



CERTIFIED PUBLIC ACCOUNTANTS

vshcpa.com

**BELLINGHAM OFFICE**

Phone: 360 734-8715 Fax: 360-738-1176  
2200 Rimland Drive - Suite #205 - Bellingham, WA – 98226  
SKAGIT OFFICE

Phone: 360 707-4290 Fax: 360-738-1176  
1404 E College Way - Suite #100 – Mt Vernon, WA - 98273  
BC Phone: 604 531-6638 AB Phone: 587 293-9595

## **Paycheck Protection Program (PPP) Loan Instructions and Tips**

The Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law on March 27 provides \$349 billion in funding for the Small Business Administration (SBA) in an effort to provide assistance and relief to America's small businesses struggling under the weight of COVID-19. The Act includes a paycheck protection provision for small businesses by providing additional funding to the SBA for specific areas of need and expanding the SBA's 7(a) loan program.

Knowing what to expect before starting the loan process will help prevent unnecessary errors and rework. *Completing the application process quickly and accurately will be key* as there will be high demand and processing times will likely increase. We've put together the following summary of what business owners and individuals can expect when applying for the Paycheck Protection Program 7(a) loan.

### ***Before you get started, you will want to:***

#### **Determine eligibility.**

Those eligible for the paycheck protection program include small businesses, nonprofit organizations, veteran organizations, and tribal businesses with less than 500 total employees (including full-time, part-time, and any other status) in operation on February 15, 2020. For the hospitality and food industries where multiple locations may result in over 500 employees, an exception was made to allow for up to 500 employees per physical location. Sole proprietors, independent contractors, and eligible self-employed individuals are also covered under this provision. Limitations apply for those making more than \$100,000.

#### **Businesses: Gather your information. You will need:**

Applying for your loan will require certain information. While each lender may have different information, below is a summary of some of the information you may be asked to provide.

1. Average monthly gross payroll. Many major payroll providers are providing reports. If you manage the payroll yourself, you will need to go through all of your payroll reports and calculate your monthly averages. You may use either the previous 12 months or calendar year 2019. Be sure to exclude compensation in excess of \$100,000. For seasonal business, the applicant may average monthly payroll for the period between February 15, 2019 or March 1, 2019 and June 30, 2019. Any business that was not in business during that timeframe may use January 1, 2020 through February 29, 2020.
2. Average monthly employee headcount. You will use the same time periods referenced above.
3. Payments for group health care coverage for employees, including insurance premiums.
4. Employer contributions to defined benefit plans or defined contribution retirement plans.
5. Calculate your benefits to employees. This may include costs for employee vacation, parental, family, medical, and sick leave.
6. If you fall under the affiliation rules, be prepared to provide information related to your affiliated entities, including what is mentioned above and more. Under PPP, you may only receive one loan and your lender will likely ask for additional documentation on affiliated businesses regarding your eligibility.

### **Self-Employed: Gather Your Information**

Applications opened on April 10, 2020 for those who are self-employed. This includes sole proprietors without employees as well as independent contractors. The SBA updated their guidance on April 14, 2020 outlining how to calculate your income.

To calculate the maximum loan you may apply for, follow these steps:

1. Compute your Net Profit
  - a. Locate Line 31 (Net Profit) on your 2019 Form 1040 Schedule C. If the amount is over \$100,000, you must reduce it to \$100,000. If the amount is zero or less, you are not eligible for the PPP loan.
  - b. Add your 2019 gross wages and tips paid to employees whose primary residence is in the United States from your 2019 Form 941 using line 5c-column 1 (Medicare wages and tips) from each quarter. Subtract any amounts paid to employees over \$100,000.
  - c. Add your 2019 employer health insurance contributions (1040 Schedule C line 14), retirement contributions (Form 1040 Schedule C line 19), and any state and local taxes assess on employee compensation.
2. Divide the amount from step 1 by 12 to calculate your average monthly amount.
3. Multiply your average monthly net profit by 2.5.
4. Add the outstanding amount of any Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020 that you wish to refinance, less the amount of any advance under the EIDL COVID-19 loan.

If you have employees and are self-employed, follow these steps.

1. Locate Line 31 (Net Profit) on your 2019 Form 1040 Schedule C. If the amount is over \$100,000, you must reduce it to \$100,000. If the amount is zero or less, you are not eligible for the PPP loan.
2. Divide the amount from step 1 by 12 to calculate your average monthly net profit.
3. Multiply your average monthly net profit by 2.5.
4. Add the outstanding amount of any Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020 that you wish to refinance, less the amount of any advance under the EIDL COVID-19 loan.

You will be required to show proof of your calculations and self-employment. Be prepared to also submit some of the following information:

- Your 2019 1040 tax return with a Schedule C and
- 2019 IRS form 1099-MISC, detailing any nonemployee compensation received, invoice, bank statement or book of record that establishes you are self-employed. (self-employed, no employees only)
- Form 941 and state quarterly wage unemployment insurance tax reporting forms from each quarter in 2019. (self-employed with employees)
- Evidence of retirement and health contributions. (self-employed with employees)

### **Set Your Expectations.**

- Application process and times vary by lender. While the program overall opened on April 3, 2020 not all banks were prepared to accept applications.
- Many lenders are requiring that you have a previous relationship with the lender in order to apply for the loan.

We are available to answer questions and help gather information as needed that will help you in your loan application process. Please contact your team at VSH for more information.