



May 5, 2020

## Guide to Paycheck Protection Program Loan Forgiveness\*

To all Paycheck Protection Program (PPP) loan recipients,

I am so glad our Loan Help Team was able to assist you in applying for the SBA's Paycheck Protection Program (PPP). Given the limitations of the SBA system, I hope your experience with our team was helpful.

Now that you have received a Paycheck Protection Program (PPP) loan, let's talk about the next steps. Our goal is for you to receive loan forgiveness to the maximum extent permitted under the terms of the PPP agreement. In order to accomplish this, it is important that you understand and follow the rules surrounding forgiveness, which are relatively straight-forward and limited in scope. Failure to properly prove eligible PPP expenses could adversely affect your loan forgiveness amount, leaving you responsible for repaying the ineligible portion of your loan. Let's make sure that doesn't happen!

### Payroll Costs

Payroll expenses are the key! At least 75 percent of your anticipated loan forgiveness amount must be used for eligible payroll expenses within eight weeks from the origination date on your loan document(s) (the covered period). Payroll expenses that are eligible for forgiveness include:

- Salaries, wages, tips, and similar compensation, however; this line item is capped at a prorated annual amount of \$100,000
- Group health insurance
- Retirement benefit costs
- Sick, vacation, and severance pay
- Local and state taxes on employee compensation.

Please note that salaries are measured as gross pay to the employee, without reduction for income taxes withheld. Also, **the employer cannot include employer-side federal payroll taxes in payroll costs.** Please be prepared to provide payroll tax records, payroll reports and cancelled checks to support these expenses.

Sole proprietors without employees are allowed to include in payroll costs the net earnings of their business. You should be prepared to provide a schedule of income and expenses for the covered period as well as supporting documentation.



Independent contractors can include the amounts received during the covered period that will ultimately be reported on their 1099 as “Non-Employee Compensation.” To document these amounts, you should collect pay stubs or similar documentation of payments received during the covered period.

### **Other Expenses**

In addition to documenting your payroll expenses, you should also document and maintain records relating to other eligible expenses. Under the terms of the PPP, up to 25 percent of your anticipated loan forgiveness amount may be comprised of the following eligible expenses:

- Rent expense - if the lease was signed prior to February 15, 2020
- Mortgage interest - if the mortgage was originated prior to February 15, 2020, (Note: interest on debt other than mortgages is a permitted use of your loan proceeds, but non-mortgage interest is not eligible for forgiveness)
- Utilities - if the utilities were in service prior to February 15, 2020.

You will need to keep payment records of all eligible expenses, which includes cancelled checks or similar evidence of payment.

### **Potential Reduction of Forgiveness**

In addition to maintaining expense payment records, you will need to follow three additional guidelines to avoid potential reduction of the PPP loan forgiveness amount.

Employee count: If your average number of full-time equivalent (FTE) employees during the eight-week covered period is less than the average number of FTEs during either (1) February 15, 2019, through June 30, 2019, OR (2) January 1, 2020, through February 29, 2020, then your forgiveness will be reduced proportionately.

- For example, if you employed 10 FTEs during the earlier period but only eight during the covered period, you will only be entitled to forgiveness of 80% of your eligible expenses. Seasonal employers must use February 15, 2019, through June 30, 2019.

Employee Layoff: If your business laid off an employee as a result of COVID-19, offered to rehire the same employee for the same salary/wages and the same number of hours, but the employee declined the offer, it will NOT reduce the borrower’s PPP loan amount. To qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee’s rejection of that offer must be documented by the borrower. Employees and employers should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.



Salary reductions: If you reduce the salaries or other compensation paid during the covered period for employees earning less than \$100,000 per year, your forgiveness will be reduced dollar-for-dollar of the amount exceeding 25 percent.

- For example, if you cut salaries 30 percent, which resulted in \$5,000 less compensation paid than a 25 percent reduction, your forgiveness will be reduced by \$5,000.

Expense caps: As noted above, at least 75 percent of your requested forgiveness must be supported by payroll costs, and no more than 25 percent by other eligible expenses.

There are also special rules intended to encourage rehiring and restoring pay: If you reduced your number of FTEs or their salaries/wages during the period February 15, 2020, through April 27, 2020, you are allowed to rehire or increase the salaries/wages by June 30, 2020. By doing so, the reduction in employees or salaries/wages prior to April 27, 2020, will not count against you.

### **What to Do Now**

Please make sure that you are keeping good records during this eight-week period. As a reminder, a BCT checking account has been opened for your business through which PPP funding has been deposited. This will help with keeping track of transactions when you submit the forgiveness application as soon as the covered period ends. We may be in contact prior to the end of the covered period, if we have additional information to share about the process, or to help expedite the forgiveness process. Please adhere to the limitations mentioned in the letter and consider rehiring employees or raising salaries if it makes sense for your business.

Let's work together to make sure as much of your new PPP loan can be forgiven!

Sincerely,

Alice P. Frazier  
President & CEO

\*Disclosure: Please note that this summary is based on the language of the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) and the related guidance released through April 13, 2020. This is only a summary and is qualified in its entirety by the text of the CARES Act and the related guidance. We expect additional guidance to come out over the coming weeks, including further details about the forgiveness application and process.