



PPP Loan Forgiveness

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PPP Eligibility for Forgiveness

- Amount eligible for forgiveness is the sum of the following costs incurred and payments made during the covered period:
 - payroll costs;
 - any payment of interest on any covered mortgage obligation on real or personal property that is a liability of the borrower incurred before February 15, 2020, in the ordinary course of a trade or business (it does not include any prepayment of principal);
 - any payment on any covered rent obligation in force before February 15, 2020; and
 - any covered utility payment for the distribution of electricity, gas, water, transportation, telephone, or internet access for service which began before February 15, 2020.

**Loan for unauthorized purpose are not eligible for loan forgiveness.
Use for unauthorized purpose are subject to additional liability (including fraud charges)*

Key Components of Forgiveness

- CARES Act refers to “costs incurred and payments made during the covered period.”
- “Covered period” is eight-week period after the lender makes the first loan disbursement of proceeds.
- “Payments made” implies a cash basis of accounting
- “Costs incurred” leaves open the possibility that Congress intended an accrual basis of accounting

The Loan Forgiveness Process

For your loan to be fully forgivable, it must meet the following conditions:

1. Use PPP loan proceeds for payroll costs, mortgage interest, rent and utilities payments over the eight-week covered period after receiving the loan
2. Maintain headcount by dividing the average FTE employee headcount during the eight-week covered period by the headcount during one of the following periods:

February 15, 2019 to June 30, 2019 or January 1, 2020 to February 29, 2020
(loan forgiveness is reduced if a business decreases its FTE employee headcount)
3. Salaries and wages cannot be reduced by more than 25% for any employee who receives less than \$100,000 in annualized wages or salary for any single pay period in 2019
4. Restore FTE employee headcounts and salary and wage levels by June 30, 2020 for any decreases made between February 15, 2020 through April 26, 2020

How to Apply for Forgiveness

- Submit to the lender an application to request loan forgiveness
- Supply the lender with the following documentation relating to the covered period:
 - Documentation verifying the number of FTE and pay rates.
 - Payroll tax filings reported to the IRS.
 - State income tax, payroll and unemployment insurance filings.
 - Documentation, including cancelled checks, payment receipts, transcript of accounts or other documents verifying payments of covered mortgage interest, rent and utility payments.
 - Certification from a representative of the business that:
 - The documentation presented is true and correct.
 - The loan amount for which forgiveness is requested was used to retain employees and to make payments on covered mortgages, lease or utility obligations.
- The lender must issue a decision regarding the loan forgiveness within 60 days of the application being filed.
- The amount forgiven is excluded from gross income.
- The amount of deductions covered in forgiveness are not deductible for tax purposes

Key Points

- Understanding what qualifies for loan forgiveness is the critical first step to taking a proactive approach to documenting the use of the PPP loan proceeds.
- The action you take now could make the loan forgiveness process less cumbersome, but there is a lot that remains unknown.
- We expect further guidance from the SBA regarding the procedure for requesting loan forgiveness and recommend you consult with your SBA banker and attorney as you complete the loan forgiveness application.
- All payments of principal, interest, and fees under the loans are deferred for at least six months.
- Forgiveness can be reduced if FTE head count reduces or if compensation reduces by more than 25%
- If an employee was laid off and then offered their position back due to receiving the PPP and rejects; loan forgiveness is not reduced

Calculating your forgivable expenses

PAYROLL COSTS

Payroll costs include: salary, wages, commissions or similar compensation; cash tips or the equivalent; vacation, parental, family, medical or sick leave; allowance for separation or dismissal; payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums and retirement; payment of state and local taxes assessed on compensation of employees; and for an independent contractor or sole proprietor, wage, commissions, income or net earnings from self-employment or similar compensation.

The Act expressly excludes the following from payroll costs:

1. Any compensation of an employee whose principal place of residence is outside of the United States;
2. The compensation of an individual employee in excess of an annual salary of \$100,000, prorated as necessary;
3. Employer's share of federal unemployment taxes, FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes; and
4. Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116-127).

