



Via Email and Mail

April 9, 2020

Re: COVID-19 CARES Act – Paycheck Protection Program - Update

Dear Client:

This letter is an update to the Paycheck Protection Program letter that KSGA had dated on March 31, 2020 based on the Small Business Administration Docket No. SBA-2020-0015 “Business Loan Program Temporary Changes; Paycheck Protection Program” and review of the Section 1106 Loan Forgiveness of The Coronavirus Aid, Relief, and Economic Security (CARES) Act, “the Act”.

Please see the updates in **red** below.

The Act provides relief for small businesses and nonprofit organizations, adversely affected by the outbreak of COVID-19 pandemic. Although further guidance will be provided by the Small Business Administration and participating lenders, the most significant provision of the Act is Paycheck Protection Program, “PPP”.

A. Who qualifies (eligible recipient)?

Individual (sole proprietor) or Entity (including nonprofit organization) adversely affected by COVID-19.

B. Application of the Paycheck Protection Program

1. Most approved lenders will announce their participation in PPP by Friday, April 3, 2020 and related application process. According to the Act, the Small Business Administration (“SBA”) has delegated processing of PPP loan, “Covered Loan”, to insured deposit institutions such as banks and credit unions,
2. The Covered Loan must be applied by June 30, 2020;
3. The payroll covered by this loan is the 8 weeks period starting from February 15, 2020 to June 30, 2020 (“covered period”);
4. Unlike other SBA loans, PPP removes the “Credit Elsewhere Test” which requires an extensive analysis to determine whether the borrower has the ability to obtain some or all of the requested loan funds from alternative sources, without causing undue hardship;

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5. PPP is a nonrecourse loan, meaning a personal guarantee is not required;

C. Maximum Loan Amount

6. The maximum loan amount must be the lesser of 2.5 average month's eligible payroll costs or \$10,000,000,
7. The maximum for Express Loan is \$1,000,000,

D. Allowable Uses of Covered Loans

8. The allowable uses of the covered loan proceeds are for the following purpose:
 - a. Payroll costs;
 - b. Costs related to the continuation of group health care benefits during the periods of sick, medical, or family leave, and insurance premiums;
 - c. Employee salaries, commissions, or similar compensations;
 - d. Payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage obligation);
 - e. Rent (including rent under a lease agreement);
 - f. Utilities; and
 - g. Interest on any other debt obligations that were incurred before the covered period which is February 15, 2020.

- **UPDATE: The allowable uses of Covered Loans includes payment of any retirement benefits.**

E. Loan Forgiveness

9. Loan recipients may request for loan forgiveness 8-week period after the loan origination date, but not more than the loan's principal amount, for the following expenses:
 - a. Payroll costs for employees receiving less than \$100,000 annual pay;
 - b. Any payments of interest on any covered mortgage obligation (which shall not include any prepayment of or payment of principal on a covered mortgage obligation);
 - c. Any payment on any covered rent obligation;
 - d. Any covered utility payment.



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10. The amount of loan forgiveness will be reduced by the amount of any reduction in total salary or wages of any employee during the covered period as compared to the same period in 2019. The amount of loan forgiveness will be reduced by the amount of any reduction in total employee salary or wages during the covered period that is in excess of 25 percent of the total salary or wages.

- **UPDATE:** The amount of loan forgiveness will also be reduced based on the average number of full-time equivalent employees per month during the covered period as compared to the lesser of average number of full-time equivalent employees per month for the period February 15 to June 30, 2019 or the period January 1 to February 29, 2020 .

F. Balance Remaining After Loan Forgiveness

11. With respect to a Covered Loan that has a remaining balance after reduction based on the loan forgiveness amount, the remaining balance will continue to be guaranteed by the SBA.

12. The Covered Loan will have a maximum maturity of 10 years from the date on which the borrower applies for loan forgiveness.

- **UPDATE:** The Covered Loan repayment period is reduced to 2 years from 10 years.

13. The Covered Loan will bear an interest rate not to exceed 4 percent.

- **UPDATE:** The Covered Loan will bear interest rate at 1 percent.

G. Taxability of Loan Forgiveness

14. The forgiveness of the Covered Loan will not be included as taxable income.



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We will keep you posted on further developments as we learn more about the Paycheck Protection Program.

In the meantime, we want to wish you good health and peace of mind during this crisis.

Sincerely,



Mike Song, CPA
Partner
KSGA, LLP

Proverbs 15:23



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