



Martz & Wilson, LLP  
Certified Public Accountants

## **Client Alert – January 12, 2021**

### **Paycheck Protection Program Second Draw**

On December 27, 2020 the President signed the Consolidated Appropriations Act of 2021, which includes provisions for the Paycheck Protection Program (PPP) making expenses fully deductible, which reversed the IRS position, as well as providing \$284.5 billion for a second draw of PPP funding to the hardest hit borrowers.

Late in the evening on January 6, 2021, the SBA issued guidance regarding the second round of PPP which is being called PPP2. The application form was released January 9th, SBA Form 2483-SD, which is attached. All applications must be in no later than March 31, 2021.

### **PPP2 Loan Details**

- Maximum loan amount = \$2 million
- Borrowers may use 2019, 2020 or 12 months prior to application for payroll costs
- Loans are calculated at 2.5 times your average monthly payroll costs
- Restaurants and hotels (NAICS Code 72) are eligible for 3.5 times average monthly payroll costs
- Borrower can choose between a covered period that is between 8 and 24 weeks

## **Qualifications for PPP Second Draw Borrowers**

Not everyone will qualify for a PPP2 loan. If a borrower received a PPP loan in the first round of funding, the entity must have used or will use the full amount of the first round of PPP funds.

The main qualification change from the first PPP loans is a borrower must show a decline in gross receipts of at least 25% in any quarter in 2020 as compared to the same quarter of 2019.

A borrower that was in operation in all four quarters of 2019, can compare total annual receipts in 2020 to total annual receipts in 2019, rather than doing a quarter-by-quarter comparison.

Gross receipts are defined as **ALL REVENUE** in whatever form received or accrued, in accordance with the entity's accounting method, from whatever source including:

- Sales of products or services
- Interest and dividends
- Rents
- Royalties
- Fees
- Commissions
- Reduced by returns and allowances

Gross receipts **DO NOT** include:

- PPP funding or EIDL loans
- If forgiveness of the First Draw PPP loan is recorded in calendar year 2020 revenue, it is EXCLUDED from the gross receipts comparison for PPP2 qualifications

## **Application**

Borrowers will submit to their lender SBA Form 2483-SD, which is attached, and the link is below.

[PPP Second Draw Borrower Application Form \(sba.gov\)](https://www.sba.gov/loans/ppp2)

Borrowers must certify that they:

- Realized a reduction in gross receipts in excess of 25% over the relevant comparison time period
- Has used or will use first draw proceeds only for eligible expenses
- Is not an ineligible entity

## **Use of PPP2 funds**

Funds must be used 60% for payroll costs in PPP2 while 40% can be used for other eligible costs.

Costs eligible for loan forgiveness include:

- Same as first PPP loans
  - Payroll costs, mortgage interest, rent, utility payments
- Covered Worker Protection Expenditures: Personal Protective Equipment (PPE) and costs to comply with COVID-19 health and safety guidelines
- Covered Supplier Costs: Expenditures to a supplier that are essential to the recipient's current operations
- Covered Operations Expenditures: Software, cloud computing, and other HR/accounting
- Covered Property Damage Costs: Costs related to 2020 public disturbances not covered by insurance or other compensation
- Applies to original PPP loans and new PPP loans, unless forgiveness has already been processed

## **PPP2 Documentation**

Generally, the same documentation is required for PPP2 as for the first round of PPP loans.

No additional documentation to substantiate payroll costs will be required if:

- Borrower used calendar year 2019 to calculate the first PPP loan as well as the PPP2 application
- Same lender is used as first PPP loan

For loan applications for PPP2 over \$150,000, documentation of the 25% revenue decline will be required, such as:

- Relevant tax forms, including annual tax forms, or if not available, quarterly financial statements or bank statements

For loan applications for PPP2 of \$150,000 and under, documentation of the revenue decline is not submitted with the loan application, but on or before the date the borrower applies for loan forgiveness. The comparison needs to be done now to ensure you qualify.

As further updates are released, we will continue to update you. If you are interested, please review your gross receipts to see if you qualify NOW so that when the application process opens, you are ready.

Please feel free to reach out to us if you need any help or have any questions.

***Remember: Please update your email address with us when you change internet companies or employers.***

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