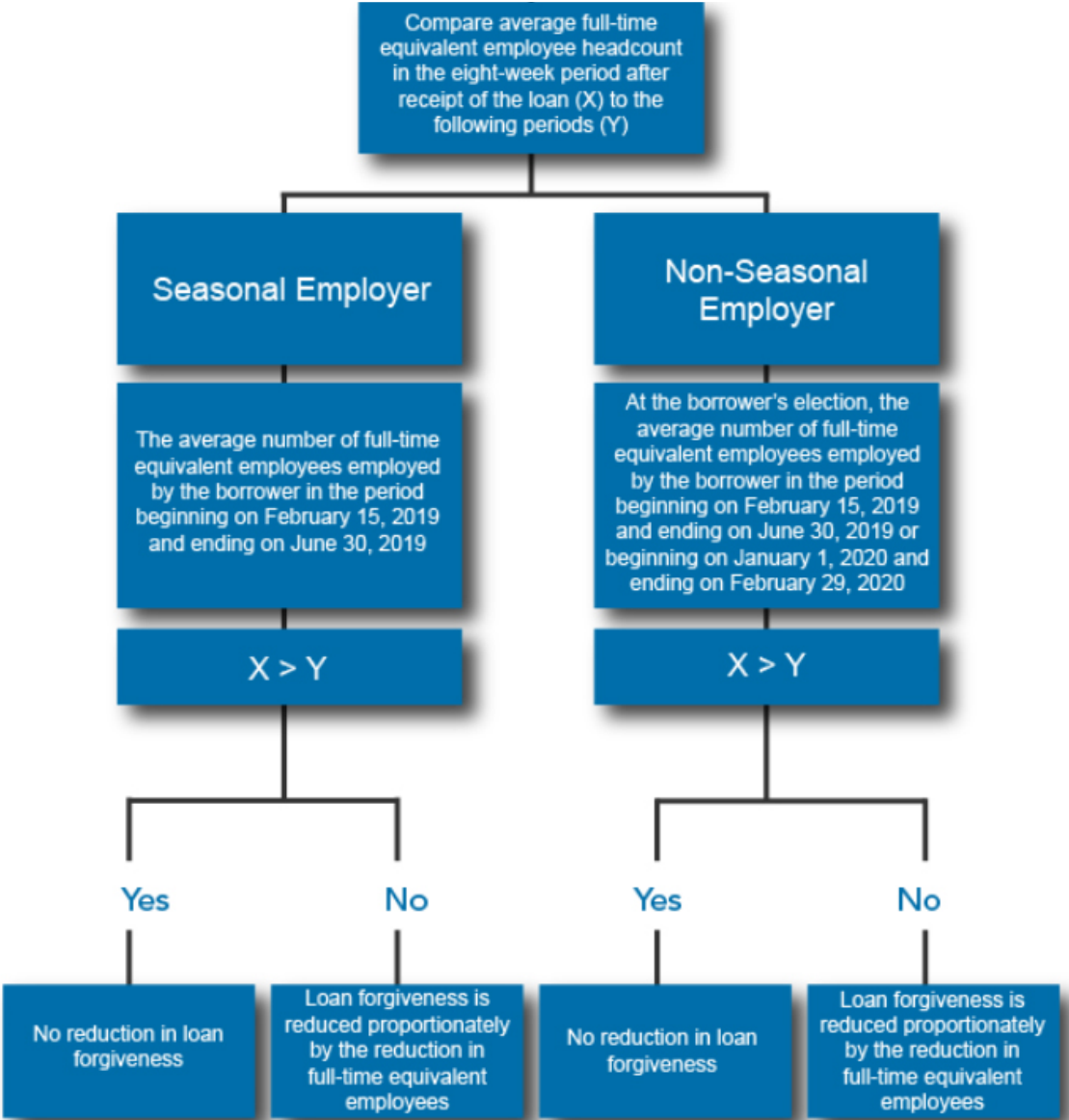
NON-PAYROLL COSTS

- Rent
- Utilities
- Mortgage interest on real or personal property debt obligations

