SBA Paycheck Protection Program (PPP) for Artists, Independent Contractors, and Business Owners

Here at the Arts & Business Council of Greater Boston (ABC), we understand that the outbreak of the Coronavirus (COVID-19) has had a great impact on our community of artist and art organizations. Our team wants you all to know we are here, and ABC is committed to doing our part to help provide resources that may help to alleviate some of the stressors your businesses may be facing.

April 27 Program Update: An additional $310 billion was allocated to the SBA PPP and EIDL loan programs in a COVID-19 Rescue Bill signed by President Trump on April 24. Of that $310 billion, $250 billion was designated specifically for PPP loans. The SBA resumed accepting PPP applications on April 27 at 10:30am EDT. While changes have been made to the SBA E-Tran system to pace the acceptance of applications in order to allow more lenders to submit applications at the same time, the PPP loans are still first-come, first-served.

What is a PPP Loan?
- PPP is a forgivable loan program that helps small businesses keep their workforce employed during the Coronavirus (COVID-19) crisis.
- The loan is intended to cover expenses incurred during the period from February 15, 2020 through June 30, 2020.

What is the PPP Loan Flexibility Act (PPPFA)?
- On June 5, the US government enacted changes to the Paycheck Protection Program to make it easier for business to qualify for loan forgiveness on a larger portion of their loans
  - PPFA extends the “covered period” from 8 weeks to 24 works from the date of the origination of the covered loan, or December 31, 2020, whichever is earlier. A borrower whose loan was made prior to June 5, 2020 may elect keep the original 8 week covered period. A borrower whose loan was made on or after June 5, 2020 must use the 24 week loan forgiveness covered period
  - PPFA lowers the amount of the PPP loan required to be spent on payroll costs from 75% to 60%
- All changes signed into law on June 5, 2020 are retroactively applicable as if they were included in the original CARES Act, except for the change in loan term (maturity date), which is prospective

Who Can Apply?
- Any business or 501(c)(3) nonprofit organization with under 500 employees
- Any 501(c)(19) veterans organization, or Tribal business concern that meets SBA’s size standards
• Sole proprietorships, independent contractors, self-employed individuals, and gig workers
  o Partners within a Partnership are not eligible to receive a separate loan for themselves as a self-employed individual. You must submit the loan application by or on behalf of the Partnership.
• Businesses in the food or hospitality industry (NAICS codes beginning in (72) may be eligible on a per location basis.
• Faith-based organizations. See full SBA guidelines here.
• Your business must have been in operation by February 15, 2020

What Can the Loan be Used for?
• Payroll costs
• Mortgage interest payments on any business mortgage obligation on real or personal property that was incurred before February 15, 2020
• Payments on business rent obligations on real or personal property under a lease agreement in force before February 15, 2020
• Business utility payments for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020
• You cannot receive funds from another SBA program (such as EIDL) for the same purpose and during the same period of a PPP loan. If you received an EIDL to cover payroll costs between January 31, 2020 and April 3, 2020, the PPP loan must be used to refinance that EIDL.

Sole Proprietors, Independent Contractors and Self-Employed Individuals
• Owner compensation replacement
• Employee payroll costs, if applicable
• Mortgage interest payments on any business mortgage obligation on real or personal property that was incurred before February 15, 2020
• Payments on business rent obligations on real or personal property under a lease agreement in force before February 15, 2020
• Business utility payments for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020
• Refinancing an EIDL loan made between January 31, 2020 and April 3, 2020. If that EIDL was used for payroll, you must refinance.
*The above nonpayroll business expenses are authorized if they are incurred during the 8-week loan period, and the agreements or contracts for those expenses are dated prior to February 15, and they are claimed as deductible expenses on your 2019 Schedule C

When to Apply
• First come, first served basis
• Lenders may begin processing loan applications for businesses as soon as April 3, 2020.
• Self-employed individuals and sole proprietorships can apply beginning April 10, 2020.
• PPP loans will be available through June 30, 2020 or until funds have run out. There may be more funds allocated by Congress to the PPP program at a future date, if needed.
Changes made by the PPPFA are not intended to extend the deadline to apply for a PPP loan beyond June 30, 2020. Thus, any employer that is considering applying for a PPP loan should do so by the June 30, 2020, deadline.

