

Paycheck Protection Program

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SPEAKERS

Christa Hartsook, Charles Brown

Christa Hartsook 00:15

Hello, and welcome to the small farms podcast, a production of the small farms program at Iowa State University Extension and Outreach. Our podcast covers the opportunities and challenges associated with rural life. In this episode, I interviewed Charles brown farm management field specialist for Iowa State University Extension and Outreach, and talk about PPP, and its implications for agriculture producers. I'm Christa Hartsook, small farms program coordinator, and we hope you enjoy the show. Charles, welcome. Thanks for being on today.

Charles Brown 00:50

No problem. Thank you for asking.


Christa Hartsook 00:52

So Charles, when we first talk about the PPP program, I thought we'd probably better define that and then talk about how it applies to Iowa producers.

Charles Brown 01:00

Yeah, it's the PPP stands for the paycheck protection program. It's a little bit of a misnomer, in my opinion, because it talks like when you talk about the description, it sounds like you have employees, but you do not have to have employees to apply for the program. Program was designed to help businesses that did employees trying to keep them on the payroll to keep businesses from, you know, closing and that sort of thing. It's a loan program that businesses can apply for. And then there's also a certain amount of that loan that can be forgiven, as long as certain criteria are met. It applies to agriculture, because, again, a lot of agriculture, farmers do have employees. But even for those self employed farmers, they also have, what they talk about in the program is their, their schedule F which is the profitability the farm operation. And as long as they have a positive net profit on their schedule F even though they have no

employees, they can also apply for this program, we did not get the guidelines for the self employed farmers until I believe April 14. Because before that, people were saying, well, self employed, businesses cannot apply for it. But then we found out that they could, then the money was all gone, the first go round by April the 16th. So a lot of self employed farmers did not get to apply for it in their first go around.

 Christa Hartsook 02:25

Okay, so Charles, is there a new round of funding available, then?

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Yes, there's a new round of funding available, their first round was about \$349 billion. That just lasted a few days. And the new appropriation, I believe, is \$310 billion that had just come out farmers or businesses could apply for that. As of this past Monday, the applications opened up again, again, we expect this money probably to go fairly fast. There was a lot of applications in the pipeline, and the first around that did not get approved. They're going to approve those first and they'll be taken the new applications.

 Christa Hartsook 03:04

Okay. So Charles, you mentioned a little bit about how the loans could be utilized, you know, if you were a farmer that had an employee hired hand on your farm, for example, but it could also be used just for your own wages and take home too.

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That is correct. An example would be farm corporation, for example, they have payroll, which most of those would, then they can use that payroll for the calculation. For example, if they have \$75,000 payroll within their business, they can apply for a loan based on that in a way that would work with the employees, they would take the 75000 of wages that they had, they divide that by 12 take it times 2.5. And that's the amount of loan that they're eligible for when it comes to the self employed farmer. And at first, we'll talk about the ones that do not have any employees, they look at that Schedule F for a self employed farmer, which again is their net profit, they call that net profit the owners compensation, or in other words, you can think about that being their wage, so to speak, they may be paying themselves so that owners compensation that net profit, again, you divide that by 12, take that times 2.5. That'd be the amount of loan that they'd be eligible to receive. If they had employees, then there could be additional money based on the employees that they have also. So there'll be additional payroll besides the owners compensation, they have to have a positive net profit if they have no employees. If they have a negative Schedule F and no employees they're not entitled to apply for the PPP program, but they have employees and have a negative Schedule F. Schedule F cannot go below zero, then they would add on the payroll that they have and based on their payroll, they'd be eligible to have apply for the PPP loan program.

 Christa Hartsook 04:57

Okay, Charles, how does a producer access a PPP loan,

 05:02

you have to work with your lender, the farm lender or the bank. They have to be an approved authorized SBA lender, most banks would be maybe not all of them, but they have the applications available. And so they would work through them and to get the application filled out. If your lender doesn't happen to be approved lender with SBA, they could find a different lender to work with them. I know some of the banks probably do and I know farm credit, does they have an online process? Actually, you can go online to fill out the application to get a sit down.