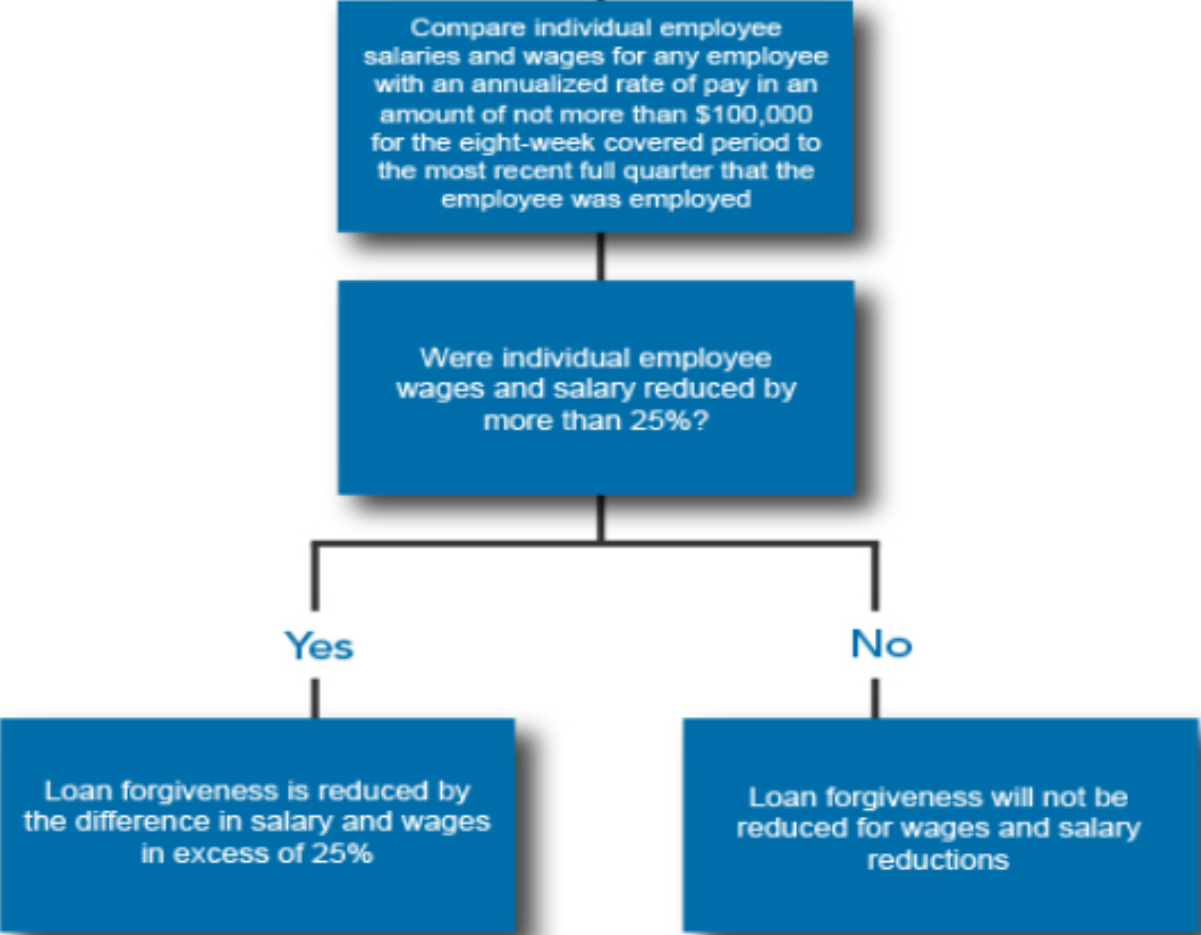
75% OR MORE OF LOAN FORGIVENESS MUST BE PAYROLL COSTS

