

What We Know About Paycheck Protection Program Loan Forgiveness

As of Thursday, April 16, 2020, the \$349 billion that funded the Small Business Administration's Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) were depleted. More than 1.6 million applications were approved for an amount of almost \$339 billion, with an average loan amount of \$239,152. California, Texas, and New York were the states with the most approved applications and loan money allotted.

With news breaking that Congress reached a tentative agreement on Tuesday April 21, 2020, for an almost \$500 billion COVID-19 relief bill, that would inject funding back into the SBA's PPP and EIDL programs, it is important for borrowers to understand how the PPP can be forgiven.

Please note: Businesses are encouraged to continue working with their lenders to submit PPP applications in case the program is refunded.

Recap

The PPP is a low-interest loan administered by private lenders that is guaranteed by the SBA, which allows for small businesses to receive funds for approximately 8 weeks of payroll costs. To be eligible the business must have been in operation before February 15, 2020, and 1) have fewer than 500 employees or 2) otherwise meet the SBA's existing Size Standard.

Borrowers are eligible for PPP loan forgiveness during the 8-week period after the loan was originated (covered period) if the loan was spent on payroll costs, payment of interest owing on pre-existing mortgage obligations (secured by real or personal property), covered rent obligations, and utility payments that were in place prior to February 15, 2020 (amount of loan forgiveness).

After the covered period, borrowers may submit an application to their lender for the loan forgiveness.

Forgiveness

It is important to note that while the SBA has not provided detailed instructions on what borrowers should do to receive the loan forgiveness, regulations are scheduled to be issued by April 26. These tips are designed to assist borrowers on taking the right steps to forgiveness.

- Keep track of your time. You have eight weeks from the date that the loan is funded to spend the PPP on qualifying purposes. Make sure that your pay period is within these 8 weeks.
- Ensure that you are keeping detailed records of every expense, even if you do not think that it is an eligible expense.
- Placing the PPP funding in a separate business checking account. This eliminates the potential of co-mingling with other business funds, and creates an easy paper trail.

- Keep track of your non-payroll costs spending. You cannot spend more than 25% of the PPP to pay for non-payroll items.
- Keep in mind there is a provision that borrowers must restore their workforce by June 30. This doesn't mean the same workforce, but the headcount should be the same.
- There is another provision where borrowers must also restore any employee's pay that has been cut by more than 25%, of what they earned in the first quarter of the year, during the covered period by June 30. If it is not restored, the pay reduction will result in some of the loan not being forgiven. This applies to employees that made under \$100,000.
- The IRS has announced that PPP borrowers qualify for 2020 employer FICA tax deferrals (a 6.2% tax on the first \$137,700 of an employee's earnings) through the date that their loan is approved for forgiveness.

Congressional Update

The \$500 billion tentative agreement, not only replenishes SBA funding, but would also provide hospitals with \$75 billion, and create a nationwide virus testing program to help reopen the economy. Hospitals, nursing homes, and healthcare providers have been hit especially hard by COVID-19, with many of them being ineligible for SBA funding.

Please Note:

This information provided by the Wladis Law Firm, (315) 445-1700.