



Paycheck Protection Program

March 2020

On Friday March 27th the President signed into law the 854-page Coronavirus Aid, Relief and Economic Act (“CARES Act”). There are several components of the law, but the one likely most important to your business is found at Title I-Keeping American Workers Paid and Employed Act, Sec. 1102 entitled the Paycheck Protection Program.

Here is what we know about the program as of March 30, 2020.

The Paycheck Protection Program (“PPP”) will be funded with \$350 billion and will provide your business with loans to help you weather the storm you are battling right now. It will be administered by the US Small Business Administration under its 7(a) Loan Program.

The actual application process for the loans is not enumerated in the bill. However, SBA is expected to release guidelines very shortly. Look for updates at [SBA.GOV](https://www.sba.gov).

Historically, SBA 7(a) loans were administered through approximately 1,800 banks and credit unions across the US. We expect that the same network will be used to administer the PPP program. If that is the case, we suggest that you notify your current banking institution immediately and inquire if they participate in SBA 7(a) lending. If they do, they will likely be the best place to start the loan process.

Generally, the program applies as follows:

- a. Any business with 500 or fewer employees may apply
- b. Any business that applies is presumed to be affected by the Coronavirus and does not need to be shut down or have suffered economic harm
- c. The general underwriting standard is that the business must have been in business on February 20, 2020 and have had employees for whom it paid compensation and payroll taxes
- c. Those who are self employed are eligible for the loan (provided they meet the other criteria)
- e. The loans do not require personal guarantees

Maximum Loan Amount -The maximum loan amount is 2.5 times your average **Payroll Costs** (maximum \$10,000,000) during the one-year period prior to the date of your loan.

Payroll Costs are defined liberally as:

- a. US Resident employee salaries, wages, commissions and other compensation not to exceed \$100,000 (\$8,333 per month) per employee
- b. Vacation pay, sick pay, family leave pay
- c. Severance payments
- d. Group Health Insurance
- e. Retirement plan contributions

The loan proceeds can be used to pay:

- a. **Payroll Costs** (defined above)
- b. Rent
- c. Utilities
- d. Interest (not principal) on mortgages and other debt incurred before February 15, 2020

Loan Forgiveness - The amount of loan forgiveness will equal the sum of the employer's:

- a. **Payroll Costs** (defined above)
- b. Interest on debts incurred prior to February 15, 2020
- c. Rent
- d. Utilities including internet access

All of which are incurred during the 8-week period that begins on the origination date of the 7(a) loan.

The loan forgiveness portion of the law serves to encourage as many people to be employed as possible. The amount of the loan forgiveness will be **reduced** proportionality by the reduction in full time equivalent employees during the "covered period" of February 15, 2020-June 30, 2020 as compared to February 15, 2019 to June 30, 2019.

For example, if you had 20 FTEs in the period February 15, 2019 to June 30, 2019 and you have 10 in the period February 15, 2020 to June 30, 2020 then your loan forgiveness is reduced by half.

The loan forgiveness is further reduced to the extent that employees are being retained but have had their pay cut by more than 25%.

The CARES act encourages employers to rehire workers or restore the pay of employees who were kept but took pay cuts. If by June 30, 2020 you rehire laid off workers and/or restore the pay cuts then you will not have a reduction in loan forgiveness.

The loan forgiveness will not be considered taxable income and any amounts still owed on the loan after the tax forgiveness can be repaid over 10 years with interest not to exceed 4%.

Based upon everything we know now, this program is an excellent way for our clients to stabilize their financial position as we move through this economic crisis.



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NOTE: The purpose of this letter is to provide you with current tax information. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.