

## Paycheck Protection Program 2.0

### Background

The Paycheck Protection Program was established in March 2020 by the CARES Act. The Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) signed into law in December 2020 adds additional funding for first time borrowers as well as businesses in need of a second loan. In addition, several changes were made that impact both businesses with existing loans and first-time borrowers and new eligibility parameters were established for businesses to qualify for a second loan. Applications are due by May 31, 2021.

### Changes to PPP parameters

The following changes apply both to businesses applying for a first PPP loan, and businesses with an existing loan *that has not yet been forgiven by the SBA*.

- **Covered Period:** Borrowers now have the flexibility to choose any length of time between 8 and 24 weeks from the date loan proceeds are received to expend the funds. Choosing a longer period may enable you to meet the requirements for forgiveness and/or expend all of your funds on payroll costs which mitigates certain risks of being deemed a long-term recipient of federal financial assistance.
- **EIDL Advances:** If you received an EIDL Advance of up to \$10,000, the initial PPP terms required you to subtract your EIDL advance amount from your PPP forgiveness amount. Borrowers are no longer required to do this. If you have already applied for and received forgiveness, your lender should contact you about returning the subtracted advance funds to you or applying them to any PPP outstanding loan balance, if applicable. The full procedural note from the Treasury can be found [here](#) in the event your lender is unaware of this change.
- **Taxes and Deductibility:**
  - Businesses are no longer required to include forgiven loan amounts in their reported gross income.
  - Expenses paid for with forgiven PPP loan proceeds are now deductible.

### Uses of Funds

The list of eligible items that PPP funds can be spent on has been expanded. The original list included:

- Payroll costs
- Costs related to the continuation of group health care
- Mortgage interest payments
- Rent payments
- Utility payments
- Interest payments on any other debt obligations incurred before February 15, 2020.

Now, in addition to the above costs, businesses can expend PPP funds on:

- Life, disability, vision, and dental insurance premiums
- Certain operations expenditures including business software or cloud computing service that facilitates business operations, tracking of payroll expenses, human resources and more
- Covered supplier costs (expenditures made by a borrower to a supplier)
- Covered worker protection expenditures including certain changes to a physical facility and PPE necessary to comply with federal, state, or local guidance on social distancing and safe operations during COVID-19.

The full list of eligible expenses can be found on pages 44 and 48-51 of the [Interim Final Rule](#). Although this list has been expanded, *the requirement that 60% of the loan be spent on payroll costs in order to obtain full forgiveness remains unchanged.*

### First Time Borrowers

The maximum loan amount calculation remains at 2.5 times the average monthly payroll, which is calculated by taking annual payroll costs, subtracting any compensation in excess of \$100k to any employee, and dividing by 12. There are some calculation examples on pp.32-36 of the [Interim Final Rule](#).

New borrowers can use either 2019 or 2020 as the base period for calculating their maximum loan amount to ensure new borrowers have the same opportunity as previous PPP borrowers and do not get penalized with lower loan amounts due to financial distress in 2020.

### Second Time Borrowers

The legislation and [Interim Final Rule](#) outline the following eligibility requirements for a second loan, which are narrower than for an initial PPP loan:

- The business must have 300 or fewer employees.
- The business must have used or will use the full amount of the initial PPP loan for authorized purposes on or before the expected date of disbursement of the Second Draw PPP Loan.
- The business must have experienced a revenue reduction of 25% or greater in 2020 compared to 2019. A borrower must calculate this revenue reduction by comparing the borrower's quarterly gross receipts for one quarter in 2020 with the borrower's gross receipts for the corresponding quarter of 2019. First draw PPP loan funds are excluded from the borrower's 2020 gross receipts for purposes of demonstrating the required reduction.

The maximum loan amount for a Second Draw PPP Loan is equal to the lesser of two and half months of the borrower's average monthly payroll costs or \$2 million. The business may use either calendar year 2019 or the twelve-month period prior to when the loan is made to calculate average monthly payroll costs.

## Documentation

If the borrower has used calendar year 2019 to determine both its first and second PPP loan amounts *and* uses the same lender, then no additional documentation will need to be submitted to verify payroll costs.

For loans with a principal amount greater than \$150,000, the applicant must submit documentation that demonstrates a revenue reduction of 25% or greater in 2020 relative to 2019 at the time of application. For loans under \$150,000 the borrower needs to submit that documentation on or before applying for loan forgiveness.