



## Extension

UNIVERSITY OF WISCONSIN-MADISON

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### **Paycheck Protection Program – Farmer eligibility and sign up begins April 3, 2020**

The Paycheck Protection Program (PPP) provides potentially forgivable loans to small businesses to cover up to two months of payroll costs and/or self-employment income during the COVID-19 crisis. Farmers are eligible for PPP loans through the Small Business Administration (SBA). Farmers must have fewer than 500 employees.

Applications opened on April 3, 2020 for small businesses.

These loans are facilitated through lending institutions with established relationships with the SBA. Farmers can also work with the Farm Credit Service organization that services their geographic area. Therefore, the first recommendation is for farmers to call their current lender(s) to see if they have that SBA relationship and ask if they are ready to accept PPP applications. The lender may have their own restrictions, application form and documentation requirements.

#### **Who is eligible?**

Small businesses, including farms, who have fewer than 500 employees (those receiving W2s in the previous year). Independent contractors/self-employed farmers and small businesses are also eligible to make their own applications to this program starting on April 10, 2020.

#### **What costs are covered?**

- Payroll costs, including benefits, such as paid leave, health care benefits, and state and local taxes. It is unclear if federal payroll taxes are eligible costs. If a farmer includes federal payroll taxes in the calculations, that portion of the loan may need to be repaid.
- Interest on mortgage obligations, incurred before February 15, 2020.
- Rent, under lease agreements in force before February 15, 2020.
- Utilities, for which service began before February 15, 2020.

The PPP loan cannot cover payroll for those employees whose principal address is not within the United States, nor can it cover the costs of paying independent contractors (those who get 1099s instead of W2s). An H2A worker would be an example of an employee that should not be included in the payroll calculations. Independent contractors and other self-employed individuals, including farmers, can apply for their own PPP loans starting on April 10, 2020.

#### **How do seasonal businesses determine average monthly payroll?**

The most reliable way to determine a seasonal businesses payroll is to calculate the average monthly payroll from March 1, 2019 – June 30, 2019. A riskier approach is to calculate the eight-week period preceding June 30, 2019. Work with your lender to choose your approach.

#### **What are the amount of the loans?**

The amount of the loans are 2.5 times the amount of your average monthly payroll costs from 2019, capped at \$10 million.

#### **Can a farmer include their own lost income in the loan?**

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Yes, PPP should provide help with this. However, the rules are unclear at this time. Businesses who submit applications for their payroll costs (those who get W2s) can do so starting April 3. Self-employed or independent contractors cannot apply until April 10. You cannot have two loans. Current guidance is to combine the payroll and the self-employment income into one application. There is no guidance on how to calculate the average monthly self-employment amount to use in the application. Possibilities include a prorated portion of the net income from 2019 from Feb. 15 – June 30. However, many farmers may have had little to negative net income in 2019. Documentation of cash distributions or “draws” or guaranteed payments during this same time could be another option. Again, work with your lender on this issue.

### **Are these truly forgivable loans?**

Loans will be forgiven as long as:

- The loan proceeds are used to cover payroll costs, and mortgage interest, rent, and utility costs over the 8 week period after the loan is made; and
- Employee and compensation levels are maintained.
- For a loan to be completely forgiven, no more than 25% of the loan can be used for anything other than payroll. For example, if you use 30% of the loan for mortgage interest, rent and/or utilities, you are required to pay back 5% of the total loan because that is the amount over the 25% you spent on things other than payroll costs.

The applicant is required to write a letter to the lender that documents the number of Full-Time Equivalent (FTE) employees and their pay rates, plus payments to mortgage interest, lease payments and utility payments that were paid from the loan proceeds. A FTE is 40 hours/week. It is recommended that you use the FTE number in your application rather than just the number of employees so that it is the same number that is required in the request-for-forgiveness-letter.

Note: A forgiven loan is taxable income. However, the items paid from this loan are all expenses that can be deducted as the cost of business, so they should cancel each other out.

### **If someone is required to pay back a portion of the loan, what are the loan terms?**

- Interest at 1%, accrues immediately
- Payments deferred for six months
- Loan due in two years.

### **How do farmers apply?**

- Call your current lender to see if they are making PPP loans. If they are not or you don't have an established relationship with a lender, you can contact the Farm Credit Service lender for your geographic area. You can also visit [www.sba.gov](http://www.sba.gov) for a list of SBA lenders.
- Get their application and supporting document list.
- Ask your lender about combining the payroll costs with your own self-employment income and how to determine self-employment amounts.

You will need to provide your lender with payroll documentation such as payroll processor records or payroll tax filings. Independent contractors will have to provide their 1099-MISC forms.

### **Is there anything else I should know?**

- There was \$349 billion available starting April 3. It is distributed on a first come, first served basis. **Call your lender today!**

- Medical/recreational marijuana is not an eligible enterprise; hemp is eligible in Wisconsin, but not in states where it is not a legal crop; if an owner with 20% or more ownership has a felony within the last five years the business is ineligible.

**Here are links for more information from the U.S. Treasury:**

[General Information about the Paycheck Protection Program](#)

[Paycheck Protection Program Borrowers Information Sheet](#)

[Paycheck Protection Program Borrower Application Form](#)

The Small Business Administration regularly updates its [PPP FAQ site](#).

Other resources: [Iowa State University's Center for Agricultural Law and Taxation](#) has information on the [Paycheck Protection Program](#)

This factsheet was developed from U.S. Treasury resources along with information and direction communication with Rachel Armstrong, Founder and Executive Director of Farm Commons ([Farmcommons.org](#)). Rachel can be reached by emailing [rachel@farmcommons.org](mailto:rachel@farmcommons.org).