



Paycheck Protection Program (PPP) Loans: What Contractors Need to Know

Paycheck Protection Program (PPP) Loan - What is it?

The Paycheck Protection Program (PPP) Loans are a direct incentive loan program created under Sec. 1102 of the CARES (Coronavirus Aid, Relief, and Economic Security) Act with **\$350 billion in loans**.

The purpose of the Act is to keep American workers paid and employed. **The loan amount can be up to 2.5 times average monthly payroll (up to \$10 million).**

The **FCA of Illinois** recommends our contractors take a serious look at this program and take advantage of this even if your company is still working, but at a reduced level.

This loan can be used for:

- Payroll costs and benefits - in most cases if you utilize 75% or more of the loan amount on wages and benefits, the loan will most likely be forgiven.
- Mortgage interest (for debt incurred before Feb. 15, 2020)
- Rent (for leases in effect prior to Feb. 15, 2020)
- Utilities (for service in place prior to Feb. 15, 2020)

Are you eligible?

- Employers are eligible if they employ less than 500 employees
- Sole proprietors, independent contractors, self-employed persons, and certain tax-exempt entities
- In operation on February 15, 2020
- "Current economic uncertainty makes this loan request necessary to support the ongoing operation of the Applicant"
- "Credit Elsewhere" requirement waived

What are the Loan Terms?

The Paycheck Protection Program loan term is 2 years and is the same for all applicants. Payments can be deferred for 6 months, but interest will accrue. The interest rate is 1% and all borrower and lender fees are waived. Collateral and personal guarantee requirements are waived as well as no prepayment fees will be charged. A portion of the loan is eligible for forgiveness.

What is the Maximum Amount of the Loan?

- **2.5 times average monthly payroll costs** (capped at \$10 million)
 - Salaries and wages (\$100,000 cap. per employee), vacation and sick leave, benefit contributions, state and local taxes assessed on employee compensation.
- **Non-qualifying expenses not to be calculated in payroll costs:**
 - Compensation of annual salaries - Greater than \$100,000
 - Payroll taxes, railroad retirement taxes, income taxes
 - Any compensation for employees outside the U.S.
 - Qualified sick or family leave wages under the Families First Coronavirus Response Act (FFCRA) tax credit

Loan Forgiveness & Other Benefits

Borrowers are eligible for forgiveness on the amount spent during 8-week period after loan origination for: *(8-week forgiveness period starts once funds are deposited)*

- Payroll costs
- Interest payment on any mortgage incurred prior to February 15, 2020
- Rent on any lease in force prior to February 15, 2020
- Any utility (electric, gas, water, phone, internet) for which service began before February 15, 2020)
- If more than 25% of loan proceeds are used for non-payroll costs, they may not be forgiven
- Forgiveness amount cannot exceed principal

Loan Forgiveness Calculations

Loan amount eligible for forgiveness reduced if:

- Borrower's full-time employee headcount during covered period is lower than it was from: (1) Feb. 15 - June 30, 2019; or (2) Jan. 1 - Feb. 29, 2020 (borrower may choose the more favorable calculation)
- Salaries and wages of Borrower's employees decrease by more than 25% for any employee(s) who made less than \$100,000 annualized for 2019.
 - Borrower has until June 30, 2020 to restore full-time headcount and salary levels which were reduced between February 15 and April 26, 2020.
- You will have to apply for the loan forgiveness.

PPP Loan Application Process

1. **Locate an SBA (Small Business Association) 7(a) Lender** *(preexisting relationship with lender preferred)*
 2. **Calculate Maximum Loan Amount**
 3. **Complete & Submit Application**
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1. Locate a SBA Lender

- Find a bank that is approved to make SBA 7(a) loans
- Preexisting relationship with lender preferred or, in some cases, required
- Lenders limiting availability of applications
- Some of the banks providing loans are Chase, BMO Harris, and Northern Trust Bank.

2. Calculate Maximum Loan Amount

- Maximum loan amount = 2.5 months of regular payroll expenses
- To calculate the average monthly payroll, you must:
 1. Choose a "look back" period - *Standard "look back" period is the 1-year period before the date of the application*
 2. Calculate payroll expenses based on "look back" period
- The average monthly payroll expense can be calculated by adding the wages, benefit costs, and employer payroll tax burden for all employees.
- The calculation includes:
 - Salary and wages (capped at \$100,000 per employee)
 - Severance payments

- Payment for vacation, sick or personal leave, health insurance benefits, retirement benefits (call Fund Office for help)
- Payment of state and local taxes assessed on the compensation of employees

3. Complete & Submit Application

- **Borrower Application Form:** <https://www.sba.gov/sites/default/files/2020-04/PPP%20Borrower%20Application%20Form.pdf>
- Copies of driver's license for any owners over 25% ownership
- Payroll expense documents from 2019 to include:
 - PPP Loan Calculation Template
 - Reports detailing costs associated with employer portion of paid group healthcare benefits, retirement contributions and state and local payroll tax. (Reports can include: 2019 Quarterly 941 reports; W3; Annual Payroll Register; Healthcare summary of employer paid costs)
- 2019 tax return (*if not available, 2018 tax return and company/CPA prepared profit and loss for 2019*)
- Statement and list of current corporate officers and title
- Feb. 2020 bank deposit account statement showing payroll payment activity
- Articles of Incorporation/Organization of each Borrower/Owner
- Bylaws/Operating Agreement of each entity

For more information, please contact Mark Palmer at mark@fcaofillinois.org
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