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# **Paycheck Protection Program**

## **Eligible Uses & the Loan Forgiveness Process**



**Dale Lattz**

**Nick Paulson**

**Bob Rhea**

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# **Paycheck Protection Program**

## **Eligible Uses & the Loan Forgiveness Process**



**Dale Lattz**

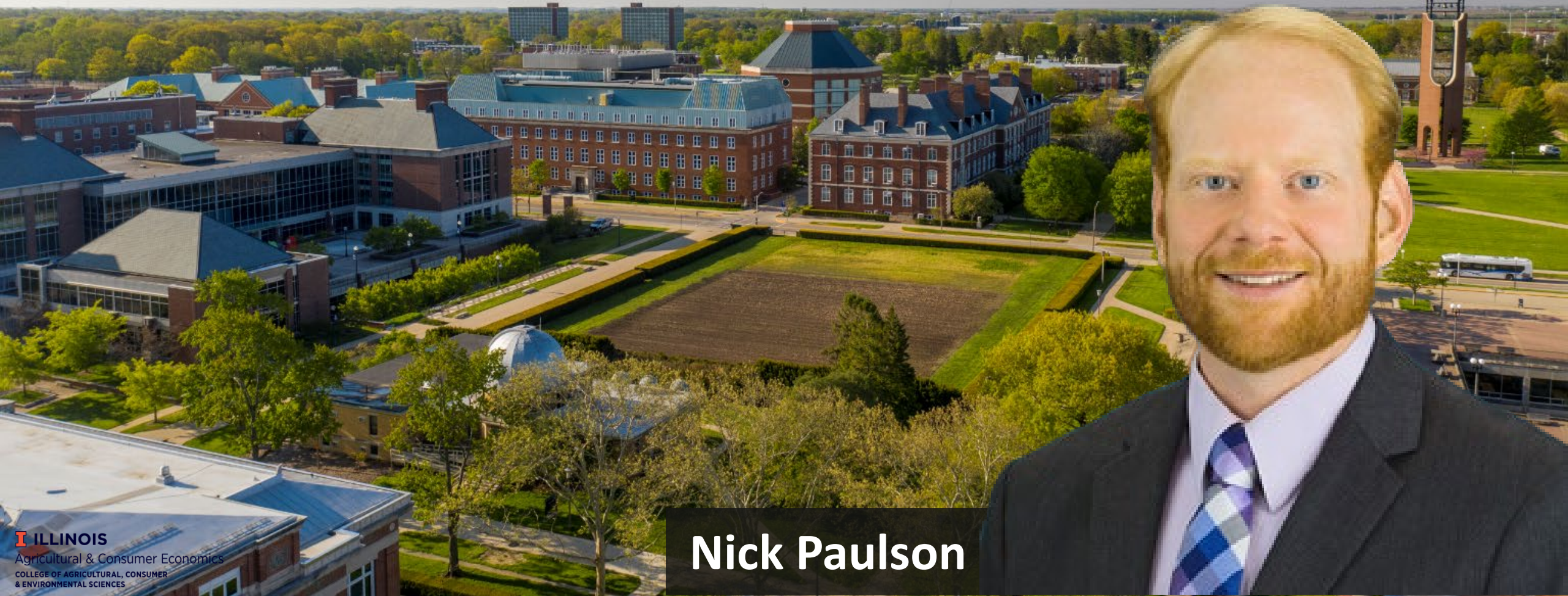
**Nick Paulson**

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**Nick Paulson**

# Background – PPP Loans

Loans can be issued between **April 3 and June 30, 2020** or until funds gone.

Potential to have principal and interest forgiven.  
Otherwise 2-year term at 1% interest rate.

