The 7 Things to Know about the New COVID Small Business Loan Program

Here's some good news: If your business has been hurt by COVID-19—whether you run a small business, a nonprofit, or are self-employed—you could be eligible for help. The government is supporting small businesses through low-interest Payroll Protection Program loans, some of which can become grants. That financing can help your business make it through this challenging time, keep your workers on the payroll, and be ready to get going again once the economy restarts. Here are the 7 things to know about PPP.

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1. Paycheck Protection Program loans are forgivable loans designed to support small businesses, non-profits, and self-employed people through COVID-19.

The PPP program is designed to enable small businesses to keep employees on their payrolls and rehire those who have been laid off due to the cash crunch. The PPP program offers about $350 billion in loans, available on a first-come-first-served basis. Importantly, while PPP loans can only be used for a few purposes, they can also be forgiven by the government. Forgiveness means that the loan would become a grant, and you won't have to pay it back.

If your business was in operation on February 15, has fewer than 500 employees, and has been hurt by COVID, it's probably eligible. People who are self-employed, independent contractors, or run sole proprietorships are also eligible—not just larger businesses. That means that if you freelance, do some kinds of gig work, or don't have any other employees , you could be eligible, too.

2. PPP loans can be used for the basics, and mainly for payroll.

You can use PPP loans to pay employees (including paying for some benefits and taxes), pay for rent and utilities, and cover the interest on a mortgage or existing debt. (If you want the whole loan forgiven, however, you can only use up to 25% of a PPP loan on expenses *other* than payroll expenses.)

3. A PPP loan can be forgiven, which means you don't have to pay the loan back. To maximize your loan forgiveness, you have to use the majority of the loan on payroll, and maintain your headcount and employee compensation.

You can have all or some of a PPP loan forgiven, which means the loan essentially becomes a grant. Generally, the amount of loan forgiveness you're eligible for will be the amount of the loan you spend on payroll costs, mortgage interest, rent, leases, and utilities in the 8 weeks after you receive the loan. If you're self-employed, payroll costs mean your wages or net income from your work. If someone at your organization makes more than $100,000, the forgiveness will be less.

You have to do a couple things to be eligible for loan forgiveness. First, in the 8 weeks after receiving the loan, you have to use at least 75% of the loan to cover payroll costs, and use the other 25% to cover rent, utilities, leases or mortgage interest. Second, to receive as much loan forgiveness as possible, businesses need to keep workers employed (or rehire workers they have already let go). They also need to refrain from cutting employee compensation by more than 25%.

To get loan forgiveness, you'll apply at your bank after a few months. Keep an eye out for more information from your bank about how to apply for forgiveness.

4. Businesses are eligible for PPP loans equal to about 2.5 times their average payroll costs.
Generally, you can estimate the size of a PPP loan for your company by multiplying your average monthly payroll costs by 2.5. (Remember that payroll costs include not just wages, but also some benefits and taxes; for self-employed people, payroll costs are your wages or net income from your work). For example, if your monthly payroll expense was $100,000, you will generally be eligible for a $250,000 loan. If someone at your business makes more than $100,000, you'll receive less than this full calculated amount.

5. The amount of the loan that's not forgiven will need to be paid back over two years, at a 1% interest rate. But you don't need to make payments for the first six months.
That's pretty much it. Loan payments under the PPP are deferred for six months, which means that you only need to start paying half a year after you receive your loan.

6. You can apply right now through your local bank. And no, you don't need collateral or a personal guarantee.
You can apply right now through a number of banks. The loans are first-come-first-served. Many banks are approved to give out PPP loans, and it may be easiest to apply at a bank where you already have an existing relationship, since they'll already know the most about you. Please see sba.gov/paycheckprotection/find for a full list of banks that are participating.

You'll need to fill out an application and provide some documentation about your business, including payroll records and records about your monthly bills. No collateral or personal guarantees are required for the loan, and you can only take out one loan under this program.

7. There are a couple other programs to help small businesspeople through COVID-19.
Economic Injury Disaster Loans (or EIDLs): EIDLs are another kind of loan the government offers business affected by COVID-19, though the length of the loan and interest rate are a bit different from PPP loans. While EIDLSs can't be completely forgiven in the way PPP loans can, you can still get up to $10,000 as a grant when you apply. You can apply for both an EIDL and a PPP loan, as long as you don't use the loans for the same expense. You can apply for EIDL loans at the Small Business Administration, at sba.gov.

Paid sick leave tax credits: These help small businesses cover the paid sick leave that may be required by employees impacted by COVID-19. If an employee in your small business is unable to work due to the coronavirus, you could be required to give the employee paid sick leave under recent legislation. These tax credits allow you to pay less in payroll taxes, starting immediately, in order to help you cover the cost of paying workers who are on sick leave.

Carrying back losses for tax purposes: If your business reported losses on its taxes in 2018 or 2019, you can now carry those losses back to previous tax years. This means that you can file amendments to previous years' tax forms and get refunds from the IRS today. You'll also be able to carry back 2020 losses, but you'll need to wait until early 2021 to claim those.

There also could be other programs in your community for which your business is eligible. There are indications, too, that there will be another round of economic measures designed to help working people and small businesses.