**How to Apply**

**Existing SBA 7(a) Lenders in Massachusetts**
- Click on the links below to see if your local lender is an **existing SBA 7(a) lender in Massachusetts**. If your local lender is not on the list below, please call them to see if they have been recently approved to participate in the PPP.
  - Top SBA Lenders in Massachusetts
  - SBA Official Massachusetts Lender List

**Other Options**
- Apply through any federally insured depository institution; or
- Federally insured credit union; and
- Farm credit system institutions.

**Official Application Form**
- You can find the official SBA PPP Borrower Application Form [here](#). Please keep in mind individual banks and lenders may use their own application form, but the information required will be the same.

**What Do I Need to Apply?**

**For Businesses and Nonprofit Organizations**
- Payroll documentation
  - The SBA Application asks for payroll costs from January 2019-December 2019, but individual banks may ask for the most recent 12 months. Considering this, be prepared to provide payroll information over the last 15 months.
  - **Exclude** compensation of an individual employee in excess of an annual salary of $100,000
  - **Seasonal Businesses** can elect to use an average monthly payroll for the time period between February 15, 2019 and June 30, 2019 OR $10 million (whichever is smaller)
  - **New Businesses** can elect to use average monthly payroll payments from January 1, 2020 to February 29, 2020 OR $10 million (whichever is smaller)
  - If your business utilizes an external payroll company, you may need to provide reports received directly from them as well.
- Most recent financial documents available covering the past year
- Health insurance premiums paid by the business owners under a group health plan
- Company retirement plan funding paid for by the company

**For Sole Proprietors, Independent Contractors and Self-Employed Individuals**

**Proof of Income in 2019, via:**
- Form 1040 Schedule C for Sole Proprietors and Independent Contractors
  - Regardless of whether you have filed a 2019 IRS tax return, you must provide the 2019 Form 1040 Schedule C with your PPP loan
- 1099 Forms
- Payroll Processing records and Payroll tax filings
  o Bank records, if the above are unavailable

Loan Terms
- Loans made on or after June 5, 2020 have a minimum maturity of 5 years
- Loans made before June 5, 2020 maintain their previous maturity, which is most often 2 years
  o The PPPFA does not prohibit lenders and borrowers from mutually agreeing to modify the two-year term of existing PPP loans to conform with this new section
  o If you would like to renegotiate the maturity of your loan, contact your lender
- Interest Rate: 1%
- Total loan amount not to exceed $10 million
- Payments deferred for 6 months
- No prepayment penalties
- No collateral or personal guarantees are required
- No fees from government or lenders
- Borrowers may now continue to defer payroll taxes through the end of 2020

Calculating Loan Amount: Average Monthly Payroll Costs

Businesses and Nonprofits
1. Add together all payroll costs from the last 12 months (or from January 1 - December 31, 2019); then
2. Subtract any compensation paid to an employee in excess of an annual salary of $100,000; then
3. Divide that number by 12; then
4. Multiply by 2.5; then
5. Add the outstanding amount of any non-forgivable EIDL made between January 31 and April 3, 2020

*Sole Proprietors, Independent Contractors and Self-Employed Individuals
1. Take your 2019 net profit up to $100,000 (from Form 1040 Schedule C line 31 for Sole Proprietors and Independent Contractors or 2019 payroll tax filings for Self-Employed), then
2. Divide by 12, then
3. Multiply by 2.5
4. Add the outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance, less the amount of any COVID-19 EIDL Advance.

