



PPPL Forgiveness – The Details

The Paycheck Protection Program Loan (PPPL) was modified by the Paycheck Protection Program Flexibility Act, which was signed into law on June 5, 2020. The initial PPPL forgiveness conditions were determined not to be flexible enough to enable businesses to survive given the uncertainty over when many businesses will be able to operate normally. Therefore, the new law expands and clarifies many provisions of the original PPP loans, which we discuss below. Finally, if you are thinking of applying for a PPP loan, please remember that Congress is planning to extend the deadline until **August 8, 2020**.

EZ Forgiveness Application

On June 17, 2020, the US Small Business Administration (SBA) published a new application to make it easier for borrowers to apply for loan forgiveness. This application applies to borrowers that:

1. Are self-employed or have no employees; OR
2. Did not reduce the salaries or wages of their employees by more than 25% and did not reduce the number or hours of their employees; OR
3. Experienced reduction in business activity because of health directives related to COVID-19 and did not reduce the salaries or wages of their employees by more than 25%.

For the EZ Forgiveness Application, [click here](#). For the EZ Forgiveness instructions, [click here](#).

For the Full Forgiveness Application, [click here](#). For the Full Forgiveness instructions, [click here](#).

The Covered Period Has Been Lengthened

1. The covered period for a PPP loan is now a maximum of 24 weeks from the day the loan is received. For example, if the business owner receives the loan on Monday, April 20 they have until Sunday, October 4 to use the loan funds.
2. The act allows for an alternative 24-week covered period starting on the first day of payroll after the loan is received. For example, if the business owner receives the loan on April 20 and the first day of their next payroll is April 26, the owner can begin the loan period on April 26 and has until October 10 to use the loan funds. This alternative option is only available to businesses with at least biweekly payrolls.

Payroll

1. At least 60% of the loan should be used to cover qualified payroll costs during the 24-week covered period.
2. Qualified Payroll costs include:
 - Cash compensation, gross salary, wages, gross tips, gross commissions, overtime, paid leave (excluding FFCRA leave), allowance for dismissal or separation and bonuses.
 - Employer contributions to employee health insurance and retirement plans.
 - State and local taxes as well as the employer's share of federal taxes.
3. Eligible compensation is capped at \$15,385 for the 8-week covered period or \$46,154 for the 24-week covered period.
4. Owner replacement compensation is limited to \$15,385 for the 8-week covered period or \$20,833 for the 24-week covered period (excluding FFCRA leave).
5. The cap on owner's payroll also applies to W2 owner employees.
6. An owner is someone who owns 20% or more of the firm's equity.
7. The compensation cap for owners cannot be exceeded, even if the owner has multiple businesses.
8. Payroll excludes any qualified sick leave equivalent amount for which a credit is claimed under section 7002 of the Families First Coronavirus Response Act (FFCRA).

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9. Independent contractors cannot be paid using a business loan because they are eligible to apply for their own PPP loans.
10. Health and retirement benefits cannot be included as payroll costs for owners who are not W-2 employees, this includes self-employed individuals.
11. Payroll costs incurred during the 24-week covered period but paid outside this period can be prorated.
12. Liability insurance does not qualify as a payroll cost.

Other Eligible Expenses

1. A maximum of 40% of the loan can be used for other qualifying expenses such as rent/lease, mortgage interest and utilities.
 - Rent expense includes lease payments on business property and personal property, if it is used for business operations. Personal property includes but is not limited to copiers, servers, autos, and other items of personal property.
 - Utilities include electricity, water, gas, sewage, telephone (cell phone and landline), internet bill, and transportation costs.
2. It is important to note that these expenses must have been in place before February 15, 2020. Any expense that began after February 15, 2020 is not eligible for forgiveness.
3. Just as with payroll, utility expenses incurred during the 24-week covered period but paid outside this period can be prorated.

Full Time Employees and Full Time Equivalents (FTE)

1. An employee that works 40 hours or more, on average, is considered a full-time employee. Any employee that works less than 40 hours can either be calculated based on the hours they work or, at the borrower's election, counted as 0.5 FTE under a simplified approach permitted by the SBA.
2. Exceptions to the FTE requirement:
 - An employee that was fired for cause.
 - An employee who voluntarily resigned.
 - An employee who voluntarily requested and received a reduction in hours.
 - An employee who declines a rehire offer. In this case, the employer is obligated to report this to state unemployment benefits office.
 - Businesses subject to a government reduced capacity order during the covered period.
3. If the FTE requirement is not met, the amount of possible forgiveness will be reduced by the same percentage as the reduction in FTEs.
4. The FTE requirement is calculated based on the business' FTE levels between January 1 and February 28, 2020 or a 6-month period in the year 2019 chosen by the business owner for non-seasonal businesses. For seasonal businesses, the owner must choose either the period from February 15, 2019 to June 30, 2019 or January 1, 2020 to February 29, 2020.

Additional Items to Consider

1. Employers who receive PPP loans can now defer payment of their share of Social Security tax through Dec 31, 2020. The resulting tax liability is due in two equal payments, which need to be paid by December 31, 2021 and December 31, 2022.
2. Borrowers who have been deemed ineligible may apply for an appeal.
3. The loan maturity date has been extended to 5 years. Borrowers who received their loan before June 5 can request their lender to change the payback period from 2 to 5 years.
4. We recommend that borrowers submit their PPPL forgiveness application once the loan amount is exhausted, even if the 8 or 24-week covered period is not over.



5. Borrowers can now defer repayments until they have received compensation for the forgiven amount. If a borrower fails to seek forgiveness, they will have 10 months from the end of their covered period to begin repaying the loan.
6. It is required that borrowers maintain supporting documents for at least 6 years after receiving loan forgiveness.

We recognize that the loan forgiveness rules are complicated so please [contact us](#) if you have any further questions.