



# PPP Loans – Second Draw, and Other CAA Considerations

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# Introductions

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# Paycheck Protection Program (PPP) - History



- First Draw PPP (PPP1) originated as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) signed into law March 27, 2020.
  - Original Funding of \$349 billion
- Amended and expanded by the Paycheck Protection Program and Health Care Enhancement Act on April 24, 2020.
  - Additional Funding of \$310 billion
- Second amendment, the Paycheck Protection Program Flexibility Act of 2020, was signed into law on June 5, 2020.
- 2021 Consolidated Appropriations Act (CAA) was enacted 12/27/2020, and paved the way for Second Draw PPP loans (PPP2).

# CAA Updates to the PPP Loan Program



- \$284 billion in additional funding
- Borrowers of existing PPP1 loans may be eligible to increase their PPP1 loan
- Opportunity for certain businesses to obtain a “Second Draw” PPP loan (PPP2 Loan).
- Interim Final Rule (IFR) issued by the U.S. Small Business Administration (SBA) and Department of the Treasury on January 6, 2021 (PPP2 IFR).

# PPP2 – The Timeline



- The PPP2 IFR provided initial guidance surrounding eligibility, amount, forgiveness, and the application process for the PPP2 Loans.
- On January 8, 2021, the SBA issued a press release stating applications for PPP1 loans would be accepted beginning on Monday, January 11, but only by community financial institutions (CFI).
- PPP2 Loans would be more broadly accepted on Wednesday, January 13, After the two-day CFI preference period expired. At that time, all approved lenders were allowed to make PPP1 and PPP2 Loans.

# PPP2 Loan Eligibility Requirements



In general, a borrower must have:

- 300 or fewer employees
  - The 300-employee limit is based on average headcount per pay period for the most recent calendar year – 2020 average head count (includes FT and PT employees) for each 2020 payroll period.
- Borrower must certify to appropriate use of funds on the PPP2 Loan application.

## PPP2 Loan Eligibility Requirements (cont.)



- Experienced a revenue reduction of 25% or greater in 2020 relative to 2019
  - Quarterly **gross receipts** for one quarter in 2020 are compared to the corresponding quarter in 2019.
  - Borrowers can elect to use annual testing, as evidenced on filed returns.
  - Borrowers that were not in business for all of 2019 will use alternative measures.
- If borrower received a PPP1 loan but was later ruled ineligible, the borrower is also ineligible for a PPP2 Loan.

## PPP2 Loan Eligibility Requirements (cont.)



- The NAICS code 72 (generally hotels and restaurants) per-location rules still apply.
- The original 500-employee limit per physical location is reduced to a 300-employee limit for PPP2 Loans.



# Gross Receipts - Defined



- Gross receipts include all revenue in whatever form received or accrued in accordance with the borrower's method of accounting.
- Gross revenue isn't reduced by cost of sales but is reduced by returns and allowances.

# Gross Receipts - Defined



- Excludes:
  - Capital gains and losses
  - Receipts from affiliates
  - Deposits held for others
- PPP1 Loans forgiven in 2020 are not included in 2020 gross receipts.
  - The CAA and current SBA guidance doesn't include other Coronavirus Aid, Relief, and Economic Security Act relief funds in this exclusion, e.g., Provider Relief Funds.

# PPP2 – Dollar Limitations



- In general, the maximum PPP2 Loan amount is the lesser of
  - 2.5 times the borrower's average monthly payroll costs or
  - \$2 million.
- PPP2 Loan borrowers have the option to use either calendar 2020 or 2019 payroll for purposes of the average monthly payroll calculation.
- The same \$100,000 annual compensation limit applies.
  
- Other Special Rules Exist...

