

# PPP Round 2: Who, What & When

As of January 14<sup>th</sup>, 2021

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## Presenters:



**Adam J. Hill, CPA**

Partner, Cohen & Company  
[ahill@cohencpa.com](mailto:ahill@cohencpa.com)  
216-774-1130



**Dave Sobochan, CPA, MT**

Partner, Cohen & Company  
[dsobochan@cohencpa.com](mailto:dsobochan@cohencpa.com)  
216-774-1163

# Overview of Recent Stimulus and Guidance

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# PPP Stimulus Bill Timeline



# The Consolidated Appropriations Act, 2021

Can apply through March 31, 2021

- Form 2483 for first draw
- Form 2483-SD for second draw

\$2 million maximum loan

**\$284.45 Billion allocated  
to PPP loans**

Re-opens First Draw Loans

- Consolidates the interim final rules issued to date
- Potential for increased first loan

PPP Second Draw Loans available for hardest hit borrowers

- Revises requirements for borrowers

# PPP Second Draw Loan Eligibility

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# Borrower Eligibility

- Must have been in operation on February 15<sup>th</sup>, 2020
- Must have received a First Draw PPP Loan
  - › And have used or plan to use all proceeds on qualifying expenses before second draw disbursement – This includes any increase now available for existing PPP Loans
- Must not employ more than 300 employees – Time of application and disbursement – Includes affiliation rules with certain exceptions
- Must have had a reduction of gross receipts of at least 25% in any quarter of 2020 relative to the same quarter from 2019 – Includes affiliation rules

# Borrower Eligibility

- Eligible Borrowers:
  - › Business concerns
  - › Independent contractors
  - › Eligible self-employed individuals
  - › Sole proprietorships
  - › Nonprofit organizations eligible for a First Draw PPP Loan
  - › Veterans organizations
  - › Tribal business concerns
  - › Small agricultural cooperatives
  - › Housing cooperatives\*
  - › Eligible 501(c)(6) organizations\*
  - › Destination marketing organizations\*
  - › Eligible news organizations\*

*\*Newly eligible borrowers*

# Borrower Eligibility

## ■ Ineligible Borrowers:

- › A business concern or entity primarily engaged in political activities or lobbying activities
- › Entities organized under the laws of the People's Republic of China or the Special Administrative Region of Hong Kong, or with other specified ties to the People's Republic of China or the Special Administrative Region of Hong Kong
- › Persons required to submit a registration statement under section 2 of the Foreign Agents Registration Act of 1938
- › Entities that receive a grant for shuttered venue operators under section 324 of the Economic Aid Act
- › Entities in which the President, the Vice President, the head of an Executive department, or a Member of Congress, or the spouse of such person owns, controls, or holds at least 20 percent of any class of equity
- › A publicly traded company
- › Entities that are permanently closed
- › 13 C.F.R. 120.110 with certain exceptions

# Businesses With More Than One Physical Location

- Affiliation rules waived for NAICS code beginning with 72
  - › Generally, restaurants & hospitality
  - › a single business entity with this code is eligible to receive a Second Draw PPP Loan if it employs no more than 300 employees per physical location
  - › Must also meet revenue reduction and other eligibility requirements
- Also applies to certain news organizations if majority owned or controlled by a business concern that is assigned a NAICS code beginning with 511110 or 5151

# Reduction of Gross Receipts Requirement

- Must demonstrate gross receipts have fallen by at least 25% in any quarter of 2020 relative to the same 2019 quarter
  - › May also use annual receipts using tax returns as support – Timing issue for loans >\$150K
- Alternate calculations available for entities started in 2019 or 2020 through February 15, 2020
  - › Not in business 1<sup>st</sup> or 2<sup>nd</sup> quarters 2019, can use 3<sup>rd</sup> or 4<sup>th</sup> quarters to compare any quarter of 2020
  - › Started in 4<sup>th</sup> quarter 2019, can use 4<sup>th</sup> quarter to compare any quarter of 2020
  - › Started in 2020 through February 15, can compare 1<sup>st</sup> quarter to 2<sup>nd</sup>, 3<sup>rd</sup> or 4<sup>th</sup> quarters of 2020
- Gross receipts - This will agree to your tax return using terms defined on IRS forms. Cash basis for tax, cash basis calculation. Accrual for tax, accrual basis calculation.
- For an eligible nonprofit organization, a veterans' organization, an eligible nonprofit news organization, eligible 501(c) organization or eligible destination marketing organization, gross receipts has the meaning in section 6033 of the Internal Revenue Code of 1986.

