

# Carnegie Mellon University Swartz Center for Entrepreneurship

## SBA Paycheck Protection Program (PPP)

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# MY BACKGROUND

- BS in Accounting – West Virginia University
- CPA, Entrepreneur, Investor, Advisor, Small Business Consultant
- 30+ years of largely entrepreneurial experience
  - Public Accounting - PricewaterhouseCoopers
  - Industry – Black Box (BBOX on Nasdaq), WiseWire (CMU startup), CoManage, Netronome, Malcovery
  - Worked on LBO / IPO / Bankruptcy (Black Box), Exits (WiseWire to Lycos, Malcovery to PhishMe), VC fundings of ~\$110M, commercial bank financing, sales contract negotiations, investor relations, Board level involvement, etc.
  - 2014 Pgh Business Times CFO of the Year (Small Companies)
- Very active in local tech community

# CARES ACT OVERVIEW

- Coronavirus Aid, Relief and Economic Security Act (“CARES Act”)
- Goal to keep American workers paid and employed
- Trump administration says if initial \$349B runs out, they will ask Congress for more program funding for small businesses. No guarantees BUT they are working on more funding this week.
- Passage of Act / programs was rushed, so there has been a lot of issues and clarifications
- AICPA: “In a program of this magnitude, it’s expected that guidance will evolve and terms will be clarified.” No kidding!
- Our focus today is on CARES Act Paycheck Protection Program (PPP)
- But will supply brief outline of Economic Injury Disaster Loan (EIDL) as well

# ECONOMIC INJURY DISASTER LOAN (EIDL)

- CARES Act expanded SBA's EIDL program
- Deemed a working capital loan – to meet current operating needs
- Small Business < 500 employees, in existence prior to Jan 31, 2020
- Must be specifically impacted by the COVID-19 virus
- Amount: Up to \$2M, but backed by collateral, no personal guarantee
- Uses: Payroll, fixed costs (rent / mortgage), current Accounts Payable, other operating costs that would have been normally paid
- Rate/Term: Small Biz - 3.75%, Non-Profits - 2.75%, up to 30 years
- Apply via SBA online portal: <https://covid19relief.sba.gov/#/>
- Also, possible EIDL advance of up to \$10k

# PAYCHECK PROTECTION PROGRAM (PPP) / SBA 7(A)

- Help small businesses keep workers employed amid pandemic
- Small Business & Non-Profits < 500 employees, in existence prior to Feb 15, 2020. Certain exceptions. Potential affiliation issues.
- Independent (1099) contractors, sole proprietors, self-employeds
- Must be specifically impacted by the COVID-19 virus
- Amount: Lesser of 2.5x average monthly payroll costs or \$10M
- No collateral, personal guarantee or fees (greatly reduces barriers)
- Loan forgiveness available based on usage. Huge feature !!
- Uses: Payroll, benefits, rent, utilities or mortgage interest. But must spend at least 75% on payroll.
- Rate/Term: 1.00%, up to 2 years. Apply through your banker or via SBA online portal: [SBA PPP apply](#)

# PAYCHECK PROTECTION PROGRAM (PPP) DETAILS

- Again, go thru your own bank if possible. Less issues with privacy rules / delays.
- Backed 100% by SBA, so your bank assumes no risk.
- First come, first serve program(s). Both PPP & EIDL. But more funding is very likely. If on the fence, apply. Can always turn down or quickly pay back if situation changes.
- If you got & used EIDL for payroll costs, then can't apply for those same (payroll) costs under this PPP. That would be duplication.
- But if you used EIDL for non-payroll costs, then you can "refinance" those non-payroll costs loan proceeds under this PPP (lower rate)
- Affiliation rules – continuing dialogue still going on. Not yet 100% clear

# PAYCHECK PROTECTION PROGRAM (PPP) DETAILS

- Friday April 3 – Small businesses & non-profits application opened
- Friday April 10 - Independent (1099) contractors, sole proprietors, self-employeds application opened
- PPP applications accepted up through June 30. For now / stay tuned.
- Again this is first come, first serve. So jump on it.
- Applicant must submit SBA Form 2483 (Paycheck Protection Program Application Form), which can be accessed at [SBA Form 2483](#)
- Late breaking info: SBA FAQs issued April 6, 2020 at [SBA FAQs 4/6/20](#)

## PPP – DOCUMENTS NEEDED

- **Documents needed (even if all are not eventually requested):**
- Payroll reports for 2019 – both monthly and total year
- Payroll reports for Jan thru Mar 2020 – monthly
- IRS Form 940 & 941 for total 2019 and 941 for Q1 2020 (if possible)
- Form 1099 for independent contractors (but not needed for external / professional service providers). Even though can't use.
- All the above should be readily available if you use a payroll provider / service. If not, then likely more work involved.
- Listing of 2019 total & monthly and Jan thru Mar 2020 monthly paid employee benefits: healthcare insurance premiums, vacation, sick pay, family medical leave, retirement benefits. EmployER pmts only
- All such costs must be for US residents only.



# PPP – ELIGIBLE PAYROLL COSTS

- **Calculation of included / Eligible Payroll Costs:**
- First decide if you're using payroll costs for total 2019 or preceding 12 months (Apr 2019 thru Mar 2020). Detail such costs in spreadsheet.
- Obviously you should pick period which results in the higher cost total
- Remember, loan up to 2.5x monthly average in either above period.
- 1) Gross employee salary, wages, commissions – meaning do not modify or deduct any taxes or withholdings. Up to \$100k per employee. US resident employees only. After much nationwide confusion – can not include payments to independent contractors
- 2) EmployER portion of state & local payroll taxes. (can't include EmployER portion of federal taxes – Social Security & Medicare)
- 3) Paid employee benefits: healthcare insurance premiums, vacation, sick pay, family medical leave, retirement benefits. EmployER pmts

# PPP – ALLOWABLE USES / LOAN FORGIVENESS

- Loan forgiveness is **not** taxable income for Federal tax purposes, but currently is for state & local. Might see state & local change as well.
- **Up to 100% loan forgiveness IF used for 1) approved costs and 2) within 8 weeks following receipt of proceeds. Otherwise portion not spent as such is not forgiven and must be repaid.**
- Payroll costs (Payroll taxes & withholdings excluded)
- Rent / Utilities / Mortgage interest - But only for leases / mortgage / utilities in force before Feb 15, 2020
- Must use at least 75% of proceeds for payroll costs! (Payroll taxes & withholdings excluded)
- Must maintain same headcount as of loan app date. But you can rehire to reach that same headcount figure by June 30, 2020

# SUMMARY

- Paycheck Protection Program is extremely attractive and advisable
- Assuming you feel you are a viable business that would have continued in successful operation as before through same period without coronavirus impact
- Emergency Injury Disaster Loan also a good possible option
- Time to apply is now. Don't delay!
- Get your records in order, create organized spreadsheet for online submission through bank or SBA. Make sure no errors or could be rejected.
- Other programs available outside scope of today's info session

## Questions / Follow Up

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