

What Employers Need to Know About PPP Loans



Presented by Julie Preciado
March 31, 2021

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Focus of Today's Agenda

- Allowable Uses of the PPP (Paycheck Protection Program)
- PPP Loan Forgiveness
- Other Considerations
 - Employee Retention Tax Credit
 - EIDLs & Targeted EIDLs
 - Tax Implications

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What is the Paycheck Protection Program (PPP)?

- In 2020, Congress created the Paycheck Protection Program (PPP) as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).
- The PPP provided (potentially) forgivable loans to businesses that could be used to pay business expenses such as payroll, rent, and utilities during the pandemic.
- The program was extended, ended, and reopened again under Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act). On its way to one more extension – PPP Extension Act of 2021 signed by President Biden yesterday.

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Goal for the 2021 Round of PPP

- Reach small and low- and moderate-income businesses who had not yet received the needed relief a forgivable PPP loan provides.
- Allowed for first time applications under original rules and “second draw” applications under revised rules (<300 employees, 25% reduction in revenue in a quarter from 2019 to 2020).
- 2-week exclusive window was open for smallest businesses - 98% of businesses in the country have fewer than 20 employees.

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Changes to PPP in 2021

- Schedule C “pass-through” entities (sole proprietors, independent contractors, and self-employed individuals): PPP’s funding formula revised to allow for use of gross income in calculating PPP loan amount for these categories of applicants.
- Eliminated restriction on PPP access for small business owners with prior non-fraud felony convictions and student loan debt delinquency disqualifiers to participation in the PPP.
- Non-citizen, legal U.S. resident small business owners able to apply using Individual Taxpayer Identification Number (ITIN) – applies to LPRs, visa holders.

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Summary of All PPP Approved Lending

Loans Approved	Total Net Dollars	Total Lender Count
8,728,494	\$734,094,425,889	5,476

Summary of 2021 PPP Approved Lending

Loans Approved	Net Dollars	Lender Count
3,584,826	\$211,807,371,944	5,236

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Loan Breakdown for 2021 PPP

First Draw Loans	Loans Approved	Net Dollars	Average Loan Size	Lender Count
Total First Draw Loans	1,562,181	\$31,440,022,719	\$20,126	5,123
First Draw Loans with 10 or fewer employees	1,528,650	\$23,013,361,382	\$15,055	5,108
First Draw Loans LMI & Less than \$250k	442,085	\$7,617,301,567	\$17,230	4,455

Second Draw Loans	Loans Approved	Net Dollars	Average Loan Size	Lender Count
Total Second Draw Loans	2,022,645	\$180,367,350,225	\$89,174	5,209
Second Draw Loans with 10 or fewer employees	1,550,726	\$48,790,301,459	\$31,424	5,189
Second Draw Loans LMI & Less than \$250k	471,180	\$20,761,366,176	\$44,150	4,609

First & Second Draw Loans	Loans Approved	Net Dollars	Average Loan Size	Lender Count
Total First & Second Draw Loans	3,584,826	\$211,807,371,944	\$59,084	5,236

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SBA is Currently Offering PPP Loans Until May 31, 2021

- Current deadline for PPP loan program is now May 31, 2021 (it was previously *today*, March 31).
- The extended deadline will help some small business owners who have been unable to get their applications in thus far.
- The latest round of PPP loans came with additional requirements, including more compliance checks to prevent fraud, which has made the processing times slower and more complicated than the first time around.
- Can get first and second “draws” still – no third draw

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What’s the Difference Between First & Second “Draws”?

- Program the same – eligibility rules a bit different.
 - No real difference between first and second “draws” – same PPP.
- New Eligibility
 - 300 or fewer (vs. 500 or fewer).
 - 25% reduction in gross receipts (second draw).
 - Under original PPP rules, applicants did not have to show revenue reduction.
 - By the time the second draw is disbursed, the first draw proceeds must be exhausted.
 - Technically can apply for first and second draw since reopened in 2021.

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Forgiveness



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PPP Loan Forgiveness

- PPP loans may qualify for full loan forgiveness if during the 8- to 24-week covered period following loan disbursement:
 - Employee and compensation levels are maintained in the same manner as originally required under PPP program rules;
 - The loan proceeds are spent on payroll costs and other eligible expenses; and
 - At least 60% of the proceeds are spent on payroll costs
- Same for first draws and second draws

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Applying for Loan Forgiveness



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Repeal of EIDL Advance Deduction Requirement for PPP Forgiveness

- Original requirement to deduct the amount of Economic Injury Disaster Loan (EIDL) “Advance” you may have received.
- This provision was repealed.
- Any EIDL Cash Advance/Grant you may have received no longer affects your PPP loan forgiveness.

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What Do I Need to Qualify for Forgiveness?