# Revenue Reduction - Gross Receipts

## Gross receipts include:

- Revenue from the sales of products or services including cost of goods sold and deducting any returns and allowances
- Interest
- Dividends
- Rents
- Royalties
- Fees
- Commissions

## Gross receipts do not include:

- Net capital gains or losses as these terms are defined and reported on IRS tax return forms
- Taxes collected for and remitted to a taxing authority if included in gross or total income (such as sales or other taxes collected from customers and excluding taxes levied on the concern or its employees);
- Proceeds from transactions between a business and its domestic or foreign affiliates
- Amounts collected for another by a travel agent, real estate agent, advertising agent, conference management service provider, freight forwarder or customs broker.
- Any forgiveness amount of a First Draw PPP Loan that a borrower received in calendar year 2020

# Revenue Reduction Documentation

## Loans with a principal amount greater than \$150,000

- Must also submit documentation adequate to establish that the applicant experienced a reduction in gross receipts of at least 25% in 2020 relative to 2019
  - Can include relevant tax forms, including annual tax forms, quarterly financial statements or bank statements

## Loans with a principal amount of \$150,000 or less

- Documentation is not required at the time the borrower submits its application for a loan
- Must be submitted on or before the date the borrower applies for loan forgiveness
- Or upon SBA request

# PPP Second Draw Loan Terms

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# Second Draw Loan Terms

- 5-year term and 1% interest rate
- Equal to the lesser of
  - › 2.5x the borrower's average monthly payroll costs
  - › \$2 million
- Businesses with NAICS code beginning in 72
  - › 3.5x the borrower's average monthly payroll costs
  - › \$2 million (Note affiliation rules waived)
- Businesses that are part of a single corporate group shall in no event receive more than \$4,000,000 of Second Draw PPP Loans in the aggregate

# Calculating Average Monthly Payroll

- Payroll Costs definition has not changed from the original program, but many items have been clarified over time.
- Time period for calculating average monthly payroll can be:
  - › 1-year period before the date on which the loan is made
  - › Calendar year 2019
  - › Calendar year 2020
- Seasonal Businesses
  - › To qualify as a seasonal employer, the company does not operate for more than seven months in a calendar year and have earned no more than 1/3 of their revenue in any six months of that year.
  - › Can use any 12-week period between February 15, 2019 and February 15, 2020 for calculating average monthly payroll
- Alternative calculations for self-employed individuals, partnerships, farmers and ranchers and new businesses

# Included vs. Excluded Payroll Costs

## Included Payroll Costs

- Gross salary or wage
- Payment of cash tip or equivalent
- Payment for vacation, parental, family, medical, or sick leave
- Allowance for dismissal or separation
- Payment required for the provisions of group health care benefits, including insurance premiums
- Payment of any retirement benefit
- Payment of State or local tax assessed on the compensation of employees
- For a sole proprietor or independent contractor only: wages, commissions, income, or net earnings from self-employment, capped at \$100,000 on an annualized basis for each employee.
- Guaranteed payments for partners capped at \$100,000 (Annual)

## Payroll Costs Excluded

- The compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the covered period
- Taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code of 1986 during the covered period
- Any compensation of an employee whose principal place of residence is outside of the United States
- Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act
- Qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act

# Payroll Cost Documentation

- Must Include:
  - › Form 941 (or other tax forms containing similar information)
  - › State quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or 2020 or equivalent payroll processor records
  - › Evidence of any retirement and employee group health, life, disability, vision and dental insurance contributions
  - › Partnerships must also include its IRS Form 1065 K-1s.
- No additional documentation to substantiate payroll costs will be required if the applicant:
  - › Used calendar year 2019 figures to determine its First Draw and Second Draw PPP Loan amount
  - › The lender for the applicant's Second Draw PPP Loan is the same as the lender that made the applicant's First Draw PPP Loan
    - Lender may request additional documentation

# PPP First Draw Loan Updates

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# PPP First Draw Loan - First Time Borrowers

- May apply for PPP loan under original program
- Must have been in operation on February 15<sup>th</sup>, 2020
- Must not employ more than 500 employees or SBA alternative size standards specific to your NAICS code
- Expanded eligibility now includes:
  - › Housing cooperatives (300 employee limit)
  - › Eligible 501(c)(6) organizations (300 employee limit)
  - › Destination marketing organizations (300 employee limit)
  - › Eligible news organizations