 Christa Hartsook 05:38

Okay, Charles, you talked a little bit about the firm's eligibility requirements for the program, is there anything else we need to highlight in that regard?

 05:48

Well, for them to be eligible. Again, they have to have a positive schedule F. There are some other guidelines, which again, doesn't affect probably, a lot of farm operation could affect some, they have to have 500 or less employees, if they have more than that, they may not be able to apply. Also, there's a revenue base part of it, their annual receipts cannot be above \$1 million. But again, it can be above that, if they have less than 500 employees. So again, not many farm operations probably are going to be phased out because of that. There's also a letter guidelines without getting into all the details about some maximum net worth and that type of thing. But again, for most farm operations, that's not going to be a problem/

 Christa Hartsook 06:36

Okay, in terms of that loan amount for that Payment Protection Program is going to be in the dependent upon your filings in 2019. Is that correct?

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Yes, it's based on the 2019 tax returns, the 2019, Schedule F, a farmer has a lot of farm operations may have a Schedule F and a Schedule C, Schedule C is maybe they got a trucking business, or they got the seed sales or whatever that may be on the schedule, see if they have two different businesses within their tax return. You have to net the Schedule C, the Schedule F together to see whether or not you're going to be eligible to apply for the loan or not, then,

 Christa Hartsook 07:16

Okay, that's good information to know. Are there other types of documentation then that are required for this application, Charles?

 07:23

Yes, they're going to have to supply it with their loan application, a copy of their schedule F and or their schedule C, if they have employees, they gotta be able to provide some employer documentation, again, for reform operation, they file 943s, which shows that the wages paid for the 2019 year, they also got a W-3 that would be on file. Also, it would show those gross wages being paid. But they have employees that could have some documentation as an employer to show that they actually have employees. And one of the differences between farm operations also a lot of farm operations, they pay their employees payment in kind that's only available for agriculture laborers. So in payment kind maybe they pay them in bushels of corn or bushels of soybeans rather than cash. If they do that, they're going to have the information still show up on a W-3. But the payment and kind wages do not show up on the 943 only the case way can show up on there. So again, any debts and documentation explain policy to the lender they're working with or SBA, why those payments kind of wages do not show up on the 943. Like other businesses would.

 Christa Hartsook 08:43

Okay, that's good information to know, Charles, I'm assuming there's obviously some restrictions on the funds themselves, you know, we can't go out and just purchase whatever we needed to purchase, for example, how do we need to keep track of those expenditures.

 08:57

Again, one of the rules with the PPP loans is that you can't go out and expand your business, you can't go out and buy new pickup for example. So it has to be used for for payroll for labor, it has to be used for mortgage interest has to be used for utilities, and rent paid. Those are the categories that you need to use those funds for. If you do receive those, again for the once you receive that first funding, and the bank issues, the funding to you then for the next eight weeks, get to track your expenses. And again, showing how you spent those funds that you received and 75% If you have employees have to go towards payroll. So again, there are some documentation you're going to have to be tracking. Also just released it this week was criteria that is part of the payroll it's not just the wages that you pay, but they also now are including the housing allowance. If you for his housing for your employees, and even before the housing allowance payroll also included health insurance, and also including maybe funding for retirement plan for the payroll portion of it. So there's payroll includes more than just the wages being paid. Again, we're talking in generalities here. There's a lot more specifics to this, but I would recommend that people go to the Center for Ag and Law taxation website. Christine does a great job having publications out there and articles about more details of all these programs.

 Christa Hartsook 10:35

That sounds great. Charles, you mentioned pretty early on that there was a component of loan forgiveness within the program itself. How does that work or what portion is forgivable?