*If your net profit is $0 or less, you are not eligible for a PPP loan
The new PPPFA does not make any changes to loan terms for independent contractors and self-employed individuals receiving PPP loans

Sole Proprietors / Self-Employed Individuals WITH EMPLOYEES
1. Add:
   a. 2019 net profit (Schedule C, line 31) up to $100,000, plus
b. 2019 gross wages and tips (up to $100,000) paid to employees (Form 941 Taxable Medicare wages & tips, line 5c, column 1) from each quarter, plus any pre-tax employee contributions to health insurance or other fringe benefits excluded from Taxable Medicare wages & tips, plus

c. 2019 employer health insurance contributions (Schedule C, line 14), retirement contributions (Schedule C, line 19), and state and local taxes assessed on employee compensation

2. **Divide** the total from step 1 by 12, then

3. **Multiply** by 2.5, then

4. **Add** the outstanding amount of any EIDL made between January 31, 2020 and April 3, 2020 that you seek to refinance, less the amount of any COVID-19 EIDL Advance.

*SBA will issue additional guidance for self-employed individuals **not** in operation during 2019 but were operating by Feb 15, 2020, as they will not have 2019 business and tax records.

**Loan Forgiveness**

**Businesses and Nonprofits**

- Loans will be fully forgiven only if the funds are used for payroll costs, interest on mortgages, rent, and utilities during the 8-week period after the loan is issued.
- Borrowers now have 24 weeks or until December 31, 2020, whichever is earlier, to distribute funding
  - Borrowers who have already received PPP loans retain the option to use an 8 week period
    - Borrowers may select this option so as not to be required to maintain payroll levels for an additional 8 weeks, which could impact the amount of loan forgiveness
  - Under the Paycheck Protection Program Flexibility Act (PPPFA), at least 60% of the forgiven amount must have been used for payroll
    - Non-payroll expenses can now be as high as 40% of spending
- Employers must maintain or quickly rehire employees during the loan period in 2020 that the employer had in 2019
  - Forgiveness will be reduced if the full-time equivalent number of employees is reduced
- Employers must maintain salary levels
  - Forgiveness will be reduced if salaries and wages **decrease** by 25% or more for any individual employee during the 8-week loan period, compared to the 2019 period
- Loan forgiveness can be restored if **laid off employees** are restored by **June 30, 2020**
- **Forgiven** loan amounts under the Paycheck Protection Program are excluded from gross income and will **not** be taxable as income.
- **Borrowers** must submit to the lender a loan forgiveness application within 10 months after the end of their loan forgiveness covered period
  - After that period, the borrow must begin paying principal and interest

**Sole Proprietors, Independent Contractors, and Self-Employed Individuals**

- 8 weeks of your 2019 net profit will be eligible for forgiveness.
  - Net profit (max. $100,000) multiplied by 8/52 **or** $15,385, whichever is less.
No more than 75% of your loan may be used for compensation recovery. The remaining 25% must be used for authorized business expenses.

- **Authorized Business Expenses**, according to Schedule C:
  - Mortgage Interest (line 16a)
  - Business Property (line 20b)
  - Utilities (line 25)
  - Expenses for business use of your home (line 30)

*The above expenses are authorized if they are incurred during the 8-week loan period, and the agreements or contracts for those expenses are dated prior to February 15, and they are claimed as deductible expenses on your 2019 Form 1040 Schedule C.

**Applying for Loan Forgiveness: Required Documentation**

**Businesses and Nonprofits**

- **PPP Loan Forgiveness Calculation Form** ([Forgiveness Application: pages 3-4](#))
- **PPP Schedule A** ([Forgiveness Application: page 6](#))
- **Payroll**: Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or the Alternative Payroll Covered Period (defined on page 1 of the Forgiveness Application) consisting of each of the following:
  - Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
  - Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
    - Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
    - State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported
  - Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the Borrower included in the forgiveness amount (PPP Schedule A, lines (6) and (7))
- **FTE**: Documentation showing:
  - The average number of FTE employees on payroll per month employed between February 15, 2019 and June 30, 2019 or between January 1, 2020 and February 29, 2020; or
  - For seasonal employers: the average number of FTE employees on payroll per month employed between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive twelve-week period between May 1, 2019 and September 15, 2019.

