

How to Obtain an SBA Coronavirus PPP Loan and Have It Forgiven

By: Norm Schultz- Trade Only Today



It's the best funding option to keep employees on payroll and small businesses open.

The number-one pressure on small-business owners right now is payroll. Whether you're a sole proprietor one-person-show or a company with 500 employees, you've certainly felt the pressure. Maybe you've already stopped paying yourself, have laid off workers or cut hours. Well, you can thank your federal government for the best aid program recently offered for small business, the [Paycheck Protection Program loan \(aka Coronavirus Stimulus Loan, or PPP Loan\)](#). Here's a summary of the details you need to know:

Who Qualifies?

A small business with fewer than 500 employees that was in business on or before February 15, 2020. This can be an S Corp, C corp, LLC, sole proprietorship or independent contractor. It also includes certain nonprofits, tribal groups and veteran groups. When obtaining the PPP loan, you need to certify that your business has been economically affected or that economic uncertainty make the loan necessary

How Much Can I Get?

Up to \$10 million dollars. But the amount each business gets is based on its payroll costs. The amount you qualify for is based on 2.5 times your average monthly payroll costs. Your monthly average payroll is calculated based on your prior 12 months of payroll costs. You take that average monthly payroll number and multiply it by 2.5. For example, if your monthly average payroll was \$20,000, then you would qualify for a \$50,000 PPP Loan.

What's Included in Monthly Payroll Costs?

It includes salary, wages, commissions, payment of vacation, sick, parental/family/medical leave, payment of retirement contributions, group health coverage premiums and state and local taxes assessed on payroll. It doesn't include federal payroll taxes though. It also doesn't include payroll costs for those making more than \$100,000. Their first \$100,000 is considered, but anything in excess is not considered for determining average monthly payroll costs.

What Can I Use This Money For?

First and foremost, payroll for you and your employees, but you can also use the money for rent, mortgage obligations, utilities and other debt obligations you may have.

What Is the Interest Rate?

Half a percent. that's right. It's nearly an interest-free loan. The bill allowed for a maximum rate of 4 percent, but the guidance issued by the U.S. Treasury is stating that the maximum rate would be 0.5 percent. Your government is stepping up as they're backstopping these loans for the banks. Now, this rate could certainly change, but under the law it cannot exceed 4 percent.

When Do I Have to Pay It Back?

The loan term specified by the treasury guidance is two years. Loan payments are deferred for the first six months. There is no pre-payment penalty though, so you can repay or have the loan forgiven earlier.

Do I Have to Put Up Collateral or Sign a Personal Guarantee?

Nope. I told you this was a good deal, right?

How Do I Get This Loan Forgiven?

This is the critical question. The loan forgiveness provision is the best part. You are eligible for loan forgiveness for the amounts you spend over the next eight weeks after receiving the loan on certain qualifying expenses. The qualifying expenses of the business over the eight-week period includes payroll costs, rent, interest on mortgage debt and utilities.

If the number of full-time employees is reduced over this time period or if your payroll costs are reduced 25 percent or more, then the amount of the loan eligible

for forgiveness will be reduced

The bank who granted the loan is who will determine the loan forgiveness amount based on the criteria above. The business will request forgiveness of the loan with evidence to the bank, and the bank will have 60 days to approve or deny the forgiveness.

Will the Business Get Forgiveness of Debt Income Via a 1099-C?

Now, this is a question only your tax lawyer or accountant would ask. In other words, will I have to pay taxes on the amount of debt forgiven on the loan? Nope. The new law specifically stated that forgiven PPP Loans will not be considered forgiveness of debt income

Do I Still Qualify If I Already Have an SBA Loan?

You can have more than one SBA loan. You just can't exceed the total SBA loan maximums when all loans are combined.

What About the SBA Economic Injury Disaster Loans (EIDL)?

This is another good loan option. It is up to two million dollars and is the loan typically used for natural disasters that has been approved for businesses effected by the coronavirus pandemic. If you have a low payroll or need funds in excess of the amounts you qualify for under PPP, consider the EIDL loans, as they have low rates, longer repayment terms and can be used for more purposes than the PPP loans. However, they do not offer any form of loan forgiveness. But they do include a quick \$10,000 grant to effected businesses that does not need to be repaid

So, let's run a quick scenario on the facts above for a PPP Loan. Let's say your total "payroll costs" over the prior 12-month period is \$240,000. As a result, your monthly average payroll is \$20,000. We then multiply \$20,000 by 2.5 and get the maximum loan amount of \$50,000.

Let's further assume that over the eight-week period after you receive the loan that you use \$40,000 for payroll costs, \$9,000 for rent and \$4,000 on utilities. You would then have totally qualifying expenses for forgiveness of \$53,000. Since you have qualifying expenses in excess of the loan amount, you would be eligible for forgiveness of the entire loan. Not bad, huh? Not bad at all. Finally, we have a

stimulus bill that small businesses can be excited about.

So, What Should You Do Now?

It is important that you apply now! There are 30 million small businesses in the U.S. and \$350 billion allocated to the program. We can expect funds may run out before everyone can receive a loan. Suggestion: only applying to FDIC-insured bank for PPP loans. Be aware that many non-banks are taking applications, but in almost all cases they are simply trying to broker this information to banks in return for a fee.”