

Paycheck Protection Program Update

The Economic Aid Act reauthorized the Small Business Administration (SBA) Paycheck Protection Program (PPP) through March 31 and made several modifications beneficial to farmers. It also authorizes second draw PPP loans.

Eligible expenses paid with PPP loans **are** deductible for tax purposes. And Economic Injury Disaster Loan (EIDL) advance grants **are not** taxable. See your tax preparer for details.

New rule for farmers only. Calculation of PPP loans is now based on gross income instead of net farm income. Gross income comes from Line 9 of Schedule F. The rule applies to sole proprietors and eligible self-employed farmers who report on Schedule F and were in business as of February 15, 2020.

This means farmers who did not qualify before may now qualify. It also means farmers who did not qualify for the maximum amount may request an increase in the original PPP loan if the loan has not been forgiven.

For those *without* employees the maximum is now \$20,833. Those *with* employees add the higher of 2019 or 2020's monthly payroll multiplied by 2.5.

Increase in existing loan amount. Borrowers may be able to request an increase in the original amount of the loan under certain circumstances if SBA has not remitted a forgiveness payment to the Lender (the loan is forgiven). This includes the new loan calculation for farmers and partnerships that did not include partner compensation in the application. Contact the lender that made the PPP loan to request the difference.

Other New Rules. Borrowers may use 2019 or 2020 for purposes of calculating their maximum loan amount. And they may now choose a covered period to pay or incur eligible expenses stretching from 8 weeks up to 24 weeks from the date loan proceeds are disbursed.

Eligible expenses for PPP loans have been added including payments for certain business software and services, cost for goods that are essential to the operation, and rent and business interest paid on obligations incurred before February 15, 2020. These eligible expenses apply retroactively to existing unforgiven PPP loans. PPP loans still require that at least 60 percent of the proceeds be used for payroll costs.

There is a simplified loan forgiveness application for PPP loans under \$150,000.

New Loans (First Draw). A borrower who did not receive a PPP loan in 2020 may apply for a new loan based on the new rules. This applies to small businesses, self-employed and sole proprietors with or without employees, partnerships, and others in operation on February 15, 2020.

Second Draw Loans. Borrowers who received a PPP loan during 2020 may be eligible for a second PPP loan, even if the first loan has been forgiven. A qualifying borrower:

- has 300 or fewer employees,
- will have used all the original loan funds for authorized purposes before the new loan payments are dispersed, and
- can show gross receipts in any one quarter of 2020 was reduced by at least 25% compared to the same quarter in 2019.

A borrower in operation all four quarters of 2020 need only show that gross receipts for 2020 was reduced by at least 25% compared 2019. PPP forgiveness received in 2020 is not included in gross income.

This is based on SBA guidance through January 13, 2020. SBA intends to issue guidance on loan forgiveness and the loan review process later.