

## Pathology Groups And Labs Should Expect 100% PPP Loan Forgiveness

New modifications to the Paycheck Protection Program (PPP) have made it much easier for independent pathology groups and clinical labs that obtained PPP loans to obtain full loan forgive-



*Robert Tessier*

ness, according to Robert Tessier, Senior Reimbursement Consultant at HBP Services (Woodbridge, CT), which provides consulting services to pathology practices.

The PPP was created by the CARES Act to provide forgivable loans to eligible small businesses to keep American workers on the payroll during the Covid-19 pandemic. The

legislation authorized the U.S. Treasury to use the Small Business Administration's lending program to fund loans of up to \$10 million per borrower to cover payroll, mortgage interest, rent/lease and utilities (electricity, phone, internet access, et al.). PPP loans were made available to small businesses that were in operation as of February 15 with 500 or fewer employees, including sole proprietorships and independent contractors.

Tessier says that all of his pathology group clients obtained PPP loans in April or May for amounts ranging from \$100,000 for a three-pathologist group to \$1.8 million for a nine-pathologist group with a large histology lab.

Under the original PPP rules, small businesses could deduct eight weeks' worth of employee salaries and other expenses from their loan amounts. This meant that most pathology groups and labs that got PPP loans would have received about 75% loan forgiveness and then had to pay back the remaining 25% within two years with 1% interest.

However, on June 3, the U.S. Congress passed the Paycheck Protection Program Flexibility Act of 2020 (PPPFA), which modified the original PPP loan program, making it easier for borrowers to get 100% loan forgiveness.

Key provisions of the PPPFA include:

- A longer period for borrowers to use the funds to pay for payroll and eligible business expenses (8 weeks → 24 weeks).
- At least 60% (down from 75%) of the loan proceeds must be used for payroll costs, while up to 40% (up from 25%) can be used for nonpayroll costs.
- Repayment of any non-forgivable loan amount is due within 5 years (up from 2 years).

For example, Tessier says that a hypothetical hospital-based pathology group structured as a C-Corporation with four pathologist owners and one full-time administrative employee might have gotten a \$150,000 PPP loan in early May. This group would be able to deduct the maximum allowed for owner-employee compensation of \$20,833 per pathologist plus \$46,154 for its non-owner FTE (4 x \$20,833 plus \$46,154=\$129,486). That would leave this group with \$20,514 of PPP loan amount that could be offset by eligible nonpayroll expenses for rent/lease and utility costs incurred over 24 weeks after their loan was received as well as health benefits and retirement contributions, depending on how the practice is structured. Tessier anticipates that all groups will obtain full PPP loan forgiveness.

In addition, Tessier says that all of his clients received funding from the HHS Provider Relief Fund (PRF), which was authorized under the CARES Act to assist the healthcare industry in combating the Covid-19 pandemic. PRF payments were based upon 2% of each provider's 2019 or 2018 income (depending on which tax return was submitted) after being reduced by a previous automatic Medicare grant. The automatic grant was 6.2% of each provider's Medicare FFS payments in 2019. Tessier says that most of his clients received PRF and automatic grant payments of between \$75,000 and \$125,000, with one large group receiving over \$250,000. He notes that PRF payments are not loans and will not need to be repaid.

Tessier says that his pathology group clients saw their referred case volume decline by roughly 80% in late March through May, while inpatient case volumes declined by about 50%. Pathology volumes improved in June and should be back up to 90% of pre-pandemic levels in July, according to Tessier.

He notes that the combination of PPP loans and PRF payments helped independent pathology groups and clinical labs only partially bridge the huge temporary drop in volume they suffered as a result of the pandemic lockdown.

### **Labs that Got the Biggest PPP Forgivable Loan Amounts**

On July 6, the U.S. Treasury Department released the names of more than 650,000 companies that received PPP loans. More than 1,000 lab and pathology companies received PPP loans, including six companies that got the maximum loan range amount of \$5 million to \$10 million.

### **Labs That Received Biggest PPP Forgivable Loans (between \$5 million and \$10 million)**

<i>Laboratory Name</i>	<i>City</i>	<i>State</i>	<i>Jobs Retained</i>
Accu Reference Medical Lab	Linden	NJ	499
Amerathon	Cincinnati	OH	500
Incyte Pathology	Spokane Valley	WA	373
Medical Diagnostic Laboratories	Trenton	NJ	NA
National Medical Services (NMS Labs)	Horsham	PA	363
Propath Holdings	Dallas	TX	471

Source: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program#section-header-11>