

The Coronavirus Aid, Relief, and Economic Security Act: Paycheck Protection Program Loan Proceeds Segregation

SkarlatosZonarich LLC

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The Coronavirus Aid, Relief, and Economic Security Act (“Act”) was enacted on March 27, 2020. As part of the Act, small business concerns, other entities and certain self-employed individuals are eligible for loans pursuant to the Paycheck Protection Program (“PPP”). Many banks began accepting initial PPP applications on Friday, April 3, 2020. Some borrowers are anticipating the disbursement of PPP funds as early as the week of April 13, 2020. The speed at which government and institutions, large and small, are moving is unprecedented, admittedly commensurate with the circumstances.

Although you are probably focused on the process of preparing your PPP loan application and compiling your supplemental materials, we encourage you to be mindful of the use of the loan proceeds and your eligibility for loan forgiveness. In this regard, we strongly urge borrowers to establish a separated financial (e.g., checking) account at the lender’s institution for receipt of the loan funds so that payroll costs and covered expenses can be properly accounted during the covered period. Separately tracking the covered loan proceeds and covered period expenditures from other transactions during the covered period should facilitate future compliance with PPP requirements, particularly loan forgiveness. Indeed, the Act provides that an “eligible recipient seeking forgiveness . . . shall submit to the lender that is servicing the covered loan an application, which shall include [documentation on payroll and] documentation, including cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments[.]”

While borrowers may not be required to maintain a separate deposit account for receipt of loan proceeds, establishing a PPP designated account with your lender may help to minimize your, and your lender’s, compliance burden when applying for loan forgiveness.

This article as well as further updates in regard to tax matters and other legal implications related to Coronavirus pandemic can be found on our COVID-19 Response webpage, <https://www.skarlatoszonarich.com/covid-19>.

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