10:46

I guess, depends whether you're self employed, or whether you are a corporation where you are paying wages. If you're talking strictly payroll, where you're paying employees, if you use all those funds to pay for the payroll, and the utilities, mortgage interest, and rent and so on, that we talked about, it can all be forgiven. If you are self employed, with no employees, there's a calculation that you do go through, and about 98% of that could be forgiven any amount that's not going to be forgiven results being part of the loan. And those PPP loans are two year loans at 1% interest, and the first payment doesn't come due for six months. One thing that I did learn about these loans, when the banks set these up, they have to set the loan up for the total amount not taking into account what may be forgiven. And then the payments are based on that total loan amount on a monthly payment schedule. So six months from now, there's going to be a payment coming due based on the total amount of that loan, even though maybe a lot of that loan was forgiven. So if it's a fairly sizable loan, it could present some cash flow problems later on, just depends on the loan amount and such but it just means also that loan will be paid off pretty fast. If they cannot reamortize that loan. And when I talked to the banks, they didn't know if they'd be able to remember ties that based on the amount of loan that was forgiven or not. So that's one of the question marks drilled out there. One of the issues with this PPP program, when they kicked it out, like a lot of programs, we didn't have the guidelines, you know, we just had some of the basic information. And as we go along, we keep learning new things. They keep writing new regulations, originally, you know, it was not even written for agriculture is written for other businesses. And then we added agriculture to it. And agricultural businesses do not operate like other businesses. The examples that I give that enter businesses, they either buy the inventory or they manufacture it, farmers raise that inventory, they put a crop on the ground, and six months later, they're going to harvest it. They don't know what the yield is going to be. They don't know what the price is going to be. So a lot of differences between agriculture then what other businesses are.



Christa Hartsook 13:03

Very true point, Charles, I'm assuming that there's going to be some types of tax implications or potential concerns with something like the PPP program. Can you talk a little bit about those?




13:15


Well, this is one of the pluses to the program. Normally, when you talk about loan forgiveness, it has tax consequences. But according to all the rules that we've read, so far, any amount of this loan is forgiven is not taxable income. So it's a win win when you talk about that. Cash flow, and there's no tax consequences put towards it.





Christa Hartsook 13:34


That is good news for producers out there.

 Charles Brown 13:37
Yes, it is.

 Christa Hartsook 13:39
Alright, so Charles, I'm assuming in addition to PPP, there might be some other types of federal programs available to ag producers right now.

 13:48
There is the USDA just came out with a new program here in the past week or so another \$19 billion being appropriated for agriculture. I think if I remember correctly, about 3 billion of that is going to be going for the USDA to purchase directly milk and dairy products and meat products and then distribute that to the needy and some of the food banks and so on. And then the rest of that money is going to be going towards direct payments to farmers. We don't know you know how that's going to be coming about yet for for sure. They're just some very vague guidelines out there about that currently. What they're discussing anyways, that about 9.6 billion will be going for livestock farmers, 5.1 billion for cattle, 2.9 billion for dairy, and 1.6 billion for hogs. And then about 3.9 billion for the row crop producers 2.1 billion for specialty crop and 500 million for other crops, it appears is going to be similar to the market facilitation program that we had last year in that program. They're going to be basing it on a calculation of trying to figure out, you know how much producers have lost because of the market downturns, we've had COVID issue going on. So they say about 85% of that loss can be calculated based on losses between January 1 and April 15. of 2020. And about 30% of expected losses from April 15 to the next few quarters. So that's all that we have on it right now, or all that I know about anyway, as far as some of the guidelines, but it will be direct payments to producers based on this program, and this will be taxable income, unlike the PPP program.

 Christa Hartsook 15:41
Okay. So that'll be a stay tuned for more information program.

 15:46
Yes, they were talking about some of the I think purchases starting here in the next couple of weeks. But I think the other program could be another month or so away before the FDA get that one implemented.

 Christa Hartsook 15:59
Okay. Charles, when we talk about the ag sector as a whole right now, there's obviously a lot of financial concerns out there. Can you talk a little bit, you know, from your firm management perspective of what you're seeing and hearing about?



Charles Brown 16:15

Well, the good news is right now that we're in planting season,



Christa Hartsook 16:20

yes. Always.



