

# PPP USE & FORGIVENESS

Paycheck Protection Program



# CARES Act Paycheck Protection Program

If you were one of the small business owners who received a Paycheck Protection Program (PPP) Loan from the Small Business Administration (SBA), it is vital for you to understand how to use your PPP funds.

## The First 8 Weeks:

To determine the forgivable amount, your company's expenses for the first 8 weeks after you get the loan will be analyzed. Every dollar you spend on the four forgivable expenses (payroll, utilities, rent, and mortgaged debt) will be added together.

That amount will be forgiven, up to the total amount you borrowed – the one caveat is that 75% must be spent on payroll and 25% in the other categories.

## Fund Usage:

It's important to note that all PPP funds were distributed for only certain expenses. Using these funds for other expenses will not only result in no forgiveness, it can also result in a charge of fraud against you.

If you have loan money remaining at the end of the 8 weeks, you should use the funds not expended to pay off the unforgiven portion of your loan.

## Forgiveness Reductions:

Your forgiveness will be reduced if any of the following happens:

- You do not spend at least 75% of the loan on payroll costs.
- You lay off (and do not replace) employees during the first 8 weeks following the loan.
- You reduce wages of employees making less than \$100,000 per year by more than 25%.

## Separate Funds

We recommend you keep your loan proceeds segregated from your regular funds to aid in calculation and documentation for forgiveness.

# 75%

Payroll

# 25%

Other

### Forgivable Expenses:

The PPP is primarily intended to encourage you to retain and re-hire employees. Your PPP funds can be used for the following items:



Payroll: 75% of your funds must go to qualified payroll costs and benefits, including healthcare and retirement.



Utilities: service began before February 15, 2020 for electricity, gas, business transportation, water, phone, internet.



Rent: service began before February 15, 2020.



Mortgage interest: incurred since February 15, 2020.

Assuming all things are equal (which they won't be) companies will have to add an additional 1.16% of qualified payroll costs in the 8-week forgiveness timeframe in order to pay out 75% of the loan value.

# Calculation

Step 1 - Take your loan value and multiply by 25% - this is the most you can spend on other qualified expenses (rent, utilities, and interest on mortgage obligations). Estimate the amount you will spend on 2 months of these expenses to see how close your actual amount is to the calculated amount.

$$\text{Loan Amount} \times .25 = \text{"other" expenses}$$

Step 2 - The remaining 75% must be used for qualified payroll costs in order to be forgiven.

## Over \$100,000:

If you have employees over the \$100,000 annual gross wages amount, the most you can include in your calculation for forgiveness is \$15,384.62.

Multiply \$15,384.62 by the number of employees earning over \$100,000 and that amount needs to be paid out of your loan proceeds.

## Under \$100,000:

For all other employees - for every payroll during the 8-week forgiveness period, reimburse your normal payroll account for the gross wages paid (from your payroll journal less anyone over \$100,000 calculated above).



Salary, wage, commission, or similar compensation



Allowance for dismissal or separation



Payment for vacation, parental, family, medical, or sick leave



Payment of cash tip or equivalent



## Health Insurance




As your group health insurance is paid, reimburse your regular account for the amount of employer paid health insurance. 2 months of employer paid group health insurance should be included in your forgiveness calculation.

## Retirement

As payroll is run during the 8-week forgiveness period, the company match for any retirement plan should be calculated, paid to the retirement account, and reimbursed from the loan proceeds.

If you have a profit-sharing calculation for your retirement plan, you will need to fund this during the 8-week period in order for it to be counted toward forgiveness of your loan. Discuss with your TPA your options for calculating this amount.

# Example 1

			<h2>PPP Loan</h2> <p>Funded on 4/20/2020 8-week ends 6/15/2020</p> <p>Loan Amount: \$9,253.80</p> <p>25% (other): \$2,313.45 75% (payroll): \$6,940.35</p>
1 employee	Not making over \$100,000	Received a bonus in 2019	

## Adding Expenses

### Step 1: OTHER EXPENSES (25%)

May rent \$2,500

You can pay \$2,313.45 with loan funds, but you can't spend any more money on "other expenses" if you want the entire loan to be forgiven.

### Step 2: PAYROLL EXPENSES (75%)

Gross payroll 4/30/2020 \$1,233.33

Gross payroll 5/15/2020 \$1,233.33

Gross payroll 5/31/2020 \$1,233.33

Gross payroll 6/15/2020 \$1,233.33

You have \$2,007.03 left, so you pay it as a bonus on 6/15/2020

Net funds remaining \$0

Forgivable amount of loan \$9,253.80

## Example 2



4 employees



1 making  
over  
\$100,000

### PPP Loan

Funded on 4/18/2020  
8-week ends 6/13/2020

Loan Amount: \$52,056.18

25% (other): \$13,014.05  
75% (payroll): \$39,042.13

## Adding Expenses

### Step 1: OTHER EXPENSES (25%)

May rent \$2,937

May utilities \$148.87

June rent \$2,937

June utilities \$148.87

Total Other: \$6,171.74

You have \$6,842.31 left over, but you can only use this extra amount on payroll.

### Step 2: PAYROLL EXPENSES (75%)

1 employee \$100,000 is \$15,384.62

401(k) match \$1,200

Gross payroll 4/30/2020 \$3,352.25

401(k) match 4/30/2020 \$31.29

May health insurance \$778.12

Gross payroll 5/14/2020 \$3,352.25

401(k) match 5/14/2020 \$31.29

Gross payroll 5/28/2020 \$3,352.25

401(k) match 5/28/2020 \$31.29

June health insurance \$778.12

Gross payroll 6/11/2020 \$3,352.25

401(k) match 6/11/2020 \$31.29

You have \$7,367.12 left over.

Net funds remaining \$14,209.43

In this example, the TPA and owner should calculate an amount to be funded for the 401(k) discretionary payment. If full forgiveness is desired, the employees under \$100,000 would be paid a bonus, calculated to include the 401(k) match.



Please contact us with any questions you have regarding your specific situation.

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