*The selected time period must be the same time period selected for purposes of completing PPP Schedule A, line 11. Documents may include payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941) and state quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state. Documents submitted may cover periods longer than the specific time period.*
- **Nonpayroll**: Documentation verifying existence of the obligations/services prior to February 15, 2020 and eligible payments from the Covered Period
  - Business mortgage interest payments
    - Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
  - Business rent or lease payments
    - Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
  - Business utility payments
    - Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments.

Sole Proprietors, Independent Contractors, and Self-Employed Individuals

- **PPP Loan Forgiveness Calculation Form** ([Forgiveness Application](#): pages 3-4)
- **PPP Schedule A** ([Forgiveness Application](#): page 6)
- **Payroll**: 2019 Schedule C
  - PPP loans for independent contractors and self-employed individuals provide 8 weeks of Owner Compensation Replacement, which means 8 weeks of your net profit from 2019 will be automatically forgiven.
- **Nonpayroll**: Documentation verifying existence of the obligations/services prior to February 15, 2020 and eligible payments from the Covered Period
  - Business mortgage interest payments
    - Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
  - Business rent or lease payments
    - Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
  - Business utility payments
    - Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments.

The EZ PPP Loan Forgiveness Application ([Forgiveness Application and Instructions](#))

- The EZ Loan Forgiveness Application is a simplified forgiveness application that requires fewer calculations and less documentation than the full application
- This application can be used by borrowers that meeting any of these requirements:
o Are self-employed and have no employees;
o Did not reduce the salaries or wages of their employees by more than 25% and did not reduce the number or hours of their employees
o Experienced reductions in business activity as a result of health directives related to COVID-19 and did not reduce the salaries or wages of their employees by more than 25%

Recommended Steps for Filling out the Application
1. Complete the general business information on the Loan Forgiveness Calculation Form
2. Complete the Schedule A Worksheet to determine if you meet the headcount and wage requirements
   a. Sole Proprietors and Self-Employed individuals without payroll do not need to complete the Schedule A Worksheet.
3. Complete Schedule A
   a. Sole Proprietors and Self-Employed individuals without payroll only need to complete lines 9 and 10. Line 9 is where you include the amount of your Owner Compensation Replacement (2019 Schedule C net profit (up to $100,000) multiplied by 8/52).
4. Complete the rest of the Loan Forgiveness Calculation Form

See full Loan Forgiveness Application and Instructions here.

PPP LOAN AND FORGIVENESS FAQs

What is included in “payroll costs?”
Compensation to employees (whose principal place of residence is the United States) in the form of:

- Salary, wages, commissions, or similar compensation;
- Cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips);
- Payment for vacation, parental, family, medical, or sick leave;
- Allowance for separation or dismissal;
- Payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums, and retirement;
- Payment of state and local taxes assessed on compensation of employees; and
- For an independent contractor or sole proprietor: wages, commissions, income, or net earnings from self-employment, or similar compensation.

What is excluded from “payroll costs?”
The Act expressly excludes the following:

- Any compensation of an employee whose principal place of residence is outside of the United States;
- The compensation of an individual employee in excess of an annual salary of $100,000, prorated as necessary;
Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020, including the employee's and employer's share of FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes, and income taxes required to be withheld from employees; and

Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act

When must payroll costs be incurred and/or paid to be eligible for forgiveness?
In general, payroll costs paid or incurred during the eight consecutive week (56 days) covered period are eligible for forgiveness. Borrowers may seek forgiveness for payroll costs for the eight weeks beginning on either:

- The date of disbursement of the borrower’s PPP loan proceeds from the Lender (i.e., the start of the covered period); or
- The first day of the first payroll cycle in the covered period (the “alternative payroll covered period”).

