

*As of April 27, 2020*

The Paycheck Protection Program is the primary lending vehicle for small businesses. It was created in the Coronavirus Aid, Recovery and Economic Security Act and originally funded with \$350 billion. After that was depleted, another \$310 billion was added. Recipients can qualify for loan forgiveness if they meet certain criteria. Here are frequently asked questions:

**Q: I have received my loan. When do I have to use it?**

**A:** You have just eight weeks from the day your loan was deposited in your bank account to spend the money for qualifying purposes.

**Q: How strict is that timetable?**

**A:** Very strict. If you have payroll that's due to be paid on the 57th day following receipt of funds, you should move it up to the 56th day.

**Q: What are the qualifying purposes?**

**A:** Primarily payroll. To qualify for forgiveness, three-fourths of the loan must be used for workforce costs, such as salary, wages and commissions up to annualized compensation of \$100,000 per employee.

**Q: What else counts toward over payroll?**

**A:** Payments for group health benefits, including insurance premiums, retirement benefits and state and local payroll taxes.

**Q: What about "draws"?**

**A:** No, draws don't count.

**Q: What are the other qualifying purposes?**

**A:** Business mortgage interest, rent and utilities. These must be obligations incurred before Feb. 15. In other words, if property was purchased after that date, funds used for interest on a new mortgage will not qualify.

**Q: What utilities are covered?**

**A:** Electricity, gas, water, telephone, internet access and transportation. (Federal guidance on what “transportation” covers is expected.)

**Q: So, how should I proceed?**

**A:** The best step once you have your loan is to bring back any employees you furloughed, either to your workplace if that is allowed or to working from home. Loan forgiveness will depend on resuming your previous employment level.

**Q: How will that work?**

**A:** You must calculate your average monthly number of full-time equivalent employees during the eight weeks following receipt of the loan. Then compare that to the average during the period Feb. 15, 2019, to June 30, 2019, OR the period Jan. 1, 2020, to Feb. 29, 2020. If there is a reduction, the amount of the loan forgiven will decrease by a similar percentage. So, a 10 percent drop in employment will mean a 10 percent decrease in loan forgiveness.

**Q: Are there any requirements for how much I pay my employees?**

**A:** Yes. The program is meant to ensure that you pay them at least as much as you did before receiving the loan. Your loan forgiveness will be reduced in proportion to any reductions in salary or wages. If there is any reduction, however, you can receive full forgiveness if you restore any shortfall in headcount and salaries/wages by June 30, 2020.

**Q: What else can affect loan forgiveness?**

**A:** If you received an advance, or emergency grant, as part of the Economic Injury Disaster Loan, that amount – up to \$10,000 – will be deducted from your PPP loan forgiveness.

**Q: What kind of records do I need to keep for all this?**

**A:** A lot. This is very important. When you apply for loan forgiveness, you will have to provide records to your lender showing how you spent the money.

**Q: Wait, I have to apply for forgiveness? That's another application process?**

**A:** Yes.

**Q: When?**

**A:** After the eight-week period ends.

**Q: OK. Back to the records. What should I do?**

**A:** You will need:

- Copies of monthly payroll tax reports filed with the IRS within the eight-week period. These include payroll reports from your payroll provider; payroll tax filings (Forms 940, 941); and income, payroll and unemployment insurance filings from your state.
- Copies of monthly payroll reports for each pay period within the eight-week timespan. Gross wages including vacation, sick and other PTO should be shown.
- Documentation reflecting the health insurance premiums paid by your company under a group health plan, including for owners of your company, within those eight weeks.
- Copies of monthly invoices, canceled checks or ACH drafts may be helpful.
- Documentation of all retirement plan funding by your company during the eight weeks.
- Copies of all lease or rental agreements with proof of payment during the eight weeks.
- Copies of mortgage interest and other eligible debt obligation statements indicating payment amounts and proof of payment during the eight weeks.
- Copies of canceled checks, statements or other evidence of utilities payments during the eight weeks.

**Q: Is that all?**

**A:** Maybe, maybe not. Your lender may ask for more. But here's a tip: It may be a good idea to use a separate business checking account for all expenditures flowing from the PPP loan.

**Q: What happens when I do apply for forgiveness and provide the required documentation?**

**A:** Your lender has 60 days to review your records and determine how much forgiveness you're owed.

**Q: How will I get that money?**

**A:** You will deduct the amount of loan forgiveness from your gross income when you file your next federal tax return.

**Q: And what about anything that isn't forgiven?**

**A:** Under the CARES Act, you can recover some of what you owe by deferring the employer portion of the FICA tax – half until Dec. 31, 2021, and half until Dec. 31, 2022. Beyond that, the balance of the loan must be repaid, at 1 percent interest, within two years.

**Q: Anything else?**

**A:** The Small Business Administration is expected to provide additional guidance soon, so more clarity on some portions of the program may be coming.