As part of application process, must certify a number of items, including “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant”

# PPP Funding Summary

## PPP Round 1

(funds exhausted April 16)

- \$342b approved for over 1.6 million loans in just 2 weeks
- Average loan size \$206k
- **Illinois**
  - **70k loans**
  - **\$16b approved funds**
- Ag, Forestry, Fishing and Hunting
  - 46k loans
  - \$4.4b approved funds

## PPP Round 2 (as of May 9<sup>th</sup>)

(second round began April 27)

- \$189b approved for 2.6m loans (\$175 b in first week, \$14b in second week)
- Average loan size \$73k
- **Illinois**
  - **102k loans**
  - **\$7b approved funds**

# PPP Funding Round 1 Summary

Loan Size	Approved Loans	Approved Dollars in Billions	Percent of Count	Percent of Amount
<b>\$150,000 and under</b>	<b>1,229,893</b>	<b>\$58.3</b>	<b>74.0%</b>	<b>17.0%</b>
>\$150,000 to \$350,000	224,061	\$50.9	13.5%	14.9%
>\$350,000 to \$1 million	140,197	\$80.6	8.4%	23.6%
>\$1 million to \$2 million	41,238	\$57.2	2.5%	16.7%
>\$2 million to \$5 million	21,566	\$64.3	1.3%	18.8%
>\$5 million	4,412	\$30.9	0.3%	9.0%



# PPP Funding Round 2 Summary

Loan Size	Approved Loans	Approved Dollars in Billions	Percent of Count	Percent of Amount
<b>\$150,000 and under</b>	<b>2,339,889</b>	<b>\$72.2</b>	<b>91.3%</b>	<b>45.5%</b>
>\$150,000 to \$350,000	147,602	\$32.6	5.8%	20.6%
>\$350,000 to \$1 million	61,646	\$34.4	2.4%	21.7%
>\$1 million to \$2 million	14,130	\$19.5	0.6%	12.3%
>\$2 million to \$5 million	6,352	\$18.9	0.3%	11.9%
>\$5 million	1,548	\$11.3	0.1%	7.2%



**Dale Lattz**

**Bob Rhea**

# Eligible Uses of PPP Loan Proceeds

- Payroll costs  
(as defined on the next slide)
- Mortgage interest obligations
- Rent obligations
- Utilities
- Other interest payments on business debt obligations accrued before February 15, 2020

## Other conditions:

- Must be business related expenses
- 75% or more used for payroll costs
- Obligation generally in place before February 15, 2020
- For schedule C (F) filer, must have claimed or be entitled to claim these expenses on 2019 schedule C (F)

# Payroll Costs

- Compensation to employees (salary, wage, commissions, or similar compensation, payment of cash tips or equivalent).
- Payment for vacation, parental, medical or sick leave.
- Payment required for the provisions of group health care benefits, including insurance premiums.
- Payment for retirement benefits.
- **For an independent contractor or sole proprietor: wages, commissions, income, or net earnings from self-employment income or similar compensation.**

# Additional Use for the for Self-Employed

**New term – “Owner compensation replacement”**

Calculated based on **2019** net business profits (Schedule C or Schedule F).

8 weeks of 2019 net profit

**Example:** 2019 Schedule F net income = \$75,000  
( $\$75,000 \times 8/52$ ) = \$11,538

# Forgiveness of the PPP Loan

- **Borrower must apply** with their lender for loan forgiveness. Lender required to make a decision on loan forgiveness **within 60 days** of receiving the application.
- Documentation verifying the number of employees on payroll and pay rates.
- Documentation verifying payments on covered mortgage obligations, lease obligations and utilities.
- Certification from a representative of your business or organization that is authorized to certify, that the documentation provided is true and that the amount that is being forgiven was used in accordance with the program's guidelines.

# Forgiveness of the PPP Loan

- Loan and interest can be forgiven if the loan proceeds are used for forgivable purposes and employee and compensation levels are maintained
- Forgivable purpose same as eligible expenses
- **No more 25%** of the loan forgiveness may be attributable to **non-payroll costs**:
- Eligible expenses paid during 8-week period after loan proceeds disbursed
- Amount of loan forgiveness reduced if a reduction in the **number of employees** or a reduction greater than **25% in wages paid** to employees

# Forgiveness of the PPP Loan

## Non payroll costs (CARES Act 1106(a))

- Debt as a mortgage on real or personal property incurred before 2/15/20
- Rent obligated under a leasing agreement in force before 2/15/20
- Utility payment for service for the distribution of:
  - Electricity, gas, water, transportation, telephone, or internet access
    - Service began **before 2/15/20**
  - Interim Final Rule 4/14/20 examples of allowed uses:
    - rent for business vehicle
    - gas for driving your business vehicle



# PPP Loan Forgiveness

Payroll costs – limited to \$100,000 of annualized pay per employee (for eight weeks, a maximum of \$15,385 per individual)

For self-employed – “**Owner compensation replacement**”, calculated based on the 2019 net profit with forgiveness of such amounts **limited to eight weeks’ worth (8/52) of 2019 net profit**.

