

# Paycheck Protection Program (PPP) & Economic Injury Disaster Loan (EIDL)

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## CARES Act

- Coronavirus Aid, Relief, and Economic Security Act
  - \$2.2 trillion legislation signed by the President March 27, 2020
    - Economic Impact Payment – \$1,200 per adult & \$500 per child
    - Retirement plans – penalty-free COVID distributions, no RMD in 2020
    - Charitable contributions – contributions up to 100% adjusted gross income
    - Employee Retention Credit – payroll tax credit (50% of wages)
    - Payroll Tax Deferral – deferred amount due 12/31/21 and 12/31/22
    - NOL changes – five-year carryback of NOL instead of carry forward (or 2-year farm carryback)
    - Paycheck Protection Program
    - \$48 billion to USDA for various programs



# Paycheck Protection Program (PPP)

- Expansion of Small Business Administration (SBA) 7(a) loan program to assist employers who maintain payroll
- \$349 billion for small businesses (first come-first served)
- Includes agricultural businesses
- Forgivable if funds are spent on allowable uses and employee numbers/wages are maintained
- Administered through SBA approved lenders
  - Authorized addition of new SBA lenders
  - 5% fee paid by SBA to lenders



# Paycheck Protection Program (PPP)

- Maximum loan amount was 2.5 times the average monthly “payroll cost” for the prior year
- “Payroll cost” includes
  - W-2 wages paid (up to \$100,000 per employee)
  - Group health insurance costs
  - State unemployment tax paid
  - Self-employment earnings of sole proprietors or independent contractors (up to \$100,000)
    - Initial guidance referred to Schedule C, leaving many questions related to farm businesses



# Paycheck Protection Program (PPP)

- Forgiven if funds spent on allowable uses in an 8-week “covered period” following receipt of funds
  - Payroll costs, rent, utilities, mortgage interest
  - To be forgiven, at least 75% of funds spent on payroll costs (based on guidance)
  - Forgiveness reduced if number of employees or wages decreased
- Loan terms (if not forgiven)
  - Two-year maturity
  - 1% interest rate
- Initial guidance on application and forgiveness was limited for ag producers and owners of pass-through entities



# Paycheck Protection Program (PPP)

- Funds set aside for loans went quickly which meant a rush to apply
  - Some may have been eligible for more had they waited
- Some missed out on the initial \$349 billion waiting for guidance
- Additional funds added (\$310 billion) on April 24 along with guidance for farmers and applications for partnerships, S-corporations, and LLCs
  - Verification that a positive Schedule F in 2019 is considered a “payroll cost”
  - Verifications that a farm business with no employees and a negative Schedule F was not eligible
    - Tax Cuts and Jobs Act changed the way that equipment trades are treated for tax purposes often resulting in a negative Schedule F with significant gain on Form 4797



# Paycheck Protection Program (PPP)

- On April 30, IRS issued guidance that expenses paid with forgiven PPP funds are not deductible
  - Congress specified that forgiven loans were not to be counted as income
  - They failed to address deductibility of expenses
  - IRS logic is that recipients will be double-dipping if expenses are deducted and the loan is forgiven
  - This is consistent with treatment of grants and government payments for conservation related improvements
    - Payment is excluded from income if the basis in the project is reduced by the amount received
  - Congress expressed their displeasure with the IRS guidance but have so far failed to act in response



# Paycheck Protection Program (PPP)

- On June 5, the President signed the PPP Flexibility Act
  - Maturity date on loans received after June 5 were extended from 2-years to 5-years
  - Lessened forgiveness requirements
    - Extended the “covered period” from 8 weeks to 24 weeks
    - For full forgiveness, the requirement to spend 75% of proceeds on “payroll costs” was reduced to 60%
    - Adjusted requirements to maintain worker and salary amounts
  - Repayment deferral to 10 months from the end of the “covered period”



# Paycheck Protection Program (PPP)

- Forgiveness application can be made at any time on or before maturity date, including before the end of the covered period (either 8 or 24 wks)
- If application is not made within 10 months of the end of the closing period, repayment must begin
  - Can still apply for forgiveness after payments are made
- There may be an incentive to wait for application, assuming Congress acts regarding deductibility of expenses



