

GUIDANCE FOR PPP LOAN FORGIVENESS

Additional guidance will be issued by the SBA periodically over the next several weeks. This guide is provided as a courtesy based on current information and is for informational purposes only. It should not be relied upon as legal, business, or tax advice. Please check back for updates as they become available.

This guide contains the following sections:

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GENERAL FAQ SECTION

Can a PPP loan be forgiven in whole or in part?

Yes. The amount of loan forgiveness can be up to the full principal amount of the loan and any accrued interest.

How do I receive loan forgiveness?

1. You must use the funds for forgivable purposes, which are 75% or more for payroll costs, and 25% or less for eligible non-payroll costs (both defined in detail below).
2. You must maintain number of employee levels.
3. You must maintain employee compensation levels.

See [Limits on Amount of Forgiveness](#) section below for further information.

How is the forgiveness amount calculated?

The amount of loan forgiveness depends, in part, on payments made over the borrower's eight-week period, including:

1. The total amount of payroll costs (see [Payroll Costs](#) section below);
2. The total amount of eligible nonpayroll costs as follows:
 - a. Payments of interest on mortgage interest payments on real or personal property incurred before February 15, 2020,
 - b. Rent payments on leases dated before February 15, 2020, and
 - c. Utility payments under service agreements dated before February 15, 2020. Covered utility payments are a payment for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access.

When does my eight-week period begin?

Current guidance from the Small Business Administration (SBA) indicates the eight-week period begins on the date of the first loan disbursement.¹ We are awaiting further clarification from the Treasury/SBA.

The dates my payrolls are paid do not match up with the 8-week period. Does this impact the amount of loan forgiveness?

We understand it is likely the timing of when a payroll is 'paid' will not align perfectly with the 8-week period. We are awaiting clarification from the SBA regarding the specific timing of the

¹ The CARES Act originally stated the eight-week period began on the date of the origination of the loan.

eight-week period and the relation of incurred costs and paid costs. The CARES Act indicates if you have documentation indicating you retained and paid employees during the entire eight-week period (e.g. payroll records, or payroll tax filings documenting employees were retained and paid consistent with filings from previous quarters) supporting the fact you paid employees during the eight-week period, we can rely on that documentation.

I temporarily shut down my business, and do not plan to rehire until I am able to open. Can I choose when my eight-week period begins? Or can I wait until the last day of my eight-week period to rehire?

Current guidance indicates the eight-week period begins on the date UBT disburses the loan funds to you. If you are not able to provide documentation that you rehired and/or retained employees during the entire eight-week period, it will impact the amount of loan forgiveness you are eligible for.

Can I use the funds for bonuses, or salary increases during the eight-week period?

Currently there is nothing preventing a business owner from paying bonuses or salary increases during that period.

Can I prepay our lease payments or utilities with the loan funds?

We will rely on you to document your non-payroll costs over your applicable eight-week period. Please keep in mind, you are limited to up to 25% of the amount of forgiveness for non-payroll costs.

Can I utilize loan funds to pay other operational expenses, such as business insurance premiums, cleaning services, delivery services, bank fees, association fees, software fees, costs of employee protection equipment, etc.?

Those costs currently do not qualify as forgivable non-payroll costs.

Will my forgiveness amount be reduced if I laid off an employee, offered to rehire the same employee, but the employee declined the offer?

No. However, you must properly document you made a good faith, written offer of rehire, and the employee's rejection of that offer must be documented.

Is the amount of PPP loan forgiveness taxable by the IRS?

No. By statute, the amount forgiven on PPP loans is not taxable.

If I had an EIDL loan refinanced into my PPP loan, how does that affect the amount of loan forgiveness?

Proceeds from any advance up to \$10,000 on the EIDL loan will be deducted from the loan forgiveness amount on the PPP loan.

How do I calculate FTE employees? The SBA has not issued definitive guidance. General guidance indicates a 30-hour week.²

² Based on previous SBA Program guidance and IRS guidance.

Payroll Costs

What are included in the definition of payroll costs?

Payroll costs consist of:

- Gross salary, wages, commissions, and tips, or similar compensation, up to \$100,000 of annualized pay per employee (for eight weeks, a maximum of \$15,385 per individual);
- Covered benefits for employees, including health care expenses, retirement contributions, and state and local taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums).

What is excluded from the definition of payroll costs?

The following are excluded from payroll costs:

- Any compensation of an employee whose principal place of residence is outside of the United States;
- The cash compensation of an individual employee in excess of an annual salary of \$100,000, prorated as necessary;
- Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116–127).

Should payments made to an independent contractor or sole proprietor be included in calculations of payroll costs?

No. Any amounts paid to an independent contractor or sole proprietor should be excluded from your payroll costs (the independent contractor or sole proprietor may have obtained a loan under the PPP).

Documentation Required for Loan Forgiveness

What documentation is required when I request loan forgiveness?

