# Paycheck Protection Program: Loan Forgiveness

*Updated June 29, 2020*

The Coronavirus Aid, Relief, and Economic Security (CARES) Act established the Paycheck Protection Program (PPP) as an incentive for small businesses to retain employees during the COVID-19 pandemic, and the PPP Flexibility Act gives additional flexibility to borrowers who take the loan as of June 5. The program provides a low-interest loan to eligible small business owners, self-employed individuals, and other eligible businesses, including non-profits, and is meant to cover eligible payroll costs, mortgage interest, rent, utilities, and interest on certain other debt obligations during the Loan Forgiveness Covered Period (defined below). PPP loans may also be used to refinance certain Economic Injury Disaster Loan (EIDL) where the borrower received funds from Jan. 31, 2020, to April 3, 2020. A PPP loan must be used to refinance an EIDL loan where the borrower used the EIDL loan funds to pay payroll costs.

Borrowers can apply for approximately 2.5 times their average qualified monthly payroll expenses, up to $10 million and subject to certain restrictions. The application period began on April 3, 2020, and runs through the earlier of June 30, 2020, or when all the funds have been committed. The PPP loan carries a maturity of five years (two years for those loans made before June 5, 2020, unless the lender and borrower agree to extend the maturity period to five years) at 1% interest rate.

**Loan forgiveness.** A PPP loan may be forgiven, in whole or in part, if certain requirements are met. Loans made on or after June 5, 2020, have a 24-week Loan Forgiveness Covered Period. Loans made before June 5, 2020, have a 24-week Loan Forgiveness Covered Period, unless borrowers elect to use an eight-week Loan Forgiveness Covered Period. The Loan Forgiveness Covered Period of any borrower will end no later than Dec. 31, 2020. Borrowers can apply for loan forgiveness with their lender, and the lender is responsible for determining eligibility. Certain borrowers are also eligible to use a simplified EZ Loan Forgiveness Application when filing for forgiveness. Borrowers don't have to use all the loan proceeds in the Loan Forgiveness Covered Period, but funds used after such period are not eligible for loan forgiveness. Loan forgiveness is limited to the loan principal plus accrued interest. For tax purposes, the loan forgiveness amount is excluded from gross income, but forgiven expenses are not deductible.

In addition to eligible payroll costs, the following non-payroll expenses are included in loan forgiveness. To maximize loan forgiveness, the non-payroll items expenses cannot exceed 40% of the PPP loan proceeds:

- Mortgage interest payments on business mortgage obligations for real or personal property incurred in the ordinary course of business before Feb. 15, 2020.
- Business rent or lease payments on lease agreements for real or personal property in force dated before Feb. 15, 2020.
- Business utility payments for electricity, gas, water, transportation, phone, or internet access under service agreements dated before Feb. 15, 2020.

The non-payroll uses listed above are ones that may be covered by loan forgiveness, but they are not the only allowable uses of a PPP loan. Only loan proceeds spent on covered uses during the Loan Forgiveness Covered Period following disbursement of a PPP loan are forgivable.

60% or more of PPP funds used on eligible payroll costs that are paid during the Loan Forgiveness Covered Period or Alternative Covered Period (or that are incurred during the last pay period in that time period and paid on or before the next regular payroll date) are eligible for forgiveness.

Eligible payroll costs may include, but are not limited to, compensation paid to (non-owner) employees whose principal place of residence is the U.S. in the form of salaries, wages, commissions, or other similar compensation, cash tips, and employee benefits, such as paid vacation, parental, family, medical or sick leave; allowance for employee separation or dismissal; payments required for the provision of group employee benefits, healthcare and insurance premiums, payment of retirement benefits, and payment of state and local taxes assessed on compensation. If the borrower has employees, their loan forgiveness amount may be reduced as a result of reductions to employee headcount or wages.

**Reducing the number of employees.** The loan forgiveness amount may be reduced if the average number of full-time equivalent employees employed during the Loan Forgiveness Coverage Period after the lender sent the PPP loan funds to the borrower is less than the average number of full-time equivalent employees per pay period between:

- Feb. 15, 2019, and June 30, 2019, or
- Jan. 1, 2020, and Feb. 29, 2020

Most borrowers can choose which time period to use for comparison, but applicants may choose either of the above reference periods or any consecutive 12-week period between May 1, 2019, and Sept. 15, 2019.

