Payroll Protection Program (PPP) Loan Application
Required Loan Application Information

The PPP in Brief: The stated goal of the PPP is to create an incentive for employers to maintain payroll during our current COVID-19 crisis. The SBA, working with participating banks, will offer loans to organizations with the provision that allowable amounts spent during a coverage period, running eight weeks from the date of the loan, will be converted into a tax-free grant. The loan amount is based on the average monthly payroll and related costs for the one-year period looking back from the date of the loan multiplied by 2.5 (different for seasonal or new businesses). Once you receive the loan you have eight weeks to spend the loan on allowable amounts including not just payroll related expenses but mortgage interest, rent and utility payments. However, the timeline provision may prove to be the fly in the ointment of this bill, as the last day to incur allowable expenditures for the loan to grant conversion is June 30, 2020, which does not correspond well for our regional tourism related businesses. Those who can't fully convert their loan to grant in this time period may be able to convert unspent amounts into a loan with favorable terms including a 6-month deferment of payments which is due in two years. We are still awaiting guidance on some of these provisions.

Analysis: The fact that here in Southeast we don't expect to see a ramp up of payroll costs during the covered period (When payroll expenses could potentially be forgiven) for either tourist and possibly even non-tourist related businesses, and because another lesser known provision in the same bill, the Employee Retention Credit (ERC) may yield better savings for certain organizations, we want to make sure the PPP is the best alternative for you. This is because organizations who receive funds from the PPP will not be able to participate in the ERC. We are providing information on the ERC as a supplement to this package, Attachment 2. It will prove useful for those organizations who fully or partially close as a result of government action or suffer a significant drop in revenues. The coordination of both provisions is somewhat of a complicated determination, but we can help you in this regard.

The PPP should be viewed as a short-term fix to hold organizations over until they can ramp back up to normal operations. For those looking at longer term financing strategies to help get through the coming year with the prospect of no cruise ships, the Economic Injury Disaster Loan (EIDL) may offer a better long-term solution.

Congress clearly needs to address the shortcomings of the PPP but until they do, we need to proceed with what is provided.

As every financial institution ramps up their application program and while we are observing some variability within these, all must basically follow the statutory requirements of the enabling legislation. Further compounding the challenge are what appear to be drafting errors in the computation, ambiguous business terminology and apparent oversights in what many would consider normal payroll costs, workers compensation insurance being one of them.

Additional provisions reduce the amount forgiven if the employer reduces its workforce during the 8-week period compared with other periods in 2019 or 2020 or if you reduce wages to an employee by more than 25% during the coverage period.

Seasonal: For seasonal organizations, which many of our tourist businesses will presumably qualify, there is a separate calculation of the loan amount. Seasonal is not defined in the bill but will be determined by the SBA administrator. The loan calculation for seasonal organizations will be based on the average of total monthly payments for payroll of the 12-week period beginning February 15, 2019 or March 1, 2019 at the election of the borrower. This latter date will presumably work better for most tourist related businesses who season is ramping up in the latter part of spring.

A Two Step Process. The first step is to assemble the information needed to determine the PPP loan. To do this you will need to assemble the financial information as described below in the required loan application information section. We believe the main goal here is to maximize the loan amount. Elgee Rehfeld is happy to assist you. We are developing a template that we will use to compute the loan amount. The requested payroll information will be part of the loan application submission package.

The second step will occur at the end of the coverage period later this summer when the applicant presents its eligible costs to the bank where the determination is made what portion of the loan is converted to a tax-free grant. Eligible costs include payroll, mortgage interest, rent and utilities. We will provide more guidance on this as we get closer to the verification stage.

Completion. See below for link to standard application that you can complete except for the loan amount. If you assemble and send us the requested materials, we can review the documentation, run a loan amount and help you prepare the final application for submission to your banker. Your banker may require additional information or documentation that we could help prepare at your request.

https://www.sba.gov/sites/default/files/2020-03/Borrower%20Paycheck%20Protection%20Program%20Application_0.pdf

Contact: If you have been regularly working with one of the staff or partners continue to contact them for questions. Otherwise, we will assign someone to work with you on the application process.

