



Many of our entrepreneurial clients have questions about what they can do to help their business survive these very uncertain times. Below is a collection of questions we have received, as well as some of the options available for help. *(Updated 1/19/2021).*

Bernstein does not provide tax, legal, or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

Question	What Is Available?	Bernstein's Commentary
Now that 2020 is over, is help even available?	Yes, as a result of the COVID-19 relief bill that was signed into law on December 27, 2020, Congress revived the Paycheck Protection Program (PPP). The Small Business Administration (SBA) continues to offer Economic Injury Disaster Loans (EIDL) as well.	A renewal of the PPP is by far the most impactful program available to help business owners, especially as other programs like the Federal Reserve's Main Street Lending Program have been terminated. PPP loans are expected to be easier to obtain than during their initial release. Plus, provisions that confused borrowers and lenders alike have been better clarified, instilling greater confidence that loans will be forgiven (see <i>below</i>). In addition to PPP loans, business owners can also apply for EIDL loans. These carry fixed interest rates of 3.75% for businesses and 2.75% for nonprofits and must be repaid at the end of the 30-year term. While EIDL loans can be prepaid with no penalty or fees, they will not be forgiven and are therefore less advantageous than PPP loans.

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If I already received a PPP loan, am I eligible for additional funds?	<p>Yes – this is called a “Second Draw” PPP loan. The terms of the loan will generally be the same as your first loan.</p> <p>Second Draw loans will have a maximum payment of \$2 million or 2.5x average monthly payroll, whichever is less.</p> <p>To qualify, a business must have seen a 25% decline in gross receipts for at least one quarter in 2020 compared to the same quarter in 2019. Also, the business must have fewer than 300 employees.</p> <p>Lastly, the funds from the original PPP loan must be fully used before any second draw funding will be paid out.</p>	<p>Second draw loans will be a great resource to business owners who have already received a PPP loan in the past. As with the first loan received, these loans will be 100% forgivable if the proceeds are used for qualifying expenses.</p> <p>The catch on qualifying is that business activity will need to be significantly worse for at least one quarter relative to the comparable period in 2019. This is defined as a year-over-year decrease in gross receipts of 25% or more. Therefore, if your business performed well (or simply not that poorly) in 2020 and has received PPP funds in the past, you will not be eligible.</p> <p>The qualification aims to deploy funds to businesses that have been hurt the most. As a result, certain firms (largely those in the hospitality industry) can qualify for a higher maximum payment. For these businesses, the maximum payment will be the lesser of \$2 million or 3.5x monthly payroll. If you operate in the hospitality space, it's important to investigate this.</p>
What if I never received a PPP loan before? Am I still eligible?	<p>Yes – this is called a “First Draw” PPP loan. All first draw loans will have a five-year maturity and a 1% interest rate. Interest payments are deferred for borrowers who apply for loan forgiveness.</p> <p>Public companies are not eligible for these loans. For private companies to qualify, they must have fewer than 500 employees. Sole proprietors, independent contractors, self-employed individuals, and not-for-profits can all potentially qualify.</p> <p>The maximum loan size is the lesser of \$10 million or 2.5x average monthly payroll.</p>	<p>If your business never received a PPP loan during the first two windows, there is no requirement that your gross receipts decline by 25% or more in order to qualify for a PPP loan. This is only a requirement for second draw loans.</p> <p>First draw loans also come with a higher maximum loan size than second draw loans. And—like second draw loans—firms in the hospitality sector may be eligible for a maximum loan equal to the lesser of \$10 million or 3.5x monthly payroll.</p> <p>As with the original PPP loans, these can be 100% forgiven and any business owner that qualifies should consider utilizing these funds.</p>

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<p>How do I have my loan forgiven? I heard there was a lot of confusion on what's allowed.</p>	<p>In short, the government heard many of the complaints voiced by borrowers and lenders and have aimed to make PPP loan terms even clearer—especially as they relate to forgiveness.</p> <p>To qualify for loan forgiveness, 60% of the funds received must be used for payroll expenses.</p> <p>Besides payroll, the remaining 40% of funds can be used to cover items like: rent, mortgage interest, utilities, covered worker expenses, facility modification expenses (including PPE) to comply with COVID regulations, expenditures to a supplier of goods, payments for software or cloud computing services, and costs related to damage/vandalism from public disturbances not covered by insurance.</p>	<p>Originally, funds could only be used for payroll, rent, mortgage interest, and utilities and still qualify for forgiveness. All other expenses would reduce the amount of the loan forgiven.</p> <p>For all new loans—and loans not yet forgiven—the government has added a number of other allowable expenses. This should make it easier for a business to maintain essential operations while also qualifying for full forgiveness.</p> <p>The government has also instituted a simplified forgiveness process for loans of \$150,000 or less. For loans of this size, borrowers must simply certify via a one-page application that funds were used to retain employees.</p> <p>The most important component of loan forgiveness (whether new or old), is that 60% of funds must go toward covering payroll. While allowable expenses have been broadened, there has been no change to the percentage of funds that must be directed to support payroll.</p>
<p>How long do I have to use the loan proceeds and how long do I have to apply?</p>	<p>All first and second draw loans must be utilized within 8–24 weeks. The borrower may choose the period that works best for them.</p> <p>As with the first two tranches of loan payments, applications will be processed on a first-come, first-served basis. The application deadline is March 31, 2021, or until all \$284 billion reserved for this program has been paid out, whichever comes first.</p>	<p>Another common complaint with the first tranche of PPP loans was the relatively short period of time over which funds had to be used. In response, the government is now allowing borrowers to choose the duration of the funds used.</p> <p>Business owners will not face more punitive conditions if they select a longer period over which they can use PPP loans. All else equal, business owners should probably consider a longer period as this will stretch the time to utilize the funds.</p> <p>Experts do not expect this round of PPP assets to be fully utilized (unlike the first tranche which lasted just 13 days). However, owners interested in pursuing a loan will be better off acting sooner rather than later.</p>

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<p>What are the tax consequences?</p>	<p>Utilization of the PPP loans, or other stimulus, should not have any negative tax impact.</p> <p>Expenses paid for with a PPP loan that is forgiven, or expected to be forgiven, are deductible for federal tax purposes. However, they may not be deductible at the state level.</p> <p>PPP borrowers can claim an employee retention credit, but wages paid with PPP proceeds are excluded from the computation.</p> <p>The payroll tax credit has been extended through June 30, 2021.</p>	<p>Utilization of any stimulus is unlikely to lead to a higher tax bill as programs are aimed at providing relief to business owners, not creating an additional tax burden.</p> <p>That said, all tax-related decisions and questions should be confirmed with your trusted tax professional. If you do not have a trusted tax professional, your Bernstein advisor can likely recommend one.</p>

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