

PPP Loan Forgiveness

Congratulations on receiving your Paycheck Protection Program (“PPP”) loan. Lindsay & Brownell, LLP (“L&B”) hopes we can assist you with navigating the process of obtaining loan forgiveness for your PPP loan during this challenging time.

Please note, as of this writing, a number of questions with respect to PPP loan forgiveness remain open. Included in the comments that follow are interpretations of available guidance, derived in part from recommendations of the AICPA and other key stakeholders. These comments are subject to change.

What can I use PPP loan funds for?

In order to qualify for loan forgiveness, loan proceeds must be spent on allowable expenses within the 8-week period (the “Covered Period”) following receipt of loan proceeds. Allowable expenses include the following:

- Payroll costs
Eligible payroll costs include: gross compensation, commissions, and similar compensation, cash tips or the equivalent, severance pay, payments for vacation, parental, family, medical, or sick leave, employer-paid group health care expenses, employer-paid retirement benefits, and employer paid state and local taxes. Payments to independent contractors are not considered eligible payroll costs.
- Mortgage interest payments on real or personal property (mortgage must be in effect prior to February 15, 2020)
- Rent payments (lease agreements must be in effect prior to February 15, 2020)
- Utilities payments (utility service must be established prior to February 15, 2020)
The definition of utilities remains unclear, but we would expect them to include: electricity, gas, water, telephone, internet access, and transportation.

How much of the PPP loan will be forgiven?

The SBA has specified that at least 75% of allowable expenses must be used on eligible payroll costs. Therefore, no more than 25% of the forgiveness amount may be used for eligible mortgage, rent, and utility payments. It is important to note that eligible gross compensation, commissions, and similar compensation used for the purpose of calculating potential loan forgiveness is limited to \$15,385 per employee.

Loan forgiveness may be further reduced if there is a reduction in either the number of employees or a reduction in the salaries and wages of certain employees.

Reduction in Employees

The amount of reduction associated with a decrease in number of employees is determined by dividing the monthly average full-time equivalent (“FTE”) employees during the Covered Period by either the monthly average FTE employees for the period between February 15, 2019 to June 30, 2019 or the period between January 1, 2020 to February 29, 2020. Seasonal employers are limited to using the period between February 15, 2019 to June 30, 2019 as the denominator.

PPP Loan Forgiveness

An employee is considered an FTE employee if they are employed on average at least 30 hours per week. Additionally, a combination of employees who individually is not considered a full-time employee due to the number of hours worked, but in collectively are counted as an FTE employee. As an example, if two employees each work 15 hours per week, they are considered one FTE employee for that week.

Reduction in Salaries and Wages

If an employee earned less than \$100,000 during 2019 and the employee's salary is reduced during the Covered Period by more than 25% of their salary for the first quarter of 2020, any reduction greater than 25% reduces the eligible loan forgiveness amount.

How can I plan to maximize my potential loan forgiveness?

Begin by tracking allowable expenses incurred and paid during the Covered Period. Many national third-party payroll providers have developed PPP-compliant reports to assist with tracking payroll costs and benefits paid.

If there is a reduction in FTE employees or salaries during the period between February 15, 2020 and April 26, 2020 you may want to consider rehiring FTE employees or restoring any reduced salaries during the Covered Period. If FTE employees are rehired and any salary reductions are restored by June 30, 2020 the potential reduction in loan forgiveness is eliminated.

Consider using as much of the loan proceeds for allowable payroll costs as possible. This can be done by increasing amounts paid to employees, paying bonuses, or by making an employer retirement plan contribution. Note that you will still need to keep in mind the \$15,385 limit per employee.

Ensure you are maintaining the appropriate documentation needed to submit to your lender after the Covered Period. Once the Covered Period has ended you will need to apply to your lender to request loan forgiveness and submit documentation to support use of loan proceeds on allowable expenses.

What happens if I don't receive full loan forgiveness?

Any PPP loan amount not forgiven by your lender will remain a two-year loan, with an annual interest rate of 1.00%. Payments on the PPP loan are deferred for six months following PPP loan disbursement.

Any special considerations for Self-Employed Individuals?

Self-employed individuals, such as a sole proprietor or independent contractor, are subject to the \$15,385 eligible payroll cost maximum. Additional expenses related to mortgage interest, rent, and utilities are eligible for loan forgiveness if those expenses were related to the business and are or will be deducted on the 2019 Form 1040 Schedule C.

PPP Loan Forgiveness

What documentation should I be gathering?

Reach out to your lender to determine when you need to submit your loan forgiveness request and what documentation they require be submitted along with your request.

L&B has the tools to assist you in calculating your loan forgiveness amount. Attached is a documentation request list to help you gather the information we will need to calculate your potential loan forgiveness.

For assistance in determining the portion of your PPP loan that is eligible for forgiveness, or for any SBA Loan questions that you may have, please contact your Lindsay & Brownell professional at (858) 558-9200.

Documentation Request List

Payroll Costs

- Payroll reports to support number of full-time employees for the following periods:
 - January 1, 2020 - February 29, 2020
 - February 15, 2019 - June 30, 2019
- Payroll reports for each pay period during the Covered Period showing wages and number of full-time employees for each pay period, as well as state and local employer taxes assessed on employee compensation.
- Evidence of group health insurance premiums paid by the employer under a group health plan during the Covered Period, such as copies of monthly invoices and cleared checks or bank statements.
- Evidence of retirement benefits funded by the employer during the Covered Period, such as copies of payments to third party plan administrators.
- 2020 IRS Forms 941, state income and unemployment tax returns that include the Covered Period

Other Allowable Expenses

- Rent - Evidence of rent paid, such as a cancelled check or bank statement, during the Covered Period and related lease agreement (lease must have been in effect prior to February 15, 2020).
- Interest on Mortgage Debt - Statement of interest paid on mortgage debt and evidence of payment (mortgage debt must be incurred prior to February 15, 2020).
- Utilities - Evidence of utilities paid during the Covered Period (utility must be in service before February 15, 2020). The definition of utilities remains unclear, but we would expect them to include: electricity, gas, water, telephone, internet access, and transportation.

Documentation for Self-Employed Individuals

- 2019 Form 1040 Schedule C. If your 2019 return has not yet been filed, a draft or projected 2019 Schedule C.
- If the business has employees, include similar payroll documentation as outlined above, but exclude amounts paid to the owner for health care and retirement expenses.
- Cancelled checks and account or bank statements for eligible mortgage interest, rent, and utility payments during the Covered Period.