

# Updates to the Paycheck Protection Program (PPP)

*baldwin*  
CPAs

# PPP Statistics as of 2/25/21

- Total 2020 PPP Volume: 5.3 million
- Forgiven: 1.7 million
- Under review: 242K
- Applications not yet received: 3.2 million
- Total 2020 PPP Volume: \$521.2 billion
- \$159.8 billion has been forgiven
  - Many PPP Forgiveness applications above \$2 million well past 90-day period.

# Summary of 2021 PPP Approved Lending as of 2/28/2021

- Loans Approved: 2,194,420
- Net Dollars: \$156,253,510,068
- \$125 Billion Still Available
- Overall Average Loan Size: \$71,000
- Last day to apply is March 31<sup>st</sup>, 2021

# The New Interim Final Rule

- 32-page IFR published late March 3<sup>rd</sup>, 2021
- Released updated set of FAQs
- Updated/released six current/new application forms
  - Updates PPP Borrower First Draw (Form 2483) and Second Draw (Form 2483-SD-C)
  - New PPP First Draw (Form 2483-C) and Second Draw (2483-SD-C)

# The New Interim Final Rule (cont.)

- Revises the maximum loan calculations for sole proprietors who file Schedule C returns.
  - As of now, the change is not retroactive.
- Allows a Schedule C filer to elect to calculate owner compensation based on ***either*** Net Profit or Gross Income.
- Updated eligibility rules:
  - Removed restrictions with prior nonfraud felony convictions or who are delinquent or in default on federal student loan payments.

# Why Did They Make the Change?

- Using net income does not take into account fixed and other business expenses that a small business must cover to stay in operation and therefore keep the owner employed.
- Under the prior rules, many Schedule C borrowers may have received very small PPP loans to support their own employment due to having small net profits.

# Schedule C Loan Calculation Examples

- Schedule C **No Employees**:
  - **Step 1**: Find the amount entered on Line 7 of your 2019 or 2020 Schedule C.
  - **Step 2**: Divide the amount in Step 1 by 12.
  - **Step 3**: Multiple Step 2 by 2.5. (Amount cannot exceed \$20,833).
- Example:
  - **Step 1**: \$50,000
  - **Step 2**:  $(\$50,000/12) = \$4,166.67$  Average Monthly Gross Income
  - **Step 3**:  $(\$4,166.67 \times 2.5) = \$10,416.68$  Loan Amount

# Schedule C Loan Calculation Examples (cont.)

- Schedule C ***With Employees:***
  - **Step 1:** Compute 2019 or 2020 payroll by adding the following:
    - 2019 or 2020 Schedule C Net Profit or Gross Income minus employee payroll costs. (Maximum calculation of \$100,000. This is for owners compensation)
    - 2019 or 2020 Gross Wages and tips paid to your employees. (Compute using 2019 or 2020 IRS Form 941 Line 5c, Taxable Medicare Wages and Tips)
    - 2019 or 2020 employer contributions to group health, life, disability, vision and dental insurance, as well as retirement contributions and state and local taxes (SUTA).
  - **Step 2:** Calculate the average monthly amount.
    - Divide the amount in Step 1 by 12.
  - **Step 3:** Multiply the average monthly amount in Step 2 by 2.5.



# Schedule C Loan Calculation Examples (cont.)

- Example:
  - **Step 1**
    - **Owners Compensation Calculation**
      - 2019 Gross Income = \$85,000
      - 2019 Employee Wages = \$50,000
      - 2019 Owners Compensation = ( $\$85,000 - \$50,000 = \$35,000$ )
    - **Employee Wages**
      - 2019 Gross Wages = ***\$50,000***
    - **Employer Contributions**
      - 2019 Health Insurance Employer Portion = ***\$10,000***
    - **Total Step 1 Calculation**
      - $\$35,000 + \$50,000 + \$10,000 = \mathbf{\$95,000}$
  - **Step 2**
    - $\$95,000 / 12 = \mathbf{\$7,916.67}$
  - **Step 3**
    - $\$7,916.67 \times 2.5 = \mathbf{\$19,791.68}$  *Loan Amount*

# Concerns/Unknowns

- New validation errors with PPP applications.
- Schedule C applications over \$150,000 will be sampled to find fraud.
- Issue of using PPP1 before PPP2 can be applied.
  - This is another reason to need an extension
- Kentucky deductibility issue.
- Tax deadline–AICPA has urged to push filing date to June 15<sup>th</sup>, 2021.
- AICPA has called for a PPP extension deadline due to confusion and changes to the process.

# Employee Retention Credit: IRS Notice 2021-20

- What did we get?
  - Authoritative guidance on 2020 rules.
  - Interplay of qualified wages with wages reported on PPP Loan Forgiveness Applications.
    - **Note:** If excess payroll wages were included on the forgiveness application, excess wages can be used for the ERC. You cannot take into consideration eligible expenses to take more wages for ERC if the eligible expenses were not on the forgives application.

# Questions? Contact Us.

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