

## How to apply for PPP loans starting tomorrow – April 3<sup>rd</sup>

The \$349 billion Paycheck Protection Program (PPP), **which opens tomorrow - Friday, April 3<sup>rd</sup>** - offers federally backed loans of up to \$10 million to employers with fewer than 500 workers as an incentive for employers to retain workers during the pandemic and resulting economic crisis. The loan amount is calculated based on 2.5 times the total average monthly payroll cost payment that was incurred by the business in 2019.

The PPP program is administered by the Small Business Administration (SBA) through local lending institutions. **You can apply for PPP loans immediately – there is no need to demonstrate economic injury in order to qualify for these loans.** Consequently, high demand is anticipated for these loans and you should apply as soon as possible, starting April 3<sup>rd</sup>.

**IMPORTANT NOTE: PPP loans are largely incompatible with several other COVID-19 relief programs for small businesses** (in other words, you cannot take advantage of both PPP and these other programs), including:

- The SBA Economic Injury Disaster Loan Program (EIDL) – only available to organizations that have already sustained substantial economic injury; they cannot be secured in anticipation of potential economic injury. *Exceptions to this incompatibility with PPP are noted in the description of the PPP loan program below.*
- The Employee Retention Tax Credit
- The Payroll Tax Deferral program

*A brief overview of these programs is provided later in this document.*

Small businesses that are eligible for PPP loans include sole proprietorships, independent contractors and self-employed persons. The core eligibility questions are:

1. Were you in business as of February 15, 2020?
2. Did you have employees or independent contractors at that time?
3. Do you have less than 500 employees/independent contractors on your payroll?
4. Do you certify that the uncertainty of current economic conditions makes the loan request necessary to support ongoing operations?

NOTE: Even if a larger architecture firm – 500 or more employees -- has locations with fewer than 500 employees, they are considered “affiliated” and not eligible for the franchise/hotel exemption.

The SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities. The Paycheck Protection Program will be available through June 30, 2020.

**Applications for PPP loans are to be made through third-party lenders – not directly through the SBA.**

Here is the list of top SBA-approved lenders in Minnesota: <https://www.sbalenders.com/top-sba-lenders-minnesota/>. You should ask your existing local lender whether they are participating in the program. Lenders may begin processing loan applications as soon as April 3, 2020. **We understand this**

**will be a first-come, first-served situation.** Therefore, expect long wait times to try to connect with a lender, but try to do so starting April 3<sup>rd</sup>.

A personal guarantee is not required for the loan, nor is collateral is required for the loan. The timeline for receiving funds will vary by lender; the intention is for those approved for the PPP loan program to receive funds within three weeks.

## Overview of How to Apply for PPP Loans

Start with these three steps:

1. **Contact your bank** to inquire about the PPP and get in their queue for the application. Applications will open as soon as tomorrow - Friday, April 3 - and the program will be available through June 30, 2020.
2. **Review the [sample application form](#).** (summarized below)
3. **Gather the information and documents** needed to be ready to apply:
  - **2019 payroll records:** Your last 12 months of payroll
  - **2019 employee documentation:** 1099s for your 2019 employees and independent contractors who would otherwise be an employee of your business.
  - **Healthcare cost records:** All health insurance premiums paid by your business under a group health plan.
  - **Retirement documentation:** Your business's retirement plan funding paid for by the company.
  - **Other allowable expenses:** Information on amounts paid for rent, interest on a mortgage, and utilities for the last 12 months.

NOTE: While these resources are focused on nonprofits, they may be helpful to you:

- [FMA PPP Calculator](#) (xls) — This calculator will help you estimate the average monthly payroll and loan amount for your application.
- [FMA Template for Board Resolution Authorizing Loan](#) (docx) — If your business has a board of directors, this template will allow you to quickly get approval from your board to apply for a PPP loan.
- [FMA Script for talking to a Bank about PPP](#) (docx) — This script provides you with key questions you can use to call a bank immediately.

## More Details

### *Elements of the Application Form*

To prepare to submit your application, [download a sample form](#). You will be asked to provide the following:

- Core business information (legal name, address, business TIN/EIN/SSN, contact info)
- Average monthly payroll (this amount is multiplied by 2.5 times to equal the loan amount).

