

# PPP LOAN FORGIVENESS EXPLAINED

Here are some important things you need to know when requesting Paycheck Protection Program loan forgiveness under the CARES Act.

Be sure to keep close track of all your eligible expenses over the 8-week covered period after your loan has been funded. PPP loans are eligible for full or partial forgiveness if the loan proceeds are used in accordance with forgiveness rules and guidelines.



## **Who is responsible for documenting my eligible costs?**

As the loan recipient, you are responsible for documenting your eligible expenses.

## **When does the 8-week clock start?**

The 8-week covered period begins on the date your loan is funded.

## **Where do I submit my potentially forgivable expenses?**

At the end of the 8-week covered period, you will need to provide the necessary documentation to your lender when applying for loan forgiveness. The proper documentation must be submitted within 90 days after the final day of our covered period. Applications won't be accepted after that time. Your lender is required to respond to your request within 60 days.

## **What documents will be required for forgiveness?**

While some lenders could have additional requirements, here are the documents you'll need:

- Verification of full-time equivalent employees and their pay rates, including:
  - Payroll reports
  - Payroll tax filings (Form 941)
  - Payroll, income and unemployment insurance filings from your state
  - Verification of any health insurance and retirement contributions
- Verification (payment receipts, account statements, canceled checks) of eligible utility, rent and mortgage interest payments.
- You'll need to certify that the documents are true and that you used the forgiveness amount to keep employees and make eligible utility, mortgage interest and rent payments.

## How do the loan numbers break down?

Small businesses were eligible to borrow 2.5 times their average monthly payrolls costs, but the amount could not exceed \$10 million. To maximize forgiveness, at least 75% of the loan must be used for payroll costs, plus health and retirement benefit costs. If the number is below 75%, the amount of forgiveness will be reduced.

Up to 25% can be spent on approved expenses such as utilities, mortgage interest or rent. Any amount above this percentage will not count toward forgiveness.

Money used for other purposes will not qualify for forgiveness.

## What eligible costs should I be tracking?

**Payroll costs:** These costs include:

- Salary and wages (not to exceed \$100,000 for any individual employee as prorated during the covered period), commissions and other compensation.
- Cash tips
- Retirement contributions
- Parental, family, medical or sick leave
- Payments for vacation
- Group health care coverage, including insurance premiums
- Separation or dismissal allowance
- State and local payroll taxes

**Utilities:** You can include the costs of the following services if established before Feb. 15, 2020: Electricity, water, gas, internet, telephone, and fuel costs for business vehicles.

**Mortgage interest:** If mortgage was signed prior to Feb. 15, 2020.

**Rent:** If leasing agreement was in effect prior to Feb. 15, 2020.

## How should I record my expenses?

You should keep careful records for all qualifying forgiveness expenses. While some experts advise converting all records to digital files, you should ask your lender how it prefers to receive documentation and plan accordingly.

## What are the top considerations for PPP loan forgiveness?

Employee retention and salaries or wages paid to employees are the primary considerations. It is important that you maintain your staff headcount and compensation levels to maximize loan forgiveness.

## How will I know if I've met my staffing requirements?

A reduction in the number employees will affect the amount of your loan forgiveness. You can take the number of full-time equivalent employees you had between either Feb. 15 and June 30, 2019, or Jan. 1 and Feb. 29, 2020, and compare that number to the number of FTEs you had during the covered 8-week period after your loan was funded. If during your coverage period you have equal to or more employees than your comparison period, that would meet the requirement for forgiveness. If you have fewer, your forgivable expenses will be reduced.

For seasonal businesses, you can use average monthly payroll for the period between Feb. 15, 2019, or March 1, 2019, and June 30, 2019. An applicant that was not in business from February 15, 2019 to June 30, 2019 may use the average monthly payroll costs for the period Jan. 1, 2020 through Feb. 29, 2020.

### **What if I have fewer employees during the 8-week covered period?**

The forgivable amount of your PPP loan will be reduced in proportion to the reduction in FTEs.

### **What if I decreased employee wages?**

If an employee is earning \$100,000 annually or less and their pay is reduced by more than 25%, the amount of forgiveness will be reduced by the difference between their coverage period pay and 75% of their comparison period pay.

For example, if an employee was earning \$8,000 during the 8-week comparison period, but earns only \$5,000 during the PPP covered period you'd calculate it like this:

$$\begin{aligned} \$8,000 \times .75 &= \$6,000 \\ \$6,000 - \$5,000 &= \$1,000 \text{ (not qualified)} \\ \$5,000 - \$1,000 &= \$4,000 \text{ (forgivable amount)} \end{aligned}$$

### **Can I rehire employees who have been laid off?**

Yes. You can rehire those employees and pay them with the PPP funds and if they are considered FTEs during the full 8-week period, you'll be able to count them toward your requirement.

### **Do employees who refuse to return to work count against my numbers?**

You may be allowed to exclude an employee who was furloughed or laid off if they do not wish to be rehired when calculating loan forgiveness. Should this happen, be sure to prove you have made a written offer to rehire the employee at the same wage or salary they were earning and be sure to document the denial of the offer. A FAQ released by the Treasury Department warns employees that if they reject a re-employment offer, they may forfeit eligibility for continued unemployment compensation.

### **What happens if I'm not OK'd for PPP loan forgiveness?**

If you do not qualify for full or partial forgiveness based on the documentation you provide, the amount of your outstanding PPP loan balance will need to be repaid over a 2-year period at a 1% interest rate from the time the loan was funded. Principal and interest payments are deferred for six months, but interest will accrue over the deferment period. You can pay the loan balance off early with no prepayment penalty.

### **What about forgiveness for sole proprietors and independent contractors?**

For your loan to be forgiven, you must have spent at least 75% of the funds on payroll costs, which include an amount for owner compensation based upon 2019 net earnings. The remaining amount, which cannot exceed 25% of the loan, must be spent on interest on a mortgage, a loan secured by personal property used in the business, rent, and utilities. To the extent that these expenses are incurred in connection with a home office, only the tax-deductible portion will apply. These expenses must have occurred within the 8 weeks after the loan is funded.

NOTICE: The information in this article is not definitive and requirements can change as new guidance is issued. As necessary, you should consult with your accountant, attorney or lender on questions regarding forgiveness of your PPP loan.

