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OBJECTIVE ADVICE ON THE ROAD OF LIFE

Dear Client:

January 7, 2021

The Small Business Administration (SBA) along with the U.S. Department of the Treasury have released initial guidance on the Payroll Protection Program (PPP) Second Draw and PPP Amendments to the First Draw funding. The applications for participating in the programs must be submitted by March 31, 2021. There is \$806,450,000,000 in funds set aside for the programs. We anticipate the release of the PPP Second Draw Borrower Application Form 2483-SD to be released next week. The following information should help you to prepare for applying for the Second Draw or Extended First Draw funds if you are eligible and so choose to do so.

The following items are differences in the Second Draw Program:

1. You must have 300 or fewer employees. First Draw required 500 or fewer employees
2. **You must have a revenue reduction of 25% or greater in any one quarter of 2020 compared to same quarter of 2019. There are additional rules if you were not open for a full 2019. The revenue reduction will be determined by gross receipts. Gross receipts is measured as revenue received or accrued in accordance with your accounting method. Do not include First Draw forgiveness in the measurement.**
3. Hotels, Restaurants and any other entity operating under the North American Industry Classification System beginning with 72 (Accommodation and Food Services) are able to calculate funding on 3.5 months of payroll costs which is an increase over the 2.5 months of payroll costs for all other industries.
4. Maximum draw amount is \$2,000,000 compared to \$10,000,000 allowed in the First Draw program.
5. Measurable period for calculating your eligible draw proceeds can be 2019 or 2020 payroll costs.
6. Additional items included in the payroll cost calculation paid by the employer above employee payroll withholdings earmarked for the costs are:
 - a. Group life
 - b. Disability
 - c. Vision
 - d. Dental

Items to have ready for submission with your application Form 2483-SD include:

1. Quarterly Federal forms 941 and State quarterly wage unemployment insurance tax reporting forms for the year (2019 or 2020) you are using to calculate your payroll costs.

2. Any evidence for retirement and health insurance contributions used in the payroll cost calculation.
3. If you are self-employed – Federal form schedule C for the year (2019 or 2020) used for your calculation of funds.
4. If you are a partnership – Federal form K-1 for the year (2019 or 2020) used for your calculation of funds.
5. Documentation verifying a 25% decrease in revenues for a quarter of 2020 compared to the same quarter of 2019.

The forgiveness process related to the second draw program is similar to that for the first draw including the requirement for 60% of the funds to be used on payroll costs. You also have 8 to 24 weeks from the date of receipt of funds to use the money on costs deemed allowed for forgiveness. Additional items allowed for forgiveness in the draw 2 program include:

1. Payroll costs paid by the employer above employee payroll withholdings earmarked for the costs:
 - a. Group life
 - b. Disability
 - c. Vision
 - d. Dental
2. Covered operational expenditures – business software, cloud computing, product or service delivery, processing payment and tracking of payroll, human resources, sales and billing functions, accounting or tracking of supplies and inventory
3. Covered property damage costs
4. Covered supplier costs
5. Worker protection expenditures

If you have not applied for forgiveness for your first draw we recommend that you do so at your earliest convenience. You will not receive a second draw if you are deemed an unresolved borrower in relation to draw 1. This is not to say you will not receive funds as it appears that if your draw 2 application is reviewed prior to resolution of your draw 1 the funds will be set aside until resolution is arrived at.

We have provided a top view approach of the extension of draw 1 and the introduction of draw 2. Please contact our office with specific questions you may have related to these programs including the application and forgiveness process.

Very sincerely yours,

Kumlander, Donofrio, Hay & Pehl CPAs, LLP