

August 1, 2020

Dear Friends and Colleagues,

August should be a busy month, as the SBA should begin taking Paycheck Protection Program Loan Forgiveness Applications and Congress will likely pass another stimulus package. Here are some issues that you should be aware of:

PPP Loans still available

Availability of PPP Loans was extended to August 8, 2020. Those who haven't applied still have a few more days to get their paperwork in.

Forgiveness Applications not accepted yet

The SBA issued a procedural notice Thursday that indicated it would not begin accepting PPP forgiveness submissions from lenders until their new software goes live on August 10th. The SBA said the launch could be delayed if new legislation changes the forgiveness process in ways that require changes to the new software.

Loans under \$150k automatically forgiven?

Given the volume of PPP Loans that were granted, there is a real chance that a big portion of these small loans will be automatically forgiven. Please see the chart below:

Loan Size	Loan Count	Net Dollars	% of Count	% of Amount
\$50K and Under	2,943,201	\$54,321,982,874	64.9%	10.6%
>\$50K - \$100K	655,007	\$46,652,835,938	14.5%	9.1%
>\$100K - \$150K	284,657	\$34,851,771,625	6.3%	6.8%
>\$150K - \$350K	369,737	\$83,081,546,207	8.2%	16.2%
>\$350K - \$1M	197,098	\$112,146,690,696	4.3%	21.9%
>\$1M - \$2M	52,578	\$72,838,506,833	1.2%	14.2%
>\$2M - \$5M	24,788	\$73,686,354,483	0.5%	14.4%
>\$5M	4,817	\$33,802,483,324	0.1%	6.6%

Page 2

Automatically forgiving all loans under \$150,000 would eliminate the application process for close to 3.9 million loans (about 86% of total), while only covering about 27% of the funds lent. From an administrative standpoint, this seems to make sense.

Loans over 150k

The Treasury Department recently identified the borrowers who received loans of \$150,000 or more. The link for this borrower data is below:

<https://home.treasury.gov/policy-issues/cares-act/assistance-for-small-businesses/sba-paycheck-protection-program-loan-level-data>

Using the SBA Form 3508EZ Forgiveness Application

Borrowers will be able to apply for PPP loan forgiveness using the simplified application if one of these three statements applies:

- The borrower is a self-employed individual, independent contractor, or sole proprietor who had no employees at the time of the PPP loan application and did not include any employee salaries in the computation of average monthly payroll in the original PPP loan application;
- The borrower did not reduce the annual salary or hourly wages of any employee by more than 25 percent during the Covered Period; and the borrower did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period. (Reductions can be ignored if employees refused to come to work, were terminated for good cause, left voluntarily, or cut their hours voluntarily;
- The borrower did not reduce annual salary or hourly wages of any employee by more than 25 percent during the Covered Period; and the borrower was unable to operate during the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with safety or governmental requirements (such as the closing of a non-essential business, or reduction in services because social distancing requirements).

Page 3

The Process

Once the application is submitted, the lender will have 60 days to approve the loan forgiveness in its entirety or in part. Once done, the lender will submit the application and documentation to the SBA for its own review. The SBA will then have 90 days to complete this process. It can either agree with the lender's recommendation, ask for additional documentation, or approve only partial forgiveness. If it is the latter, then the borrower will have five years to repay the balance at an annual interest rate of 1%.

New Stimulus Package

Congress is trying to get another stimulus package (Heals Act) off the ground, and, for small businesses, there are three intriguing pieces to this legislation:

1. Proposes additional PPP loans for small businesses. From the sounds of it, however, this second PPP loan will be tougher to qualify for, as the borrower must prove that they have seen at least a 50% reduction in gross receipts from January 1 to March 31 or from April 1 through June 30 of 2020, as compared to gross receipts for the same time period in 2019. The borrower must employ no more than 300 employees, and the new loan cannot exceed \$2,000,000 in most cases;
2. Proposes a "safe and healthy workplace" tax credit, which would be a refundable payroll tax credit covering 50% of expenses on coronavirus-related safety measures such as COVID-19 testing for workers, protective personal equipment, cleaning supplies, and spending on qualified technology expenses, like contactless point-of-sale systems;
3. Proposes allowing additional PPP expenses in the forgiveness calculation. The Senate proposal would allow the inclusion of those expenses that went towards software, cloud computing, human resources, payroll, billing and accounting; supplier costs; and worker protection related to social distancing, sanitation or other safety requirements.

Page 4

Deducting Expenses

Let's say your loan amount is \$100,000. You spend the entire \$100,000 properly and the PPP loan is forgiven. Do you still get to deduct what you spent the \$100,000 on?

If so, it would be a win/win for small businesses. The IRS issued guidance that stated these expenses would not be deductible. However, a bipartisan group of senators has introduced a bill which would allow the deduction of these expenses, even if the PPP loan was forgiven.

Should you have any questions about the above, please feel free to contact our office at any time.

Sincerely,



Tom A. McFerson, CPA, ABV
Gatto McFerson, CPAs