

SMALL BUSINESS ADMINISTRATION PAYCHECK PROTECTION PROGRAM



The following is available to members as an informational resource. KMA expresses no opinion as to the feasibility, applicability, or impact to your particular practice.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act allocated \$350 billion to help small businesses, including physician practices, keep workers employed amid the pandemic and economic downturn. Known as the Paycheck Protection Program (PPP), this Small Business Administration (SBA) initiative provides 100% federally guaranteed and forgivable loans to small businesses. For additional information regarding the PPP loan, please visit the [Small Business Administration](#) and the [U.S. Treasury Department](#).

Here's what you need to know:

ELIGIBILITY

Physician practices harmed by COVID-19 that were in operation on February 15, 2020, with no more than 500 employees are eligible to apply for a PPP loan. The 500-employee threshold includes all employees: full-time, part-time, and any other status. Visit www.sba.gov for a list of SBA lenders. To download the PPP Lender Application Form [click here](#).

AMOUNT

Specific amount is determined as follows:

- If in business February 15, 2019 – June 30, 2019: max loan is equal to 250 percent (2.5 times) of average monthly payroll costs during that time period.
- If not in business between February 15, 2019 – June 30, 2019: max loan is equal to 250 percent (2.5 times) of average monthly payroll costs between January 1, 2020 and February 29, 2020.
- The max loan amount for either scenario is \$10 million.

Payroll costs include:

- Compensation (salary, wage, or similar compensation);
- Payment for vacation, parental, family, medical, or sick leave;
- Allowance for dismissal or separation;
- Group health care benefits, including insurance premiums;
- Retirement benefits; and
- State or local tax assessed on the compensation of employees.

Payroll costs exclude:

- Employee/owner compensation in excess of \$100,000;
- Taxes imposed or withheld under chapters 21 (FICA and Medicare taxes), 22 (Railroad equivalent FICA and Medicare taxes), and 24 (federal income tax withholding) of the IRS code for the covered period only. This calculation will not apply if using 2019 wage data in applying for a loan;

- Compensation of employees whose principal place of residence is outside of the U.S.; and
- Qualified sick and family leave for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act.

TERMS AND INTEREST RATE

For any amounts not forgiven, PPP loans must be repaid within 2 years at a fixed interest rate of 1 percent. All payments are deferred for 6 months; however, interest will continue to accrue over this period. There are no prepayment penalties or fees. No collateral or personal guarantees are required. Neither the government nor lenders will charge fees.

ALLOWABLE USES FOR PROCEEDS

For the covered period of February 15, 2020 to June 30, 2020, PPP loans can be used for:

- payroll costs, including benefits;
- interest on mortgage obligations (incurred prior to February 15, 2020);
- rent (under lease agreements in force prior to February 15, 2020);
- utilities (for service that began prior to February 15, 2020); and
- interest on any other debt obligations (incurred prior to February 15, 2020).

FORGIVENESS

PPP loans qualify for loan forgiveness if such loans are used for payroll costs, interest on mortgage obligations, rent expenses, utility expenses, and interest on any other debt obligations during the eight-week period following the closing of a loan.

The amount of loan forgiveness will be reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees (not more than 25% of the forgiven amount may be used for non-payroll costs). However, loans to physician practices that reduced workforce or wages after February 15, 2020, due to COVID-19 may qualify by rehiring those employees by June 30, 2020. Also, any advance amount received under the emergency Economic Injury Disaster Loan will be subtracted from the amount forgiven in the PPP loan.

Debt forgiven under a PPP loan is not considered income for federal income taxes.

Physician practices can submit a request for loan forgiveness to the lender that is servicing the loan. The request will include documents that verify the number of full-time equivalent employees and pay rates, as well as the payments on eligible mortgage, lease, and utility obligations. Physician practices must certify that the documents are true and that the forgiveness amount was used to keep employees and make eligible mortgage interest, rent, and utility payments. The lender must decide on the forgiveness request within 60 days.

Sources: *The U.S. Treasury Department*
The Small Business Administration
The American Medical Association
The US Chamber of Commerce