

PPP Loan Forgiveness

Overview

Provided by



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The CARES Act (stimulus package) signed into law in late March, created the Paycheck Protection Program (PPP) at the Small Business Administration (SBA) which, most notably, forgives substantial portions of the loan when spent on allowed expenses.

On May 15th, the SBA released loan forgiveness guidance in the form of a sample application. This presentation provides greater detail of that application. More information including a 47-question FAQ and 10 Interim Final Rules are available from the Department of Treasury: <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>.

What is the PPP?

The **Paycheck Protection Program (PPP)** is the cornerstone of the CARES Act small business relief aid and has dispensed more than **\$600 billion to small businesses** impacted by COVID-19 since early April. The signature loan is **fully forgivable** for small businesses that use the loan to cover allowed expenses within an eight (8) week period.

Are you a recipient of a PPP loan and interested in forgiveness? You should be! This information answers many questions business owners had about the forgiveness.

What is loan forgiveness?

Recipients of PPP loans can have **loan amounts forgiven** for certain costs including **payroll** and **operational expenses**. Importantly, the borrower must have used:

- 75% of loan to cover payroll expenses incurred during the eight-week period following the loan's origination date.
- No more than 25% of the loan to cover non-payroll costs such as rent, utilities, etc.

As a reminder – the loan forgiveness is not taxable, but currently the IRS will not allow for forgiven expenses to be deducted.

What does the loan application consist of?

The **Forgiveness Calculation Form** details guidance from the SBA on calculating debt forgiveness. (This section will require PPP/EIDL loan and payroll information from the borrower.) It also includes:

- PPP Schedule A Form – calculates the Full Time Equivalent (FTE) and/or payroll rate reductions in the amount of the loan that may be forgiven
- The PPP Schedule A Worksheet – the general FTE reduction rules for borrowers to calculate their employees
- The (optional) PPP Borrower Demographic Information Form

The application is online at:

<https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>.

What documents will I need?

Original PPP loan application

- SBA PPP loan number
- Lender PPP loan number

PPP Loan Amount

- The maximum amount of loan eligible for forgiveness

Bank documentation verifying the total amount of loan forgiveness amount following:

- Bank account statements or payroll service provider reports showing the amount of cash paid to employees
- Tax forms for the covered period
- The amount of any employer contributions to employee health and retirement plans that was included in the forgiveness amount

If applicable: Original EIDL application

- EIDL application number
- Amount of Emergency Grant received from the SBA

How do I calculate my loan covered period?

It starts with your **PPP loan disbursement date**. This will begin the 8-week (56 day) covered period to accumulate expenses eligible for forgiveness.

However, borrowers may use the *Alternative Payroll Covered Period (APCP)* to align the covered period with pay cycles.

Most notably, the loan forgiveness application is designed to allow maximum flexibility. Costs *incurred but not paid* during the eight weeks may still be eligible.

What's a Full Time Equivalent?

There are two methods that borrowers can use to determine "Full Time Equivalents" or "FTEs":

Method 1:

A borrower can count each employee who worked 40+ hours a week as 1 FTE, and each employee who worked less than 40 hours a week as half or ".5" FTE

Method 2:

Count employees that worked 40+ hours as 1 FTE and all other employees with less than 40 hours on a proportional basis (i.e. hours worked divided by 40)

What else should I know?

Lenders will likely create electronic portals to submit this information, though filling out the paper application may help a borrower prepare for that submission.

Your original lender may not be your lender for forgiveness (i.e. if your loan was sold). You would have likely received a communication about this.

Owners and self-employed may **not** pay themselves more than what they received in 2019. Additional detail on this provision, however, has not been provided.

A safe harbor provision has been added for employees that do not want to return to work or find other employment. They will not count against the employer for reduction purposes.

Are all the questions answered?

No.

This guidance addresses several questions, but many more details will need to be determined, including:

- Questions around self-employed and owner compensation below \$100,000
- Full details on modifying 8-week time period for maximum flexibility
- More detail on FTE definitions as it relates to safe harbored employers

In addition, future legislation contemplates some changes to the program, though none of the current proposals would make changes that would harm the borrower.