Prepared by the U.S. CHAMBER OF COMMERCE

GEORGIA CHAMBER
Resiliency & Recovery

GUIDE TO PPP LOAN FORGIVENESS

Under the Paycheck Protection Program (PPP) created by the CARES Act, loans may be forgiven if borrowers use the proceeds to maintain their payrolls and pay other specified expenses.

The Treasury Department and Small Business Administration recently released the application form and instructions for loan forgiveness. The forgiveness forms, instructions, and worksheets can be downloaded **here.**

PPP borrowers must apply for loan forgiveness with the lender that processed the loan. This guide is designed to help borrowers understand the process by which their loan forgiveness amount will be calculated and the overall approach of the loan forgiveness process.

THANK YOU TO OUR PRESENTING PARTNER

FACEBOOK

HOW MUCH will be forgiven?

The process to calculate the amount of loan forgiveness requires three steps:

1. Determine the maximum amount of possible loan forgiveness based on the borrower's expenditures during the 8 weeks after the loan is made;
2. Determine the amount, if any, by which the maximum loan forgiveness will be reduced because of reduced employment or reduced salaries and wages; and
3. Apply the 75% rule that requires that at least 75% of eligible loan forgiveness expenses go towards payroll costs.

1 Determine the maximum amount of possible loan forgiveness

1A. Expenses Qualifying for Loan Forgiveness:

The following expenses incurred or paid by the borrower during the 8 weeks following loan origination (see below for determining the 8-week period) are eligible for forgiveness:

- Payroll Expenses, defined as:
  - Compensation (not exceeding $15,385 per employee) in the form of:
    - gross salary, gross wages, gross commissions, and gross tips,
    - vacation, parental, family, medical, or sick leave (other than leave for which the employer was reimbursed under the Families First Coronavirus Response Act), and
    - allowance for separation or dismissal;
  - Employer contribution for employee group health care coverage;
  - Employer contribution for employee retirement plans; and
  - Payment of state and local taxes assessed on compensation of employees.

Note: For an independent contractor or sole proprietor, payroll costs only include wages, commissions, income, or net earnings from self-employment, or similar compensation.

- Non-Payroll Expenses, defined as:
  - Mortgage interest payments for the business on real or personal property (debt incurred before February 15, 2020);
  - Rent or lease payments for the business on real or personal property (lease in force before February 15, 2020); and
  - Utility payments for the business for electricity, gas, water, transportation, telephone, or internet access (service began before February 15, 2020).

Note: For an independent contractor or sole proprietor, you must have claimed or be entitled to claim a deduction for these expenses on your 2019 Form 1040 Schedule C in order to claim them as expenses eligible for PPP loan forgiveness in 2020

1B. Identifying Your 8-Week Period:

The 8-week period during which expenses must be incurred or paid:

- The 8 weeks (56 days) beginning on the day the PPP loan was disbursed or
- For borrowers with a biweekly (or more frequent) payroll schedule, the 8 weeks (56 days) beginning on the first day of the first pay period following the PPP loan disbursement.

Tip: If you are using an online date calculator, remember to count the date of the disbursement of the loan as part of the 56 days. For example, if the loan was disbursed on April 20, the last day of the 56 days would be June 14).

2 Determine the amount, if any, by which the maximum loan forgiveness will be reduced

2A. Determine loan forgiveness reduction based on a reduction in salaries or wages of more than 25%:

For employees who earned $100,000 or less in 2019 (or were not employed by the borrower in 2019), the borrower's loan forgiveness will be reduced for each employee whose average pay (salary or hourly wage) during the 8-week period is less than 75% of their average pay from January 1 to March 31, 2020. The amount of the reduction in loan forgiveness is based on the amount of the reduction in pay.

Safe Harbor: Borrowers can avoid having their loan forgiveness amount reduced if they restore an employee's pay. Specifically, if the employee's annual salary or hourly wage on June 30, 2020 is equal to or greater than their annual salary or hourly wage on February 15, 2020, the borrower's loan forgiveness is not reduced.

2B. The borrower's loan forgiveness will be reduced if the average number of weekly full-time equivalent employees (FTEs) during the 8-week period is less than the average number of FTEs during the borrower's chosen reference period.

The borrower's loan forgiveness will be reduced if the average number of weekly full-time equivalent employees (FTEs) during the 8-week period is less than the average number of FTEs during the borrowers chosen reference period. Borrowers can choose between the following reference periods:

- February 15 to June 30, 2019,
- January 1 to February 29, 2020, or
- In the case of a seasonal employer a consecutive 12-week period between May 1 and September 15, 2019

Exceptions: Borrowers will not be penalized for any FTE reductions if either of the following occurred:

- The borrower made a good-faith, written offer to rehire the employee during the 8-week period that was rejected by the employee
- The employee was fired for cause, voluntarily resigned, or voluntarily requested a reduction in hours

3 Apply the 75% Rule

A borrower's maximum loan amount could also be reduced if the borrower's eligible non-payroll expenses exceed 25% of the total eligible expenses. The maximum eligible loan forgiveness is payroll expenses divided by 0.75.

Example: If your payroll expenses for the 8-week period equal $75,000, your loan forgiveness cannot exceed $100,000. Any more than $100,000 would mean your non-payroll expenses represent more than 25 percent of the total forgiveness amount

LOAN FORGIVENESS AMOUNT

Borrowers' loan forgiveness will equal the smallest of the following:

1. Your PPP loan amount
2. The maximum loan forgiveness amount from Step 1 less any reductions from Step 2
3. The maximum loan forgiveness amount where eligible payroll expenses equals or exceeds 75% of the total forgiveness (i.e. your eligible payroll expenses ÷ 0.75)

What happens to loan amounts NOT FORGIVEN?

For any loan amounts not forgiven, the original loan terms—two-year maximum loan at 1% interest rate with payments deferred for the first six months—will apply.

There are no prepayment penalties or fees.

What are the record keeping REQUIREMENTS?

Borrowers will be required to submit certain documentation with their loan forgiveness application:

Payroll Documents:

- Bank account statement or third-party payroll service provider reports documenting cash compensation paid to employees,
- Tax forms or equivalent third-party payroll service provider reports for periods overlapping with the 8-week period for: (1) payroll tax filings (typically Form 941), and (2) state quarterly wage reporting and unemployment insurance tax filings, and
- Payment receipts, cancelled checks, or account statements documenting payment of employer contributions to employee health insurance and retirement plan.

Full-Time Employees (FTEs):

- Documentation showing the number of FTEs for the reference period from Step 2. Documents may include payroll tax filings (typically Form 941) and state quarterly wage reporting and unemployment insurance tax filings.

Nonpayroll Expenses:

- Documentation showing the number of FTEs for the reference period from Step 2. Documents may include payroll tax filings (typically Form 941) and state quarterly wage reporting and unemployment insurance tax filings.
- Business rent and lease payments: Copy of current lease and receipts or cancelled checks or lessor account statements from February 2020 and covering the 8-week period.
- Business utility payments: Copy of invoices from February 2020 and the 8-week period and receipts, cancelled checks, or account statements

POTENTIAL CONGRESSIONAL CHANGES

Congress is currently considering a number of changes to the PPP program, including eliminating the 75% rule and extending the 8-week period to up to 24 weeks.

However, enactment of these changes is not guaranteed. Until any changes are enacted into law or until the Treasury Department and SBA change any regulations and guidance, the current rules apply to all borrowers.