



Payroll Protection Program Application Instructions and Guidelines

Updated as of 4/15/2020 03:00 PM

This guide has been prepared by vcfo and includes information and guidance related to elements of the Payroll Protection Program (PPP) as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Information enclosed is effective as of April 15, 2020 and subject to further change as additional regulations from the US Treasury Department, the Small Business Administration (SBA) and other governmental agencies becomes available. **EXPECT MORE CHANGES AND GUIDANCE TO EMERGE IN THE COMING DAYS.**

Key Provisions of the Payroll Protection Program (CARES Act):

- Congress passed the CARES Act on March 27, 2020. This legislation included provisions under a new Payroll Protection Program (“PPP”) that has allocated \$349 billion to the US Small Business Administration (SBA). Those funds will be used to guarantee loans to small businesses, certain private non-profits, sole proprietors and independent contractors that are facing economic hardship related to the COVID-19 virus.
- Eligible entities include businesses, nonprofits, veteran organizations, Tribal organizations, sole proprietorships, self-employed individuals, and independent contractors – each having 500 or fewer employees. You were in operation on February 15, 2020 and had employees for whom you paid salaries and payroll taxes.
- Affiliation rules may apply when determining an entity’s size, except affiliation standards have been waived for small businesses in the hotel and food services industries, franchises, and entities that receive financial assistance from small business investment companies licensed by the SBA.
- Loans are available to eligible entities under the PPP is a payroll-based formula specified in the act not to exceed a maximum loan amount of \$10 million. Most applicants will use payroll costs from the last twelve months for employees whose principal place of residence is the United States.
- Proceeds from PPP loans must be used for:
 - Payroll costs
 - Costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums
 - Interest on mortgage obligations, incurred before February 15, 2020
 - Rent, under lease agreements in force before February 15, 2020
 - Utilities, for which service began before February 15, 2020
 - Interest payments on any other debt obligations that were incurred before February 15, 2020
- What counts as “payroll costs” when calculating the average monthly amount?
 - Salary, wages, commissions, or tips (capped at \$100,000 on an annualized basis for each employee)
 - Employee benefits, including: costs for vacation, parental, family, medical, or sick leave (except where FFCRA credits are allowed); allowance for separation or dismissal; payments required for the provisions of group health care benefits including insurance premiums; and payment of any retirement benefit
 - State and local taxes assessed on compensation
 - For a sole proprietor or independent contractor: wages, commissions, income, or net earnings from self-employment or similar compensation, capped at \$100,000 on an annualized basis for each employee.



**Payroll Protection Program
Application Instructions and Guidelines**

Updated as of 4/15/2020 03:00 PM

- What is expressly excluded from the definition of payroll costs?
 - Any compensation of an employee whose principal place of residence is outside of the United States
 - The compensation of an individual employee in excess of an annual salary of \$100,000, prorated as necessary
 - Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020, including the employee's and employer's share of FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes, and income taxes required to be withheld from employees
 - Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act
 - Independent Contractors
- Small Businesses and Sole Proprietors may begin applying for PPP loans starting April 3, 2020 with applications concluding by June 30, 2020. Other entities may begin applying for PPP loans starting April 10, 2020. The SBA advises borrowers to apply as soon as possible as there is a funding cap and there will be time needed for lenders to process each loan request.
- Loans will carry an annual interest charge of 1.0% and must be repaid within two (2) years. Loans may be prepaid without penalty. Payments, including interest payments, will be deferred 6 months and for as long as 12 months. Interest will continue to accrue on the PPP loans during this six-month deferral. Accrued interest will be due and payable at the end of any deferral period.
- Personal guarantees are not required related to these loans (unless the loans are used for fraudulent purposes in which case criminal charges may personally apply).
- Collateral is not required related to these loans.
- Borrowers do not need to meet Credit Elsewhere requirements related to these loans.
- Can I apply for more than one PPP loan?
 - No eligible borrower may receive more than one PPP loan. This means that if you apply for a PPP loan you should consider applying for the maximum amount.
- How much of the loan may be forgiven?
 - A large portion, and possibly all, of the PPP will be forgiven if used for specific designated purposes.
 - See steps one and two on the following page that provides guidance on establishing the amount you can borrow and estimating the amount that will be forgivable.
 - You will not be forgiven any proceeds used for items other than payroll costs, mortgage interest, rent, and utilities payments made during the 8 weeks after getting the loan.
 - You can apply for both an EIDL and a PPP loan. However, these loans must not be used for the same purposes. If you have taken out an EIDL loan between January 1, 2020 and April 3, 2020, the balance of the EIDL will be added to the PPP loan less the amount of any "advance" under an EIDL COVID-19 loan (so it will be refinanced).
 - Further, interim regulations issued by the SBA as of April 2, 2020 require that no more than 25% of any PPP loan shall be used for non-payroll costs when calculating loan forgiveness amounts.
 - You will also owe repayment if you do not maintain your staff and payroll. Loan forgiveness is reduced by:



