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The U.S. federal government just passed the Coronavirus Aid, Relief and Economic Security (CARES) Act.

The CARES Act expands the ability to obtain loans under Section 7(a) of the Small Business Act through a new $349 billion Paycheck Protection Program. Under the program, small businesses, other business concerns, nonprofits and veterans organizations that generally have fewer than 500 employees; self-employed; sole proprietors; independent contractors; and businesses in the accommodation and food services sector with fewer than 500 employees per location, are eligible for small business loans to cover payroll; health care costs; mortgage interest payments, rent and utility payments; and interest on pre-existing debt obligations.

Below is an overview of what the Paycheck Protection Program covers.

# What is the Paycheck Protection Program?

The Paycheck Protection Program is part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This is a nearly $350-billion program intended to provide American small businesses with eight weeks of cash-flow assistance through 100 percent federally guaranteed loans.

## Highlights

- There is no cost to apply.
- The funding is meant to help retain workers, maintain payroll, and cover rent/mortgage/utility expenses.
- The loan covers expenses dating back to February 15, to June 30, 2020
- The loan can be forgiven and essentially turn into a non-taxable gran

## Do I qualify for the program?

Likely yes! This program is more extensive than the SBA disaster loan. Small businesses, sole proprietorships, independent contractors, and self-employed individuals can all qualify.

- **Sole proprietorships** will need to submit schedules from their tax return filed (or to be filed) showing income and expenses from the sole proprietorship.
- **Independent contractors** will need to submit Form 1099-MISC.
- **Self-employed individuals** will need to submit payroll tax filings reported to the Internal Revenue Service.

## How does this differ from the SBA disaster loan?

- **No personal or business collateral is required.** The SBA disaster loan may require collateral for loan amounts over $25,000.
- **It's ok if you also have access to credit elsewhere.** To receive a SBA disaster loan you generally need to have no other source of credit.
- **The funding covers a more restrictive set of purposes (details below).** The SBA disaster loan can cover most operating expenses.
- **Your loan can be forgiven if you follow the terms.** The SBA disaster loan requires repayment.

## How is this similar to the SBA disaster loan?

- You need to demonstrate your business was economically affected by COVID-19.
- It's free to apply.
- Your loan is long-term (maximum 10 years) and low interest (maximum 4%).
- You have an extended deferment period (6-12 months, depending on your lender) before you begin repayment.
- There is no prepayment penalty.

## What can I use the funds for?

**You must acknowledge that the funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments. *Funds you use for other purposes will not be eligible for forgiveness.***

The funds can be used for:

- Payroll and commission payments
- Group health care benefits/insurance premiums;
- Mortgage, rent, and lease payments
- Utilities
- Interest on any other debt obligations that were incurred before the covered period.

## How much funding can I receive?

The SBA will ask you to provide documentation on your business's payroll, mortgage, rent, and utility payments over the previous 12-month period. They will calculate the monthly average cost of those expenses. The maximum amount they can offer is 2.5 times that monthly average cost, but no more than $10 million.

If you are a seasonal employer, the monthly average cost will be calculated differently. The SBA will use a 12-week period beginning either February 15, 2019 or March 1, 2019 and ending June 30, 2019.

If your business did not exist before June 30, 2019, the SBA will look at your costs in January and February 2020.

Note that if you receive a loan under the Paycheck Protection Program, you may no longer be eligible for an EIDL SBA loan for the same purpose of covering payroll

## How can I get my loan forgiven?

In the 8 weeks following your loan signing date, all expenses related to the following can be forgiven:

- **Payroll**—salary, wage, vacation, parental, family, medical, or sick leave, health benefits
- **Mortgage interest**—as long as the mortgage was signed before February 15, 2020
- **Rent**—as long as the lease agreement was in effect before February 15, 2020
- **Utilities**—as long as service began before February 15, 2020

**When submitting your application for loan forgiveness, you must provide the following documentation (no exceptions):**

- (1) documentation verifying the number of full-time equivalent employees on payroll and pay rates for the periods described in subsection (d), including:
    - (A) payroll tax filings reported to the IRS
    - State income, payroll, and unemployment insurance filings
- (2) documentation to prove your mortgage, lease, or utility payments
    - cancelled checks
    - payment receipts
    - account statements
- (3) a certification from a representative of the eligible recipient authorized to make such certifications that:
    - (A) the documentation presented is true and correct; and
    - (B) the amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered rent obligation, or make covered utility payments; and
- (4) any other documentation the Administrator determines necessary.

The lender must make a decision within 60 days of your forgiveness application submission.

## What are the conditions for loan forgiveness?

The purpose of the Paycheck Protection Program is to protect paychecks. You must commit to maintaining an average monthly number of full-time equivalent employees equal or above the average monthly number of full-time equivalent employees during the previous 1-year period.

**The amount that can be forgiven will be reduced…**

- In proportion to any reduction in the number of employees retained.
- If any wages were reduced by more than 25%.

*If you rehire employees that were previously laid off at the beginning of the period, or restore any decreases in wage or salary that were made at the beginning of the period, you will not be penalized for having a reduction in employees or wages, as long as you do this by June 30, 2020.*

Note: These guidelines are based on the official 880-page bill. The SBA has been given 30 days to issue official guidance regarding loan forgiveness. We'll share updates as soon as we learn of them.

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