

# Department of Agricultural and Resource Economics

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## PAYCHECK PROTECTION PROGRAM

April 2020

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The Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law by President Trump in response to the COVID-19 pandemic. The CARES Act allocated \$349 billion to support small business owners and their workforce due to the current economic disruption caused by COVID-19. Small businesses affected by the Coronavirus (COVID-19) are eligible to apply for 100 percent federally guaranteed Small Business Administration (SBA) loans to cover expenses associated with payroll through the Paycheck Protection Program. Some of the salient features of the Paycheck Protection Program include:

- Loans to cover payroll costs and expenditures (domestic-based employee annual earnings only) under \$100,000/employee; other working capital expenses not already covered by federal CV-19 federal laws.
- Loans are offered through [7\(a\) lenders](#) and other designated institutions.
- Loans are eligible for forgiveness if small businesses maintain their payroll or restore their payrolls later.
- No prepayment penalty on early paybacks.
- Cannot use these funds for the same purpose with any other federal loans such as SBA's [Economic Injury Disaster Loan Program](#); SBA will determine eligible processing fee limit.
- Applications can be filed with lenders from April 3, 2020, and funds are available until June 30, 2020.

### Eligibility

- Small business concerns that employ less than 500 employees.
- Small business as defined by [15.U.S.C. 636](#).
- A 501(c)(3) organization with fewer than 500 employees.
- Small business that otherwise meets the SBA's [size standard](#).
- Sole proprietors/independent contractors/self-employed persons.

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- Private nonprofit organizations/501 (c)(19) veterans organizations that meet the SBA's [size standard](#).
- A tribal business concern that meets the SBA's [size standard](#).
- Small business owners who make good faith certification that the business needs funds to operate in current economic conditions and will use funds for authorized purposes.
- Small businesses in the accommodation and food services sector (NAICS 72) that employ less than 500 employees per physical location.

### Covered Period

- The covered period is from February 15 through June 30, 2020, for businesses that were operational.
- For seasonal small businesses, the payroll period is from February 15, 2019/March 1, 2019, through June 30, 2019.

### Maximum Loan Amount

- Loans can be up to 2.5 times the small business's monthly payroll costs, not to exceed \$10 million.
- For existing small businesses: Total average monthly payroll for the previous year, excluding compensation above \$100,000/employee, times 2.5, plus unrealized share of any 7(a) loan approved under federal FY2020 budget.
- For otherwise eligible businesses: Small businesses not in business during the covered period, total average monthly payroll between January 1 through February 29, 2020, times 2.5, plus the unrealized share of any 7(a) loan approved under federal FY2020 budget.

### Allowable Uses/Loan Funds

- Small businesses can use funds to meet payroll costs/cover employee benefits, including commissions or similar compensation; operating costs including rent, mortgage interest payments, utilities and interests on debt incurred during the covered period.
- Sole proprietors, independent contractors, and self-employed individuals: Wages, income, commission, net earnings or similar compensation that is no more than \$100,000 in one year, as prorated for the covered period.
- Excluded costs include:
  - Compensation of an employee above \$100,000, as prorated for the covered period.
  - Payroll taxes, railroad retirement taxes and income taxes.
  - Compensation of an employee whose residence is outside of the United States.
  - Qualified sick leave wages with allowable credit under section 7001 and qualified family leave wages with allowable credit under section 7003 of the Families First Coronavirus Response Act.

### Loan Forgiveness

Small businesses are eligible for loan forgiveness to the amount spent during the covered eight-week period on the following expenses:

- Payroll costs used to determine loan eligibility.
- Mortgage interest obligation.
- Rent on leasing agreement.
- Utility payments on electricity, gas, water, telephone, internet and transportation.
- Tips, additional wages paid to employees.

The amount of loan forgiveness is reduced based on:

- Reduction in number of employees:
  - Payroll cost multiplied by the average full-time equivalent employees (FTEs) during the covered period divided by:
    - Option 1: Average FTEs per month from February 15, 2019, to June 30, 2019.
    - Option 2: Average FTEs per month from January 1, 2020, to February 29, 2020.
    - For season employees: Average FTEs per month from February 15, 2019, to June 30, 2019.
- Reduction of more than 25 percent in wages paid to employees: For employees who did not earn more than \$100,000 in annual wages in 2019:
  - Payroll cost minus reduction in wages greater than 25 percent compared to the most recent full quarter.
- Small businesses shall not reduce the amount of loan forgiveness during the period beginning February 15, 2020, and ending 30 days after enactment of the CARES act, if they bring back employees on the payroll or restore wages by June 30, 2020.

### Loan Terms

The maximum loan term is two years; the interest rate is fixed at 1 percent with no loan fees or prepayment penalty. All payments are deferred for six months, and interest will continue to accrue during this period.

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### Waivers

- During the covered period, SBA's [affiliation rules](#) are waived for small businesses that are financed by a Small Business Investment Company (SBIC) and for small businesses in the accommodation and food service sector (NAICS 72) and franchises with a franchiser identifier code assigned by SBA.
- During the covered period, the "credit elsewhere" requirement is waived for small business owners.
- During the covered period, "collateral" and "personal guarantee" requirements are waived for small business owners.

### Designated Lenders

U.S. Treasury and Small Business Administration may designate additional lenders that are qualified to process, close, disburse and service loans made with the guarantee of the Administration. Lenders may approve loans with delegated SBA authority. Lender reimbursement rates are:

- 5 percent per covered loans under \$350,000.
- 3 percent per covered loans between \$350,000 and \$2 million.
- 1 percent per covered loans over \$2 million.

### How to Apply

To apply for the Paycheck Protection Program, contact any existing SBA 7(a) lender, or through any participating federally insured depository institution or federally insured credit union. Other regulated institutions may be designated to make these loans once they are approved and enrolled in the program.

### When to Apply

Lenders begin processing applications on April 3, 2020. Funds are available until June 30, 2020.

A sample application form for the Paycheck Protection Program is available as a reference at:

<https://www.sba.gov/document/sba-form--paycheck-protection-program-ppp-sample-application-form>

For the latest information on the Paycheck Protection Program, please visit SBA's Paycheck Protection Program: <https://www.sba.gov/funding-programs/loans/paycheck-protection-program-ppp>

## References

Small Business Administration. Internet site: <https://www.sba.gov/funding-programs/loans/paycheck-protection-program-ppp>

U.S. Chamber of Commerce Coronavirus Emergency Loans Small Business Guide and Checklist. Internet site: [https://www.uschamber.com/sites/default/files/023595\\_comm\\_corona\\_virus\\_smallbiz\\_loan\\_final.pdf](https://www.uschamber.com/sites/default/files/023595_comm_corona_virus_smallbiz_loan_final.pdf)

U.S. Department of Treasury Paycheck Protection Program Fact Sheet. Internet site: <https://home.treasury.gov/system/files/136/PPP--Fact-Sheet.pdf>

U.S. Senate Committee on Small Business and Entrepreneurship – The Small Business Owner’s Guide to the CARES Act. Internet site: <https://www.sbc.senate.gov/public/index.cfm/guide-to-the-cares-act>

Disclaimer – This fact sheet is a guidance to small business owners and does not constitute legal advice.



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