

Paycheck Protection Program: Who is eligible & How to apply

Live Webinar:

February 16, 2021 11:30 pm to 12:45 pm

PPP 1&2 Sponsored by:



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Refresher on current disaster relief programs

CFAP 1 & 2 Additional Assistance - February 26

QLA - March 5

PPP 1 & 2 - March 31

EIDL - December 31

CFAP 3 - Unknown





Overview of Paycheck Protection Program

- Created by CARES Act to help employers keep employees, PPP changed in late December 2020
- PPP: A *forgivable* loan to cover 2.5 months' worth of payroll costs for small businesses, including farmers, impacted by COVID-19.
- PPP vs. EIDL



Two types of PPP

1st draw: If you haven't received a PPP law previously or if you could increase your PPP loan amount using gross income, start here.

2nd draw: If you have previously received PPP *and* can show a 25% decline in receipts in at least one quarter of 2020.

We will talk about both 1 & 2 today.





Mythbusting: I don't think I qualify because...

- I had negative or low net farm income.
- I don't have employees
- My farm is seasonal
- My farm is very small
- I don't want debt
- Isn't it a lot of paperwork?!?



General Eligibility for PPP First and Second Draw Loans

- Eligible Businesses
 - Businesses: tribal, non-profit, veterans organizations, partnerships
 - *Now also: housing cooperatives, 501(c)(6) organizations, destination marketing organizations and certain news organizations
 - Agricultural producers, farmers, and ranchers
 - Self-employed individuals, sole proprietorships, and independent contractors
- Fewer than 300 employees (or < 500 if a first draw PPP loan)
- In business as of February 15, 2020
 - *Seasonal employers: any 12-week period between 2/15/19 and 2/15/20
- Only one first draw and second draw PPP loan per borrower (exception for first draw loan recalculations)



Specific Eligibility Rules for Second Draw Loans Only

- Previously received a PPP loan
 - Must use the *entire* amount of the first PPP loan—on allowable uses—by the time the second draw PPP loan is disbursed.
- Revenue reduction of at least 25% in 2020 compared to 2019
 - Many ways to show this, but in general need at least one quarter of 2020 to have 25% fewer gross receipts than in 2019
 - Can rely on 2019 and 2020 tax returns if you do not have quarterly gross receipts
 - For self-employed farmers, can compare 2019 and 2020 Schedule F (sum of lines 1b and 9)

What Makes Someone Ineligible for a PPP Loan?

- Delinquent or in default on a federal loan
- Engaged in illegal activity
- Household employer (someone employing people such as nannies or housekeepers)
- Some bankruptcies: anyone involved in a bankruptcy proceeding between when the PPP application is submitted and when the loan funds are disbursed is ineligible
- Business has permanently closed
- *Additional rules apply and some are different for second draw PPP loans (for example,



Allowable Uses of First and Second Draw Loans

- **Payroll Costs:** (1) salaries, wages, tips, and similar compensation (capped at \$100k/per employee per year); (2) group health, life, disability, vision, and dental coverage; (3) retirement benefits; (4) vacation, sick, parental, and family leave
 - **Self-Employed—Owner Compensation Replacement:** wages, commissions, income, etc. (use Schedule C or Schedule F)
- **Business expenses:** mortgage interest payments; rent/lease payments; utility payments
- **Now Also:** operations expenditures; property damage costs; supplier costs; worker protection expenditures
- *SBA may seek repayment of any funds used for non-allowable purposes



How Much Money Can I Receive From a PPP Loan?

- **General Rule:** 2.5 times your average monthly payroll
- **For Self-Employed:** 2.5 times owner compensation replacement
 - Schedule F filers: gross income from line 9 of Schedule F
 - Schedule C filers: net income from line 31 of Schedule C



Amount of First or Second Draw Loan: Self-employed with No Employees.

- Select *either* 2019 or 2020 IRS tax forms
 - Schedule F—*gross income* from line 9
 - Schedule C—net profit from line 31
- Maximum PPP loan amount:
 - Average monthly gross income/net profit ÷ 12
x 2.5
\$ Total PPP loan amount
- **NOTE:** For first draw loans, also add in any outstanding amount of an EIDL made between 1/31/20 and 4/3/20



Amount of Second Draw Loan: Self-Employed with Employees.

