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PAYCHECK PROTECTION PROGRAM (PPP)

Summary and Resources for Small Business Owners,
Sole-Proprietors, and Independent Contractors

This presentation is designed to provide information to you. These materials are not offered, nor should be construed, as legal or tax advice. Whether or not you or your business are eligible for participation on the Paycheck Protection Program is a complex question that must be made in connection with your legal and tax advisors and we encourage you to consult with those advisors before applying for a loan under that program.

Updated April 24, 2020.

The Paycheck Protection Program (“PPP”)

Summary:

The Paycheck Protection Program (“PPP”) is part of Coronavirus Aid, Relief, and Economic Security (CARES) Act that was recently signed by President Trump on March 27th and again on April 24th, 2020. The March 27th legislation included \$349 billion, which was replenished with \$310 billion in the April 24th bill. The PPP is focused on assisting business owners by providing cash flow assistance through 100% federally guaranteed loans to employers who maintain their payroll during this emergency. Additional details on the program, qualification and process are below. Please note the the SBA economic injury disaster loan (EIDL) is a separate loan program available to business owners.

Qualification:

Small businesses and other eligible entities will be able to apply if their business was harmed by COVID-19 between February 15, 2020 and June 30, 2020. The business must have been in operation on February 15th, 2020 to qualify.

Listed examples of eligible businesses are:

- Small businesses with 500 or fewer employees including:
 - Nonprofits
 - Veterans organizations
 - Tribal concerns
 - Self-employed individuals
 - Sole proprietorships
 - Independent contractors
- Businesses with more than 500 employees are eligible in certain industries (based on NAICS industry code).
 - The SBA has created this tool to help qualify size: [Size Standards Tool](#)

The business, if deemed eligible by the criteria above, will need to make a “Good Faith Certification” stating the following:

- The loan is materially necessary due to the current economic conditions to support ongoing operations

- Certify that the loan will be used for maintaining payroll or making mortgage, lease, utility or other eligible payments
- That the applicant does not have an application pending for a loan for the same purpose or that the applicant has received any other loan for the same purposes.
 - The exception is any borrower who has taken out an SBA Economic Injury Disaster Loan (EIDL) between January 31st and April 3rd, 2020.
 - If the borrower did not use the EIDL for payroll, they may apply separately for a PPP loan.
 - If the EIDL was used for payroll, the PPP does allow previously issued SBA Disaster Relief Loans to be refinanced under the PPP. Proceeds from up to \$10,000 of the EIDL will be deducted from the loan forgiveness, but the lower interest rate will apply.

Key Dates and Lender Information:

Unlike the SBA Disaster Loans, the PPP loans are made through an approved and accepted program lender including:

- Any SBA 7(a) lender
- Any federally insured depository institution
- Federally insured credit union
- Farm Credit System institution

Loan Size:

The PPP loans can be for up to 2.5x the average monthly payroll costs over the last 12 months. Seasonal or new businesses will have different time qualifications.

Payroll costs for this calculation include:

- Salary, wages, commissions, or tips (capped at \$100,000 on an annualized basis for each employee)
- Employee benefits including costs for vacation, parental, family, medical, or sick leave
- Allowance for separation or dismissal
- Payments required for the provisions of group health care benefits including insurance premiums
- Payment of any retirement benefit
- State and local taxes assessed on compensation
- For a sole proprietor or independent contractor: wages, commissions, income, or net earnings from self-employment, capped at \$100,000 on an annualized basis for each employee

General Loan Parameters:

The PPP loan will be issued with the following parameters:

- Two-year term (beginning at the closing of the loan)
- 1% interest rate
- Payments can be deferred for six months (interest will accrue)
- There are no prepayment penalties
- No collateral or personal guarantee are required
- The good faith certification must be documented

Forgiveness Summary:

To qualify for forgiveness of the PPP loan, the loan must only be used for payroll costs, mortgage interest, rent, and utilities payments over the eight weeks after getting the loan. At least 75% of the loan must be used for payroll (including the associated components above). Please note that interest on the PPP loan will not be forgiven.

In addition to the use of funds, a borrower must meet certain staffing requirements including:

- Any decrease in your full-time employee headcount will reduce loan forgivability (dollar for dollar on the average salary of headcount reduction as measured below)
 - Full-time headcount reduction is measured by comparing the following:
 - The average number of full-time equivalent employees from February 15, 2020 through the eight (8)-week period after the loan was originated.
 - vs.
 - the average number of full-time equivalent employees during either the period between February 15, 2019 and June 30, 2019, or the period between January 1, 2020 and February 29, 2020 (at the applicants discretion).
- Salary reductions of more than 25% for any employee making less than \$100,000 a year in 2019 will also reduce forgivability (dollar for dollar)
 - This reduction is measured by comparing each full-time employee's wages or salary from February 15, 2020 through the eight (8)-week period after which the PPP loan is originated against the wages or salary of that employee from the most recent full quarter.
- You have until June 30, 2020, to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

Requests for forgiveness must be made to the lender which includes:

- Documents that verify the number of full-time equivalent employees and pay rates
- Documents that detail payments on eligible mortgage, lease, and utility obligations

The lender must make a decision on the forgiveness within 60 days.

An important distinction to the PPP loan is that unlike traditional debt forgiveness, the loan forgiveness value is not taxable.

As you consider applying for the PPP loan, the following documents may be needed or helpful:

- 2019 IRS Quarterly 940, 941 or 944 payroll tax reports
- Payroll reports from the last 12 months
- Health insurance payment documentation from the last 12 months
- Company paid retirement contributions from the last 12 months
- Any 1099's for independent contractors that would otherwise be an employee of your business

Source: US Treasury and Small Business Administration

For assistance in sourcing a lender in your local marketplace please
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