# PPP2 – Special Rules



- Borrowers with NAICS code 72 (generally hotels and restaurants)
  - 3.5 times average monthly payroll
  - Subject to same \$2 million cap.
- Self-employed farmers and ranchers who file Schedule F
  - Borrowers may now base both PPP1 and PPP2 Loans on gross income, not net profit, reported on the 2019 or 2020 Schedule F.
  - Limited to 2.5 months with a \$100,000 annual gross income cap.
  - If the farmer or rancher has employees, the gross income shown on the Schedule F must be reduced by the payroll costs.

## PPP2 – Special Rules (cont.)



- Corporate groups that were subject to the \$20 million limit on total PPP1 loans have a \$4 million limit on PPP2 Loans.
- Businesses are in a single corporate group when they're majority owned, directly or indirectly, by a common parent.

## PPP2 – Special Rules - Acquisitions



- Acquisition of an affiliate – the affiliate’s gross receipts are included in the calculation for all periods, not just the period after the acquisition.
- Acquisition of a “segregable division” of another entity
  - Gross receipts of the division are only included for the period subsequent to the purchase.
  - Under current guidance, the gross receipts of the new “segregable division” generated after acquisition in 2020 are included in the 2020 gross receipts for purposes of the 25% reduction test, but a borrower can’t include the gross receipts of the acquired division prior to the acquisition.

# PPP2 – Special Rules - Dispositions



- If a borrower disposed of an affiliate in 2020...
  - No receipts of the affiliate are included for any time during the 25 percent revenue reduction measurement period.
- If a borrower sold a “segregable division” during 2020...
  - Its gross receipts are included for all periods prior to the sale.

# Allowable Uses of PPP Loan Proceeds-Payroll Costs



- Must comprise 60%
  - Payroll costs (as defined in the Act)
    - Employee salaries, commissions, and similar compensation on a gross basis, including furloughed employees (for salary, wages, commissions, bonuses and hazard pay or similar compensation and all other cash compensation, such as housing stipends and allowances).
  - Vacation, parental, family, medical, or sick leave (other than leave for which the employer was reimbursed under the Families First Coronavirus Response Act)
  - Allowance for separation or dismissal
  - Group healthcare benefits and insurance premiums
  - Employer contribution for employee retirement plans
  - Payment of state and local taxes assessed on employee compensation



# Allowable Uses of PPP Loan Proceeds-Nonpayroll Costs



- No more than 40%
  - Mortgage interest payments (with no prepayment allowed)
  - Rent, including under a lease agreement
  - Utilities-including power, gas, water, transportation, telephone, and internet access
  - Covered operations expenditures
  - Covered property damage costs
  - Covered supplier costs
  - Covered worker protections expenditures

*Green items were added with the 2021 CAA, and previously disbursed PPP loans can retroactively cover these four types of costs unless the loan was forgiven before 12/27/2020*

# New covered expense definitions



- Covered Operations Expenditures –
  - Payments for business software or cloud computing services that facilitate business operations
  - Product or service delivery
  - The processing, payment or tracking of payroll expenses
  - Human resources, sales, and billing functions
  - Accounting or tracking of supplies, inventory, records, and expenses.

# New covered expense definitions



- Covered Property Damage Costs –
  - Property damage due to vandalism or looting during public disturbances that occurred during 2020
  - Could not be covered by insurance or other compensation
- Covered Supplier Costs –
  - Paid to a supplier of essential goods
  - Contract was in effect before the covered period, or
  - Payment was with regard to perishable goods.

# New covered expense definitions



- Covered Worker Protection Costs –
  - Costs to comply with federal, state, or local government regulations issued on or after March 1, 2020
  - Costs incurred from that date through the conclusion of the emergency declaration related to COVID-19
  - Maintenance of standards for
    - Sanitation
    - Social Distancing
    - Worker or Customer Safety

# PPP2 - Application Process



- Borrowers can apply for a PPP2 Loan until March 31, 2021, using Form 2843-SD.
- Using the same lender and using the 2019 payroll information for both loans could help minimize the documentation submission requirements.
- If the borrower uses a different lender or different payroll for calculating its PPP2 Loan, the borrower is required to submit detailed payroll documentation.
- A detailed list of the required documentation is on page 33 of the PPP2 IFR – but it is also summarized...