Payroll costs are considered paid on the day that paychecks are distributed or the borrower originates an ACH credit transaction. Payroll costs incurred during the borrower’s last pay period of the covered period or the alternative payroll covered period are eligible for forgiveness if paid on or before the next regular payroll date; otherwise, payroll costs must be paid during the covered period (or alternative payroll covered period) to be eligible for forgiveness. Payroll costs are generally incurred on the day the employee’s pay is earned (i.e., on the day the employee worked).

A borrower with a bi-weekly (or more frequent) payroll cycle may elect to use an alternative payroll covered period that begins on the first day of the first payroll cycle in the covered period and continues for the following eight weeks. If payroll costs are incurred during this eight-week alternative payroll covered period, but paid after the end of the alternative payroll covered period, such payroll costs will be eligible for forgiveness if they are paid no later than the first regular payroll date thereafter.

Are salary, wages, or commission payments to furloughed employees; bonuses; or hazard pay during the covered period eligible for loan forgiveness?
Yes. The CARES Act defines the term “payroll costs” broadly to include compensation in the form of salary, wages, commissions, or similar compensation. If a borrower pays furloughed employees their salary, wages, or commissions during the covered period, those payments are eligible for forgiveness as long as they do not exceed an annual salary of $100,000, as prorated for the covered period. If an employee’s total compensation does not exceed $100,000 on an annualized basis, the employee’s hazard pay and bonuses are eligible for loan forgiveness because they constitute a supplement to salary or wages, and are thus a similar form of compensation.

Are there caps on the amount of loan forgiveness available for owner-employees and self-employed individuals’ own payroll compensation?
Yes, the amount of loan forgiveness requested for owner-employees and self-employed individuals’ payroll compensation can be no more than the lesser of 8/52 of 2019 compensation or $15,385 per individual in total across all businesses.
Owner-employees are capped by the amount of their 2019 employee cash compensation and employer retirement and health care contributions made on their behalf.

Schedule C filers are capped by the amount of their owner compensation replacement, calculated based on 2019 net profit.

General partners are capped by the amount of their 2019 net earnings from self-employment (reduced by claimed section 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235. No additional forgiveness is provided for retirement or health insurance contributions for self-employed individuals, including Schedule C filers and general partners, as such expenses are paid out of their net self-employment income.

Do I count all employees or only full-time equivalent employees in my headcount?

For purposes of loan eligibility, the CARES Act defines the term employee to include “individuals employed on a full-time, part-time, or other basis.” A borrower must therefore calculate the total number of employees, including part-time employees, when determining their employee headcount for purposes of the eligibility threshold.

- For example, if a borrower has 200 full-time employees and 50 part-time employees each working 10 hours per week, the borrower has a total of 250 employees.

By contrast, for purposes of loan forgiveness, the CARES Act uses the standard of “full-time equivalent employees” to determine the extent to which the loan forgiveness amount will be reduced in the event of workforce reductions.

What does “full-time equivalent employee” mean?

Full-time equivalent employee means an employee who works 40 hours or more, on average, each week. For purposes of this calculation, borrowers must divide the average number of hours paid for each employee per week by 40, capping this quotient at 1.0.

- For example, an employee who was paid 48 hours per week during the covered period would be considered to be an FTE employee of 1.0.

For employees who were paid for less than 40 hours per week, borrowers may choose to calculate the full-time equivalency in one of two ways:

- Calculate the average number of hours a part-time employee was paid per week during the covered period.
  - For example, if an employee was paid for 30 hours per week on average during the covered period, the employee could be considered to be an FTE employee of 0.75. Similarly, if an employee was paid for ten hours per week on average during the covered period, the employee could be considered to be an FTE employee of 0.25.

- For administrative convenience, borrowers may elect to use a full-time equivalency of 0.5 for each part-time employee.

Will my forgiveness amount be reduced if I laid off an employee, offered to rehire the same employee, and they declined the offer?