# Increased PPP First Draw Loan Eligibility

- SBA is required to issue guidance that would allow an eligible recipient that returned all or part of an included covered loan to reapply for the maximum amount applicable, as long as they have not received forgiveness
- If an eligible recipient's calculated loan amount increased due to subsequent interim final rules, they may work with their lender to modify the loan value and receive more proceeds
- Both the reissuance or increased loan amount would be considered part of the original program and fall under those rules, and eligible borrowers could still apply for the PPP Second Draw once those additional First Draw proceeds are used

# PPP Loan Forgiveness Updates

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# Forgiveness in General

- Full forgiveness available for both first and second draw loans
- The 60/40 cost allocation between payroll and eligible non-payroll costs over the covered period in order to receive full forgiveness will continue to apply
  - › Additional eligible non-payroll costs
- Covered period
  - › Allows the borrower to elect a covered period ending at the point of the borrower's choosing between 8 and 24 weeks after origination
  - › Alternative covered period no longer exists
- Forgiveness is not taxable and expenses are deductible
  - › No deduction shall be denied, no tax attribute shall be reduced

# Additional Eligible Non-Payroll Costs

## Covered operations expenditures

- Payment for any software, cloud computing, and other human resources and accounting needs.

## Covered property damage costs

- Costs related to property damage due to public disturbances that occurred during 2020 that are not covered by insurance.

## Covered supplier costs

- Expenditures to a supplier pursuant to a contract, purchase order, or order for goods in effect prior to taking out the loan that are essential to the recipient's operations at the time at which the expenditure was made. Supplier costs of perishable goods can be made before or during the life of the loan.

## Covered worker protection expenditure

- Personal protective equipment and adaptive investments to help a loan recipient comply with federal health and safety guidelines or any equivalent State and local guidance related to COVID-19 during the period between March 1, 2020, and the end of the national emergency declaration.

# Simplified Forgiveness

- Simplified application process available for loans under \$150,000
- Borrower must sign and submit to the lender a certification that is not more than one page in length including:
  - › Description of the number of employees the borrower was able to retain because of the covered loan
  - › Estimated total amount of the loan spent on payroll costs
  - › The total loan amount
- Form not yet released
  - › SBA must establish this form within 24 days of enactment (January 21, 2021)
- Borrowers are required to retain relevant records related to employment for four years and other records for three years

# PPP Interaction with Other Programs & Credits

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# Employee Retention Credit – Original Terms

- Originally part of the CARES Act
- Businesses with less than 500 full-time employees in 2019 can claim a refundable payroll tax credit of up to \$5,000 per employee for wages paid between March 13th and December 31, 2020, but only for wages paid during a calendar quarter in which the business:
  - › Operations were fully suspended by government order, or
  - › Partially suspended by government order by limiting commerce, travel, or group meetings due to COVID-19 such that the employer can still continue some, but not all of its typical operations, or
  - › Experienced a 50% reduction in gross receipts when comparing current quarter to the same quarter from the prior year
- For businesses with 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 full or partial suspension of operations or a significant decline in gross receipts.
- Prior to this Act, if the business received a PPP loan it was not eligible for this credit

# Employee Retention Credit - Updated

- The Consolidated Appropriations Act included a provision that retroactively allows PPP borrowers to take the credit, however:
  - › Borrowers cannot receive a credit for payroll costs paid with PPP loan proceeds where the loan has been forgiven
  - › No double dipping (Consistent across all government programs)
- Extended the program until June 30, 2021 with the following terms starting January 1, 2021:
  - › Credit increased to 70% of qualified wages limited to first \$10,000 of qualified wages per quarter (\$14,000 total per employee)
  - › Significant decline has been reduced to 20% when comparing gross receipts for the quarter to prior year quarter
- Opportunity for potential refunds in 2020 and additional credits in 2021, especially if you are under 100 full-time employees.

