

For clients who have received Payroll Protection Program (PPP) loan, we want to provide best practices you should take over the next eight weeks to ensure maximum forgiveness of your PPP loan. We anticipate more guidance regarding the forgiveness provisions will come from SBA in the coming weeks. Also, as we saw with the PPP application process, lenders may come up with their own interpretation of the loan forgiveness computation.

Use the Funds for Forgivable Purposes. Forgiveness of your PPP loan depends whether you use the money to pay forgivable expenses incurred within the 8 weeks covered period. These include (1) payroll costs (including group health insurance premium and company contributions to their retirement plan), (2) interest payments on mortgages or personal property loans incurred before 2/15/20, (3) rent payments on leases dated before 2/15/20, and (4) utility (electric, telephone, internet, etc.) payments under service agreements dated before 2/15/20. At least 75% of the loan must be used for payroll costs. For self-employed individual, your payroll cost is your 2019 net income, not to exceed \$100,000 per year, pro-rated over 8 weeks.

To help you meet this requirement, consider implementing the following best practices:

- Set up a separate bank account for PPP funds.
- If you feel that 75% of the loan won't be used for payroll, consider modifying your payroll periods (from semimonthly to weekly, for example) to capture as much of the business payroll costs as possible.
- Gather and analyze mortgage/loan documents, leases, and utility bills to make sure obligations arose prior to 2/15/20.
- If expenses are paid with a business credit card, make sure that portion of the credit card bill is paid with PPP funds before the end of the eight-week period.

Keep Track of Employee Headcount and Salary Levels. For the next eight weeks after the loan is first funded, if your average number of full-time equivalent (FTE) employees per month is less than the average during a base period, your forgivable loan amount will be reduced. The *base period* is either (1) 2/15/19 through 6/30/19, or (2) 1/1/20 through 2/29/20. You can choose the FTE from the lesser of the 2 base periods. The SBA recently issued guidance stating if a small business makes a written offer to re-hire a worker and that worker chooses not to accept, then the employee will not be counted against the small business for purposes of the FTE forgiveness reduction rule.

During this time period, your business must maintain at least 75% of its total wages paid during the quarter ending 3/31/20. For each employee who earns less than \$100,000, you need to compare total wages paid during the current quarter ending 6/30/20 with that employee's wages during the quarter ending 3/31/20. If the reduction is greater than 25%, the eligible amount for forgiveness will be reduced by the difference between their current pay and 75% of the original pay.

If you have already laid off or furloughed workers, attempt to restore the employee headcount and salary levels by 6/30/20. Keep in mind you don't need to rehire the same employees. Also, the rehired workers don't actually have to perform their customary work duties.

Focus on Recordkeeping. This is crucial to obtaining maximum loan forgiveness because there will be an audit of your record keeping after the 8-week period. We suggest creating a spreadsheet of all eligible expenses as they're incurred. We also recommend you maintain a special folder (electronic or otherwise) that contains the following documentation:

1. Employee headcount calculations.
2. Payroll tax filings (both federal and state).
3. Mortgage/loan documents, leases, and utility bills.
4. Cancelled checks and payment receipts.
5. Bank statements for the separate account used to pay forgivable expenses. If you do not set up a separate bank account, include copies of other bank statements with forgivable expenses highlighted to support any Electronic Funds Transfer (EFT) payments.

Get Ready to Apply for Forgiveness. You may not apply for forgiveness until at least eight weeks after receiving your PPP loan. Once the bank receives your loan forgiveness application, it has 60 days to review and either approve or deny it. If, any some reason, only a portion of the loan is forgiven, the unforgiven portion of the loan will be subject to a two-year loan repayment with a 1% interest rate. No payments will be required for the first six months (although interest will continue to accrue). In addition, no collateral or personal guarantee is required, there will be no prepayment penalties. **To see what forgiveness you may receive, try our *Calculator worksheet*.**

We will gladly assist you in preparing and submitting your PPP loan forgiveness application. In the meantime, if you have any questions regarding your loan, please don't hesitate to contact us.