Season 2 | Episode 28

The Second Round of PPP is Here – Get the Facts and Guidance for Your Business

PAYCHEX Business Series

Coronavirus

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Full transcript

Gene Marks:
Hey, everybody. This is Gene Marks, and thanks for joining us today on the Paychex Business Series Podcast. I'm going to be speaking with Connor Mykins, who is a Compliance Analyst at Paychex and the expert of all things related to the Paycheck Protection Program. So if you're thinking of applying for the Paycheck Protection Program, or if you have interest in a second loan, or if you want to know what the rules are, particularly about forgiveness, that's the kind of stuff Connor is going to talk to us about today.

Gene Marks:
All right, Connor, thank you very much for joining me, and let's dive into the new round of the Paycheck Protection Program. I'm going to try and guide you because I want to get specific answers for you, for our audience. So the first question I have for you about this new round is that, this round, it's more targeted than the other two rounds. Can you explain that?

Connor Mykins:
Yeah, absolutely, Gene. That's a really great question, and that was definitely intentional when they were building out the Second Draw Program and expanding into the original framework of PPP. So now for a second draw, going back to the beginning of CARES Act, there's really less requirements to be eligible for a loan.

Connor Mykins:
And now, within this new framework of PPP, the second draw, borrowers, they can go back, they have to meet certain criteria. So with that, you have to employ no more than 300 employees. There has to be a 25% or more reduction in gross receipts. And that would be comparing quarter to quarter from 2020 to 2019. And also in a recent interim final rule that the SBA and Treasury issued, they did clarify that businesses can use year-over-year comparison. And that's really more geared towards the smaller businesses that may not have the quarterly financial statements that some of the larger firms may have.

Connor Mykins:
And then one other requirement is that you'd have to have that first draw. And then those funds would have to be used by the time that you receive your second draw funds. And then those first draw funds, they have to be used on eligible costs. So that is one big question that is open. Now will lenders require to show proof before they go back for a second draw? But those funds have to be used on eligible costs.

Gene Marks:
Got it. And I assume the proof they're going to probably ask is evidence of maybe invoices, or bank statements, or something to kind of back it up. But that's probably going to be between the borrower and the lender. Is that right, is that what you're expecting?

Connor Mykins:
Yes. Yes. That's absolutely right.

Gene Marks:
And then, what you said was also very interesting because that's a new one for me, is that, if you showed that you lost money in any quarter in 2020 compared to the corresponding quarter in 2019, not lost money, excuse me, suffered a 25% revenue decline, then you're eligible for a second round of PPP.

Gene Marks:
But you just also said that there's been a new ruling that says that if you're not tracking this on a quarterly basis, because a lot of small businesses aren't at that level, you can actually use annual numbers.

Gene Marks:
Do you have any idea where we would get those annual numbers from? I mean, many of us haven't filed our tax returns yet. So is it just straight out of our QuickBooks or our accounting systems?

Connor Mykins:
Yeah, that is a great question. I think, we're all waiting to see what the expectation will be, or what the requirement will be in the rule. They did say that they will accept the annual income tax filings to show proof. Now as you said, not everyone has done that. And the PPP deadline, as of now anyways, is March 31st. So that's obviously before the tax deadline. And so I think there'll be a lot of small businesses probably looking to ask their CPAs or accountants to finish their tax filings ahead of time.

Gene Marks:
So again, if we're going to do anything and apply for another round, we've got until March 31st to do that.

Connor Mykins:
Yes, that is correct. Yup. And that's obviously a moving target that now statutorily it's March 31st. But as with the PPP 1, we'll call it, that moved as COVID progressed, and we became more aware of what COVID was.

Gene Marks:
Two other things before we move on to forgiveness. If you haven't applied for a PPP loan, you can apply for a first loan. This isn't just for second round loans, correct?

Connor Mykins:
Yeah. Yup. That's absolutely right. All the rules relative to PPP 1, that first draw, have remained the same. There's a 500 employee rule for the first draw, whereas, just a reminder, it's 300 for the second draw. So that rule has remained the same. And then the maximum loan amount still is 10 million for the first draw, whereas for that second draw, it is two million.