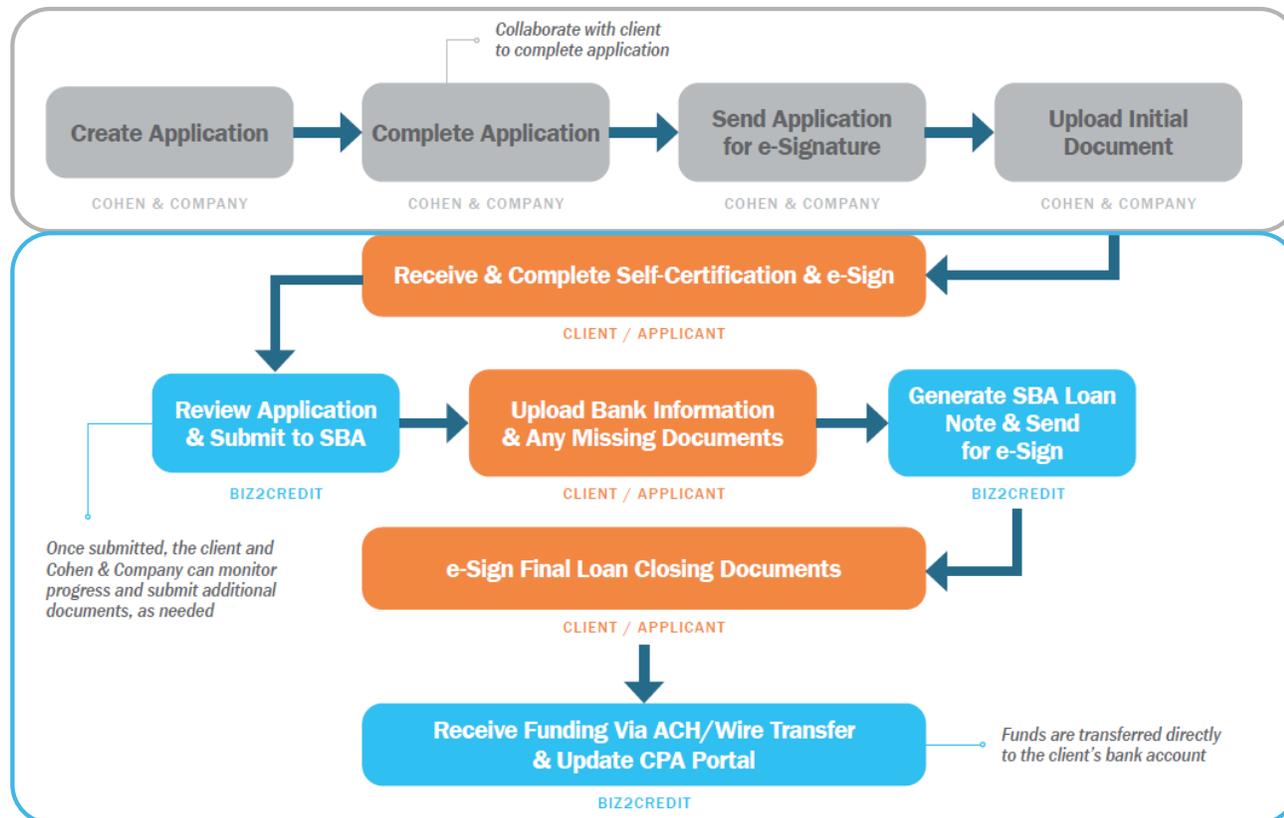
# Shuttered Venue Operator Grant Program

- The Consolidated Appropriations Act also included \$15 billion of grants specifically for operators of live venues
  - › theatres, performing arts centers, museums, and movie theatres as well as talent representatives
- The funds will be awarded in phases over time depending on percentage of revenue reduction with a minimum reduction of gross earned revenue of 25%.
- Grants must be spent on specified expenses
  - › payroll costs, rent, utilities, and personal protective equipment
- Participation in the program immediately disqualifies the business from receiving a first-time or second draw PPP loan from December 27, 2020 going forward.

# CPA Business Loan Portal

- The AICPA through its affiliate CPA.com and partner FinTech, Biz2Credit, has rolled out a tool for firms to support clients through the application, funding, and forgiveness process. Using this tool, Cohen & Company can:
  - › Assist with loan application and documentation
  - › Gather applicant signatures and submit application to SBA underwriting lender, Biz2Credit for funding in as little as 2-5 days
  - › Monitor application status and provide greater visibility to process
  - › Expedite the forgiveness application process

# CPA Business Loan Portal Process



## Application Assistance

We work with clients to gather the necessary data and documentation for the loan application.  
*If applying through another lender, the process stops here.*

## Application Funding

If applying through Biz2Credit, we work with the client to submit the application and monitor the funding process, collecting a fee as an agent.

# Questions:



**Adam J. Hill, CPA**

Partner, Cohen & Company  
[ahill@cohencpa.com](mailto:ahill@cohencpa.com)  
216-774-1130



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[dsobochan@cohencpa.com](mailto:dsobochan@cohencpa.com)  
216-774-1163