No. Employees whom the borrower offered to rehire are generally exempt from the CARES Act’s loan forgiveness reduction calculation. This exemption is also available if a borrower previously reduced the hours of an employee and offered to restore the employee’s hours at the
same salary or wages. Specifically, in calculating the loan forgiveness amount, a borrower may exclude any reduction in full-time equivalent employee headcount that is attributable to an individual employee if:

- The borrower made a good faith, written offer to rehire such employee (or, if applicable, restore the reduced hours of such employee) during the covered period or the alternative payroll covered period;
- The offer was for the same salary or wages and same number of hours as earned by such employee in the last pay period prior to the separation or reduction in hours;
- The offer was rejected by such employee;
- The borrower has maintained records documenting the offer and its rejection; and
- The borrower informed the applicable state unemployment insurance office of such employee’s rejected offer of reemployment within 30 days of the employee’s rejection of the offer.

In addition, PPPFA extends the rehire date to December 31, 2020, and it adds additional exceptions for a reduced headcount. A business is still able to receive forgiveness on payroll amount if it:

- Is unable to rehire an individual who was an employee of the eligible recipient on or before February 15, 2020
- Is able to demonstrate an inability to hire similarly qualified employees on or before December 31, 2020; or
- Is able to demonstrate an inability to return to the same level of business activity as such business was operating at prior to February 15, 2020

**What if my employee headcount is reduced due to circumstances not related to COVID-19?**

The Loan Forgiveness Application provides a new FTE Reduction Exemption for borrowers whose employees were (1) fired for cause, (2) voluntarily resigned, or (3) voluntarily requested and received a reduction of their hours. When an employee of the borrower is fired for cause, voluntarily resigns, or voluntarily requests a reduced schedule during the covered period or the alternative payroll covered period (FTE reduction event), the borrower may count such employee at the same full-time equivalency level before the FTE reduction event when calculating the FTE employee reduction penalty section of the Forgiveness Application. Borrowers that avail themselves of this *de minimis* exemption shall maintain records demonstrating that each such employee was fired for cause, voluntarily resigned, or voluntarily requested a schedule reduction. The borrower shall provide such documentation upon request.

**What effect does a reduction in a borrower’s number of full-time equivalent (FTE) employees have on the loan forgiveness amount?**

In general, a reduction in FTE employees during the covered period or the alternative payroll covered period reduces the loan forgiveness amount by the same percentage as the percentage reduction in FTE employees. The borrower must first select a reference period:

- February 15, 2019 through June 30, 2019;
- January 1, 2020 through February 29, 2020; or
- In the case of a seasonal employer, either of the two preceding methods or a consecutive 12-week period between May 1, 2019 and September 15, 2019.
If the average number of FTE employees during the covered period or the alternative payroll covered period is less than during the reference period, the total eligible expenses available for forgiveness is reduced proportionally by the percentage reduction in FTE employees.

- For example, if a borrower had 10.0 FTE employees during the reference period and this declined to 8.0 FTE employees during the covered period, the percentage of FTE employees declined by 20 percent and thus only 80 percent of otherwise eligible expenses are available for forgiveness.

Borrowers are exempt from the FTE reduction if for the period beginning February 15, 2020, and ending December 31, 2020, the Borrower can document:

- An inability to rehire employees who were employed as of February 15, 2020 and an inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020, or
- An inability to return to the same level of business activity as such business was operating at before February 15, 2020, due to compliance with requirements and guidelines issued by Health and Human Services, CDC or OSHA during March 1, 2020 to December 31, 2020 related to certain protocols for responding to COVID-19

What effect does a borrower’s reduction in employees’ salary or wages have on the loan forgiveness amount?

