



What is the Paycheck Protection Program (PPP) under the CARES Act and What Does it Mean for Small Business Owners?

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Signed into law on March 27th, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act, includes several loan and payroll tax provisions that may help small business owners, including independent pharmacies with adequate cash flow.

The Paycheck Protection Program (PPP) under the CARES Act authorizes up to \$349 billion in forgivable loans to both for-profit and nonprofit organizations with fewer than 500 total employees. It was designed to help business owners continue to pay employees during the COVID-19 crisis and provides cash-flow assistance through a host of attractive features, such as: forgiveness of up to 8 weeks of payroll based on employee retention and salary levels (including benefits); no Small Business Association (SBA) fees, and at least six months of deferral with maximum deferrals of up to a year. Loan terms will be the same for everyone. Funds can also be used to pay interest on mortgages, rent, and utilities (not to exceed 25% of funds).

Several provisions of PPP may be relevant to small businesses and employers, including independent pharmacies. Review the NCPA Member CARES Act Summary [here](#); visit [SBA.gov](https://www.sba.gov) for additional information on beneficial PPP provisions. Frequently asked questions* (FAQ) included below.

Update: Plan Moving Forward

Small businesses and community pharmacies who received PPP funds and who were already planning to submit a forgiveness application with their bank will need to wait, as the SBA and Treasury will be updating guidance and the PPP forgiveness application. The good news for many small businesses is that the additional 16 weeks will provide more payroll cycles and will result in more PPP funds being forgiven. The changes to PPP in this new bill are significant and will allow more small businesses to benefit from this popular small-business relief effort.

**Note: The information below is publicly available and linked to in this document as a courtesy. We will continue to update as further guidance becomes available. Please continue to check for the latest available information and be sure to speak with your financial and legal advisors for any specific questions about your business.*

FAQs: Paycheck Protection Program (PPP)

Why should I apply for a PPP loan?

This loan was intended for business owners, including independent pharmacies, that are helping their community through this crisis. The goal of PPP is for business owners to maintain the level of employment and payroll for the pharmacy and to prevent owners from using their own savings or retirement to maintain payroll.

How much money will I qualify for?

The max loan amount is 2.5 times your average monthly payroll for the one-year period preceding when loan is issued, up to \$10 million.

Do I need to personally guarantee the loan or provide collateral?

No. No guaranteed or collateral is required.



Will the loan be forgiven?

Funds are provided in the form of loans that will be fully forgiven when used for payroll costs, interest on mortgages, rent and utilities. At least 75% of the forgiven amount must have been used for payroll. Forgiveness is based on the employer maintaining current payroll levels (or rehire to maintain current payroll levels). Forgiveness will be reduced if full-time headcount declines or if salaries and wages decrease.

Update: 8-Week Forgiveness Period Extended to 24 Weeks

Under the original law, small businesses and community pharmacies who received a PPP loan had eight weeks to use the funds, and so long as they used the loan proceeds for qualifying purposes, the entire loan could be forgiven. This eight-week timeframe is known as the “covered period” and is the timeframe in which qualified spending of the funds is eligible for forgiveness. Under the new law, the eight-week period was extended to 24 weeks or December 31, 2020, whichever is first. Any funds not used for qualifying purposes within the “covered period” is not eligible for forgiveness and must be paid back by the small business.

Update: The 75 Percent Payroll Cost Requirement Is Reduced to 60 Percent

The second-most significant change to PPP is a reduction to the payroll cost rule from 75 percent to 60 percent. This rule required forgiveness requests for a PPP loan to be comprised of at least 75 percent payroll costs, while the other 25 percent can be spent and used on other qualifying forgiveness purposes such as mortgage interest, rent and utilities. By reducing the payroll cost requirement to 60 percent, small business owners will be eligible to have more of their PPP funds forgiven. Many small businesses and community pharmacies that had higher rent or mortgage payments were finding it difficult to use 75 percent of their PPP funds within the covered period of eight weeks.

How do I determine if the loan will be forgiven?

The lender will determine loan forgiveness. Loan forgiveness is determined using the proceeds for the 8 weeks following the funding date. There is currently no guidance for how the loan will be forgiven, therefore it is imperative that a pharmacy owner document the entire application process and how the loan proceeds will be and are being used. Some professionals may recommend setting up a separate bank account to properly document and easily track the proceeds, check with your banker and/or accountant.

If my loan is forgiven, will I be taxed on the proceeds?

No. The forgiven amount of the loan will act as a grant and will be nontaxable.

What happens if I lay off employees?

If you lay-off employees or reduce hours/rates, you have until 6/30/2020 to rehire and/or bring hours/rates back to when they applied for the loan. If you do not maintain headcount or payroll WAGES by a minimum of 75% this loan will NOT be forgiven. The payback is deferred for 6 months but then has an accelerated payback over 18 months at 0.5%.

Update: Bringing Back Workers

The original PPP law reduced the amount eligible for forgiveness if the small business or community pharmacy did not bring back the same number of employees that they had pre-pandemic. The new law made changes to the requirements on bringing back workers and gives small businesses until December 31, 2020 to restore their workforce to pre-pandemic levels.



What happens if I maintain my current payroll levels?

If the business owner maintains payroll then they will be eligible for the loan to be forgiven. They will need to file a form at the end of 8 weeks that their SBA lender will walk them through.

What if I want to use the proceeds for other expenses?

Recipients will be allowed to use up to 25% of the proceeds for 'other' expenses (rent, utilities, payables, etc.) but 75% must be used to support payroll. Any expenses that are not used for payroll, retirement, health insurance, rent, utilities, and/or mortgage interest will not be forgiven.

What if I have added additional employees to payroll?

This does not influence the eligibility to forgive the loan.

What if I have multiple pharmacies?

If each pharmacy business is a separate entity, then each entity will need to apply separately.

Are there any limits to which employees qualify?

Yes. All employees, including pharmacists, qualify up to \$100,000.

Should I apply for PPP if I am having cash flow issues or need working capital?

No. Pharmacy owners that need an immediate cash flow injection or working capital should not apply for PPP. These pharmacy owners should consider other means to obtain working capital, such as local, state or federal disaster relief. The Economic Injury Disaster Loans (EIDL) can be applied for directly with the federal government by visiting [covid19relief.sba.gov](https://www.covid19relief.sba.gov).

I am a member of Good Neighbor Pharmacy's Franchise program. Does this impact my eligibility?

Current guidance is that independently owned franchises with under 500 employees, who are approved by SBA, are eligible for the PPP program. The application will ask you to designate if you are a member of a franchise and you will select Good Neighbor Pharmacy (Identifier Code S3586) in the SBA franchise directory.

What do I do first and when can I apply?

Small businesses (500 employees or less) can start applying for this program April 3, 2020. You can apply for PPP directly with the SBA or with qualified SBA lenders. Most large banks, community banks, and specialized pharmacy lenders will assist pharmacy owners in obtaining the funds. We would recommend that you start by contacting your banker and document the entire process.

This program is offered through all qualified SBA lenders, visit [SBA.gov](https://www.sba.gov) for more information on PPP. Additional resources are available from the [Department of Treasury's](https://www.dht.gov) Small Business Paycheck Protection Program Overview as well as [IRS' Employee Retention Credit FAQ](https://www.irs.gov).

To prepare for the application process, you may want to gather the following information:

- IRS Form 941
- Most recent payroll report summary (past 12 months)
- Documents showing health insurance premiums paid by the business
- Documents showing retirement plan contributions paid by the business
- 2019 P&L Statement or 2019 Tax returns if prepared and filed