

Paycheck Protection Program Loan Forgiveness Application What You Need to Know

When borrowers applied for Paycheck Protection Program (PPP) loans, they had a general idea of the permitted use of these funds, but were also eager to gain a clearer understanding of the associated final forgiveness guidelines. With many of these companies at or close to the halfway point of the eight-week covered period, they were understandably concerned with not timely meeting forgiveness guidelines.

Finally, on May 15, 2020, the Small Business Administration (SBA), released the "Paycheck Protection Program Loan Forgiveness Application" (Forgiveness Application) to borrowers and lenders. The application and instructions can be found [here](#).

How Will My PPP Loan be Forgiven?

In releasing the Forgiveness Application, the SBA provided detailed instructions on how to calculate the loan forgiveness amount. However, some of the allowable costs appear to be described in more general terms, and we would expect the SBA to issue more detailed guidelines in the future. Generally, the Forgiveness Application follows the principals initially described in the CARES Act. Borrowers can apply for loan forgiveness based on the allowable costs paid or incurred during their eight-week covered period, or for a borrower who has a bi-weekly or more frequent payroll, an eight-week alternative payroll covered period. For those borrowers who qualify for the eight-week alternative payroll covered period (Alternative Covered Period), they can start their eight-week period on the first day of the first period following the receipt of their PPP loan. For borrowers who do not qualify for the alternative period, the eight-week covered period (Covered Period) begins on the loan disbursement date. The Alternative Covered Period is only allowed for payroll costs. All nonpayroll costs must follow the Covered Period.

What are the Allowable Costs that Can be Used for Loan Forgiveness?

There are four categories of payroll and nonpayroll costs that are allowable costs for loan forgiveness. However, at least 75% of the loan forgiveness must be used by payroll costs. The categories of allowable costs are as follows:

1. Payroll Costs – these costs are defined as cash compensation which consists of gross salary, gross wages, gross tips, gross commissions, paid leave (vacation, family, medical or sick leave, but not including leave covered by the Family First Coronavirus Response Act), and allowances for dismissal or separation paid or incurred during the eight week Covered Period or Alternative Covered Period. Payroll costs are capped at capped at \$15,385 per person during the eight-week covered period. In addition to these payroll costs,

there are non-cash payroll costs that are forgivable as well. These costs include amounts paid by the borrower for employer contributions for employee health insurance and employee retirement plans.

- 2. Business Mortgage Interest Payments** – these payments are defined as the amount of business mortgage payments during the Covered Period for any business mortgage obligation on real or personal property incurred before February 15, 2020. A business cannot include prepayments.
- 3. Business Rent or Lease Payments** – these payments are defined as the amount of business rent or lease payments for real or personal property during the Covered Period, pursuant to lease agreements in force prior to February 15, 2020.
- 4. Business Utility Payments** – these payments are defined as business utility payments during the Covered Period, for which service began before February 15, 2020. Utilities include electricity, gas, water, transportation, telephone, or Internet access.

Can My Loan Forgiveness be Reduced?

A borrower can potentially have their loan forgiveness reduced if there are reductions in FTE's during the Covered Period of or if there is a reduction in and individual's compensation of greater than 25% during the Covered Period. These calculations can be a little more complicated, and there are safe harbor provisions that could allow a borrower to eliminate the reduction if certain provisions are met.

What Should I be Doing to Help Maximize My Loan Forgiveness Amount?

Borrowers should plan on keeping detailed records of all costs paid or incurred under the PPP for which they will be applying for forgiveness. Borrowers will be required to complete the Forgiveness Application and submit and/or maintain a variety of records, including but not limited to, payroll reports, payroll tax filings, canceled checks, written lease agreements or other support for leases, and other documentation that may be required by their lender.



Brian Kassalen, CPA, CFF
Audit & Accounting Services | Partner
brian.kassalen@actcpas.com
724.658.1565 | 800.452.3003