If reductions made between Feb. 15, 2020, and April 26, 2020, are reversed by the earlier of (i) the date you submit your application for loan forgiveness or (ii) Dec. 31, 2020, your loan forgiveness amount will not be reduced due to full-time equivalent employee reductions. Additional safe harbors and reduction exceptions may apply if other requirements are met.

**Reducing employee salary or wages.** The loan forgiveness amount may be reduced if the average annual salary or average hourly wages is reduced more than 25% for any employee during the Loan Forgiveness Coverage Period (or, if applicable, your Alternative Payroll Covered Period) after the lender sent the PPP loan funds to the borrower as compared to Q1 2020 before the Loan Forgiveness Coverage Period.

If reductions made between Feb. 15, 2020, and April 26, 2020, are reversed by the earlier of (i) the date you submit your application for loan forgiveness or (ii) Dec. 31, 2020, your loan forgiveness amount will not be reduced due to salary or wage reductions. This forgiveness reduction does not apply to reductions associated with employees who received compensation at an annualized rate of more than $100,000 for any pay period in 2019.

**Other reasons why the forgivable amount may be reduced or disallowed.** Only 40% of the loan forgiveness amount may be attributed to eligible non-payroll costs. If the borrower received an advance through the EIDL program, it will be deducted from the forgivable amount on a PPP loan.

**Recordkeeping.** Borrowers can apply for loan forgiveness through their lender (or the lender servicing the loan). They will need to verify the number of employees on the payroll and their pay rates for the Loan Forgiveness Coverage Period after the lender sent the borrower their PPP loan funds. Determining how your client used the loan proceeds is important because all or a portion of the loan is forgivable, and the remaining balance needs to be repaid over a five-year period (two-year period for those borrowers who received the PPP loan before June 5, 2020, enactment of the PPP Flexibility Act, unless the borrower and lender agreed to extend the loan maturity to five years) at a 1% interest rate. Documents needed for PPP loan forgiveness include, but may not be limited to:

- Payroll tax filings
- State income, payroll and unemployment insurance filings
- Canceled checks, payment receipts, transcripts of accounts, or other documents verifying payments on mortgage obligations, payments on covered lease obligations, and utility payments
- Documentation of any advance received under the CARES Act EIDL program

A full list of the documents required documents are set forth in the PPP Loan Forgiveness Application instructions. Certain borrowers are also eligible to use a simplified EZ Loan Forgiveness Application when filing for forgiveness. For such borrowers, the documentation requirements differ, and are set for in the EZ PPP Loan Forgiveness Application.

**Tracking expenses.** The forgivable amount will depend, in part, on how the PPP loan funds are spent during the Loan Forgiveness Covered Period. At the end of the Loan Forgiveness Covered Period Clients who borrowed can apply for PPP loan forgiveness with their lender. A borrower may apply for forgiveness before the end of the covered period if the borrower has used all of the loan proceeds for which the borrower is requesting forgiveness. However, borrowers who apply before the end of their Loan Forgiveness Covered Period must account for full-time equivalent employee reductions and salary/wage reductions for the full covered period. It will be helpful to track this information on spreadsheets or through QuickBooks®.

Here are some tips if you use QuickBooks and its tracking features:

- Create the PPP loan as a long-term liability account.
- Create a bank deposit or use a bank feed.
- Categorize any PPP-related expenses (and consider using PPP tags, notes, projects, and classes for optimal tracking).
- Break out your eligible payroll costs to account for the following, and possibly export to a spreadsheet if you don't want to make permanent changes to your chart of accounts:
    - 60% threshold
    - Exclusion of federal taxes paid
    - Exclusion of annual compensation above the $100,000 annual cap ($8,333.33 per month)

- Run reports to help you apply for forgiveness:
    - Create a profit and loss statement for the applicable Loan Forgiveness Coverage Period by using tags or classes, or by filtering on any relevant expense categories.
    - If you use QuickBooks Payroll, you can run a payroll tax and wage summary, exclude federal tax payments, and export it to a spreadsheet.

