

## **COVID-19 Economic Relief Act - Frequently Asked Questions (FAQs)\***

### **Overview**

On December 27th, 2020, the President signed a \$900 Billion COVID-19 relief stimulus package into law. This package includes \$284 Billion in first (“PPP1”) and second (“PPP2”) forgivable loans for small businesses through the Paycheck Protection Program (PPP). This relief bill includes clarification on many areas including health plan expenses, considered wages, employers who qualify to receive PPP loans, and other details.

### **Frequently Asked Questions\***

#### **Who is eligible to apply for funding?**

Funding is available to first-time qualified borrowers, as well as businesses that previously received a PPP loan (“PPP1”).

- First-time qualified borrowers include businesses with 500 or fewer employees that are eligible for other SBA 7(a) loans, and sole proprietors, independent contractors, and eligible self-employed individuals.
- Businesses that previously received a PPP loan (may apply for another loan of up to \$2 million) if they have 300 or fewer employees, have used or will use the full amount of their first PPP loan, and can show a 25% gross revenue decline in any 2020 quarter compared with the same quarter in 2019.

#### **What are the eligible costs?**

The costs eligible for loan forgiveness include payroll, rent, covered mortgage interest, and utilities as well as the following: covered worker protection and facility modification expenditures, including personal protective equipment, to comply with COVID-19 federal health and safety guidelines, expenditures to suppliers that are essential at the time of purchase to the recipient's current operations, covered operating costs such as software and cloud computing services and accounting needs.

#### **How much can a business potentially borrow/ how much can I apply for?**

PPP borrowers may receive a loan amount of up to \$2 million or 2.5 times their average monthly payroll costs in the year prior to the loan or the calendar year.

#### **What are the loan forgiveness requirements?**

To be eligible for full loan forgiveness, PPP borrowers will have to spend no less than 60% of the funds on payroll over a covered period of either 8 or 24 weeks—the same parameters “PPP1” had when it stopped accepting applications in August.

#### **What are some of the Key Retroactive details related to PPP for businesses?**

With the new legislation, the “PPP1” and “PPP2” forgiven loan proceeds are changed to be totally tax free for Federal tax purposes. And borrowers who did get a “PPP1” loan, or those who did not apply for the correct amount, can once again apply for “PPP1” loans.

#### **Is it the best to use payroll only 60% on PPP, and use the rest 40% on ERC?**

Yes, because if your revenue was down at least 50% in any quarter of 2020, as compared to 2019, you would be eligible for an Employer Retention Credit of 50% of payroll up to \$5,000 per employee. But the same payroll dollars can not be used for both loan forgiveness, and the Retention Credit. So, using the least payroll for loan forgiveness saves the maximum for the potential Employer Retention Credit.

**When the PPP covered period rule changed from 8-weeks to the 6-month window, was a business automatically receive the 6-month window extension?**

If you received your “PPP1” loan before June 5, 2020, you could elect either an 8-week or 24-week covered period. Loans after June 4<sup>th</sup> automatically have a 24-week covered period.

**If “PPP1” has already been forgiven - would a business still be eligible to get the retention credit?**

Yes, as long as they do not use the same payroll dollars for both forgiveness and the Retention Credit.

**Are forgiven 1<sup>st</sup> round PPP loans considered taxable income?**

No. Forgiven PPP loans are not considered Federal taxable income. But some states do not follow the IRS rules and may tax those loan proceeds.

**Are expenses paid with forgiven PPP loans tax-deductible?**

Yes. Business expenses paid with forgiven PPP loans are tax-deductible. This new legislation supersedes IRS guidance that such expenses could not be deducted.

**What if a business purchased a practice in 2020? Can they still apply for a PPP loan?**

As long as the business they purchased was in business on 2/15/2020, and they continued operations as the new owner, then yes, as long as the prior owner did not receive a “PPP1” loan, then the new buyer is eligible for a “PPP1” loan now. If the prior owner did get a “PPP1” loan, then if the new owners experienced one quarter in 2020 where the gross revenue was down more than 25%, as compared to the prior owner’s 2019 revenue, then they can apply for “PPP2”.

**If a business received a 1<sup>st</sup> round PPP loan, do they need to use all of this payroll prior to applying for a 2<sup>nd</sup> round PPP Loan?**

Yes, all funds must be spent before receiving a “PPP2” loan.

**If a business received a 1<sup>st</sup> round PPP loan, will it be automatically forgiven or does the business need to apply for forgiveness?**

You need to apply for forgiveness. The application must be submitted to the bank that issued the loan no later than 10 months after either the 8- or 24-week covered period ended.

**If a business received an EIDL loan, but not a grant, can they still apply for an EIDL grant?**

Yes.

**What are the requirements and calculations for Sole proprietors? (Schedule C filers)**

Schedule C filers with no employees can use their 2019 profit, up to \$100,000, to apply for a PPP loan of up to \$20,833.

**How can I determine if my business is in an underserved area? Where can one find out if they qualify for one of the underserved areas?**

Go here and enter your address: <https://geomap.ffiec.gov/FFIECGeocMap/GeocodeMap1.aspx>

**Is it necessary for a business to use the same bank for “PPP2” that was used to apply for “PPP1”?**

No.

**When must a business utilize the funds from this 2<sup>nd</sup> round of PPP?**

Within 24 weeks from the date the funds are received.

**How is the loan approval application determined?**

Applications are approved on a first-come, first-serve basis.

**When is the deadline to apply for a 2<sup>nd</sup> round PPP loan?**

March 31, 2021, or until the funds are depleted.

**How can I apply for funding?**

For more information on how to apply, and PPP loan forgiveness, please visit <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program/ppp-loan-forgiveness>

**What records are required?**

Borrowers are required to retain relevant records related to employment for four years and other records for three years, as the SBA may review and audit these loans to check for fraud.

**If I would like more information, where should I go?**

Please visit <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program> for additional information regarding this program.

**If I need help, who should I contact?**

If you need to find an accountant who is knowledgeable about the application process, go to [www.ADCPA.org](http://www.ADCPA.org)

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