



Albert P. Lanzillotti, II

Certified Public Accountant

Paycheck Protection Program (PPP)

SBA.COM® PAYCHECK PROTECTION PROGRAM (PPP) INFORMATION SHEET:

UPDATED: 1/7/21

On January 6, 2021, the U.S. Small Business Administration released initial details and guidelines for the updated Paycheck Protection Program (PPP) Second Draw Loans. The full text of the guidelines can be found [here](#).

Second Draw Loans are loans that will be made to borrowers that already received loans in the first round of PPP loans last year. The application for Second Draw Loans has not yet been released.

Below are some notable takeaways of what to expect:

- Program will be open to new borrowers on January 11, and for 2nd draw borrowers on January 13.
- Public companies are ineligible to receive PPP funds
- Maximum loan sizes for this round are \$2 million
- Applicants must have utilized the full amount of their initial draw PPP loan on or before the expected date of the second draw PPP loan is disbursed.
- Revenue needs to have decreased at least 25% in 2020 compared to the same quarter in 2019. For example: Q2 2020 (April, May, June 2020 Revenue) vs Q2 2019 (April, May, June 2019 Revenue) must have decreased 25% Year Over Year. 1 Quarter is a minimum. Revenue reduction can also be the full calendar year of 2020 vs 2019.
- Payroll can be calculated 3 ways: (1) 2019 calendar year, (2) 2020 calendar year, (3) past 12 months
- Restaurants, hotels, and other businesses categorized under NAICS code 72, will be eligible to receive 3.5x their average payroll.
 - These businesses will also be able to apply for a separate loan for each location, given each individual location is a separate legal entity
- For loans above \$150,000, applicants must submit documentation to substantiate a revenue reduction of 25% or more (tax forms, financial statements, bank statements).
- **Loans under \$150,000 do not require this documentation at the time of application, but they will be required for forgiveness.**
- Payroll documentation required in the first draw will be the same for second draw loans.

- No additional documentation will be required for second draw loans if the applicant used the full calendar year 2019 for the first draw and the second draw loan lender is the same as the first draw. The lender may require additional documentation.

PPP has been reopened with a fresh \$284 billion in available funding.

Importantly, the re-started program allows new PPP loan requests from eligible businesses that didn't obtain a loan in the initial round. For eligible businesses that currently have a PPP loan or have had one previously who need additional support, the updated program allows some businesses obtain another PPP loan, called a **"PPP second draw."** Additionally, *the updated lending program changes rules for existing PPP loans, for new PPP loans, and PPP second draws in terms of eligibility, allowable expenses, forgiveness, and more.*

If your eligible business never obtained a PPP loan during the original program, the re-opened program means you can now apply for the first time, but are subject to the terms of the initial program.

PPP "Second Draw" Loans

Are available to:

- Companies with fewer than 300 employees who have already used or will use the full amount of money granted to them in their initial round of PPP.
- Businesses, some nonprofit organizations, self-employed workers and independent contractors.
- Sole proprietors, independent contractors, and eligible self-employed individuals.

New: The PPP program has been updated to now include eligibility for certain housing cooperatives, news organizations, section 501(c)(6) organizations, and Economic Injury Disaster Loan ("EIDL") recipients.

Who can:

- Show at least a 25% reduction in gross receipts in the first, second or third quarter of 2020 compared to the same quarter in 2019.

Since this new PPP program is actually an amendment to the original, businesses that haven't previously applied for PPP loans will be subject to the **PPP program's original eligibility rules**. The original PPP was generally open to businesses with up to 500 employees, but unlike this second draw offer, there was no requirement to demonstrate a revenue loss.

Eligible organizations can only receive one primary and one secondary PPP loan.

Amounts available:

The maximum for "second draw" PPP loans is \$2 million, less than the \$10 million cap for PPP's first round. As was the case with the original PPP, actual loan amounts will be based on an applicant's payroll.

Second-time PPP borrowers will generally be eligible to borrow an amount equal to 2.5 times their average monthly payroll costs.

However, those seeking PPP loans from the food service and accommodation industries – [hotels, restaurants and the like](#) – that are businesses classified under the North American Industry Classification System (NAICS) beginning with the number 72 are eligible for loans that amount to *3.5 times* their average monthly payroll.

When will funds start to become available?

The bill requires the SBA to establish regulations on small-business support no later than 10 days after the legislation is signed into law. Once the SBA issues the regulations, the program will officially reopen and run through March 31, 2021.

Forgiveness of loans

Borrowers are still required to spend at least 60% of the funds on payroll over a covered period of either 8 or 24 weeks to receive full forgiveness.

The other 40% may be used on eligible costs, including certain mortgage expenses, rent and utility payments.

PPP2: New allowances for additional expenses

Under the renewed program, the list of eligible non-payroll expenses has been expanded to include four new categories, including:

- Costs for personal protective equipment and adaptive investments that help a PPP loan recipient comply with federal and/or health and safety guidelines related to COVID-19;
- Outlays for on software, cloud computing, human resources, and accounting needs;
- Any spending not covered by insurance that are related to property damage due to public disturbances that occurred during 2020;
- Spending to suppliers that covered costs essential to the business operations at the time the outlay occurred. For instance, restaurants' purchases of perishable goods can now qualify.

Important tax changes

An important change outlined in the new regulation is that forgiven PPP loans will be completely tax-free, and any usually-tax-deductible business expenses that are paid for with PPP loans will also continue to be deductible.

The Consolidated Appropriations Act, 2021 (CAA 2021), H.R. 133, Division N, Section 276, provides that deductions are allowed for otherwise deductible expenses paid with the proceeds of a PPP loan that is forgiven and that the tax basis and other attributes of the borrower's assets will not be reduced as a result of the loan forgiveness.

Specifically, the updated language says "no deduction shall be denied, no tax attribute shall be reduced, and no basis increase shall be denied, by reason of the exclusion from gross income provided" by Section 1106 of the CARES Act (which has been redesignated as Section 7A of the Small Business Act). *This provision applies to loans under both the original PPP and subsequent PPP loans.*

One other major change in the bill concerns how PPP loans interact with the Employee Retention Tax Credit (ERTC). Originally, businesses that took out PPP loans were prohibited from using the ERTC to reduce their tax burden and vice versa. This has been changed so businesses can take advantage of both PPP and the ERTC in 2020 and 2021.