

Updates to the Paycheck Protection Program Extend Access to Small Farms

Updates to the PPP Loan Program make forgivable loans available to small farms with little or no hired labor expense - act fast to meet the March 31, 2021 application deadline!

By Mary Kate MacKenzie

If your farm business did not apply for an earlier round of the Paycheck Protection Program (PPP), you may wish to reconsider. The COVID stimulus package that Congress approved in December 2020 included changes to PPP eligibility for farm businesses. The new eligibility rules took effect in January 2021, and the current PPP application deadline is March 31, 2021.

The Small Business Administration (SBA) administers the PPP program in partnership with local lenders. Some lending institutions may have earlier application deadlines, so contact your lender as soon as possible if you would like to apply.

Program Eligibility

Sole proprietors, independent contractors, self-employed persons, and any small business that meets SBA's size standards are eligible to apply for a PPP loan - including farm businesses. In other words, ***small farm businesses are eligible for the current PPP loan program, whether or not they have employees.*** If you have not yet received a PPP loan, you are eligible to apply for a [First Draw PPP Loan](#). There is a different application process for [Second Draw PPP Loans](#). You must submit an application through a local lending institution. The SBA application deadline is March 31, 2020, but some lenders may have earlier deadlines in place. Farm businesses will need a Schedule F from their 2019 tax return to complete the application.

Calculating Your Loan Amount

For a First Draw PPP Loan, most small businesses can request up to 2.5 times their average monthly payroll amount. However, there are special guidelines to calculate the loan amount for farm businesses using payroll costs and gross income:

"For farmers and ranchers that operate as a sole proprietorship or as an independent contractor, or who are eligible self-employed individuals and report farm income or expenses on a Schedule F (or any equivalent successor IRS form), payroll costs are computed using eligible payroll costs for employees, if any, plus the lesser of \$100,000 and the difference between gross income and any eligible payroll costs for employees, as reported on a Schedule F." (Source: [PPP First Draw Borrower Application Form](#))

If your farm business had no payroll expense in 2019, you can use your gross income, found on Line 9 of your 2019 Schedule F, to calculate your loan amount. Divide gross income by 12 to get the average monthly amount, then multiply by 2.5. The gross income amount is capped at \$100,000, so the maximum PPP loan amount that a farm business with no payroll expense can request is $\$100,000 / 12 \times 2.5 = \$20,833$. Your loan amount could be higher if you had eligible payroll costs in 2019. For more information, contact your lender and review the SBA publication [How To Calculate First Draw Loan Amounts](#).

Loan Details

First Draw PPP Loans can be used for payroll costs, including employee benefits and owner compensation. The funds may also be used for eligible nonpayroll costs, including mortgage interest, rent, utilities, and other approved operations expenditures and supplier costs. SBA will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses.

- PPP loans have an interest rate of 1%.
- Loans issued after June 5, 2020 have a maturity of five years.
- PPP borrowers have 24 weeks to spend PPP funds.
- PPP borrowers have an additional 10 months to apply for forgiveness after the 24 weeks end.
- Loan payments will be deferred for borrowers who apply for loan forgiveness until SBA remits the borrower's loan forgiveness amount to the lender.
- No collateral or personal guarantees are required.
- Neither the government nor lenders will charge small businesses any fees.

Loan Forgiveness

First Draw PPP Loans made to eligible borrowers qualify for full loan forgiveness if during the 24-week covered period following loan disbursement:

- Employee and compensation levels are maintained.
- The loan proceeds are spent on payroll costs and other eligible expenses (see below).
- At least 60 percent of the proceeds are spent on payroll costs.

Any amounts paid to owners count toward payroll costs. According to SBA, “for each individual owner, this amount is capped at (a) \$20,833 (the 2.5-month equivalent of \$100,000 per year), or (b) the 2.5-month equivalent of the individual’s applicable compensation in the year that was used to calculate the loan amount (2019 or 2020), whichever is lower.”

Eligible nonpayroll costs consist of:

- **Covered mortgage obligations:** payments of mortgage interest (not including any prepayment or payment of principal) on any business mortgage obligation on real or personal property incurred before February 15, 2020.
- **Covered rent obligations:** business rent or lease payments pursuant to lease agreements for real or personal property in force before February 15, 2020 (“business rent or lease payments”);
- **Covered utility payments:** business payments for a service for the distribution of electricity, gas, water, telephone, transportation, or internet access for which service began before February 15, 2020.
- **Covered operations expenditures:** payments for any business software or cloud computing service that facilitates business operations, product or service delivery, the processing, payment, or tracking of payroll expenses, human resources, sales and billing functions, or accounting of tracking of supplies, inventory, records, and expenses.
- **Covered property damage costs:** costs related to property damage and vandalism or looting due to public disturbances that occurred during 2020 that were not covered by insurance or other compensation.
- **Covered supplier costs:** expenditures made to a supplier of goods for the supply of goods that are essential to the operations of the Borrower at the time at which the expenditure is made,

and made pursuant to a contract, order, or purchase order in effect prior to the beginning of the Covered Period (for perishable goods, the contract, order, or purchase order may have been in effect before or at any time during the Covered Period).

- **Covered worker protection expenditures:** operating or capital expenditures that facilitate the adaptation of the business activities of an entity to comply with the requirements established or guidance issued by the Department of Health and Human Services, the Centers for Disease Control, or the Occupational Safety and Health Administration, or any equivalent requirements established or guidance issued by a State or local government.

Eligible nonpayroll costs cannot exceed 40% of the total forgiveness amount. An eligible nonpayroll cost must be either paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period. Count nonpayroll costs that were both paid and incurred only once. For more information about eligible nonpayroll costs, contact your lender.

A borrower can apply for forgiveness once all loan proceeds for which the borrower is requesting forgiveness have been used. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred, and borrowers will begin making loan payments to their PPP lender.

Recent legislation has eliminated the original requirement to deduct the amount of EIDL Advance you may have received from your PPP loan forgiveness. Additional guidance and updated forms are forthcoming.

If you are concerned about receiving loan forgiveness, discuss this with your lender when you apply. You can also review the [PPP Loan Forgiveness](#) website, which provides loan forgiveness forms and instructions. If your First or Second Draw PPP loan amount was less than \$150,000, you can use the [PPP Loan Forgiveness Form 3508S](#), which requires fewer calculations and less documentation for eligible borrowers. If your First or Second Draw PPP loan amount was greater than \$150,000, contact your lender to determine which loan forgiveness form to use.

Final Thoughts

Congress recently expanded the Payroll Protection Loan Program, making it more generous to small farm businesses with limited payroll expenses. If your farm recorded gross income of \$100,000 or more in 2019, then you may be eligible for a First Draw PPP Loan in excess of \$20,000. The PPP Loan is fully forgivable if you use the funds for eligible expenses, document your spending, and apply for loan forgiveness through your PPP lender. This program has potential to provide small farms with an infusion of working capital, supporting flexibility, liquidity and resilience during a time of economic uncertainty. Contact your lender as soon as possible to apply before the March 31, 2021 application deadline.

Information presented in this article is adapted from the SBA Paycheck Protection Program website and associated informational materials: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>