



Paycheck Protection Program – 2nd Draw

The new stimulus package passed by congress and signed into law on December 27th brings a fresh batch of funds to many needed businesses while providing a slew of additional questions. These questions are primarily concentrated around eligibility, loan details, and forgiveness applications. Pease, CPAs endeavors to provide clarity where possible. If the below summary does not address your concerns you can schedule a meeting with Chuck Fenske (cfenske@peasecapital.com) or Rich Mazzola (rmazzola@peasecpa.com) for further assistance.

PPP2 Stimulus Summary

- Allocation of \$284 Billion for the Paycheck Protection Program
 - \$35 Billion set aside for new borrowers with the remainder available for 2nd draws on previous borrowers
- Loans available up to \$2 million, based on 2.5x monthly average payroll
- Expanded criteria of eligible expenses (includes previously issued PPP loans)
- Clarified options for loan coverage period
- Expenses paid with PPP loan monies are now considered tax deductible and loan proceeds are not taxable
- Borrowers of the 2nd PPP loan are eligible for the employee retention credit
- The employee retention credit increased to 70% with eligibility of the revenue reduction at 20%
- End date of the PPP2 set for March 31, 2021

Eligibility

- Borrowers
 - New Borrowers are eligible as long as they were in operation prior to February 15, 2020 and must follow the same eligibility rules as the 2nd time borrowers
 - 2nd time borrowers must pass the “necessity test” as the program focuses on smaller and harder hit businesses
 - In order to receive a 2nd draw, borrowers must meet the following criteria:
 - Employ no more than 300 employees
 - Have or will use the full amount of the first PPP loan
 - Display a 25%+ reduction in gross receipts in Q1-Q3 2020 compared to Q1-Q3 2019
 - Must be businesses, certain non-profit organizations or housing cooperatives. Businesses can include tribal businesses, self-employed individuals, sole proprietors and independent contractors.
 - Note, each eligible entity can only receive one PPP2 loan

Loan Details

- Loan Amount
 - The loan amount for PPP2 is similar to PPP1 as it is calculated at 2.5x average monthly payroll for 12 months prior to the loan or the calendar year
 - If the business falls under NAICS code 72, Accommodations and Food Services, the loan amount can be calculated using 3.5x average monthly payroll costs
 - The loan amount cannot exceed \$2 million
- The calculation of average monthly payroll has two options:
 - Average monthly payroll for calendar year 2019 (or fiscal year ending in December 2019)
 - Or average monthly payroll 12 months back from the month the business plans to apply for PPP2 (i.e. March 2021 application; lookback from March 2020 to February 2021)
- There are no fees associated with PPP2
- Loan amounts below \$150,000 can submit a certification attesting that they meet the requirements stated above. They can do so on or before the entity submits the loan forgiveness application.
- The borrower can choose between an 8 week or 24 week coverage period.



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Loan Forgiveness

- The amount of loan forgiveness will be the total of their eligible expenses
- The 60/40 rule requires that 60% of the loan forgiveness is attributed to payroll costs
- The expanded eligible expenses can be applied to both PPP1 and PPP2 when applying for forgiveness. Those expanded eligible expenses are as follows:
 - Software costs
 - Cloud computing
 - Other human resource and accounting needs
 - Property damage relating to public disturbances in 2020 that are not covered by insurance
 - Certain supplier costs (timing restrictions apply)
 - PPE and other equipment upgrades to comply with health and safety guidelines (purchases after March 1, 2020 through the end of the declared emergency)
- For loan amounts below \$150,000, there is a new streamlined forgiveness path

We will be providing updates as they occur so please continue to monitor our Economic Relief Resource center (<https://www.peasecpa.com/covid-19-resource-center/>) for the latest developing information.