A reduction in an employee’s salary or wages in excess of 25 percent will generally result in a reduction in the loan forgiveness amount, unless an exception applies. Specifically, for each new employee in 2020 and each existing employee who was not paid more than the annualized equivalent of $100,000 in any pay period in 2019, the borrower must reduce the total forgiveness amount by the total dollar amount of the salary or wage reductions that are in excess of 25 percent of base salary or wages between January 1, 2020 and March 31, 2020 (the reference period), subject to exceptions for borrowers who restore reduced wages or salaries. This reduction calculation is performed on a per employee basis, not in the aggregate.

If a borrower restores reductions made to employee salaries and wages or FTE employees by not later than June 30, 2020, can the borrower avoid a reduction in its loan forgiveness amount?

Yes. If certain employee salaries and wages were reduced between February 15, 2020 and April 26, 2020 (the safe harbor period) but the borrower eliminates those reductions by December 31, 2020 or earlier, the borrower is exempt from any reduction in loan forgiveness amount that would otherwise be required due to reductions in salaries and wages under the CARES Act. Similarly, if a borrower eliminates any reductions in FTE employees occurring during the safe harbor period by December 31, 2020 or earlier, the borrower is exempt from any reduction in loan forgiveness amount that would otherwise be required due to reductions in FTE employees.

When must nonpayroll costs be incurred and/or paid to be eligible for forgiveness?

A nonpayroll cost is eligible for forgiveness if it was (1) paid during the covered period; or (2) incurred during the covered period and paid on or before the next regular billing date, even if the billing date is after the covered period.

- Example: A borrower’s covered period begins on June 1 and ends on July 26. The borrower pays its May and June electricity bill during the covered period and pays its July electricity bill on August 10, which is the next regular billing date. The borrower
may seek loan forgiveness for its May and June electricity bills, because they were paid during the covered period. In addition, the borrower may seek loan forgiveness for the portion of its July electricity bill through July 26 (the end of the covered period), because it was incurred during the covered period and paid on the next regular billing date.

I’m self-employed and work from home. How do I calculate my home office or studio expenses?
Home office or studio expenses are generally calculated in proportion to how much your business space takes up relative to your entire home.

- Example: if your home office/studio is 200 square feet and your home is 1,600 square feet, your office/studio takes up 12.5% of your home. You can claim 12.5% of your eligible expenses as home office/studio expenses.
  - If you rent a home for $920 a month, and spend $80 on utilities, you spend a total of $1,000. 12.5% of that ($125) can be paid for with PPP funds and can be fully forgiven.

Home office/studio expenses only apply to expenses that are tied to the business.

Are advance payments of interest on mortgage obligations eligible for loan forgiveness?
No. Advance payments of interest on a covered mortgage obligation are not eligible for loan forgiveness because the CARES Act’s loan forgiveness provisions regarding mortgage obligations specifically exclude “prepayments.” Principal on mortgage obligations is not eligible for forgiveness under any circumstances.

What if I own more than one business?
Each independent business is eligible to apply for its own PPP loan. However, please note that you may encounter challenges in getting relief funding if your businesses don’t have cleanly separated finances. If you own more than one business, it’s imperative that you maintain separate bookkeeping for each business. This will be especially helpful when it comes to reporting your expenses for loan forgiveness.

I’m an independent contractor/self-employed. What if I don’t have enough business expenses to make up 25% of my loan?
You may have a few options if you do not have enough expenses outside of your own compensation to make up 25% of your total loan amount:

1. Work with your lender to negotiate a lower loan amount
2. Keep the remaining balance as a 1% interest, 2 year loan
3. Return the unspent balance. There is no penalty for PPP loan prepayment.

When will I receive my loan?
Lenders are required to disburse loan money within 10 days of SBA approval.

What if my application is denied?
If you are denied by your bank, you can submit a new PPP loan application through a different lender. If you are denied by SBA, you may not reapply for a PPP loan.

Questions?
We understand you likely have a number of unanswered questions. The Arts & Business Council will regularly publish updated information regarding small business loan assistance as it is made available, and we invite any questions you may have in the meantime.