25% OR LESS OF LOAN FORGIVENESS CAN BE NON-PAYROLL COSTS

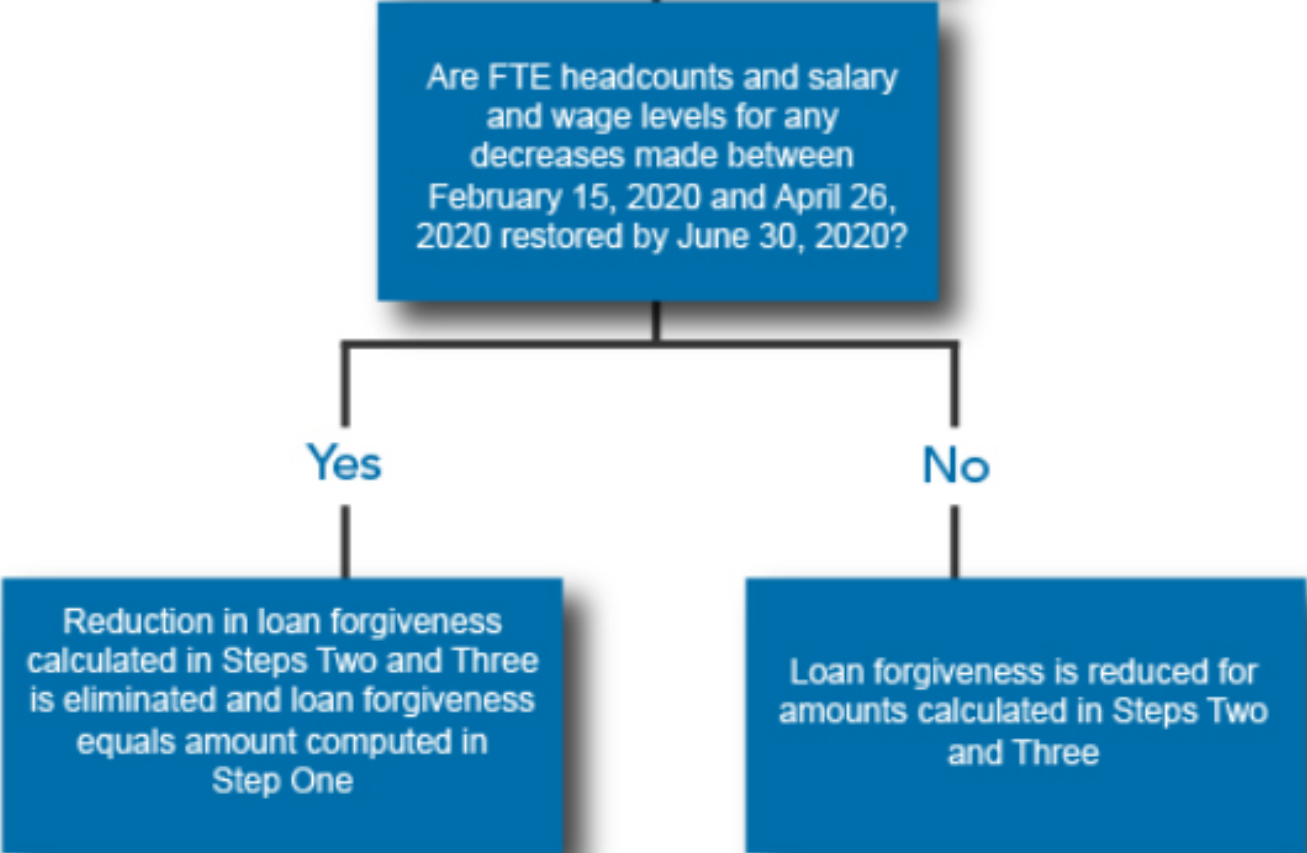
Determining your FTE differential



Determining your salary differential



FTE and Salary Restoration Test



Loan Forgiveness Best Practices

- Set up a separate bank account for the loan proceeds so funds aren't comingled
- When paying a covered mortgage payment, write separate checks for interest and principal
- Transfer qualified payroll costs to an operating account for payroll as needed
- Provide documentation that verifies the number of full-time equivalent (FTE) employees on payroll and pay rates for the coverage period, including
 - include payroll tax filings
 - state income
 - payroll and unemployment insurance filings
- Tracking your FTE employee calculation each pay period
- Provide documentation (cancelled checks, payment receipts, transcripts of accounts, etc.) that verifies payments on covered mortgage, lease and utility obligations

Questions Remaining Regarding PPP Forgiveness

- Are employee federal withholding taxes forgivable?
- Should certain companies have taken the PPP? What does “Necessary” mean in the definition from the SBA
- Are expenses for 8 week period based on accrual or cash?

Sponsored Support from IMPACT

For Guidance on the CARES Act including:

Paycheck Protection Program

Economic Injury Disaster Loan

Employee Retention Tax Credit

CARES Act Business and Personal Tax Changes

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