Payroll Protection Program (PPP) Loan Application - Required Loan Application Information

2019 Payroll
2019 W-3
2019 Form 941 - 4 quarters
2019 Form 940
2019 State ESC Reports - 4 Quarters
2019 Payroll summary by employee - No SSNs
Detail of all Costs Paid for Employer Provided Health Insurance- Actually paid in 2019 - Cash basis
Cash paid for employer retirement plans- For some, this may be 2018 amount paid in 2019 - Cash basis

2020 Payroll
First quarter payroll summary by employee
Payroll summary totals for Period February 15 – March 31, 2020.
First quarter Form 941 and ESC if completed

E**mployer Retention Credit Overview**

If your organization is expecting revenues to be significantly reduced or you are completely or partially shut down by a mandate, but you are continuing to keep staff employed, you may be able to apply a credit to your employer payroll tax liability to help cover your payroll costs.

Self-employed individuals are not eligible for this credit for their self-employment services or earnings.

Special calculations apply for employers that average more than 100 employees - see other information below.

Eligible Employers are those that carry on a trade or business, during calendar year 2020, including a tax-exempt organization, that either:

Fully or partially suspends operation during any calendar quarter in 2020 due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings (for commercial, social, religious, or other purposes) due to COVID-19;

For Example: The State of Alaska issued an executive order closing all restaurants, bars, and similar establishments in the state in order to reduce the spread of COVID-19. However, the executive order allows those establishments to continue food or beverage sales to the public on a carry-out, drive-through, or delivery basis. This results in a partial suspension of the operations of the trade or business due to an order of an appropriate governmental authority with respect to any restaurants, bars, and similar establishments in the state that provided full sit-down service, a dining room, or other on-site eating facilities for customers prior to the executive order.

OR

Experiences a significant decline in gross receipts during the calendar quarter. Must have 50% decrease in revenues (credit ends after 80% revenue achieved). See below for definition of significant decline.

Significant Decrease Definition: A significant decline in gross receipts begins with the first quarter in which an employer's gross receipts for a calendar quarter in 2020 are less than 50 percent of its gross receipts for the same calendar quarter in 2019. The significant decline in gross receipts ends with the first calendar quarter that follows the first calendar quarter for which the employer's 2020 gross receipts for the quarter are greater than 80 percent of its gross receipts for the same calendar quarter during 2019.

For Example: An employer's gross receipts were $100,000, $190,000, and $230,000 in the first, second, and third calendar quarters of 2020, respectively. Its gross receipts were $210,000, $230,000, and $250,000 in the first, second, and third calendar quarters of 2019, respectively. Thus, the employer's 2020 first, second, and third quarter gross receipts were approximately 48%, 83%, and 92% of its 2019 first, second, and third quarter gross receipts, respectively. Accordingly, the employer had a significant decline in gross receipts commencing on the first day of the first calendar quarter of 2020 (the calendar quarter in which gross receipts were less than 50% of the same quarter in 2019) and ending on the first day of the third calendar quarter of 2020 (the quarter following the quarter for which the gross receipts were more than 80% of the same quarter in 2019). Thus the employer is entitled to a retention credit with respect to the first and second calendar quarters.

More than 100 full-time employees: If the Eligible Employer averaged more than 100 full-time employees in 2019, qualified wages are the wages paid to an employee for time that the employee is not providing services due to either (1) a full or partial suspension of operations by order of a governmental authority due to COVID-19, or (2) a significant decline in gross receipts. For these employers, qualified wages taken into account for an employee may not exceed what the employee would have been paid for working an equivalent duration during the 30 days immediately preceding the period of economic hardship.

Here is a link to the FAQs for this new employee retention credit:
https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act

Our Takeaway: The decision of whether to apply for the PPP or utilize the employee retention credit is somewhat of a complicated one as it requires one to anticipate potential staffing in future periods which are uncertain at present.

However, if you believe that despite government mandate or a significant drop in revenue you will be able to retain lower paid or part time workers, the ERC might be more advantageous.

Let us know if any of these scenarios might pertain to your organization and we can help estimate the credit you may be entitled to under this program. You are not eligible to claim this credit if you apply for the Payroll Protection Program Loan.