- If you meet certain qualifications during the loan period, loans can be forgiven up to 100% of the PPP loan amount.
- Qualifications include:
 - Maintaining the pre-pandemic number of employees and their pay;
 - Spending loan proceeds only on eligible expenses; and
 - Using loans to meet at least 60% of payroll costs.

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Eligible Expenses – Payroll Costs

- Compensation to employees in the form of salary, wages, commissions, or similar compensation
- Vacation, parental, family, medical, or sick leave
- Employee benefits - health care, group life, disability, vision, or dental insurance, including insurance premiums
- State and local taxes assessed on compensation of employees

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Payroll (Continued)

- Up to \$100,000 of annualized pay per employee, as prorated for the period during which the payments are made or the obligation to make the payments is incurred.
- Prorated for the covered period, e.g., for an 8-week covered period a maximum of \$15,385 and for a 24-week covered period a maximum of \$46,154, as well as
- Covered benefits for employees (but not owners), including health care expenses, retirement contributions, and state taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums), but
- Excluding any qualified wages taken into account in determining the Employer Retention Tax Credit.

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Payroll – Proof

- Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
- Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
 - Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
 - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
- Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the borrower included in the forgiveness amount.

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Non-Payroll Covered Expenses

- Business mortgage interest payments
 - Proof – Copy of lender amortization schedule and receipts verifying payments, or lender account statements.
- Business rent or lease payments
 - Proof – Copy of current lease agreement and receipts or cancelled checks verifying eligible payments.
- Business utility payments
 - Proof – Copies of invoices and receipts, cancelled checks, or account statements.

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Other Covered Expenses

- Covered operations expenditures
 - A payment for any business software or cloud computing service that facilitates business operations, product or service delivery, the processing, payment, or tracking of payroll expenses, human resources, sales and billing functions, or accounting or tracking of supplies, inventory, records and expenses.
- Covered worker protection expenditures spent to adapt business activities to comply with requirements established or guidance issued (CDC, OR OSHA, etc.).

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Other Covered Expenses (Continued)

- Covered property damage costs – A cost related to property damage and vandalism or looting due to public disturbances that occurred during 2020 that was not covered by insurance or other compensation.
- Covered supplier costs – An expenditure made to a supplier of goods for the supply of goods that:
 - (A) are essential to the operations of the borrower at the time at which the expenditure is made; and
 - (B) is made pursuant to a contract, order, or purchase order
 - (i) in effect at any time before the covered period with respect to the applicable covered loan; or
 - (ii) with respect to perishable goods, in effect before or at any time during the covered period with respect to the applicable covered loan.

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How & When to Apply for Loan Forgiveness

- Once all loan proceeds for which the borrower is requesting forgiveness have been used.
- Any time up to the maturity date of the loan.
- If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred, and borrowers will begin making loan payments to their PPP lender.

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Contact Your PPP Lender & Complete the Correct Form

- Compile your documentation.
- Your lender can provide you with the SBA Form:
 - 3508, 3508EZ (ppg) or 3508S.
- 3508S is the shortened version of the application for PPP loans of \$150,000 OR LESS.
- 3508 and 3508EZ forms are for borrowers that received first or second draw PPP loans of more than \$150,000.

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When 3508EZ is the Correct Form

3508EZ – Must meet **at least one** of these three criteria

- self-employed individual, an independent contractor, or a sole proprietor who had no employees at the time you applied for a PPP loan
- Didn't reduce the salaries or wages of employees making under \$100K/year by more than 25%, **and**
 - Did *not cut any* FTE employees and *did not reduce* the average number of hours that your staff works; or
 - Were unable to operate at the same level as you had on February 15th, 2020, because of COVID-19 health and safety restrictions imposed by federal agencies

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Loan Over \$150K and Do Not Meet 3508EZ Criteria?

3508 – everyone else over \$150K PPP loan

- **Both** of the following conditions are met:
 - When you originally applied for a PPP loan, you were **not** a self-employed borrower, an independent contractor, or a sole proprietor with no employees
 - You reduced the salaries or wages of employees earning less than \$100,000/year by more than 25%
- If not self-employed/ independent contractor/sole proprietor with no employees, **and** you did **not** reduce the pay of employees earning less than \$100K/year by more than 25%, but **both** of the following are true:
 - You reduced your number of FTE (full-time equivalent) employees, and
 - You were still able to operate at the same level of business activity as before February 15th, 2020

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when use these forms?

Julie Preciado, 3/30/2021

By Signing Below, You Make the Following Representations & Certifications...

- The Borrower has complied with all requirements in the Paycheck Protection Program Rules, including the rules related to:
 - Eligible uses of PPP loan proceeds;
 - The amount of PPP loan proceeds that must be used for payroll costs;
 - The calculation and documentation of the Borrower's revenue reduction (if applicable); and
 - The calculation of the Borrower's Requested Loan Forgiveness Amount. [PP7](#)

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Submit the Forgiveness Form & Documentation to Your PPP Lender

- Complete your loan forgiveness application and submit it to your lender with the required supporting documents and follow up with your lender to submit additional documentation as requested.
- Consult your lender for additional guidance and provide requested documentation in a timely manner.