- Select *either* 2019 or 2020 Schedule F
- Determine payroll amount:
 - (1) difference between gross income from line 9, and the sum of lines 15, 22, and 23; + (2) gross wages/tips; + (3) contributions to benefits/retirement
- Maximum PPP loan amount:
 - Payroll ÷ 12 (to get average monthly payroll)
x 2.5
\$ Total PPP loan amount
- **NOTE:** For first draw loans, add in any outstanding amount of an EIDL made between 1/31/20 and 4/3/20

Amount of First and Second Draw Loan: Seasonal Employer

- Select any 12-week period between 2/15/19 and 2/15/20
- Maximum PPP loan amount:
 - Average monthly payroll costs for employees
x 2.5
\$Total PPP loan amount
- **NOTE:** For first draw loans, add in any outstanding amount of an EIDL made between 1/31/20 and 4/3/20



Do I qualify for a larger 1st draw PPP loan?

- Who is eligible for an *increased* first draw PPP loan?
 - Farmers/ranchers who received a PPP loan prior to 12/27/20
 - Seasonal employers that received a PPP loan prior to 12/27/20
 - Partnerships that did not account for partner compensation
 - Not accept, by 12/27/20, entire PPP loan for which approved
 - Returned part of a first draw PPP loan prior to 12/27/20
- Who may *reapply* for a new first draw PPP loan under current rules?
 - If returned *entirety* of first draw PPP loan prior to 12/27/20
- How to apply for a loan increase:
 - *Lenders* must submit the request electronically on or before 3/31/21

Questions about eligibility?



What information do I need to fill in the application?

Generally:

2019 or 2020 Schedule F

2019 or 2020 Form 943

If you make pre-tax benefits contributions,
this information is needed, too.

SBA website or lender may be helpful.



Without employees, line 34 is key.

With employees, Form 943 + benefits is helpful.

Internal Revenue Service (97) Schedule F (Form 1040 or 1040-SR) 2019

Name of proprietor _____ Social security number (SSN) _____

A Principal crop or activity _____ B Enter code from Part IV _____ C Accounting method: Cash Accrual _____ D Employer ID number (EIN) (see instr.) _____

E Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on passive losses Yes No

F Did you make any payments in 2019 that would require you to file Form(s) 1099? See instructions Yes No

G If "Yes," did you or will you file required Form(s) 1099? Yes No

Part I Farm Income—Cash Method. Complete Parts I and II. (Accrual method, complete Parts II and III, and Part I, line 9.)

1a	Sales of livestock and other resale items (see instructions)	1a		
b	Cost or other basis of livestock or other items reported on line 1a	1b		
c	Subtract line 1b from line 1a			1c
2	Sales of livestock, produce, grains, and other products you raised			2
3a	Cooperative distributions (Form(s) 1099-PATR)	3a		3b
4a	Agricultural program payments (see instructions)	4a		4b
5a	Commodity Credit Corporation (CCC) loans reported under election			5a
b	CCC loans forfeited	5b		5c
6	Crop insurance proceeds and federal crop disaster payments (see instructions):			
a	Amount received in 2019	6a		6b
c	If election to defer to 2020 is attached, check here <input type="checkbox"/>			6d
7	Custom hire (machine work) income			7
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)			
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50. See instructions			9

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses. See instructions.

10	Car and truck expenses (see instructions). Also attach Form 4562	10		23	Pension and profit-sharing plans (see instructions)	23
11	Chemicals	11		24	Rent or lease (see instructions):	
12	Conservation expenses (see instructions)	12		a	Vehicles, machinery, equipment	24a
13	Custom hire (machine work)	13		b	Other (land, animals, etc.)	24b
14	Depreciation and section 179 expense (see instructions)	14		25	Repairs and maintenance	25
15	Employee benefit programs other than on line 23	15		26	Seeds and plants	26
16	Feed	16		27	Storage and warehousing	27
17	Fertilizers and lime	17		28	Supplies	28
18	Freight and trucking	18		29	Taxes	29
19	Gasoline, fuel, and oil	19		30	Utilities	30
20	Insurance (other than health)	20		31	Veterinary, breeding, and medicine	31
21	Interest (see instructions):			32	Other expenses (specify):	
a	Mortgage (paid to banks, etc.)	21a		a	.....	32a
b	Other	21b		b	.....	32b
22	Labor hired (less employment credits)	22		c	.....	32c
				d	.....	32d
				e	.....	32e
				f	.....	32f
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions					33
34	Net farm profit or (loss). Subtract line 33 from line 9					34

If a profit, stop here and see instructions for where to report. If a loss, complete lines 35 and 36.

