

Qualifying for Round 2 PPP Loans

Congress has approved a second round of funding through the Payroll Protection Program loan program. This second round of relief will allow eligible small businesses to take out loans of up to \$2 million that can be forgiven — essentially, converted into grants — if businesses meet certain conditions, including attempting to avoid layoffs and wage cuts, and if funds are used on payroll and other variable costs. Business may still qualify even if they received a first round PPP loan.

The program allows business to deduct operating expenses financed by the PPP loan. For example, a company could use proceeds to pay rent and utilities, and deduct those expenses even if the loan is forgiven, but to qualify for forgiveness the business must still spend at least 60% on payroll costs.

Eligibility for “second draw” loans is restricted to companies that experienced at least a 25% reduction in gross revenue in one quarter in 2020 relative to the same quarter in 2019. This focuses loans on businesses that have been hardest hit. Restaurants can qualify for loans up to 3.5 times their average monthly payroll costs, while businesses in other industries are restricted to loans of up to 2.5 times payroll expenses.

In summary, in order to qualify for the second-draw PPP money, you must:

1. have 300 or fewer employees;
2. have suffered a 25 percent or greater loss in revenue during at least one quarter of 2020 when compared to 2019; and
3. have already used your original PPP money (or be planning to use it soon).

And finally, keep these three thoughts in mind:

1. Act fast, because this money goes out first come, first serve.
2. The incoming PPP loan monies are tax-free.
3. Expenses, even when paid with PPP loan monies that are forgiven, are tax-deductible.

You will not find a better tax break.

Sincerely,

Robert

Robert McCullar, CPA CVA