# Paycheck Protection Program (PPP)

- Loan forgiveness
  - For full forgiveness, entire loan proceeds must be used for payroll costs, rent, mortgage interest, and utilities within the covered period
    - Non-payroll costs incurred in the covered period and paid the next billing date are included
    - Payroll costs incurred in the covered period and paid on the next payroll cycle are included
    - Rent to a related party (self-rent) is limited to mortgage interest owed on the property
  - A minimum of 60% of loan proceeds must be spent on payroll costs
  - Employee numbers and salary levels must be maintained unless exemption requirements are met, which may not be difficult
  - Forgiveness is reduced by any EIDL advance received
  - No 1099-G or 1099-C will be issued for forgiven amount



# Paycheck Protection Program (PPP)

- The owner's contribution to payroll cost
  - At loan application, payroll costs could include 20.833% (1/12\*2.5) of 2019 net Schedule F (or SE earnings from a partnership/LLC)
  - At forgiveness application
    - If using an 8-week covered period, only 15.385% (8 of 52 weeks) of 2019 net Schedule F (or SE earnings from K-1) counts towards payroll costs (plus employee wages)
    - If loan was received before June 5, borrower can elect to use 8-week period
    - If using a 24-week covered period, a maximum of 20.833% of 2019 net Schedule F (or SE earnings from a partnership/LLC) count towards payroll costs (plus employee wages)



# Paycheck Protection Program (PPP)

- Forgiveness applications (submitted to lender with documentation)
  - SBA Form 3508 (5 pages)
  - SBA Form 3508EZ (3 pages)
    - SE individual who did not have employees and did not include employee wages as part of payroll cost at application
    - Borrower did not decrease wage/salary amounts (by more than 25%) and did not decrease employee numbers (excluding decreases that fit an exemption)
    - Borrower did not decrease wage/salary amounts (by more than 25%) and could not operate the business at pre-COVID levels because they could not meet safety requirements
  - SBA Form 3508S (2 pages) – no calculations shown in application
    - PPP loan proceeds less than \$50,000
    - Exempt from forgiveness reductions due to decrease in employee numbers or wage/salary





**Paycheck Protection Program  
PPP Loan Forgiveness Application Form 3508EZ**

OMB Control No. 3245-0407  
Expiration date: 10/31/2020

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		Primary Contact	E-mail Address

SBA PPP Loan Number: \_\_\_\_\_ Lender PPP Loan Number: \_\_\_\_\_

PPP Loan Amount: \_\_\_\_\_ PPP Loan Disbursement Date: \_\_\_\_\_

Employees at Time of Loan Application: \_\_\_\_\_ Employees at Time of Forgiveness Application: \_\_\_\_\_

EIDL Advance Amount: \_\_\_\_\_ EIDL Application Number: \_\_\_\_\_

Payroll Schedule: The frequency with which payroll is paid to employees is:

Weekly  Biweekly (every other week)  Twice a month  Monthly  Other \_\_\_\_\_

Covered Period: \_\_\_\_\_ to \_\_\_\_\_

Alternative Payroll Covered Period, if applicable: \_\_\_\_\_ to \_\_\_\_\_

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here:

**Forgiveness Amount Calculation:**

Payroll and Nonpayroll Costs

Line 1. Payroll Costs: \_\_\_\_\_

Line 2. Business Mortgage Interest Payments: \_\_\_\_\_

Line 3. Business Rent or Lease Payments: \_\_\_\_\_

Line 4. Business Utility Payments: \_\_\_\_\_

Potential Forgiveness Amounts

Line 5. Add the amounts on lines 1, 2, 3, and 4: \_\_\_\_\_

Line 6. PPP Loan Amount: \_\_\_\_\_

Line 7. Payroll Cost 60% Requirement (divide Line 1 by 0.60): \_\_\_\_\_



**Paycheck Protection Program  
PPP Loan Forgiveness Application Form 3508S**

OMB Control No. 3245-0407  
Expiration date: 10/31/2020

**A BORROWER MAY USE THIS FORM ONLY IF THE BORROWER RECEIVED A PPP LOAN OF \$50,000 OR LESS. A Borrower that, together with its affiliates, received PPP loans totaling \$2 million or greater cannot use this form.**

Business Legal Name ("Borrower")		DBA or Tradename, if applicable	
Business Address		Business TIN (EIN, SSN)	Business Phone
		Primary Contact	E-mail Address

SBA PPP Loan Number: \_\_\_\_\_ Lender PPP Loan Number: \_\_\_\_\_

PPP Loan Amount: \_\_\_\_\_ PPP Loan Disbursement Date: \_\_\_\_\_

Employees at Time of Loan Application: \_\_\_\_\_ Employees at Time of Forgiveness Application: \_\_\_\_\_

EIDL Advance Amount: \_\_\_\_\_ EIDL Application Number: \_\_\_\_\_

**Forgiveness Amount:** \_\_\_\_\_

**By Signing Below, You Make the Following Representations and Certifications on Behalf of the Borrower.**

The Authorized Representative of the Borrower certifies to all of the below by **initialing** next to each one.

