

On March 3rd, 2021, SBA issued an interim final ruling (IFR) on recent changes to the Paycheck Protection Program (PPP). The ruling allows individuals who file an **IRS Form 1040, Schedule C** to calculate their maximum loan amount using gross income. SBA has issued updated forms for borrowers and lenders reflecting these changes and outlined how to calculate the loan amount. Further details can be found below.

The IFR clearly states the calculation change will only apply to **new** loans approved after March 3rd, 2021. Unfortunately, borrowers whom have already had their loan approved are not able to increase their PPP loan amount based on the new maximum loan formula. Additionally, businesses electing to use gross income to calculate their PPP Loan and have gross income over \$150,000 will be subject to additional SBA review.

This program is open until **May 31st, 2021**. We are encouraging all our small business borrowers who have been greatly impacted by COVID-19 to consider applying for a loan under this new program, which provides some critical benefits, including:

1. Cash to cover select business expenses (such as employee salaries and payroll support, rent or mortgage and utilities payments, insurance premiums, property damage, PPE costs, etc.)
2. Loan Forgiveness (a portion, or possibly all, of your loan may be forgiven as long as proceeds are used on eligible payroll costs). Borrower to repay funds not forgiven.

Key Points to Know:

- Length of a PPP loan: 5 years
- Interest rate: 1.00%
- Maximum dollar amount of a PPP loan: 2.5x of your average total *monthly* payments for payroll costs of the business during the 1-year period before the loan is made; 3.5x for those in service industries (must be filed under NAICS code beginning -72).
 - Payroll costs include salary, wage, vacation, parental, family, medical or sick leave, severance, health care benefits, and local taxes.
- Last day to receive funding for a PPP loan: **May 31st, 2021**
 - HOWEVER, please note that it takes time for you to complete the application. Interested applicants should apply right away.
 - Also note that there is a limited amount of funds available under the CARES Act for PPP loans.
- Once you receive your loan proceeds, you must write yourself a check to cover the owner's portion of payroll costs. You will be required to show this as proof of payroll when applying for forgiveness.

Required Information:

- Completed and Signed Application
- We will require a combination of payroll documentation to enable us to verify total payroll costs (detailed in Fact Sheet link below). Suggested documentation provided on following page.

To apply, please securely submit the required information to sba@decorahbank.com, using your business name in the subject line or drop-off documents at the Decorah Bank or Cresco Bank locations.

Maximum Loan Calculation for Form 1040 – Schedule C Filers

Sole Proprietor without Employees:

For a sole proprietor, independent contractor or self-employed individual who files their business on a Form 1040, Schedule C and has zero employees, the following methodology should be used:

- 1) Schedule C – Line 7 – Gross Income **OR** Schedule C – Line 31 – Net Profit
 - a. See reminder below on using Gross Income.
- 2) Divided by 12
- 3) Multiply by 2.5 if non-service industry; multiply by 3.5 if service industry.
 - a. Your NAICS Code must begin with 72 to be considered a Service Industry.
 - b. Your NAICS Code will be on the upper right corner of your tax return.

Please submit a completed application form (Form 2438-C or Form 2483-SD-C) along with your Schedule C, Form 1099-Misc Income, and a bank statement to show you were in business as of 2/15/2020.

Once you receive your loan proceeds, you must write yourself a check in the full amount to prove funds were used for payroll. You will be required to show this as proof of payroll when applying for forgiveness.

Sole Proprietor with Employees:

For a sole proprietor, independent contractor or self-employed individual who files their business on a Form 1040, Schedule C and has employees, the following methodology should be used:

- 1) Add together:
 - a. Schedule C – Line 7 – Gross Income **OR** Schedule C – Line 31 – Net Profit from 2019 or 2020.
 - i. See reminder below on using Gross Income.
 - b. Quarterly 941's – Line 5C – Column 1 for the same tax year chosen in Step 1.
 - c. Schedule C – Line 14 - Employer contributions to employee group health, life, disability, vision, and dental insurance
 - d. Schedule C – Line 19 – Retirement Contributions
 - e. State Unemployment Taxes paid by employer (SUTA)
- 2) Divided Step 1 by 12
- 3) Multiply by 2.5 if non-service industry; multiply by 3.5 if service industry.
 - a. Your NAICS Code must begin with 72 to be considered a Service Industry.
 - b. Your NAICS Code will be on the upper right corner of your tax return.

Please submit a completed application form along with your Schedule C, Form 941 for all four quarters, State Unemployment insurance tax reporting forms (SUTA) from each quarter, evidence of retirement and health insurance contributions, if applicable, and a bank statement to show you were in business as of 2/15/2020.

Once you receive the loan proceeds, you must write yourself a check to cover the owner's portion of payroll costs to prove funds were used for payroll. Additional funds can be used to pay employees. You will be required to show this as proof of payroll when applying for forgiveness.

Reminder – if you choose to use Gross Income in your calculation and your Gross Income is over \$150,000, SBA may choose to assess whether the borrower complied with the PPP eligibility criteria, including the good faith loan necessity certification which states “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant” in order to deter fraud, waste, and abuse of funds.