Payroll Protection Program Application Instructions and Guidelines

Updated as of 4/15/2020 03:00 PM

- Number of Staff: Your loan forgiveness will be reduced if you decrease your full-time employee headcount during the 8-week payment period when compared to your measurement period.
 - Level of Payroll: Your loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annualized and prorated during the 8-week period compared to compensation for those employees for the most recent full quarter. Reductions in salaries and wages for employees making more than \$100,000 annualized and prorated for the most recent full quarter are not included in the loan forgiveness calculation. However, again, our understanding as this writing is that during the 8-week measurement period, only salaries and wages up to \$100,000 per employee is includable in the loan forgiveness calculation. The goal appears to be incenting employers to maintain compensation levels up to \$100,000 annually.
 - Re-Hires and Compensation Adjustments: Borrowers may rehire employees and/or add compensation during the 8-week period to offset loan forgiveness reductions that would otherwise be applicable. You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.
- How to Calculate the Loan Amount in the PPP Loan Application

Step 1: Calculate your Loan Amount

- a. **Calculate Your Payroll Costs for the Last 12 Months.** We recommend preparing these on a monthly basis for the previous 12 months. This is based on guidance issued by the SBA in its most recent Interim Rule dated April 2, 2020. *While the SBA's most recent PPP application form indicates that using payroll costs for 2019 will be acceptable for most applicants, the Interim Rules issued by the SBA indicate payroll costs should reflect the most recent twelve (12) month period.* Please note, for seasonal businesses, the applicant may use average monthly payroll for the period between February 15, 2019, or March 1, 2019, and June 30, 2019. An applicant that was not in business from February 15, 2019 to June 30, 2019 may use the average monthly payroll costs for the period January 1, 2020 through February 29, 2020. Alternatively, borrowers may elect to use SBA's usual calculation: the average number of employees per pay period in the 12 completed calendar months prior to the date of the loan application (or the average number of employees for each of the pay periods that the business has been operational, if it has not been operational for 12 months).
- b. **Calculate Payroll Cost Exclusions.** Calculate the following exclusions where applicable: 1) federal employer and employee payroll tax amounts (FICA, Medicare,

**Payroll Protection Program
Application Instructions and Guidelines**

Updated as of 4/15/2020 03:00 PM

Federal UI) imposed or withheld between February 15, 2020 and June 30, 2020; 2) compensation for any individual employee or owner over an annual salary of \$100,000 (you can include compensation per employee up to \$100,000); 3) compensation for any employee with a principal place of residence outside of the United States; and 4) Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act (FFCRA) or qualified family leave wages for which a credit is allowed under section 7003 of the FFCRA.

