

Forgiveness Conditions of the Paycheck Protection Program

Let's first review the terms of the PPP.

The loan amount is based on your average monthly payroll cost for 2019. You can receive 2.5 times that amount, to help cover eight weeks of payroll.

The funds from the PPP can be used for the following purposes:

- Payroll—salary, wage, vacation, parental, family, medical, or sick leave, health benefits
- Mortgage interest—as long as the mortgage was signed before February 15, 2020
- Rent—as long as the lease agreement was in effect before February 15, 2020
- Utilities—as long as service began before February 15, 2020

All expenses that fall under those categories are eligible for forgiveness. The following conditions will also apply:

1. Eight weeks of coverage

Eligible expenses are those that are incurred over eight weeks, starting from the day the first payment (loan disbursement) was made by your lender. This is not necessarily the date on which you signed your loan agreement.

Depending on your payroll schedule, you may want to adjust the timing of your payroll date to accommodate as many payroll cycles as possible.

For example, if your PPP loan gets deposited in your bank account on April 15, you could only use the funds on expenses incurred during the eight weeks following April 15.

2. The 75/25 rule

At least 75% of your loan must be used for payroll costs. Payments to independent contractors cannot be included in the payroll costs.

3. Staffing requirements

You must maintain the number of employees on your payroll.

Here is the calculation you can use to determine if you've met this requirement:

First, determine the average number of full-time equivalent employees you had for:

- The 8-week period following your initial loan disbursement, (**A**)
- February 15, 2019 to June 30, 2019, (**B1**)
- and January 1, 2020 to February 29, 2020. (**B2**)

Take **A** and divide that by **B1**. Do the same with **B2**. Take the largest number you obtain. If you're a seasonal employer, you must divide by **B1**.

- If you get a number equal to or larger than 1, you successfully maintained your headcount and meet this requirement.
- If you get a number smaller than 1, you did not maintain your headcount and your forgivable expenses will be reduced proportionately.

(A new exemption on re-hiring employees)

Employees who were laid off or put on furlough may not wish to be rehired onto payroll. If the employee rejects your re-employment offer, you may be allowed to exclude this employee when calculating forgiveness. To qualify for this exemption:

- You must have made an written offer to rehire in good faith
- You must have offered to rehire for the same salary/wage and number of hours as before they were laid off
- You must have documentation of the employee's rejection of the offer

Note that employees who reject offers for re-employment may no longer be eligible for continued unemployment benefits.

4. Pay requirements

You must maintain at least 75% of total salary.

This requirement will be individually assessed for every employee that did not receive more than \$100,000 in annualized pay in 2019.

If the employee's pay over the 8 weeks is less than 75% of the pay they received during the most recent quarter in which they were employed, the

eligible amount for forgiveness will be reduced by the difference between their current pay and 75% of the original pay.

5. Rehiring grace period

You can rehire any staff that were laid off or put on furlough and reinstate any pay that was decreased by more than 25% to meet the requirements for forgiveness. You have until June 30th to do so.

If your eight-week forgiveness period ends before June 30, we believe you can still use the grace period if you reinstate headcount and/or pay. Just be sure to apply for forgiveness after June 30.

Reductions in your forgiveness amount (examples)

Spending your PPP funds on the right things is straightforward enough. But things get more complicated when you don't keep your headcount and employee pay levels the same.

Headcount reduction

Let's say you have three employees and they each made \$3,000 per month, meaning your PPP loan amount was \$22,500 (3000×2.5). You had to lay them off in February due to COVID-19.

If you only hire back two out of the three employees, your workforce is 67% (two thirds) of your original headcount.

Over the eight weeks of the PPP period, you spend \$12,000 on your employees, and all your remaining funds on eligible expenses. However, non-payroll expenses are limited to 25% of the loan amount (\$5,625). So \$17,625 is eligible for forgiveness, not the full \$22,500.

Furthermore, when it comes to calculating your forgivable amount, because your workforce is smaller, your forgivable amount is multiplied by 0.67. You would be able to have \$11,808.75 forgiven.

Pay reduction

Let's say you have three employees and they each made \$3,000 per month, meaning your PPP loan amount was \$22,500 (3000×2.5). You had to lay them off in February due to COVID-19.

You hire back all three of your employees, but you only pay them \$2,000 a month.

Over the eight weeks of the PPP period, you spend \$12,000 on your employees, and all your remaining funds on eligible expenses. However, non-payroll expenses are limited to 25% of the loan amount (\$5,625). So \$17,625 is eligible for forgiveness, not the full \$22,500.

When it comes to calculating your forgivable amount, we look at each employee's individual compensation. The 75% minimum salary is \$2,250, so you're paying each person \$250 less than that. \$250 would be deducted from the forgivable amount. Repeating that for each employee would result in a total of \$16,825 forgiven.

Recordkeeping and required documents for forgiveness

These are the required documents you will need to collect to provide with your PPP forgiveness application. Your lender may have additional requirements.

- Documents verifying the number of full-time equivalent employees on payroll and their pay rates, for the periods used to verify you met the staffing and pay requirements:
 - Payroll reports from your payroll provider
 - Payroll tax filings (Form 941)
 - Income, payroll, and unemployment insurance filings from your state
 - Documents verifying any retirement and health insurance contributions
- Documents verifying your eligible interest, rent, and utility payments (canceled checks, payment receipts, account statements)

If you're a sole proprietor, you can have eight weeks of the loan forgiven as a replacement for lost profit. But you'll need to provide documentation for the remaining two weeks worth of cash flow, proving you spent it on mortgage interest, rent, lease, and utility payments.

Good recordkeeping and bookkeeping will be critical for getting your loan forgiven—you'll need to keep track of eligible expenses and their accompanying documentation over the eight weeks. Your lender will likely require these documents in digital format, so take the time to scan any paper documents and keep backups of your digital records.

FAQs

Can I get PPP expenses forgiven and deduct them from my taxes?

No. Any expenses that you claim for forgiveness under the PPP cannot then be deducted from your expenses. A forgivable PPP loan is already tax-free, so the IRS wants to prevent double-dipping (getting free money from the same source twice).

Can I prepay my rent or mortgage?

No, prepayment is not an allowed use of the PPP and is not eligible for forgiveness.

What counts as mortgage interest?

Any interest paid on mortgage on property used for business purposes is an eligible expense that the PPP can be used for, and qualifies for forgiveness.

Acceptable examples include:

- Mortgage interest on a warehouse you own to store business equipment
- Auto loan interest on a car you own to make business deliveries