



GETTING THE MOST OUT OF YOUR SBA PPP LOAN

The Small Business Administration (SBA) provided an economic support opportunity to small businesses by offering a loan to qualifying companies and individuals to help sustain them during the COVID-19 pandemic. The Paycheck Protection Program (PPP) allows for the possibility of full loan forgiveness if certain guidelines are followed. Below is a summary of some of the key reminders small business owners need to consider to take advantage of this financial opportunity.

WHAT IS THE PURPOSE OF THE PPP PROGRAM?

The PPP program provides financial support to small businesses who may be facing reduced or negative economic growth as a result of the COVID-19 pandemic. Funds from the PPP program are intended to help the business continue to meet its basic financial obligations, with a primary focus of maintaining their employees during this time.

WHAT EXPENSES CAN THE PPP FUNDS BE USED TO COVER?

The PPP funds may be used for any business-related expense, **however**, only funds used for covered costs are eligible for forgiveness, with a maximum of 25% of those payments being used for non-payroll expenses.

WHAT ARE THE COVERED COSTS?

Payroll Costs, Rent, Utilities and Interest

WHAT DOES THE PPP CLASSIFY AS PAYROLL COSTS?

- Gross wages, tips, vacation and Family Medical Leave Act (FMLA) payments
- Group Healthcare benefits (employer's portion)
- Retirement benefits (employer portion)
- State and local taxes on compensation

Payroll costs do not include the employer's portion of payroll tax or workers compensation. Also, payroll costs are limited to \$100,000 of an employee's annual compensation.

WHAT ARE CONSIDERED QUALIFYING UTILITY EXPENSES?

- Electricity
- Gas
- Water
- Phone
- Internet
- Transportation

WHAT IS THE DEFINITION OF RENT EXPENSE FOR THE PPP?

The Coronavirus Aid, Relief and Economic Security Act or the "CARES" Act, which established the PPP, does not give an explicit definition of Rent Expense; however, many consultants are interpreting this to include rental expenses for real and personal property used for business purposes.

WHAT TYPES OF INTEREST EXPENSE ARE CONSIDERED A COVERED COST?

- Mortgage interest secured by real or personal property that was in effect on or before February 15, 2020
- Interest incurred on lines of credit, if secured by real or personal property
- Non-mortgage interest is considered a permissible expenditure for PPP loan proceeds; however, it is **not** factored into the forgiveness calculation

WHAT IS THE TIME FRAME FOR SPENDING THE PPP PROCEEDS?

Small business owners must provide supporting documentation on how the PPP proceeds were spent for the 8-week period following funding of their loan.

WHAT ABOUT PROCEEDS THAT ARE NOT FORGIVEN?

Any funds determined to be ineligible for loan forgiveness must be repaid within 2 years at an interest rate of 1%. No payments are due within the first 6 months, but interest will accrue during this time.

**HOW IS THE LOAN
AMOUNT THAT IS
FORGIVEN CALCULATED?**

The calculation of the eligible loan amount for small businesses is based on the business' average monthly payroll, multiplied by 2.5. Of the loan amount granted, a minimum of 75% must be used for the covered costs (payroll, rent, utilities and interest).

The amount subject to forgiveness is based on the amount used for covered expenses. The following example provides an illustration where the business did not use all of the loan proceeds, however, of the amount used, 75% was for eligible covered expenses.

EXAMPLE:

Assume a business receives PPP loan proceeds of \$250,000.

Total amount spent over the covered period was \$200,000 and 75% of that was for payroll cost.

If the average number of full-time employees for the 8 week period was 20 compared to the historic 25 (number of employees listed in loan application), the maximum amount forgiveness of the loan would be:

$$20/25 * \$200,000 = \underline{\$160,000}$$

So, the amount subject to be repaid within 2 years would be \$90,000.

PLEASE TALK WITH YOUR ACCOUNTANT OR FINANCIAL ADVISOR TO DETERMINE THE INFORMATION NEEDED TO DETERMINE THE AMOUNT OF YOUR LOAN PROCEEDS THAT ARE ELIGIBLE FOR FORGIVENESS THROUGH THE SBA PPP LOAN PROGRAM.

THIS EXAMPLE IS FOR ILLUSTRATIVE PURPOSES ONLY AND SPECIFICS RELATING TO YOUR BUSINESS WILL NEED TO BE REVIEWED TO DETERMINE THE FINAL CALCULATION OF YOUR LOAN LIABILITY, IF ANY. PLEASE CONTACT YOUR ACCOUNTANT OR FINANCIAL ADVISOR ON YOUR SPECIFIC SITUATION.

ALSO, THE SBA AND FEDERAL REGULATORS ARE CONTINUING TO PROVIDE CLARIFICATION ON THE PPP PROGRAM AND ADDITIONAL INFORMATION MAY BE AVAILABLE AND IS SUBJECT TO CHANGE AFTER THIS PUBLICATION IS MADE AVAILABLE TO CBOTS CUSTOMERS. THIS INFORMATION IS NOT ALL INCLUSIVE.

USERS ARE ENCOURAGED TO ACCESS [HTTPS://WWW.SBA.GOV/SITES/DEFAULT/FILES/2020-04/PPP--IFRN%20FINAL.PDF](https://www.sba.gov/sites/default/files/2020-04/ppp--ifrn%20final.pdf) FOR MORE COMPREHENSIVE INFORMATION.

THIS INFORMATION IS CONSIDERED ACCURATE TO THE BEST OF OUR KNOWLEDGE AS OF DATE OF ITS PRINTING OF 04.22.2020.



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