- c. **Subtract Payroll Cost Exclusions from Payroll Costs.** This net result is multiplied by 2.5x and presents the maximum eligible amount that can be borrowed on the PPP loan, not to exceed \$10 million.
- d. *Note: Just because you can request the maximum amount does not mean that you should do so. You will need to consider how much of the loan might ultimately be forgiven in Step 2 below and if the borrower will be able to repay what might become a loan.*

Step 2: Calculate Loan Forgiveness

- a. Over the 8-week period following receipt of the PPP proceeds, track and accumulate amounts in eligible spending categories. This total will be considered “Qualified Spend”. The eight-week period begins on the date the lender makes the first disbursement of the PPP loan to the borrower.
- b. Reduce Qualified Spend according to the following:
 - a. Calculate the average employee headcount over the 8-week period and compare that to either the average headcount from i) Jan 1, 2020 to February 29, 2020 or ii) February 15, 2019 to June 30, 2019. If the average headcount for the period funded by the PPP has gone down against both measurement periods, multiply the lower of the two percentage reductions times the Loan Amount and reduce from Qualified Spend. If the average headcount over the 8-week period has gone up as compared to one of the two historical measurement periods, do not reduce the Qualified Spend.

For example: Employer A maintained an average FTE headcount of 50 employees during the 8-week period after receiving a PPP loan. Employer A had an average FTE headcount of 55 employees from Jan 1, 2020 to February 29, 2020 and an average FTE headcount of 60 employees from Feb 15, 2019 to June 30, 2019. Employer A when calculating forgiveness of its PPP loan would reduce its loan forgiveness amount by ten percent (10%) of its loan as the lower reduction is $55 - 50 = 5$ (or 10%) versus $60 - 50 = 10$ (or 16.67%).

- b. During the 8-week measurement period for payments made from the PPP proceeds, by employee, calculate the weekly pay compared to the weekly pay for the last full

**Payroll Protection Program
Application Instructions and Guidelines**

Updated as of 4/15/2020 03:00 PM

quarter for employees earning an annualized (on a prorated basis) salary of less than \$100,000. For any employees with compensation that has been reduced by more than 25% during the 8-week measurement period, reduce this amount from Qualified Spend. The objective is to incent the Employer to keep employees earning less than \$100k annually at their pre-crisis earnings level.

- c. What about employees earning greater than \$100,000 as prorated for the 8-week measurement period? Our understanding as of this writing is that reductions for those employees earning amounts (as prorated) in excess of \$100k annually should be excluded from these loan forgiveness calculations. In all events, forgiveness will not exceed payroll paid and will not include any compensation above \$100k on an annualized basis for any employee. *This is an area of further research we are conducting and will be supplemented in additional releases of this information.*
- d. Borrowers may further mitigate loan forgiveness reductions by making additional hires or paying compensation above the minimum reduction levels described above during the 8-week measurement period.

This information does not cover all scenarios that may apply.

**Payroll Protection Program
Application Instructions and Guidelines**

Updated as of 4/15/2020 03:00 PM

- Additional Considerations:
 - If you opt to start deferring employer FICA taxes as allowed under the CARES Act and then request a PPP Loan, having done that will make the borrower ineligible for the PPP loan.
 - An eligible Employer that receives a PPP loan cannot receive the Employee Retention Credits under the CARES ACT.
 - Requests for documentation to support forgiveness of portions of the PPP will be negotiated through the Lending Bank. Upon forgiveness of the loan amount, the Lender will seek reimbursement for the forgiven amount directly from the SBA.

- Additional Areas of Inquiry:
 - We are researching the following and will provide further updates as information becomes available:
 - What is the process for filing for forgiveness?
 - At what point does the loan require payment performance? From loan origination? Following loan deferral repayment periods? Following the period of time after loan forgiveness is assessed?
 - How do you use PPP proceeds to repay EIDL obligations for approved purposes? Note that the SBA has indicated that the EIDL and the PPP loans must not be used for the same purposes. Some borrowers then are designating amounts borrowed under EIDL to pay for non-payroll cost items given that no more of the PPP loans will be eligible to be used related to loan forgives for non-payroll cost items.
 - Can you claim forgiveness for EIDL funded payroll paid prior to receipt of the PPP but after the disaster hit? Note that generally the SBA will request that such payroll amounts be repaid by the PPP borrower.
 - Will non-profits other than 501c3 entities be able to apply for PPP loans?
 - When will the SBA issue additional guidance regarding affiliation rules and how they might apply to entities that are venture funded?