16:23


When farmers are planting, they tend to forget about multiple most other things. Yes. Once the crops get in the ground, then there are going to be I think issues with cash flow marketing, the commodity markets for all sectors, corn, soybeans, hogs, cattle, dairy, are some of the lowest prices we've seen for years. So we need to get to know past that get to markets coming back to have any type of financial stability within agriculture. I think down the road, there's going to be not that we haven't had already, we've had some cashflow problems for farmers in the past few years. Again, we've, since 2013, we've seen markets deteriorating, and we've had some cash flow issues of working capital is the biggest issue out there right now that farmers are having to borrow more money to, you know, put the crops in to buy feed to buy the livestock and so on. And so the working capital has become tighter because of that, the positive thing about agriculture is the farmland days have held up. So from a balance sheet standpoint, the farmers net worth a farmers equity positions, their debt to asset ratios are still pretty strong, though we're everybody's watching the farmland values and seeing whether or not they'll start deteriorating, which will come eventually, if we don't get the markets turned around. But if you start seeing that the land value start deteriorating, then we can get into worse problems than what we're in today. So I mean for the time being, I think we're sitting here, okay, for the most part, there's been a lot of reorganization going on with with farmers as far as their debt structures. For the past two or three years, farm lenders have been working with farmers to take some of that operating capital that maybe they couldn't pay back or some of that machinery debt that they were struggling with, that they own land, they could put that against their equity they have with their land, lengthen out the payment structure, and maybe a lower interest rates to improve their cash flow. But most of that works already been done. So we don't have a lot going forward here. A lot to play with now that we've done most of what we could already so things could get tight, or tighter, I should say, compared to what it has been. But, you know, you read in bankruptcies there are trending higher. I think a lot of those bankruptcies, though, are not farmers that are actually quitting or selling out. But again, once you've gone through some of that restructuring their processes and training, maybe they were forming, you know, four or 5000 acres or having to cut back to a couple 1000 acres trying to get back where they can you know, cash flow that those operations.




Christa Hartsook 19:06

That makes sense. Charles, I was gonna ask, you know, what advice you would have for anybody out there that really kind of looking at overall balance sheets right now. And you know, some restructuring is probably the best advice if you haven't been taking advantage of

that.

 Charles Brown 19:20

I think in all cases, and it's always been this way. You want to be proactive, you know, watch your financials, watch your cash flows, if things aren't going the way they should be, you know, start talking to your lenders and making plans ahead of time. The worst thing the lender hates, is that farmer coming in to date to know what to do and saying I can't make my payment. Most farm lenders will work with you if at all possible, as long as you give them enough time to plan ahead and put a plan together. So plan ahead and looking at the tax consequences of what's going on this year. And you would think that with the commodity prices the way they are inside farmers aren't going to have a tax problem. But I need to keep in mind that these direct payments coming out, we're going to have probably some crop insurance claims this year because of the depressed prices that that's going to be income coming in. And this is income that that cannot be deferred. So if they happen to have sold the 2019 crop in 2020, and then they had these government payments and crop insurance money coming in, there could be tax problem out there, even though we have low commodity prices, just because of the income getting doubled up in one year, when normally it wouldn't be that way.

 Christa Hartsook 20:36

Yeah, that's a very good point. And a good reminder for producers to kind of watch too. Charles, anything else that we need to talk about today?

 20:43

No, I guess not today. Again, there's probably going to be more rules come out. The PPP program was to go along from just came out on the 24th I know, that we also have the call with the EEIDL program that's also eligible for farmers now. That is the, I gotta look at the title here on it. That is the emergency economic injury disaster loans. Okay. Agriculture, famously cannot apply for those loans. And now they can they are low interest loans, you apply directly through the SBA, and there's loans available, I think up to \$2 million, if you would qualify for that. I don't have a lot of the details on that. But that is a low interest directly through the SBA loan program agriculture now is available for

 Christa Hartsook 21:31

okay. And so if they were curious on that or any other programs, Charles the Center for Ag law and taxation would have more information?

 21:39

Yes. Christa it has articles out there on the PPP program, and the emergency economic injury disaster loan program, anything that we get the updates, you know, with the rules and regulations on that he will have updated articles out there on those.



Christa Hartsook 21:54

All right, that sounds great. Charles, thanks so much for being on today.



Charles Brown 21:58

Thank you for having me.



21:59

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