- “For purposes of calculating ‘Average Monthly Payroll’, most Applicants will use the average monthly payroll for 2019, excluding costs over \$100,000 on an annualized basis for each employee. ...For new businesses, average monthly payroll may be calculated using the time period from January 1, 2020 to February 29, 2020, excluding costs over \$100,000 on an annualized basis for each employee.”
  - Employees who make more than \$100,000 in compensation (salary and benefits) should be included in the payroll, however it is only their compensation up to the \$100,000 amount that should be included in the loan application.
- Number of employees
- Purpose of the loan (selecting all that apply): Payroll, Rent / Mortgage Interest, Utilities
  - The loan will be 100% forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities. **Due to the limited amount of funds and expected demand, the SBA suggests that at least 75% of the loan amount be used for payroll, in order to be forgiven.**
- A list of all owners with greater than 20% ownership stakes and their TIN/EIN/SSN numbers and addresses
- Checking a box verifying that you are a U.S. Citizen or have Lawful Permanent Resident status.
- “Documentation verifying the number of full-time equivalent employees on payroll as well as the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight week period following this loan will be provided to the lender.”
- You will need to acknowledge that the lender will calculate the eligible loan amount using tax documents identical to those submitted to the IRS.
- You will also be asked to answer a series of questions. Question 4 asks whether the business has received an SBA Economic Injury Disaster Loan between January 31, 2020 and April 3, 2020. If so, details of that loan have to be provided. **If you have received or applied for an SBA Economic Injury Disaster Loan during this time period – or if you anticipate applying for one of these disaster loans – your PPP loan request cannot be for the same purpose or you will be denied!**
  - AIA’s legislative counsel believes that a business could, for example, apply for a PPP loan focused on payroll, and impacts on rent, mortgage, or utilities could be included in an Economic Injury Disaster Loan application. They are checking with the SBA on this question.
  - If you have applied for an Economic Injury Disaster Loan but have not yet been approved, you will want to consider whether to cancel that application and, if so, reach out to your loan officer.

### ***PPP Loan Forgiveness***

Any loan payments that are cannot be forgiven will be deferred for six months. **No collateral or personal guarantees are required.** Neither the government nor lenders will charge small businesses any fees.

Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease; if you reduce salaries by more than 25%, you will be docked by that calculation. However, **if you hire back**

**employees who had been furloughed or laid off before June 30, 2020, your loan forgiveness would not be reduced.**

These loans have a maturity of 2 years and an interest rate of .5%.

## **Brief Overview of Other Programs Incompatible with PPP**

### ***Economic Injury Disaster Loans***

As noted earlier in this document, Economic Injury Disaster Loans are only available to organizations that have already sustained substantial economic injury – they cannot be secured in anticipation of potential economic injury. Substantial economic injury is along the lines of not being able to meet the organization's obligations, not being able to pay expenses and/or not being able to produce/market your product. If you are considering applying for an Economic Injury Disaster Loan, here is an overview (more details can be found here: <https://www.benefits.gov/benefit/1504>):

- Cannot be for the same purpose(s) as the purpose(s) listed in applying for the PPP loan program
- EIDL loans are up to \$2 million and are intended to provide a couple of months of working capital
- We understand that collateral requirements can be waived (guidance from AIA's attorneys); if you do have collateral, it would still be attached on loans over \$25,000
- Have to have been in business as of Jan 31, 2020
- Don't have to show ability to get credit
- These loans are based on gross receipts before and after the economic injury—calculated over the period of the loan on an individual basis
- The SBA is offering advances of up to \$10,000 on these EIDL loans within 3 days of application, with certifications under penalty of perjury

### ***Employee Retention Tax Credit***

This program allows a firm to receive a refundable payroll tax credit related to operations being fully or partially suspended, due to pandemic shut-down orders. Here is an overview. (More details can be found here: <https://www.irs.gov/newsroom/irs-employee-retention-credit-available-for-many-businesses-financially-impacted-by-covid-19>):

- Cannot apply if the business has taken advantage of the Paycheck Protection Protection (PPP) loan program
- Available to all firms regardless of size
- Have operations partially or fully suspended as a result of orders from a governmental authority due to COVID-19 OR the business experiences a decline in gross receipts by more than 50% in a quarter compared to the same quarter in 2019 (eligibility ends when gross receipts in a quarter exceed 80% compared to the same 2019 quarter)
- Applies to 50% of qualified wages paid by employers March 13-December 31, 2020
  - For businesses with less than 100 employees, this would include all wages paid to employees when they were not able to provide services due to COVID-19
  - For businesses with more than 100 employees, all employee wages qualify

- Covers first \$10,000 of compensation, including the employer portion of health benefits, for each eligible employee

### ***Payroll Tax Deferral***

This program allows a business to defer paying the employer portion of certain payroll taxes through the end of 2020. Here is an overview. (A reference can be found here; this information was consistent with guidance from AIA's legislative counsel – it was difficult to find the exact reference on the IRS website: <https://www.uschamber.com/co/start/strategy/cares-act-small-business-guide>)

- Cannot apply if the business has taken advantage of the Paycheck Protection Protection (PPP) loan program
- Available to all firms regardless of size
- Allows employer to defer 6.2% payroll tax share through the end of the year (March 27, 2020-December 21, 2020)
- All 2020 deferred amounts must be paid back over the next two tax years (50% end of 2021, 50% end of 2022)

### **For more information**

- More guidance will be available from the Small Business Administration as of April 6
- AIA's Website ([www.aia.org](http://www.aia.org))
- AIA Minnesota's Website ([www.aia-mn.org](http://www.aia-mn.org))
- AIA's legislative counsel, Hance Scarborough, may be available on a limited basis for consultations specific to overall provisions and eligibility: [dpore@hslawmail.com](mailto:dpore@hslawmail.com)