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Managing PPP Loans for Forgiveness

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If you received approval for a Paycheck Protection Program (PPP) loan, the following steps improve the likelihood receiving forgiveness of potentially the entire PPP loan balance and accrued interest.

1. Ask your PPP Lender for a list of documentation they will require for loan forgiveness.
2. Talk with your CPA or tax preparer to discuss any new internal accounting practices and the calculations needed to determine what portion of your loan will be forgiven. Understanding these calculations will enable you to make wise use of PPP loan proceeds during the 8-week period.
3. Open a NEW checking account specifically for the PPP loan proceeds.
4. Deposit PPP loan proceeds to this account.
5. During the next 8-week period, use the NEW checking account to pay:
    a. All payroll costs, including benefits;
    b. Interest on mortgage obligations, incurred before February 15, 2020;
    c. Rent (*prorated for the 8-week coverage period*), under lease agreements in force before February 15, 2020; and
    d. Utilities, for which service began before February 15, 2020.
6. *Not more than 25% of the forgiven amount may be used for non-payroll costs* (items b, c, or d).

Payroll costs include:

1. Salary, wages, commissions, or tips (capped at $100,000 on an annualized basis for each employee);
2. Employee benefits including costs for vacation, parental, family, medical, or sick leave; allowance for separation or dismissal; payments required for the provision of group health care benefits including insurance premiums; and payment of any retirement benefits (Do NOT include the employer share of FICA & Medicare taxes);
3. State and local taxes assessed on compensation (such as state unemployment taxes); and
4. For a sole proprietor or independent contractor: wages, commissions, income, or net earnings from self-employment, capped at $100,000 on an annualized basis for each employee.

PPP loan proceeds can be forgiven if the borrower:

1. Uses the loan proceeds to cover payroll costs, mortgage interest expense, rent and utility costs during the 8-week period following receipt of PPP loan funds.
2. Maintains employee and compensation levels.
    a. <u>Number of Staff</u>: Loan forgiveness will be reduced if you decrease your full-time staff during the 8-week loan period compared to the pre-shutdown measurement periods. The two pre-shutdown measurement periods to select from are:
        i. February 15, 2019 through June 30, 2019; or

ii. January 1, 2020 through February 29, 2020.
* Seasonal businesses have optional measurement periods.
** You will select the pre-shutdown measurement period for the FTE calculation that maximizes loan forgiveness.

b. Level of Payroll: Loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than $100,000 annualized in 2019.
c. Re-Hiring: You have **until June 30, 2020** to restore your full-time employment and salary levels for any changes made between ***February 15, 2020 and April 26, 2020***.

Final Steps to receiving PPP Loan forgiveness:

1. AGAIN - Ask your PPP Lender for a list of documentation they will require for loan forgiveness.
2. BE Sure to talk with your CPA or tax preparer to discuss any new internal accounting practices and the calculations needed to determine what portion of your loan will be forgiven. Understanding these calculations will enable you to make wise use of PPP loan proceeds during the 8-week period.
3. Verify the number of full-time equivalent employees on payroll and pay rates for the selected pre-shut down measurement period. Include the following as minimum documentation:
    a. Payroll tax filings reported to the IRS; and
    b. State income, payroll, and unemployment filings.
4. Documentation, including canceled checks, payment receipts, account activity or other documents as proof of payment on eligible mortgage interest, rent payments, and utility payments.
5. Track hours and compensation incurred and paid in the 8-week period.
6. Spend the PPP loan proceeds within the 8-week period.
7. Hire back employees as necessary to get your FTE employee count and payroll costs back to the levels needed for full loan forgiveness as soon as possible, but before June 30, 2020.
8. Note that if you received an Economic Injury Disaster Loan (EIDL) Advance, the grant amount will reduce the amount of PPP loan forgiveness.
    a. If you receive an EIDL and PPP it is best to have new separate checking accounts for each—the EIDL and the PPP.
    b. Funds used from the EIDL Advance need to cover different costs from what PPP loan funds are used to pay. Do not use EIDL funds for payroll costs, mortgage interest, or utilities if the PPP loans is used for those purposes.
    c. If an EIDL was used for payroll before receiving a PPP loan, replenish the amount of payroll expended from EIDL with a check from the PPP loan. Then the PPP funds will account for all monies used for payroll and self-employment compensation.

And as always for further details or questions about your personal situation please contact your trusted tax advisor. Please go to the Clemson Extension Agribusiness Team Website and watch for further information as it becomes available on this and related topics.
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