

HOW THE PAYROLL PROTECTION PROGRAM WORKS

LOAN AMOUNT:

The maximum loan amount is the Applicant's average monthly payroll times 2.5. In other words, 10 weeks' average payroll.

A business with an average monthly payroll of \$100,000 would be eligible for a maximum loan of \$250,000.00.

SPENDING:

Under the old rules, the applicants had 8 weeks to spend the funds on allowed costs (75% on payroll, 25% on rent, utilities and interest).

Under the old rules, 10 weeks x 75% = 7.5 weeks. In other words, the Applicant had 8 weeks to spend 7.5 weeks of payroll. This was **impossible** for a business that was closed for 4 weeks or running at 50% capacity to do. ***This was the program's fatal flaw.***

THEN THE RULES CHANGE:

The measurement period extends from 8 weeks to 24 weeks. This is the "game changer". Now, instead of having to spend 7.5 weeks worth of pre-COVID payroll in 8 weeks, business have 24 weeks to spend a minimum of 6 weeks' payroll (10 weeks loan x 60%). Even a business running at 50% capacity can easily hit the required forgiveness number, provided they restore FTE employees by 12/31/20.

OLD RULES:

Pre-COVID weekly payroll	5,000
Loan amount	50,000
Payroll spending requirement for forgiveness	37,500
Weekly payroll spending requirement (8)	4,688
POST COVID / PRE COVID PAYROLL	93.76%

NEW RULES:

Pre-COVID weekly payroll	5,000
Loan amount	50,000
Payroll spending requirement for forgiveness	30,000
Weekly payroll spending requirement (24)	1,250
POST COVID / PRE COVID PAYROLL	25.00%

A FEW OBSERVATIONS:

In a recent ACCD town hall, many, many listeners asked how they can "amend" their original loan amount. Fearing a large, unforgiven loan balance, they did not apply for the maximum loan. Under SBA guidelines, the loan amount cannot be changed.

ED NOTE: I never saw this question coming, as we advised all clients to take the maximum loan (it's 1%). This could be a problem.

Every business owner with payroll is eligible for a PPP loan. If you applied for it, you received it. EIDL has been a very slow roll out.

RESTAURANT - RECOVERY / PPP EXAMPLE

RESTAURANT:

Gross Sales	1,500,000
Food Cost	33.33%
Payroll	30.00%
Fixed Overhead	32.67%
Net Profit	4.00%

Payroll	499,950
Average Monthly	41,663
PPP Loan	104,158

	<u>Sales Level</u>	<u>Sales</u>	<u>Food Cost</u>	<u>Payroll</u>	<u>Overhead</u>	<u>Loss</u>	<u>PPP Loan</u>	<u>Net</u>
Mar-20	0%	-	-	-	40,838	(40,838)	40,838	-
Apr-20	25%	31,250	10,416	9,375	40,838	(29,379)	29,379	-
May-20	35%	43,750	14,582	13,125	40,838	(24,795)	24,795	-
Jun-20	35%	43,750	14,582	13,125	40,838	(24,795)	9,146	(15,649)
Jul-20	40%	50,000	16,665	15,000	40,838	(22,503)	-	(22,503)
Aug-20	50%	62,500	20,831	18,750	40,838	(17,919)	-	(17,919)
Sep-20	60%	75,000	24,998	22,500	40,838	(13,336)	-	(13,336)
Oct-20	70%	87,500	29,164	26,250	40,838	(8,752)	-	(8,752)
Nov-20	80%	100,000	33,330	30,000	40,838	(4,168)	-	(4,168)
Dec-20	90%	112,500	37,496	33,750	40,838	416	-	416
		606,250	202,063	181,875		(186,069)	104,158	(81,911)

ReStart Grant (\$150m)	37,500
Resulting Loss	(44,411)

OLD PPP RULES (8 wks, 75%/25%):

8 week total	22,500	81,676
Resulting Forgiveness	-	
Resulting PPP Loan	104,158	

NEW PPP RULES (24 wks, 60%/40%):

24 week total	91,875	245,028
Resulting Forgiveness	104,158	
Resulting PPP Loan	-	

HOTEL - RECOVERY / PPP EXAMPLE

HOTEL:

Gross Sales	2,000,000
Average Occupancy	65.00%
Variable Overhead	38.00%
Payroll	30.00%
Fixed Overhead	25.00%
Net Profit	7.0000%

Payroll	600,000
Average Monthly	50,000
PPP Loan	125,000

	<u>Sales Level</u>	<u>Sales</u>	<u>Variable Overhead</u>	<u>Payroll</u>	<u>Fixed Overhead</u>	<u>Loss</u>	<u>PPP Loan</u>	<u>Net</u>
Mar-20	0%	-	-	-	41,667	(41,667)	41,667	-
Apr-20	30%	37,500	14,250	11,250	41,667	(29,667)	29,667	-
May-20	30%	37,500	14,250	11,250	41,667	(29,667)	12,500	(17,167)
Jun-20	35%	43,750	16,625	13,125	41,667	(27,667)	-	(27,667)
Jul-20	40%	50,000	19,000	15,000	41,667	(25,667)	-	(25,667)
Aug-20	50%	62,500	23,750	18,750	41,667	(21,667)	-	(21,667)
Sep-20	60%	75,000	28,500	22,500	41,667	(17,667)	-	(17,667)
Oct-20	70%	87,500	33,250	26,250	41,667	(13,667)	-	(13,667)
Nov-20	80%	100,000	38,000	30,000	41,667	(9,667)	-	(9,667)
Dec-20	90%	112,500	42,750	33,750	41,667	(5,667)	-	(5,667)
		606,250	202,063	181,875		(222,670)	83,834	(138,836)

ReStart Grant (\$150m)	50,000
Resulting Loss	(88,836)

OLD PPP RULES (8 wks, 75%/25%):

8 week total	22,500	83,334
Resulting Forgiveness	-	
Resulting PPP Loan	125,000	

NEW PPP RULES (24 wks, 60%/40%):

24 week total	91,875	250,002
Resulting Forgiveness	125,000	
Resulting PPP Loan	-	