Gene Marks:
Got it. Okay. So if you haven't, you still play by the rules of the first round of PPP, if you've never gotten a draw before. And one final thing again before we move on to forgiveness is, if you had a loan in the first round, and you had maybe… not miscalculated it, but you could have gotten more because of some of the rules that changed by the Treasury and the SBA, you're allowed to go back to your lender and get more money under that first loan if you're eligible for it. Is that correct as well?

Connor Mykins:
Yeah. Yup. There are certain requirements that would require that, or to allow a borrower to do that, specifically really to partnerships and seasonal businesses, especially partnerships, if the partners didn't include their compensation in the eligible costs or the average monthly payroll cost, and they can go back and include that.

Connor Mykins:
And then seasonal businesses for the average monthly payroll cost calculation, that changed now. So it's any rolling 12-week period between February 15th of 2019 and February 15th of 2020. And now they could go back to their lender if they identify that they would be eligible for more, then they could go back and get some additional funding.

Gene Marks:
So there were two big changes to forgiveness. The first area has to do with expenses that are allowed for forgiveness. And the second area has to do with loan forgiveness amounts and the documentation required. Let's go to the expenses first. Can you explain, Connor, what's changed in the definitions, and what new expenses are now allowed to be part of that forgiveness calculation?

Connor Mykins:
We'll break that into two parts. We'll start with payroll costs because that is a lot more simple, and there's not as many changes as the non-payroll costs. For the payroll costs, they expanded it to include group life and group disability. So that is new. And that is retroactive as if it was included in the original CARES Act. And then they also just clarified that vision and dental were included into that group insurance definition.

Gene Marks:
Okay.

Connor Mykins:
And then the non-payroll cost, that is really expansive. They really expanded that to include operations expenditures, which those are really a big thing for payroll processors and accountants. It's the payment of business software or the cloud computing services that really facilitate the business operations. And that includes processing payment or tracking of payroll expenses, human resources. Those are just a few examples.

Connor Mykins:
And then it also expanded to include property damage costs. And those were any expenditures that were made in relation to any damages that occurred during the public disturbances that happened in 2020 that were not covered by insurance or other compensation.

Connor Mykins:
And then supplier cost, those were added. And that's really costs that were related to the supplier of goods that were essential to the operations of the entity. And then really for the restaurant industry, they added that with respect to perishable goods. The contract would have to be in effect before or at any time during the covered period. So that was obviously a big change for the restaurant industry and probably well accepted just because local and state requirements required them to shut down on the dime.

Gene Marks:
Yeah. So it's kind of like they entered into these contracts for perishable goods, then they were made to shut down, and what are they going to do about these perishable goods, right?

Gene Marks:
So they can use those expenses.

Connor Mykins:
Yup. Yup. Absolutely. Yup. And then just one last category that was added was a worker protection expenditure. Now this was a really big change. They're now allowing small businesses or borrowers to use PPP funds towards the purchase maintenance or renovations that allowed them to put in a drive-through window facility, expanded their indoor or outdoor dining, or just their place of business. And then also physical barriers such as a sneeze guard. So obviously those are all requirements that a lot of state and locals put in place to allow businesses to continue operating during this pandemic.

Gene Marks:
Does that mean… Do you think, and again, I don't want to put you on the spot here. But when I see all these restaurants building outdoor eating facilities, because they're not allowed to have customers indoors, that's not only being in compliance with the rules, but that's also a safety measure they're taking for their employees, so the employees work outdoors, which is safer. Are you saying that those expenditures would also be potentially forgivable?

Connor Mykins:
Yeah. That's absolutely right. That's based on understanding now and based on everything that has been included in the guidance so far. It appears that those expenses would be covered. Now there's one thing that is important to remember, that it is the Paycheck Protection Program. The whole purpose of the program is to maintain payroll. So there is still that 60/40 rule, where 60% of the loan proceeds need to be used towards payroll costs.