**Example: 2019 net profit = \$75,000**

- PPP loan amount = **\$15,625** ( $\$75,000/12 \times 2.5$ )
- Forgiveness calculation for OCR = **\$75,000** x **8/52** = **\$11,538**
- Portion allowed for non payroll = **\$15,625** x **25%** = **\$ 3,906**
- **Total forgiveness = \$15,444**, leaving **\$181** to be repaid

# PPP Loan Forgiveness

## PPP Loan computation

- Payroll \$20,000
- Health Insurance for employees \$5,000
- 2019 Schedule F net profit \$ 90,000
- Total Payroll Costs \$115,000
- PPP Loan Amount \$23,958
  - \$115,000 divided by 12 x 2.5 = \$23,958

# PPP Loan Forgiveness

- PPP loan amount = \$23,958
- Total forgiveness = \$ 23,681
- 2020 payroll & health insurance = \$3,846
  - \$25,000 divided by 52 x 8 weeks
- Amount allowed for non payroll = \$5,989
  - 25% of \$23,958
- Owner Compensation Replacement = \$13,846
  - \$90,000 divided by 52 x 8 weeks
  - No 2020 expenditures required for this portion

# PPP Loan Forgiveness Reduced By

## Full time equivalent (FTE) reduction

Divide average FTE headcount during 8-week covered period by the average head count during one of the two periods: a) February 15, 2019 to June 30, 2019 or b) January 1, 2020 to February 29, 2020. If over 1, no reduction. If under 1, result is multiplied by loan proceeds spent on eligible expenses.

## 25% reduction in salary or wage to any one employee

If a borrower decreases salaries and wages by more than 25% for any one employee than a portion of the loan may not be forgiven. The comparison is made for the 8-week period to the most recent full quarter that the employee was employed.

# PPP Loan Forgiveness – Safe Harbor

Borrower will not have its loan forgiveness proportionately reduced if the decrease in FTE and/or wages is eliminated by June 30, 2020.

# PPP Loan Forgiveness – Required Documentation

- For employee payroll – Form 941 and state wage unemployment insurance tax report forms or other payroll processor records.
- For owner compensation replacement, Schedule C or Schedule F that was submitted at the time of the PPP application.
- Evidence of **business** rent, **business** mortgage interest payment and **business** utility payments during the covered period.

# PPP Loan Forgiveness – Example Documentation

- Payroll support – 2020 Payroll Reports by employee for the 8-week period following the date of the loan. May require check numbers.
- For interest, rent and utility payments - 2020 transaction reports for 8-week period following the date of the loan. Copy of receipts and invoices.
- Verification that obligations were incurred before February 15, 2020, such as lease and loan agreements, utility bills.
- For owner compensation replacement, Schedule C or Schedule F that was submitted at the time of the PPP application.

# PPP Certification Safe Harbor

**PPP loan recipients have until May 14**

- To return funds and avoid scrutiny
- If borrower no longer believes
- Self certification of “uncertainty” and “need” applies



# Economic Injury Disaster Loans (EIDL)

- Agricultural businesses are eligible, and only agricultural business applications are currently being accepted
- Loans for up to \$150k for ag businesses affected by a disaster
- Online application, direct SBA lending
- If you qualify:
  - 3.75% interest rate (maximum)
  - Up to 30 year term
- Loan advance of up to \$10k
  - \$1,000 per employee; sole proprietors only eligible for \$1,000
  - advance does not have to be repaid
  - As of May 9th, 3 million loan advances for \$9.9 billion

# Questions Remaining???

- Clear definition of FTE's and other Wage reduction issues.
- Expenses accrued and paid during 8-week period. Do expenses accrued for more than the 8-week period and paid during the 8-week period need to be calculated for an 8-week period?

Example: mortgage interest paid for more than the 8 week period, cash rents paid for whole year.

- What if the 75% of expenses not used for payroll?  
Is forgiveness all or nothing?

