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

MARK DIKEMAN ASSOCIATE DIRECTOR KANSAS FARM MANAGEMENT ASSOCIATION



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CARES Act

- o 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
 - o 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



• Expansion of Small Business Administration (SBA) 7(a) loan program to assist employers who maintain payroll

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- \$349 billion for small businesses (first come-first served)
- o Includes agricultural businesses
- Forgivable if funds are spent on allowable uses and employee numbers/wages are maintained
- o Administered through SBA approved lenders
 - Authorized addition of new SBA lenders
 - o 5% fee paid by SBA to lenders





- 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)
 - o Forgiveness reduced if number of employees or wages decreased

• Loan terms (if not forgiven)

- Two-year maturity
- o 1% interest rate
- Initial guidance on application and forgiveness was limited for ag producers and owners of pass-through entities





- On April 30, IRS issued guidance that expenses paid with forgiven PPP funds are not deductible
 - o Congress specified that forgiven loans were not to be counted as income
 - o 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
 - o Lessened forgiveness requirements
 - Extended the "covered period" from 8 weeks to 24 weeks
 - $\circ~$ For full for giveness, the requirement to spend 75% of proceeds on "payroll costs" was reduced to 60%
 - \circ $\,$ Adjusted requirements to maintain worker and salary amounts
 - Repayment deferral to 10 months from the end of the "covered period"



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- 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
 - o 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 0
- A minimum of 60% of loan proceeds must be spent on payroll costs 0
- Employee numbers and salary levels must be maintained unless exemption 0 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 0



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• 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)

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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 0 payroll cost at application Borrower did not decrease wage/salary amounts (by more than 25%) and did not decrease 0 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 0 Exempt from forgiveness reductions due to decrease in employee numbers or wage/salary AgManager KANSAS STATE \$DOFER IORO> I (@LKLJ FEP UNIVERSITY

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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
- o 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)

- 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
- o Loan details
 - Expires December 21, 2020 but advance is no longer available
 - o Loan amount up to \$2,000,000 loan, but most were \$150,000
 - o 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



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Economic Injury Disaster Loans (EIDL)

Loan details

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



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Economic Injury Disaster Loans (EIDL)

- $\circ\;$ Conditions in the loan agreement caused some agricultural producers to turn down the loan
 - o Collateral included all personal property including inventory and equipment
 - o 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 \cap
- Production & financial management 0
- Farm recordkeeping & accounting 0
- Benchmarking 0
- Tax planning & management 0
- o agmanager.info/kfma



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