What additional documentation will you need to apply for a loan?

1. Locate a Preferred SBA Lender that assists with sourcing SBA Section 7a loans.
2. Complete and fill out a loan application and send that to the Lender.
<https://home.treasury.gov/policy-issues/top-priorities/cares-act/assistance-for-small-businesses>
<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf>
3. Provide to the Lender with the following types of information as requested (along with a completed and signed SBA PPP application):

Every lender will have a different set of requested documents related to review of PPP loan request. These are examples only – your specific list may include additional items that are not reflected here.

**Payroll Protection Program
Application Instructions and Guidelines**

Updated as of 4/15/2020 03:00 PM

For the Borrowing Entity - Operating Company

Requested Financials to be Provided:

- 2018 Business Tax Return
- 2018 FYE Financial Statements
- 2019 Business Tax Return (if available)
- 2019 FYE Financial Statements
 - If possible, provide Income Statement in month to month format
- Interim YTD 2020 Financial Statements (Income Statement and Balance Sheet)
 - If possible, provide Income Statement in month to month format

Forms Anticipated to be Required:

- Paycheck Protection Program Application

Additional Guidance Regarding Completion of the Application:

- Applicant Ownership section – disclose all 20% or greater owners
 - Questions 5, 6 & 7 require to be answered & initialed by all owners; 20% or greater
 - Certifications on page 2 require to be answered & initialed by all owners; 20% or greater
- If applicable, Addendum A – Affiliate Businesses
- If applicable, Addendum B – Receipt of Disaster Relief since 1/31/20
- 4506 T Form– Request copies of tax form for business entity
- Bank Loan Worksheet – Many lenders are providing an excel spreadsheet to assist in estimating PPP Loan amount
- Loan Forgiveness estimates for the 8 weeks following loan origination based on Interim permissible 2020 Operating Expenses
 - Payroll History – for the 12 months prior
 - 941 IRS Tax report (wages and number of employees)
 - Third Party Payroll reports
- Borrower Legal Entity Documents - Articles of Incorporation, By Laws, Certificate of Inc, DBA, etc.

Again, the Bank/Lender has been authorized under this legislation to make PPP loans with the Borrower. They will be your point of contact as the PPP loan request is processed and reviewed.

Additional Resources:

vcfo has located several additional resources that may assist entities with applying for PPP loans. vcfo makes no claims as to the accuracy or validity of this information and does not represent that information enclosed represents final rules or regulations or otherwise represents calculations that will be applicable to a specific entity or a specific situation.

SBA and US Treasury Documentation:



**Payroll Protection Program
Application Instructions and Guidelines**

Updated as of 4/15/2020 03:00 PM

- PPP Loan Application: <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf>
- US Department of Treasury: <https://home.treasury.gov/policy-issues/top-priorities/cares-act/assistance-for-small-businesses>
- SBA Interim Final (PPP) Rule, 4/2/2020: https://www.sba.gov/sites/default/files/2020-04/PPP--IFRN%20FINAL_0.pdf
- AICPA PPP Loan Estimator: <https://www.aicpa.org/interestareas/privatecompaniespracticesection/qualityservicesdelivery/sba-paycheck-protection-program-resources-for-cpas.html>
- The [Interim Final Rule](https://www.sba.gov/sites/default/files/2020-04/Interim-Final-Rule-Additional-Eligibility-Criteria-and-Requirements-for-Certain-Pledges-of-Loans.pdf) announcing Additional Eligibility Criteria and Requirements for Certain Pledges of Loans for the Paycheck Protection Program. <https://www.sba.gov/sites/default/files/2020-04/Interim-Final-Rule-Additional-Eligibility-Criteria-and-Requirements-for-Certain-Pledges-of-Loans.pdf>
- US Department of Treasury: <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>