

# PPP Forgiveness FAQ

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# PPP Forgiveness Questions

## The Basics

Is loan forgiveness automatic?

No. You must request forgiveness through your bank or lender.

Who do I request forgiveness from?

You request loan forgiveness from the bank or lender who processed your loan. NOT the SBA.

How should I use my loan proceeds to be eligible for Forgiveness?

Under current SBA guidance:

- You must use at least 60% of funds for eligible payroll costs to qualify for full loan forgiveness, down from 75%
- You can use up to 40% of funds for eligible non-payroll costs, up from 25%

What is the Covered Period?

The Covered Period is either:

- The 24-week (168-day) period beginning on the PPP Loan Disbursement Date, or
- The 8-week (56-day) period beginning on the PPP Loan Disbursement Date if you received your PPP loan before June 5, 2020.

In no cases can the Covered Period extend beyond December 31, 2020.

What is the Alternative Payroll Covered Period?

It's an additional choice for companies that have a biweekly (or more frequent) payroll schedule.

For loans funded before June 5, 2020, you may elect to calculate eligible payroll costs using either:

- the 24-week (168-day) period that begins on the first day of your first pay period following their PPP Loan Disbursement Date
- the eight-week (56-day) period) that begins on the first day of your first pay period following their PPP Loan Disbursement Date.

For loans funded on June 5, 2020 or later, you may elect to calculate eligible payroll costs using the 24-week (168-day) period that begins on the first day of your first pay period following their PPP Loan Disbursement Date.

When does the 8-week or 24-week Covered Period begin for spending that may be eligible for Loan Forgiveness?

It begins on the date loan funds were deposited into your account. If using the Alternative Payroll Covered Period, it starts the first day of your first pay period following your loan disbursement date.

Can I get PPP expenses forgiven, and then deduct them from 2020 taxes?

Most likely, no. Only one bite at the apple.

When do I need to use the loan proceeds to be eligible for Loan Forgiveness?

You need to use the funds within the Covered Period or the Alternative Payroll Covered Period.

Can I request Forgiveness if I didn't use all of my loan funds within the 8-week or 24-week Covered Period or Alternative Payroll Covered Period?

Based on the latest SBA announcements, you may be eligible for partial Forgiveness. However, since you can only request Forgiveness once, it would be beneficial to use all of your funds before requesting Forgiveness.

What payroll costs qualify for Forgiveness?

Payroll costs consist of compensation to your employees (whose principal place of residence is the United States) in the form of salary, wages, commissions, or similar compensation; cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips); payment for 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, wages, commissions, income, or net earnings from self-employment, or similar compensation.

You are generally eligible for payroll costs paid and payroll costs incurred during the Covered Period or Alternative Payroll Covered Period. Payroll costs are considered:

- Paid on the day that paychecks are distributed or you originate an ACH credit transaction; or,
- Incurred on the day that your employees' pay is earned.

What documentation will I need to submit with the Forgiveness Application to prove payroll?

The SBA has indicated these types of documents will be required:

- Bank account or third-party payroll service provider reports documenting the amount of cash compensation paid to employees;

- Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period;
- Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and,
- State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.

What non-payroll documentation will I need to submit with my Loan Forgiveness request to verify existence of the obligations/services prior to February 15, 2020?

- **Business mortgage interest payments:** Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
- **Business rent or lease payments:** Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
- **Business utility payments:** Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments.

Can I use Form 3508EZ? Or do I have to use the long form?

You may be able to use Form 3508EZ if you:

- Are self-employed and have no employees; or,
- Did not reduce the salaries or wages of your employees by more than 25%, and did not reduce the number or hours of your employees; or,
- Experienced reductions in business activity as a result of health directives related to COVID-19 and did not reduce the salaries or wages of your employees by more than 25%.

When will I know if my Loan Forgiveness request was approved?

It could take up to five months SBA to review most complete applications, actual times will vary. You won't have to start making payments until the SBA provides a decision on your request or remits the funds.

What if my entire loan is not forgiven?

You may be forgiven for all, some or none of your loan. You must repay the principal and interest amount of the unforgiven portion of your loan.

Can I repay my loan at any time?

Yes. There is no prepayment penalty.

What is the maturity of PPP loans?

For loans made before June 5, the maturity is two years. For loans funded on or after June 5, the maturity is five years.

What costs qualify as utility expenses within non-payroll costs?

The SBA states the below categories are eligible if service began before February 15, 2020:

- phone
- internet
- gas
- water
- electricity
- transportation

If I received an EIDL advance from the SBA does it need to be paid off with PPP funds?

An EIDL grant – in amounts up to \$10,000 -- is not refinanced by a PPP Loan. It will cause the SBA to reduce the amount of the PPP Loan eligible for Forgiveness.

Is the share of FICA paid by the employer an eligible payroll cost?

No.

Can I still qualify for full Forgiveness if my use of funds is different from my original PPP application?

Yes, as long as at least 60% of the funds requested for Forgiveness are used for eligible payroll costs and no more than up to 40% of funds requested for Forgiveness are used for eligible non-payroll costs.

## For Sole Proprietors

If I am a Sole Proprietor, how do I calculate Owner Compensation Replacement?

This is a critical change with the addition of the 24-week option for the covered period. Now, if you elect the 24-week covered period, ALL of your PPP amount (remember, that's Line 31 of your 2019 Schedule C divided by 12, and then multiplied by 2.5) can be treated as Owner Compensation Replacement. But this is ONLY if you elect the 24-week covered period. If you are on the 8-week covered period, only eight weeks of the PPP amount can go to Owners Compensation Replacement.

How do I get the money for Owner Compensation Replacement?

Nothing special here... transfer it to your personal bank account.

How does Owner Compensation Replacement work with PUA or other unemployment benefits?

Short answer... not well. Owner Compensation Replacement is considered income, so, in many cases, you will have to report your OCR over the entire covered period. For example, if you claim all of your PPP loan as OCR, then that means you were paid for ten weeks (2.5 x your average monthly payroll amount). You have to report that ten weeks of pay over the 24 week covered period.

After your PPP ends, you can resume getting your unemployment benefits.

**IMPORTANT!** Each state is different. There is no one-size-fits-all advice here. You **MUST** make sure that you are doing what your state unemployment office is asking.

Can I pay myself a bonus in addition to OCR?

No. You are limited in how much you can pay yourself to OCR, and you have to stay under the \$100k annual salary cap.