

Maximizing Paycheck Protection Program Loan Forgiveness

Fact Sheet

Updated July 9, 2020



1 Basics of loan forgiveness

- Borrowers can elect to adhere to the 8-week period or the default 24-week period to spend PPP funds.
- Forgiveness will be reduced if 40 percent or more of qualified expenses were applied to non-payroll expenses. In other words, at least 60 percent of the loan must be used for payroll expenses.
- Forgiveness can be reduced if employees' salary or wage rates have been cut by more than 25 percent (this does not apply to employees that made over \$100,000 in 2019).
- Forgiveness can be reduced if full-time equivalents were reduced—unless exceptions were met.
- If you received an EIDL (Economic Injury Disaster Loan) advance of up to \$10,000, that amount will be reduced from your total forgiveness.
- The following items qualify for loan forgiveness:

- » Payroll costs, including benefits.
- » Owner's compensation (including owner's compensation replacement) for partners, sole-proprietors or owner-employees.
- » Interest on mortgages and other personal property that were in effect prior to February 15, 2020.
- » Rent under lease agreements in force before February 15, 2020.
- » Utility costs—including electricity, gas, water, transportation, telephone and internet.
- » Transportation utilities, including fuel expenses for vehicles if it was deducted on the 2019 tax return.





2 Covered period details

- Businesses are automatically set up to use the 24-week covered period for expenses. Businesses can elect to use the 8-week covered period but can also request forgiveness prior to the 24-week period ending if the funds have been fully used.
- The “covered period” starts the day you received the funds and ends 24 weeks after that date.
- Businesses have the option to use an “alternate covered period,” which uses the next payroll period that begins after you receive the funds. Consider the following example:

If you received PPP funds on June 2 in the middle of a payroll period and your next pay period begins June 8, you can elect to use the period beginning June 8 to start the 24-week period. The alternate payroll period option was designed to make it easier to gather forgiveness data.

3 Details of qualified employee (non-owner) payroll expenses

- Qualified payroll expenses include the following:
 - » Employee compensation, including wages, salaries, tips, bonus and hazard-pay.
 - » Employer retirement contributions.
 - » Employer contributions to health insurance.
 - » Employer state/local taxes assessed on employee wages.
- Non-qualified payroll expenses include the following:
 - » Employee compensation that exceeds the 8-week maximum (\$15,385) or the 24-week maximum (\$46,154), depending on the period of forgiveness chosen.
 - » Wages paid to employees who are not US residents.
 - » Wages paid for paid sick or paid leave time under the Families First Coronavirus Response Act (FFCRA).
 - » Employer share of FICA-MED, FICA-SS and FUTA taxes.



4 Details of eligible owner's compensation expenses

NOTE: Schedule C and Schedule F filers, or general partners in a partnership do not necessarily have payroll. Therefore, these filers can get 2.5 month's worth of net profit forgiven. This is referred to as Owner Compensation Replacement. The following sections provide more detail.

■ Form 1040 Schedule C filers:

- » Owner compensation replacement is either 8/52 (8-week period) or 2.5/12 (24-week period) of line 31 of the 2019 Schedule C.
- » Owner compensation replacement is limited to \$15,385 (8-week period) or \$20,833 (24-week period) if Schedule C line 31 for 2019 was \$100,000 or more.
- » Health insurance and retirement benefits for Schedule C owners are not separately included in the calculation, as they are already part of the self-employment income.

■ Form 1040 Schedule F filers:

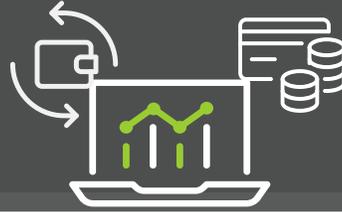
- » Owner compensation replacement is either 8/52 (8-week period) or 2.5/12 (24-week period) of line 34 of the 2019 Schedule F.
- » Owner compensation replacement is limited to \$15,385 (8-week period) or \$20,833 (24-week period) if Schedule F line 34 for 2019 was \$100,000 or more.
- » Health insurance and retirement benefits for Schedule F owners are not separately included in the calculation, as they are already part of the self-employment income.

■ Form 1065 Partnership filers:

- » Owner compensation replacement is calculated as 8/52 (8-week period) or 2.5/12 (24-week period) using the following calculation:

Form 2019 Form K-1 Line 14a (Net Earnings from Self-employment) minus Line 12 (Section 179 Depreciation), minus Depletion (for oil and gas activities) and minus Form 1040 Schedule E Unreimbursed Partnership Expenses. Multiply the result by .9235.

- » Owner compensation replacement is limited to \$15,385 (8-week period) or \$20,833 (24-week period) if the calculation above was \$100,000 or more.
- » Partners health insurance and retirement benefits are not separately included in the calculation as they are already part of the self-employment income.



■ Form 1120-S filers

Owners Compensation includes:

- » Cash compensation (including shareholder health insurance) limited to 8/52 (8-week period) or 2.5/12 (24-week period) of 2019 cash compensation. Max allowed is \$15,385 (8-week period) or \$20,833 (24-week period).
- » Employer retirement contributions.

■ Form 1120-C filers

Owners Compensation includes:

- » Cash compensation limited to 8/52 (8-week period) or 2.5/12 (24-week period) of 2019 cash compensation. Max allowed is \$15,385 (8-week period) or \$20,833 (24-week period).
- » Employer retirement contributions.
- » Employer health insurance contributions.

NOTE: The \$15,385 (8-week period) and \$20,833 (24-week period) limits apply across all businesses an individual owns. Example: If an individual owns multiple businesses, the maximum allowed is cumulative across all businesses—NOT per business.

5 Full-time equivalent (FTE) forgiveness reduction rules and exceptions

- Full-time equivalents compare the covered period with a base period January 1, 2020 to February 29, 2020 or February 15, 2020 to June 30, 2020.
- If the amounts during the covered period were less than the elected base period, the employer has until the date of application for forgiveness or December 31, 2020 (whichever occurs first) in order to eliminate that reduction.
- If you are unable to restore FTEs by the dates above, the exceptions below exist. If any of the following exceptions are claimed, written documentation should be kept on file:
 - » An offer was extended to laid off employees and the employee(s) rejected or did not respond to the offer.
 - » The employee was fired for cause during the covered period.
 - » The employee resigned during the covered period.
 - » The employee requested a reduction in hours during the covered period.



6 Applying for loan forgiveness

1. Download a loan forgiveness application from the Treasury's website: <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>. If you meet the requirements, you may be able to use the EZ application instead.
2. Submit the completed application to your lender along with the required documentation.

If you need assistance with the loan forgiveness application process, our firm is here to help. Please contact us.

