

## Paycheck Protection Program Loan Forgiveness Best Practices

Updated November 19, 2020

You've applied and been granted a PPP loan, received the money, used a portion of the money and are now moving your focus to applying for forgiveness. You might be asking yourself, "What should I be doing now?" As we continue to move through the covered period for the Paycheck Protection Program (PPP) we wanted to share some best practices to implement in order to maximize your PPP loan forgiveness.

1. **Note your date of funding and your payroll cycles.** Your covered period begins at loan origination. Initially it is 8 weeks, but after June 5 can be extended up to 24 weeks or until December 31, 2020, whichever is earlier. However, you can file for forgiveness even before the 24 weeks is up.
2. **Keep track of your headcount.** Forgiveness may be impacted by changes in your headcount, as the goal is to keep employees hired. Make sure you are aware of changes in headcount.
3. **Record EIDL information.** Make note of your Economic Injury Disaster Loan (EIDL) advance amount and application number, if applicable.
4. **Track total eligible costs.** This includes costs incurred and paid during the 24-week period following your loan funding. It is important to account for every dollar spent and how it was used during the 24-week period. Remember eligible costs include;
  - a. Payroll costs - Payroll costs consist of compensation to employees including salary, wages, commissions or similar compensation; cash tips or the equivalent; payment for leave; allowance for separation or dismissal; payment for employee benefits including group health care insurance including premiums; retirement contributions and payment of state and local taxes assessed on the compensation of employees. For employees making over \$100,000, or for owners that own more than 5%, there are additional limits. Do not include payments to individual contractors.
  - b. Mortgage interest on real or personal property (for mortgages in effect prior to 2/15/2020). Principal payments or prepayments do not count.
  - c. Rent under a leasing agreement (for agreements in effect prior to 2/15/2020).
  - d. Utilities - Includes payment for expenses such as electricity, gas, water, transportation, telephone or internet access. Service must have been established prior to 2/15/2020.

It is not required to set up a separate account for your PPP funds, just make sure you have an efficient tracking method in place.

Remember that at least 60% of the loan proceeds must be used for payroll costs or loan forgiveness will be reduced. If salaries decrease by more than 25% for any employee who made less than \$100,000 annualized in 2019 OR if the number of FTEs decreases, the forgiveness amount will be reduced.

In addition, you can still defer employer payroll taxes through December 31, 2020, even if your PPP loan is forgiven prior to that.

5. **Accumulate documentation for all incurred expenses.** We anticipate the following will be required in the forgiveness application.
  - a. Documentation verifying the number of full-time equivalent employees on payroll and pay rates for the 24-week period and certain preceding periods.
  - b. Payroll registers and payroll tax filings that document the qualifying payroll costs during the 24-week period.
  - c. Invoices or cancelled checks supporting other covered expenses (mortgage interest, rent, utilities).
  - d. Lease agreements, service agreements and other paperwork verifying that rent, mortgages and utilities paid for with loan funds were under agreements that were active prior to February 15, 2020.
  - e. Any other documentation the SBA and individual lenders determine necessary. Remember the individual lenders are required to make the forgiveness determination so they may require additional documentation on a case-by-case basis.
6. **Get a checkup.** Perform or have your accountant perform a calculation of your funds to see where you're at, how much you've spent and how much you have left to spend.
7. **Check in with your banker and accountant.** Since each bank determines forgiveness on an individual basis, it is important to know what their requirements are going to be. If your loan is not forgiven, it will have a maturity of five years at 1% interest. Your accountant can help with the tracking process, do a check in on the status of your funds and help you put your forgiveness application together.

As you go through your 24-week coverage period, please check back for updates. This is a very fluid process and information changes daily.

We are still waiting on additional forgiveness guidance from the SBA. This document was based on what we know as of November 19, 2020 and includes the latest information. In addition, more information and the loan forgiveness applications can be found on the SBA's [website](#). There are now three forgiveness forms: S, or "short" form for loans less than \$50,000; EZ for sole proprietors and loans where there are no changes in headcount or reduction in salaries; and the "long" form for all other loans. Loans over \$2 million will also require an additional form to assess the necessity of the loan.

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