# PPP2 – Required Documentation



- For loans with a principal amount greater than \$150,000, documentation sufficient to establish that the applicant experienced a reduction in revenue, as provided in subsection(c)(1)(iv), must be provided **at the time of application**, which may include relevant tax forms, including annual tax forms, or, if relevant tax forms are not available, a copy of the applicant's quarterly income statements or bank statements.
- For loans with a principal amount of \$150,000 or less, the applicant must submit that documentation **on or before the date the borrower submits an application for loan forgiveness**, or, if the borrower does not apply for loan forgiveness, at SBA's request.

## PPP2 – Required Documentation (if not previously submitted)

- If the applicant is not self-employed –
  - The applicant's Form 941 (or other tax forms containing similar information) and state quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or 2020 (as appropriate), as applicable, or equivalent payroll processor records
  - Evidence of any retirement and employee group health, life, disability, vision and dental insurance contributions
  - A partnership must also include its IRS Form 1065 K-1s.

## PPP2 – Required Documentation (if not previously submitted)

- If the applicant is self-employed and has employees –
  - The applicant’s 2019 or 2020 IRS Form 1040 Schedule C,
  - Form 941 (or other tax forms or equivalent payroll processor records containing similar information) and state quarterly wage unemployment insurance tax reporting forms from each quarter in 2019 or 2020 (as appropriate), as applicable, or equivalent payroll processor records
  - Evidence of any retirement and employee group health, life, disability, vision and dental insurance contributions, if applicable
  - A payroll statement or similar documentation from the pay period that covered February 15, 2020 must be provided to establish the applicant was in operation on February 15, 2020.



## PPP2 – Required Documentation (if not previously submitted)

- If the applicant is self-employed and does not have employees –
  - The applicant must provide its 2019 or 2020 (as appropriate) Form 1040 Schedule C,
  - A 2019 or 2020 (as appropriate) IRS Form 1099-MISC detailing nonemployee compensation received (box 7) along with an invoice, bank statement, or book of record that establishes that the applicant is self-employed
  - A 2020 invoice, bank statement, or book of record to establish that the applicant was in operation on or around February 15, 2020.

# Paycheck Protection Program – Second Draw Application Form



## Paycheck Protection Program Second Draw Borrower Application Form

OMB Control No.: 3206-0117  
Expiration Date: 7/31/2021

<b>Check One:</b>	<input type="checkbox"/> Sole Proprietor	<input type="checkbox"/> Partnership	<input type="checkbox"/> C-Corp	<input type="checkbox"/> S-Corp	<input type="checkbox"/> LLC	<b>DBA or Tradename (if applicable)</b>	<b>Year of Establishment (if applicable)</b>	
	<input type="checkbox"/> Independent Contractor	<input type="checkbox"/> Self-Employed Individual	<input type="checkbox"/> 501(c)(3) nonprofit	<input type="checkbox"/> 501(c)(6) organization	<input type="checkbox"/> 501(c)(19) veterans organization			<input type="checkbox"/> Housing cooperative
	<input type="checkbox"/> Tribal Business	<input type="checkbox"/> Other						
<b>Business Legal Name</b>				<b>NAICS Code</b>				
<b>Business Address (Street, City, State, Zip Code - No P.O. Box addresses allowed)</b>				<b>Business TIN (EIN, SSN)</b>		<b>Business Phone</b>		
				<b>Primary Contact</b>		<b>Email Address</b>		
<b>Average Monthly Payroll:</b>	\$	<b>x 2.5 (or x 3.5 for NAICS 72 applicants) equals Loan Request Amount (may not exceed \$2,000,000):</b>	\$	<b>Number of Employees (including affiliates, if applicable; may not exceed 300):</b>				
<b>Purpose of the loan (select all that apply):</b>	<input type="checkbox"/> Payroll Costs	<input type="checkbox"/> Rent / Mortgage Interest	<input type="checkbox"/> Utilities	<input type="checkbox"/> Covered Operations Expenditures				
	<input type="checkbox"/> Covered Property Damage	<input type="checkbox"/> Covered Supplier Costs	<input type="checkbox"/> Covered Worker Protection Expenditures	<input type="checkbox"/> Other (explain):				
<b>PPP First Draw SBA Loan Number:</b>								
<b>Reduction in Gross Receipts of at Least 25% (Applicants for loans of \$150,000 or less may leave blank but must provide upon or before seeking loan forgiveness or upon SBA request):</b>	<b>2020 Quarter (e.g., 2Q 2020):</b>		<b>Reference Quarter (e.g., 2Q 2019):</b>					
	<b>Gross Receipts:</b>	\$	<b>Gross Receipts</b>	\$				

