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Balance sheet

Paycheck Protection Program Loan Forgiveness

By: Terry Schleucher

Congratulations to those businesses receiving loans from the Paycheck Protection Program and we hope it has provided much needed cash during these uncertain times. Now that you have the proceeds, let's look at certain steps you can take over the next eight weeks to ensure maximum forgiveness of your PPP loan.

Use of Funds: Forgiveness of your loan will mainly depend on whether you use the money to pay what are deemed forgivable expenses. The includable expenses are (1) payroll costs, (2) interest payments on mortgages incurred before 2/15/20, (3) rent payments on leases dated before 2/15/20, and (4) utility costs under service agreements dated before 2/15/20. However, according to the Small Business Administration (SBA), at least 75% of the loan amount must be used for payroll costs while no more than 25% may be attributable to nonpayroll costs. (Stay tuned though as there is talk in congress about lowering the 75% threshold wage requirement).

In order to meet these requirements, consider setting up a separate bank account for the PPP funds and reviewing mortgage documents, leases and utility bills to make sure obligations arose prior to 2/15/20. If you feel that 75% of the loan won't be used for payroll, consider modifying your payroll periods to increase the number of pays or paying out bonuses toward the end of the eight-week period.



Tracking Employee Headcount and Salary Levels: Be sure to keep an accurate employee headcount and track salary levels over the next eight weeks. Based on various testing, if your average number of full-time equivalent employees is less than your average for a "base year" calculation, then your forgivable loan amount will be reduced. The same is true for salary levels. For each employee earning less than \$100,000 you compare their total salary for the eight-week period to their salary for the most recent full quarter. If the reduction is greater than 25%, then a reduction must be made to the loan forgiveness amount. Therefore, extra care should be taken to make sure these numbers are accurate.

Focus on Recordkeeping: Keeping good records is crucial to obtaining maximum loan forgiveness. At the end of the eight-week period you will have to show the bank that you used the loan for eligible expenses. We suggest you set up a spreadsheet and track the eligible expenses as they are incurred and to maintain a file or folder with documentation of employee headcount calculations, payroll tax filings, mortgage documents, leases, utility bills, and copies of bank statements verifying checks paid or electronic fund transfer (EFT) payments.

Applying for Forgiveness: The application for forgiveness cannot be filed until at least eight weeks after receiving your loan. When you're ready to file, you will need an authorized representative to certify that (1) the documentation presented is true and correct and (2) the amount for which forgiveness is requested was used for eligible expenses. Once the bank receives the application, it has 60 days to either approve or deny it. If for whatever reason only a portion of your loan is forgiven, then the unforgiven portion will be subject to a two-year note at 1% interest with no payments due for the first six-months. The rules are that the loan forgiveness is not taxable and the expenses paid are not deductible. (Again, stay tuned there is talk in congress about changing to allow a deduction for the expenses even though the loan forgiveness is not taxable).

So if you have any questions on your loan or when it comes time to prepare and submit your loan forgiveness application, please don't hesitate to contact us.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.
You cannot rely upon this information for avoiding tax penalties.