

PPP Weekly Update

January 17, 2021

This week we will review what information you need to prepare your Second-Draw PPP loan application. See the next two pages for more information.

Next week we will discuss the [Employee Retention Credit](#) including:

- What it is
- How to determine if you qualify
- How it is calculated; and,
- How to apply

Last week ([January 10, 2021](#)) we summarized the new PPP2 loan program.

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Needed Information

Where You'll Find It

Suggestions

Generally, organization must have experienced at least a 25% reduction in gross receipts in any calendar 2020 quarter compared to same quarter in 2019. The information needed to determine if your organization passes the "25% Gross Receipts Reduction Test" is shown below.

Quarterly or monthly Statements of Financial Activity for calendar years 2019 and 2020

Your accounting software

If possible, create a single report showing all 8 quarters or 24 months on the same report; then, download this report to Excel. This will allow you to quickly compare each quarter in 2020 to the same quarter in 2019 to see if your organization meets the 25% gross receipts reduction test.

Generally, your maximum Second-Draw loan is equal to 2.5X (3.5X for hospitality and food service industries) the *higher* of your organization's "Average Monthly Payroll" for calendar years 2019 or 2020. The following 5 items are used in calculating "Average Monthly Payroll".

Gross Payroll for 2019 and 2020

Your payroll software or service

Run or request from your payroll service the calendar year payroll report. Look for a Covid-19 PPP2 loan application report... most payroll software and payroll services provide special report that calculates your Average Monthly Payroll.

Amounts paid to employees whose wages exceeded \$100,000 in calendar years 2019 and/or 2020 (a)

Your payroll software or service

As noted above, most payroll software/services will run this calculation as part of the Covid-19 PPP2 loan application report.

Employer portion of group health, dental, vision and disability insurances paid or incurred in calendar years 2019 and 2020

Accounts payable files or software

If your tax year is the calendar year, this information will be on your federal tax return. If your payroll software/service does not track your health insurance costs, you will need to increase Average Monthly Payroll calculation shown of the Covid-19 PPP2 loan application report for employer's portion of these costs.

Employer portion of retirement benefits paid or incurred in 2019 and 2020

Your federal tax return or retirement contribution statements

If your tax year is the calendar year, this information will be on your federal tax return. As above, if your payroll software/service does not track your contributions to employee retirement benefits, you will need to increase Average Monthly Payroll calculation shown of the Covid-19 PPP2 loan application report for employer's portion of retirement benefits.

Michigan Unemployment Insurance taxes paid or incurred in calendar years 2019 and 2020

Your payroll software or service

This information should be included in your Covid-19 PPP2 loan application report. It can also be found by summing the four amounts you paid per your quarterly Michigan Unemployment tax filings, Form 1028.

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Most banks will require the following documents be submitted with your Second-Draw loan application

941s (quarterly federal employee withholding tax filings) for selected calendar year 2019 or 2020 (b)

1028 (quarterly Michigan unemployment tax filings) for selected calendar year 2019 or 2020 (b)

Federal tax return (1120, 1120-S, 1065, 990) for selected calendar year to substantiate health insurance and retirement benefits (b)

Payroll statements from your payroll software/service the for the selected calendar year 2019 or 2020 (b)

Payroll statements from your payroll software/service for the pay period that covered 2/15/20 (b)

Bank statement that includes 2/15/20

2019 and 2020 quarterly income statements showing a 25% reduction in gross receipts in at least one quarter (c)

(a) Average Monthly Payroll calculation excludes compensation paid to an employee in excess of \$100,000 on an annualized basis, prorated for the period during which the payments are made or the obligation to make the payments is incurred. For example, if an employee mad \$100,000 during a 6-month period, her annualized compensation for this period would be \$200,000. Hence, Average Monthly Payroll would be reduced by \$50,000 ($\$100,000 \text{ actual} / \$200,000 \text{ annualized} = 50\%$. $50\% \times \$100,000 = \$50,000$ excess compensation).

(b) You do not need to submit documentation to substantiate payroll costs if you: (i) used calendar year 2019 figures to determine your first PPP loan amount, (ii) are using calendar year 2019 figures to determine your Second Draw PPP Loan amount (instead of calendar year 2020), and (iii) your lender for the Second Draw PPP Loan is the same as the lender that made your first PPP Loan. In such case, additional documentation is not required because the lender already has your relevant documentation supporting your payroll costs. Nevertheless, the lender may request additional documentation.

(c) If your Second-Draw loan is for \$150,000 or less, you do not need to submit documentation showing you pass the 25% reduction test with the loan application; however, you will need to provide this documentation with your loan forgiveness application.