salary NOW? Should I do that?
  - No
- If the loan was already submitted and did not include mortgage interest or utilities should I reapply?
  - No, because your loan application is based only on payroll costs. Your calculation is 2.5 times your average monthly payroll costs. However, you can count these expenses for loan forgiveness.
- Will we be notified by the SBA on when to submit our forgiveness documentation?
  - No, the SBA will not contact you. You can submit your documentation as soon as your forgiveness is over. They have 60 days to review your forgiveness.
- If you got too much money because of miscalculations cannot you pay back the loan over 18 months
  - The issue is that you made certain certifications when you applied for the loan. At least at the end of the forgiveness period pay back the excess amount. The earlier you do it the better off you will be if there is an issue.
- Is there any way to check the status of the application?
  - If it is through your bank you can contact the bank. Contacting the SBA at this time is very challenging.

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<sup>7</sup> See note above about payroll periods paid in the covered period but occurred prior to the payroll period.

- Do you start your 8 weeks from the date you receive the loan?
  - Yes other than if you select the alternative covered period for payroll.
- Does the amount of the loan forgiveness reduce the covered expenses and therefore are taxable?
  - Originally this was tax free. As of now, because of a recent IRS ruling, loan forgiveness is taxable income. You cannot deduct from your income the expenses that were used to calculate your loan forgiveness amount. Congress is trying to reverse, but as of this date it is taxable.