Gene Marks:
Right. Yup. You took that question right away from me. I'm glad you brought that up. That's great. Okay. So those are all the new expenses that are now considered to be forgivable. So that's great news. Let's move on to the actual forgiveness itself. So tell me about that new $150,000 rule that we hear about.

Connor Mykins:
Yup. Yeah. There was a lot of bipartisan support for this simplified loan forgiveness process for borrowers that have a loan of 150,000 or less. This really did make the process a lot more simple for those borrowers. Now the guidance is still waiting to come out. We're still waiting for some more information. But what we do know is that there is really going to be a much more simplified application process for the borrowers. We know that there's going to be just a one-page document that will really outline the things that they'll need to do. It'll just be a certification that they follow the program rules.

Gene Marks:
I know they've got to follow all the rules and make representations that, "Hey, listen. I've spent all my money on forgivable expenses, and I've restored my head counts," and I have a question to ask you about that as well. "I've restored my head count. I've done everything I'm supposed to do for forgiveness."

Gene Marks:
But now if you just fill out this form, which I'm told is going to be like a one-pager that your bank will have, then you don't have to provide documentation, you don't have to go through all the calculations. It's just, you're done.

Connor Mykins:
It's really a much more simplified process. Now some lenders, they may have some additional requirements. But based on everything in the rules today, it's a much more simplified process where they'll just have to really attest that they use the program. They just have to provide some documentation showing the number of employees they've retained, and then also how much their loan was. And then really just... And then how much they... estimated amount they use towards payroll.

Gene Marks:
So the head count rules as well, I mean, that's all still there. We still have to restore our head count from before COVID, basically. And I know there's some more details in this calculation. What it was before COVID, we have to restore by the end of our forgiveness period. So if we get a second round loan and, say, the period is 24 weeks, by the end of that 24 weeks, whenever that is, six months from now, we would have to have restored our head count, otherwise we get less forgiveness.

Connor Mykins:
We are still waiting on some guidance to see how those safe harbors are going to change a bit. But based on everything we see today, you need still need to bring your FTE count back up to where it was during the pre-COVID period. But again, the safe harbors, a lot of businesses would probably be covered under those. But you'll obviously have to work with your lender or a trusted advisor to see if you'd be able to. But yup, the FTE, all those reductions still remain the same.

Gene Marks:
Got it. And Connor, one final question. I'm going to throw this little curve ball at you because somebody threw it at me. And again, if you're not sure of the answer, that's fine. Somebody asked me about this 150,000 forgiveness. Does that apply individually to each loan, or is that for the combined loans? I told that person, this client of mine, that each loan is its own, so the 150,000 applies to each loan.

Gene Marks:
In other words, if you have an original loan for 140,000, you're good. And then you get a second loan for another 140,000, you're still good because both loans are under 150,000. You don't combine them. But maybe I'm wrong. Do you have any insight on that?

Connor Mykins:
Yeah, no. That's a really great question. My understanding at this point is that those would be two separate loans because it's two separate contracts, really.

Gene Marks:
Right.

Connor Mykins:
So yeah, they would be two separate loans. So my understanding is they would be able to use a simplified process on both sides.

Gene Marks:
Hey, Connor, fantastic information. Very much appreciate you joining me today and filling us in. Everyone, I've been speaking with Connor Mykins, he's the compliance analyst at Paychex. Based on all the information that we have as of the middle of January right now, my recommendation for you is that if you think you're eligible for a second round loan under the Paycheck Protection Program, or you want to even get a first round loan, reach out to an SBA lender now. They will have the most recent information, and they can go through with you whether or not you're eligible, and how much you're eligible for. Because the rules are going to continue to change as we've seen already.

Gene Marks:
Connor, again, thank you for your time. This is Gene Marks. If you want more information that will help you through the pandemic as well as to help you run your business, a lot of it is on our WORX site, paychex.com/worx, that's W-O-R-X. Again, my name is Gene Marks. Thanks for joining us. And look forward to seeing next time.

Speaker 3:
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