**PPP loan changes under the PPP Flexibility Act.** The below chart explains the main changes that have been made to the PPP loan under the PPP Flexibility Act.

| PPP loan under the CARES Act | PPP loan under the PPP Flexibility Act |
|---|---|
| Loan maturity on amounts not forgiven – **two years**. | Loan maturity on amounts not forgiven – five years for loans after June 5, 2020. Loan maturity for loans made before June 5, 2020, remains two years, but borrowers and lenders may agree to extend the period to five years. Loans are deemed made for this purpose on the date the SBA assigned a loan number to the PPP loan. |
| Borrowers can defer principal and interest payments for **six months** (interest accrues). | Borrowers who apply for forgiveness within 10 months after the last day of the 24-week forgiveness covered period can defer principal and interest payments until SBA pays the forgiveness amount to the lender or tells the lender that the borrower is ineligible for forgiveness. Borrowers who do not apply for forgiveness must begin making payments **10 months** after the earlier of the end of the last day of the 24-week covered period or Dec. 31, 2020. |
| **Not allowed** to defer employer's 6.2% share of 2020 Social Security tax if PPP loan forgiven. | **Allowed** to defer employer's 6.2% share of 2020 Social Security tax if PPP loan forgiven. |
| Covered Period – earlier of **eight weeks** from loan origination or **June 30, 2020**, to incur costs eligible for forgiveness. | Loan Forgiveness Covered Period – earlier of **24 weeks** from the date the borrower received the PPP funds or **Dec. 31, 2020**. If a borrower's loan was made before June 5, 2020, the borrower can elect to use the eight-week covered period instead of the 24-week period. |
| No more than **25%** of the loan forgiveness amount may be attributable to **non-payroll costs** (interest, rent, utilities). | No more than **40%** of the loan forgiveness amount may be attributable to eligible **non-payroll costs** (mortgage interest, rent, utilities). |
| Borrower can avoid a reduction in forgiveness if FTE headcount reduction or salary / wage reduction are restored to the **Feb. 15, 2020, levels** by **June 30, 2020.** | Borrower can avoid a reduction in forgiveness if FTE headcount reduction or salary / wage reduction are restored to the **Feb. 15, 2020 levels** by the earlier of (i) **the date the borrower submits the application for loan forgiveness** or (ii) **Dec. 31, 2020.*** |
| *Exemption Based on Employee Availability – Between Feb. 15, 2020, and Dec. 31, 2020, loan forgiveness won't be reduced when the borrower experiences a loss in FTEs if the borrower is able to document either of the following:<br>1. an inability to rehire individuals who were employees of the borrower on Feb. 15, 2020, and an inability to hire similarly qualified employees for unfilled positions on or before Dec. 31, 2020.<br>2. an inability to return to the same level of business activity that was operated before Feb. 15, 2020, due to compliance with HHS, CDC, or OSHA requirements between March 1, 2020, and Dec. 31, 2020, related to the maintenance of standards for sanitation, social distancing or any other worker or customer safety requirement related to COVID–19. | |

For more resources as well as a PPP loan forgiveness estimator, visit **Intuit® Aid Assist**, a free service for everyone that helps U.S.-based businesses, self-employed, contractors, freelancers, and gig workers understand different business relief programs.

*Note: The Paycheck Protection Program Flexibility Act ("PPP Flex Act") was signed into law on June 5, 2020. The PPP Flex Act extends the availability of loans under the Paycheck Protection Program (PPP) and adjusts certain rules applicable to PPP loans. The information reflected here may therefore be outdated. We are working to update our resources to reflect these updates to the PPP, so be sure to check back soon. Please refer to the latest guidance from the SBA and Treasury to confirm current program rules and how they apply to your particular situation.*

*PPP borrowers may engage the services of an accountant to track the use of their PPP funds. However, only the borrower or an authorized representative who is legally authorized to make certifications on the borrower's behalf may submit an application for loan forgiveness. Accountants should be aware of this limitation and ensure that an authorized representative of the borrower understands his or her obligation to complete, review, and certify to the contents of any loan forgiveness application.*

*The funding described is made available to businesses located in the United States of America and are not available in other locations.*

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