35 Reserved for future use.

36 Check the box that describes your investment in this activity and see instructions for where to report your loss:

a All investment is at risk. b Some investment is not at risk.

Example: Let's do some **new** math

Now, if **line 9** of the Schedule F was \$113,000 and you have no employee payroll then

$$\$100,000/12 \times 2.5 = \$20,833.$$

\$20,833 is the requested PPP amount. Because $113,000 > 100,000$ we reduce our annualized request to the maximum of \$100,000 per person.

Example: Let's do some **old** math

Previously if **line 34** of the Schedule F was \$42,000 and you have no employee payroll then

$$\$42,000/12 \times 2.5 = \$8,750.$$

\$8,750 is the requested PPP amount.

2nd Draw Application - A Couple Extra Steps!

Average Monthly Payroll:	\$	x 2.5 (or x 3.5 for NAICS 72 applicants) equals Loan Request Amount (may not exceed \$2,000,000):	\$	Number of Employees (including affiliates, if applicable; may not exceed 300):	
Purpose of the loan (select all that apply):	<input type="checkbox"/> Payroll Costs	<input type="checkbox"/> Rent / Mortgage Interest	<input type="checkbox"/> Utilities	<input type="checkbox"/> Covered Operations Expenditures	
	<input type="checkbox"/> Covered Property Damage	<input type="checkbox"/> Covered Supplier Costs	<input type="checkbox"/> Covered Worker Protection Expenditures	<input type="checkbox"/> Other (explain): _____	
PPP First Draw SBA Loan Number:					
Reduction in Gross Receipts of at Least 25% (Applicants for loans of \$150,000 or less may leave blank but must provide upon or before seeking loan forgiveness or upon SBA request):	2020 Quarter (e.g., 2Q 2020):		Reference Quarter (e.g., 2Q 2019):		
	Gross Receipts:	\$	Gross Receipts	\$	

Tips for successfully applying

- You are working with lenders not directly SBA
- Gather all the needed tax documentation.
- Fill out the SBA application ahead of time.
- Be aware some lenders use their own forms.
- Advocate for your eligibility.
- Don't wait until March. Give yourself time.

Potential issues with lenders

- Misconception that ag is not eligible
- May prefer to work with existing clients
- May not have accessible applications
- But--there are many lenders looking to help!

Lenders who have agreed to offer PPP loans



SBA offers a free matching service:
www.sba.gov/funding-programs/loans/lender-match

Still pondering where to go? Ask your fellow farmers. Did they have a good experience?

Questions about applying?



Documentation

Although forgiveness applications have become easier, requirement to keep documentation remains.

“The Borrower must retain all employment records/payroll documentation in its files for four years and all other documentation for three years after the date the loan forgiveness application is submitted to the lender” SBA Form 3508S, page 4

Tax forms, receipts, payroll stubs, bank account statements, etc.

Meeting forgiveness requirements of a PPP loan

- 100% forgiveness of PPP loan principal and interest is possible
- To receive 100% forgiveness of PPP loan:
 - 60% used on payroll costs or owner compensation replacement
 - 40% used for utilities, mortgage interest, and/or rent
 - Wages remain within 75% of what they were during Q1 of 2020
 - Number of FTE employees remains the same
- Up to 24 weeks to use funds
- If rules not fully followed, can receive partial forgiveness
- Any part of PPP loan not forgiven has 1% interest over five years

What do you do if you're denied?

- If denied for a PPP loan, or for loan forgiveness, the borrower can appeal to SBA.
- SBA says it will issue another rule to outline the appeals process.



Remaining questions?

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