### Applicant Ownership

List all owners of 20% or more of the equity of the Applicant. Attach a separate sheet if necessary.

Owner Name	Title	Ownership %	TIN (EIN, SSN)	Address

# Paycheck Protection Program – Second Draw Application Form



## Paycheck Protection Program Second Draw Borrower Application Form

OMB Control No.: 3245-0417  
Expiration Date: 7/31/2021

<b>Check One:</b>	<input type="checkbox"/> Sole Proprietor	<input type="checkbox"/> Partnership	<input type="checkbox"/> C-Corp	<input type="checkbox"/> S-Corp	<input type="checkbox"/> LLC	<b>DBA or Tradename (if applicable)</b>	<b>Year of Establishment (if applicable)</b>	
	<input type="checkbox"/> Independent Contractor	<input type="checkbox"/> Self-Employed Individual	<input type="checkbox"/> 501(c)(3) nonprofit	<input type="checkbox"/> 501(c)(6) organization	<input type="checkbox"/> 501(c)(19) veterans organization			<input type="checkbox"/> Housing cooperative
	<input type="checkbox"/> Tribal Business	<input type="checkbox"/> Other						
<b>Business Legal Name</b>						<b>NAICS Code</b>		
<b>Business Address (Street, City, State, Zip Code - No P.O. Box addresses allowed)</b>						<b>Business TIN (EIN, SSN)</b>	<b>Business Phone</b>	
						<b>Primary Contact</b>	<b>Email Address</b>	
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<b>Purpose of the loan (select all that apply):</b>	<input type="checkbox"/> Payroll Costs		<input type="checkbox"/> Rent / Mortgage Interest		<input type="checkbox"/> Utilities		<input type="checkbox"/> Covered Operations Expenditures	
	<input type="checkbox"/> Covered Property Damage		<input type="checkbox"/> Covered Supplier Costs		<input type="checkbox"/> Covered Worker Protection Expenditures		<input type="checkbox"/> Other (explain):	
<b>PPP First Draw SBA Loan Number:</b>								
<b>Reduction in Gross Receipts of at Least 25% (Applicants for loans of \$150,000 or less may leave blank but must provide upon or before seeking loan forgiveness or upon SBA request):</b>	<b>2020 Quarter (e.g., 2Q 2020):</b>		<b>Reference Quarter (e.g., 2Q 2019):</b>					
	<b>Gross Receipts:</b>	\$	<b>Gross Receipts</b>	\$				

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	<b>Business Legal Name</b>		<b>NAICS Code</b>		
<b>Business Address (Street, City, State, Zip Code - No P.O. Box addresses allowed)</b>			<b>Business TIN (EIN, SSN)</b>		<b>Business Phone</b>
			<b>Primary Contact</b>		<b>Email Address</b>

