



Summary of Paycheck Protection Program (PPP) after enactment of the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act

As of January 20, 2021

For entities that previously received a PPP loan (second draw)

The Act provides an opportunity for eligible hard-hit borrowers to receive a second PPP loan. The loans are available to entities with a 25% reduction in gross receipts and are for borrowers with fewer employees than first draw entities.

Eligibility

The following entities may be eligible if they were in operation on February 15, 2020 and received a first draw previously:

- 300 employees or less (Note: first draw loans are available for borrowers with 500 or fewer employees)
 - This is based on headcount and includes all full- or part-time employees.
 - Guidance has not been provided as to what timeframe is to be used in calculating the headcount.
- 25% reduction in gross revenue between comparable quarters in 2019 and 2020 (Note: this is not a requirement of first draw loans)

- Has used or will use all first draw PPP funds (including the amount of any increase of a first draw) on eligible expenses on or before expected date of the second draw loan disbursement

The SBA will require lenders to delay funding the second draw until the borrower has fully used all of the first draw funds. For the second draw application, the borrower will be required to attest that they have used or will use the full amount of the first draw funds on **eligible expenses**.

A second draw may be approved but for it to actually be received, the borrower will need to certify that the first draw funds have, in fact, been used.

It is **not a requirement that forgiveness** of the first draw loan has been applied for or been received. However, some lenders are requiring that the application for forgiveness for the first draw has been submitted.

Amount of loan

Second draw loans for borrowers with employees are calculated as 2.5 times average monthly payroll costs, up to \$2 million. Borrowers with a NAICS code that begins with 72 (such as hotels and restaurants) are eligible for loans up to 3.5 times average monthly payroll costs.

- Borrower can choose to calculate average monthly payroll based on 2019, 2020 or the 12-month period prior to when the loan is made.
 - (1) Average monthly payroll is adjusted for items such as compensation paid to an employee in excess of \$100,000 on an annualized basis, compensation to non-US residents, and other adjustments.
 - (2) Payroll includes gross wages and tips; employer contributions to employee group health, life, disability, vision and dental insurance; retirement contributions; and state and local taxes assessed on employee compensation (i.e. SUTA).



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The New Employee Retention Credit: More for Eligible Employers

Summary of 2021 Credit Enhancements

- PPP loan borrowers can claim the credit in 2020 & 2021
- Public colleges, universities, public health care entities can claim the credit
- Credit extended through June 30, 2021
- Qualified wages per employee increased from \$10K for the year to \$10K per qtr.
- Eliminate 30-day look-back period that limits qualified wages
- Credit calculation increased from 50% to 70% of qualified wages
- Significant decline in gross receipts based on 20% versus 50% of 2019 gross receipts
- Election to use prior qtr. gross receipts to determine eligibility (e.g., use Q4 2020)
- All wages qualify if employer \leq 500 employees. For employers $>$ 500 employees only wages paid to employees not rendering services vs not rendering services. In 2020 the litmus test was 100 employees
- Employers not in existence in 2019 can claim the credit
- Employers \leq 500 employees qualify for advance payment of the credit

Eligible Employer

- **2020 Review**

- Employers of any size, including tax-exempt organizations, but not government entities

- **2021**

- Employers of any size, including tax-exempt organizations, colleges, universities, hospitals and medical care providers
- PPP Loan recipients

Gross Receipts Test

- **2020 Review**

- Decline of at least 50% of gross receipts comparing a 2020 calendar quarter to the same 2019 quarter for the controlled group
- Credit ends in quarter following quarter in which gross receipts reach 80% comparing a 2020 calendar quarter to the same 2019 quarter for the controlled group

- **2021**

- Decline of at least 20% of gross receipts for the controlled group
- Compare a 2021 calendar quarter to the same 2019 quarter
- Compare the preceding calendar quarter to the same 2019 quarter

A person in a dark suit and tie is shown from the chest up, adjusting their tie. The background is dark and out of focus.

Qualified Wages & Credit Rate

- **2020 Review**

- \$10,000 annual limit
- Employer with 100 or fewer full-time employees, **all** wages
- Other employers, wages paid to individuals not rendering services
- Credit rate of 50% of qualified wages

- **2021**

- \$10,000 per quarter limit
- Employer with 500 or fewer full-time employees, **all** wages
- Other employers, wages paid to individuals not rendering services
- Credit rate of 70% of qualified wages

2021 ERC Example

- Employer, a restaurant, has \leq 500 FTEs in 2019
All wages paid are considered qualified wages
- Business operations partially suspended due to government order January 1 – June 30, 2021 (26 weeks)
- Take-out service available
- Restaurant pays employees 100% of wages
- Restaurant pays 100% of health premiums of \$150/week/employee

2021 ERC Example

Employee	A Q1 2021 Wages	B (\$150*13) Health Ins \$150/week	C (A+B) Qualified Wages & Health Ins.	D Limit \$10,000	E (D*70%) Credit
Kris	\$7,000	\$1,950	\$8,950	\$8,950	\$6,265
Deb	\$15,000	\$1,950	\$16,950	\$10,000	\$7,000
Total ERC					\$13,265