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Other Programs



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If not forgiven, what are the terms?

Julie Preciado, 3/30/2021

Employee Retention Tax Credit (ERTC)

- Modified and extended for six months through June 30, 2021. Several of the changes apply only to 2021, while others apply to both 2020 and 2021.
 - Likely to be extended through end of calendar year 2021.
- 50% tax credit up to \$7K per quarter, *i.e.* \$14K per employee.
- Can “look back” to claim smaller tax credit (under 100 employees) from 2020 – up to \$5K each employee.
- Eligibility: >20% reduction gross receipts in 2021 vs. 2019; < 500 employees.

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Employee Retention Tax Credit (ERTC)

- Can't get ERTC for the SAME wages that you paid for using PPP loan proceeds.
 - Say you pay Sue in February 2021 with \$ from PPP loan...
 - You CANNOT then apply for ERTC for those same wages that you paid Sue in February with PPP loans.
 - So, how do you “stack” ERTC & PPP to take advantage of both?
 - Example:
 - Use PPP to pay Sue in January and February
 - By March, PPP exhausted
 - Then March, April, May, June – take the ERTC
 - Window of payroll was paid with PPP, and another window of payroll for which you claim the ERTC

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Targeted EIDL Advance

- The COVID-19 Targeted EIDL Advance was part of the Economic Aid to Hard-Hit Small Businesses, Non-Profits, and Venues Act.
- Advance funds of up to \$10,000 will be available to applicants in low-income communities who previously received an EIDL “Advance” for less than \$10,000, or those who applied but received no funds due to lack of available program funding.
- Applicants do not need to take any action. SBA is reaching out to those who qualify.

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JP8 Tax credit for what? FICA taxes?

Julie Preciado, 3/30/2021

JP9 per quarter? Or year? How amny quarters?

Julie Preciado, 3/30/2021

EIDL Deferment Extended

SBA extended deferment periods for all disaster loans, including the COVID-19 Economic Injury Disaster Loan (EIDL) program, until 2022.

- Loans made in 2020: First payment due date extended from 12-months to 24-months from the date of the note (loans made in 2020).
- Loans made in 2021: First payment due date extended from 12-months to 18-months from the date of the note.
- Loans existing prior to 2020 (in regular servicing status as of March 1, 2020): automatic deferment of principal and interest payments through December 31, 2020, then extended through March 31, 2021.
 - An additional 12-month deferment of principal and interest payments will be automatically granted to these borrowers.
 - Resume regular payments with the payment immediately preceding March 31, 2022.
 - Interest will continue to accrue on the outstanding balance of the loan throughout the duration of the deferment.

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Local Programs

Working Washington small business grants opened on Mar. 29

- Washington State Department of Commerce opened applications for Working Washington Grants: Round 4 on March 29. Applications must be submitted by April 9th. More information about the program and a link to the application can be found at commercegrants.com.

Business Oregon

- COVID-19 Relief Funds 2020 Grants went to cities and agencies to distribute – more at oregon4biz.com/

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Tax Implications



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Federal

- Forgiven PPP loan proceeds NOT taxable income.
 - No negative tax treatment for PPP loans – do not have to pay taxes on the PPP loan proceeds.
- Your business can deduct all expenses as usual, even if paid with loan proceeds.
 - e.g: You may continue to deduct payroll as a business expenses, whether you pay for it with PPP loan proceeds or not.

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State – Oregon

- Forgiven PPP loans are NOT taxable in Oregon.
 - If employers met the requirements for loan forgiveness under the PPP program, the forgiven debt is excluded from gross income and is not taxable by the IRS or Oregon.
- Business expenses paid with PPP loans CAN be deducted on tax returns.
 - Expenses are tax deductible for the IRS or Oregon. Congress clarified the tax treatment of forgiven PPP loans and the deductions paid by those loans in the December 2020 stimulus act. Oregon is following this treatment.
- Income exclusion and deductions for PPP flow through to Oregon tax returns; Oregon taxpayers do not need to make any changes or adjustments on state tax returns PPP loans and expenses.

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State – Washington

- Many businesses have received federal financial assistance to cope with the impacts of the COVID-19 pandemic and wonder whether they owe business and occupation (B&O) tax on the amounts received (including small-business loan forgiveness).
- Businesses should NOT report PPP loan proceeds as gross receipts for B&O tax purposes and should not pay B&O tax on that assistance at the present time.
- However, Washington DOR will delay final decision on taxability or enforcement actions until after the state Legislature has had an opportunity to act.
 - In the meantime, no penalties or interest will accrue until further notice.

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Thank You!



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