- The dollar amount for which forgiveness is requested does not exceed the principal amount of the PPP loan and:
  - was used to pay costs that are eligible for forgiveness (payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
  - includes payroll costs equal to at least 60% of the forgiveness amount;
  - if a 24-week Covered Period applies, does not exceed 2.5 months' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$20,833 per individual; and
  - if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.

I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.

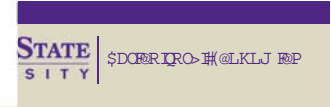
The Borrower has accurately verified the payments for the eligible payroll and nonpayroll costs for which the Borrower is requesting forgiveness, and has accurately calculated the forgiveness amount requested.

I have submitted to the Lender the required documentation verifying payroll costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.

The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.

The tax documents I have submitted to the Lender are consistent with those the Borrower has submitted/will submit to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that the Lender can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.

I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the Borrower's eligibility for the PPP loan and for loan forgiveness, and that the Borrower's failure to provide information requested by SBA may result in a determination that the Borrower was ineligible for the PPP loan or a denial of the



# Paycheck Protection Program (PPP)

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- Some additional notes
  - Accurate forgiveness calculation is the responsibility of the borrower
  - Borrowers who used SE earnings as payroll costs at application will not need to decrease expense deduction by forgiven amount
  - Forgiveness cannot exceed borrowed amount
  - Forgiveness applications each have an expiration date in the top right corner
    - This date is not an application deadline
  - Applications indicate that the owner needs to write themselves a check for SE earnings that will be counted towards payroll costs in forgiveness calculations
  - Tax preparers will need copies of documentation



# Economic Injury Disaster Loans (EIDL)

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- CARES Act altered EIDL terms making them more attractive for businesses impacted by COVID
- After April 24, farm businesses qualified if they have less than 500 employees and were in operation on January 31, 2020
- Loan details
  - Expires December 21, 2020 but advance is no longer available
  - Loan amount up to \$2,000,000 loan, but most were \$150,000
  - Emergency advance/grant up to \$10,000 even if loan application was denied
    - \$1,000 per employee including sole-proprietor owner
  - Proceeds must be used for operating expenses





# Economic Injury Disaster Loans (EIDL)

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- Loan details
  - Approval based only on credit score
  - Up to 30-year term at 3.75%
    - Term determined by borrower's financial position
  - Repayment deferred 12 months
  - Monthly payments
  - No personal guarantee required under \$200,000
  - Collateral required over \$25,000
  - No pre-payment penalties
  - Advance/grant is forgiven but loan is not



# Economic Injury Disaster Loans (EIDL)

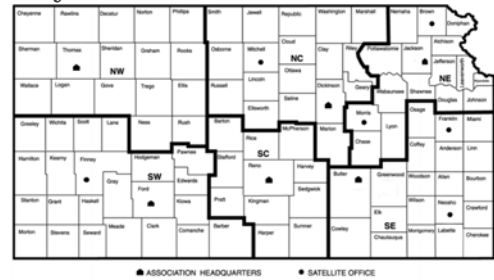
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- Conditions in the loan agreement caused some agricultural producers to turn down the loan
  - Collateral included all personal property including inventory and equipment
  - Borrower could not dispose of collateral (except inventory) without SBA consent
  - Eligibility limited to disasters not compensated by other sources
  - Proof of insurance policy covering 80% of collateral



# Kansas Farm Management Association

- 24 Extension Ag Economists in 11 offices across Kansas
- One-on-one financial consulting for family farm businesses
- Detailed accrual whole-farm and enterprise analysis
- Production & financial management
- Farm recordkeeping & accounting
- Benchmarking
- Tax planning & management
- [agmanager.info/kfma](http://agmanager.info/kfma)



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## Questions?



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