

What is the Paycheck Protection Program and how do I calculate my loan amount?

Frequently Asked Questions

Updated: April 28, 2020



PPP General Information

What expenses can be covered with PPP loans?

- >> You can use the loan to pay for a variety of operational expenses, including payroll, rent, mortgage, debt, or insurance. However, in order to have your PPP loan forgiven, you will need to spend the funds primarily on payroll (75%+ of the forgiven amount).

When can I apply for a PPP loan?

- >> The loan application forms were made available on April 3, 2020.
 - > Note: The first tranche of funds for PPP ran out on April 16. Congress announced a deal on April 21 to replenish funds for the PPP, which was later signed by President Trump on April 24. The SBA began accepting new applications on April 27.

Where do I apply for a PPP loan?

- >> You can find the PPP forms on the [SBA website](#), but you will submit your application to a participating lender. Begin by contacting your bank to see if they are participating. If they are not, you can find a list of the [100 most active SBA lending institutions here](#).
 - > Note: Reports from the profession indicate that lender shopping has been a successful tactic for many.

What is the deadline for applying for the PPP loan?

- >> We recommend that you apply as soon as possible, as the loans are going to be made available on a first come, first served basis.
- >> The loans will be made available until June 30, 2020, or until funding runs out – whichever comes first.

How long will it take from application to funding? Is the employer responsible to pay interest during the 8-week forgiveness period?

- >> Because the PPP program is built on a partnership between the SBA and private banks, timing may vary by lender.
- >> The interest rate on the PPP loans is 1% (based on updated Treasury guidance). The first payment can be deferred 6 or 12 months and only applies to the amount of the PPP loan that is not forgiven.



Can a business defer payroll taxes and take advantage of PPP?

- >> Under the CARES Act, employers may elect to defer the FICA taxes paid by the employer owed from March 27, 2020, thru December 31, 2020. 50% of the deferred taxes would be due on December 31, 2021, with the remaining 50% due on December 31, 2022.
- >> Anyone who elects the payroll tax (FICA) deferral will not receive PPP loan forgiveness. If the taxpayer took the loan forgiveness, they would not be allowed to defer payroll taxes.
- >> The Treasury Department, however, has clarified that an employer may defer these payroll taxes between March 27 and the date their PPP loan is funded.

PPP Loan Calculation

How do I calculate the PPP loan amount?

- >> Please view the Paycheck Protection Program calculation examples [here](#). This resource includes example calculations for the following scenarios:
 - > Business owner who is a sole proprietor, self-employed, or independent contractor
 - > Business owner who is a sole proprietor, self-employed, or independent contractor with employee
 - > “Statutory” Employee
 - > LLC – no employees
 - > LLC – with employees
 - > S Corporation – no employees
 - > S Corporation – with employees and independent contractors

How is the PPP loan calculation done for employees making more than 100K? Are they included in the calculation?

- >> Yes, they are included. Their contribution to the formula is limited to 100k of cash compensation for each such employee. Their non-cash compensation is a plus up.
 - > *For example:* If you paid an employee \$125,000 in 2019, and also contributed to their healthcare and retirement in the amount of \$10,000, the input in your loan calculation for this employee would be \$110,000.

Is paid sick leave considered payroll and will it be eligible for loan forgiveness?

- >> Yes, is part of the total payroll costs for the PPP.



The CARES Act excludes from the definition of payroll costs any employee compensation in excess of an annual salary of \$100,000. Does that exclusion apply to all employee benefits of monetary value?

- >> No. The exclusion of compensation in excess of \$100,000 annually applies only to cash compensation, not to non-cash benefits, including:
 - a. Employer contributions to defined-benefit or defined-contribution retirement plans;
 - b. Payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums; and
 - c. Payment of state and local taxes assessed on compensation of employees.¹

Should payments that an eligible borrower made to an independent contractor or sole proprietor be included in calculations of the eligible borrower's payroll costs?

- >> No. Any amount that an eligible borrower has paid to an independent contractor should be excluded from the eligible business' payroll costs.
- >> However, those independent contractors will themselves be eligible for a loan under the PPP if the independent contractor or sole proprietor satisfies the applicable requirements.

How should a borrower account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven?

- >> Under the CARES Act, payroll costs are calculated on a gross basis without regard to federal taxes imposed or withheld, such as the employee's and employer's share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer, but payroll costs do not include the employer's share of payroll tax.
 - > *For example:* An employee who earned \$4,000 per month in gross wages, from which \$500 in federal taxes was withheld, would count as \$4,000 in payroll costs. The employee would receive \$3,500, \$500 of which would be paid to the federal government. However, the employer-side federal payroll taxes imposed on the \$4,000 in wages are excluded from payroll costs under the statute.²



¹See Treasury's PPP Loans, FAQs (April 7, 2020) Question 7

²See Treasury's PPP Loans, FAQs (April 7, 2020) Question 16.