# Recommendations

- Important to try and meet the requirement that at least **75% of loan proceeds used for payroll.**
- Have complete payroll records, including count of FTEs and individual employee salary and wages paid.
- Document payments for all eligible expenses (payroll records, general ledgers and/or transactions journals, check numbers, invoices paid, records of obligations incurred before February 15, 2020).

# Upcoming Webinars

## Farm Policy, Farm Incomes, and Upcoming Management Decisions

**11:00 to 11:45am CT, Friday May 15<sup>th</sup>**

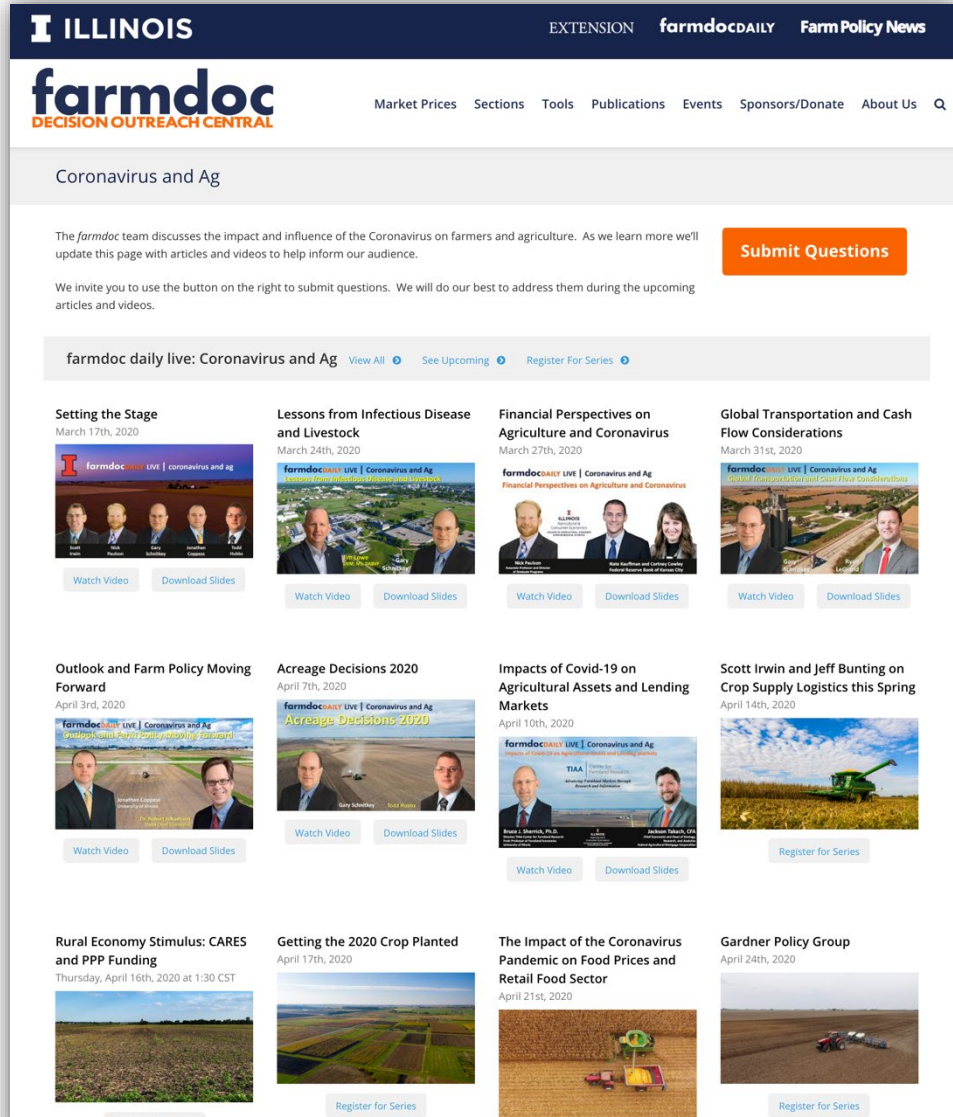
Update on farm policy will be provided with discussion on the Coronavirus Food Assistance Program. Income outlook given different potential payment schemes will be detailed. Difficulties in making 2021 decisions given the current policy environment will be described.

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