<b>Average Monthly Payroll:</b>	\$	<b>x 2.5 (or x 3.5 for NAICS 72 applicants) equals Loan Request Amount (may not exceed \$2,000,000):</b>	\$	<b>Number of Employees (including affiliates, if applicable; may not exceed 300):</b>	
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<b>Purpose of the loan (select all that apply):</b>	<input type="checkbox"/> Payroll Costs	<input type="checkbox"/> Rent / Mortgage Interest	<input type="checkbox"/> Utilities	<input type="checkbox"/> Covered Operations Expenditures
	<input type="checkbox"/> Covered Property Damage	<input type="checkbox"/> Covered Supplier Costs	<input type="checkbox"/> Covered Worker Protection Expenditures	<input type="checkbox"/> Other (explain):

<b>PPP First Draw SBA Loan Number:</b>	
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<b>Reduction in Gross Receipts of at Least 25% (Applicants for loans of \$150,000 or less may leave blank but must provide upon or before seeking loan forgiveness or upon SBA request):</b>	<b>2020 Quarter (e.g., 2Q 2020):</b>		<b>Reference Quarter (e.g., 2Q 2019):</b>	
	<b>Gross Receipts:</b>	\$	<b>Gross Receipts</b>	\$

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# PPP2 – Certification Requirements and Other Logistics



- All PPP Loan applicants must make a good-faith certification of need on the loan application:
  - “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the borrower.”
- Assignment of a PPP2 Loan number may be delayed if:
  - The borrower’s PPP1 loan is under SBA review, or
  - The SBA has information that indicates the borrower may have been ineligible for their PPP1 loan
- SBA will expedite resolution and will set aside available appropriations to fund PPP 2 Loans in the event they’re later approved.

# Loan Forgiveness Application Modifications



- The simplified forgiveness application is now available for all PPP Loans up to \$150,000
- Affiliate information has been presented differently
- Additional lines have been added for the four new covered costs to be considered in the forgiveness calculation
- Reduction in the certification requirements

# PPP – Opportunity with Employee Retention Credit



- CAA eliminated the provision of the CARES Act that automatically precluded an employer from being able to use the employee retention credit if the employer acquired a PPP loan.
- CAA also established limitations on treating some PPP loan amounts as qualified wages in the context of the employee retention credit.
- These provisions were retroactively effective “as if included in the provisions of the CARES Act to which they relate,” and as such, the ability to have used the employee retention credit while also having acquired a PPP loan is now retroactively in effect as of March 13, 2020

# State Tax Considerations



- Deductibility of PPP-funded expenses falls outside of the IRC – so state deductibility might be uncertain. Some key differences:
  - Kentucky – per AICPA document published this week, still shows expenses paid with PPP funds as not deductible.
  - Massachusetts – different treatment for corporate and individual taxpayers.
    - Corporate taxpayers – PPP Forgiveness not taxable, expenses not deductible
    - Individual taxpayers – PPP Forgiveness is taxable, expenses are deductible



## State Tax Considerations (cont.)



- Minnesota – PPP forgiveness is taxable income (with expense deductibility)
- New Hampshire – PPP forgiveness is taxable income (with expense deductibility)
- North Carolina – PPP-funded expenses are not deductible
- Pennsylvania – mirrors Massachusetts treatment
- Wisconsin – PPP1 loans are not taxable, while PPP2 loans are. All expenses paid with forgivable PPP funds are non-deductible
- Many states, particularly on the expense deductibility side, have not published guidance at this time – so stay tuned.

# PYA and Other Resources



*Please visit the links below for important information and resources as we continue to navigate the everchanging COVID-19 pandemic.*

[www.pyapc.com/covid-19-hub/](http://www.pyapc.com/covid-19-hub/)

<https://www.aicpa.org/interestareas/governmentalauditquality/resources/singleaudit/uniformguidanceforfederalrewards.html#COVID>

<https://www.hhs.gov/coronavirus/cares-act-provider-relief-fund/index.html>

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

# Questions & Answers



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