1. Documentation verifying your payroll costs, including the number of full time equivalent (FTE) employees and pay rates, during the eight-week period. This may include:
 - a. Form 941 or Form 944, and
 - b. State quarterly wage unemployment insurance tax reporting forms, or
 - c. Equivalent payroll processor records that best correspond to the covered period,
 - d. Evidence of any retirement and health insurance contributions;
 - e. Other supporting documentation to demonstrate amount of payroll costs, number of FTE, and applicable pay rates during the eight-week period.
2. Documentation (cancelled checks, receipts, or other documentation) supporting amounts paid for nonpayroll costs during the eight-week period, including as applicable:
 - a. Business rent or lease payments on obligations in force before February 15, 2020;
 - b. Business utility payments for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020;
 - c. Business mortgage interest payments on real or personal property.
3. Documentation verifying your average number of FTE employees for:
 - a. 2/15/2019 – 6/30/2019;
 - b. 1/1/2020 – 2/29/2020;
 - c. 2/15/2020 – 4/26/2020 (including pay rates as of 2/15/2020);
 - d. 6/30/2020 (if applicable to prove rehire exemption).
4. Certification from an authorized representative of the eligible recipient that
 - a. The documentation presented is true and correct; and
 - b. The amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered rent obligation, or make covered utility payments.
5. Any other documentation as requested by the Small Business Administration.

When do I submit documentation for loan forgiveness?

We are currently building processes to allow you to submit your documentation and certification securely for your loan forgiveness application. We will communicate with you through the email contact you provided when you applied for your PPP loan. Once your eight-week period has ended, you can gather the required documentation and submit it to us.

How soon will you decide on the amount of my forgiveness?

Per the CARES Act, we are required to issue you a decision within 60 days after we receive your application for loan forgiveness.

Will the SBA review individual loan files?

Yes. The SBA reminded all borrowers of the important certification they made when applying for the loan: “Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” To further ensure PPP loans are limited to eligible borrowers in need, the SBA has decided, in consultation with the Department of the Treasury, that it will review all loans in excess of \$2 million, in addition to other loans as appropriate, following the lender’s submission of the borrower’s loan forgiveness application. Additional guidance implementing this procedure will be forthcoming.

What will happen if I do not submit documentation for forgiveness?

You cannot receive forgiveness of your loan in whole or in part if you do not submit the documentation and certification required. You will be responsible for all payments due per your loan agreement.

Limits on the Amount of Loan Forgiveness

What is the maximum amount of loan forgiveness? For the calculations below, the amount of loan forgiveness shall not exceed the principal amount of the loan you received.

What can cause my loan forgiveness to be reduced?

The amount of loan forgiveness can be reduced due to three different factors:

- **Factor 1: You did not use at least 75% of the forgiveness amount for payroll costs;**
- **Factor 2: You did not maintain employee levels (number of FTEs);**
- **Factor 3: You did not maintain employee compensation levels.**

Each Factor is described in detail below

Factor 1: You must use at least 75% of the loan forgiveness amount for payroll costs.

At least 75% of the amount of loan forgiveness must be used for payroll costs. The amount attributed to qualifying nonpayroll costs must not exceed 25% of the loan forgiveness amount.

- **Example 1:** Company X received a \$100,000 loan. During the eight-week period, \$80,000 was spent on payroll costs; and \$20,000 was spent on qualifying nonpayroll costs. Since over 75% of the loan forgiveness amount was used for payroll costs ($\$80,000/\$100,000$); and less than 25% was used for qualifying nonpayroll costs ($\$20,000/\$100,000$), the entire amount of \$100,000 would be eligible for forgiveness (subject to Factors 2 and 3).
- **Example 2:** Company Y received a \$100,000 loan. During the eight-week period, \$48,000 was spent on payroll costs; and \$12,000 was spent on qualifying nonpayroll costs. Since over 75% of the loan forgiveness amount was used for payroll costs ($\$48,000/\$60,000$), and the remaining was spent on qualifying nonpayroll costs; the amount of \$60,000 (the amount spent) would be eligible for forgiveness (subject to Factors 2 and 3). The remaining \$40,000 of the loan proceeds that were not spent would need to be repaid per the loan terms.
- **Example 3:** Company Z received a \$100,000 loan. During the eight-week period, \$40,000 was spent on payroll costs; and \$25,000 was spent on qualifying nonpayroll costs. Since only 61.54% ($\$40,000/\$65,000$) of the amount spent was used for payroll costs, a portion of the nonpayroll costs are not eligible for forgiveness. In this situation, \$11,666.67 of the nonpayroll costs are not eligible for forgiveness [$\$65,000 - (40,000/0.75)$]. A total of \$53,333.33 is eligible for forgiveness (subject to Factors 2 and 3).

Factor 2: Reduction in loan forgiveness amount due to reduction in number of full time equivalent (FTE) employees.

Once the eligible amount of loan forgiveness is calculated (Factor 1 above), that amount may be reduced if you have not maintained or rehired your number of FTE employees during the eight-week period.

1. **Exemption for rehires due to reduction in workforce:** If you had a reduction in FTE employees during the period beginning on February 15, 2020 and ending on April 26, 2020 and you eliminated the reduction in the number of FTE employees no later than June 30, 2020, there will not be a reduction in the amount eligible for forgiveness.

Example showing test being passed (no reduction in forgiveness applied)

Total FTE employees as of 2/15/2020	20	<i>Starting point</i>
Average monthly FTE employees 2/15/2020 – 4/26/2020 <i>decreased</i>	5	<i>FTEs</i>
Total FTE employed as of 6/30/2020	20	<i>Test passed</i>

Example showing test failed (reduction in forgiveness may apply, see #2)

Total FTE employees as of 2/15/2020	20	<i>Starting point</i>
Average monthly FTE employees 2/15/2020 – 4/26/2020 <i>decreased</i>	5	<i>FTEs</i>
Total FTE employed as of 6/30/2020	15	<i>Test failed</i>

If you pass the test above, and you eliminated any reduction in the number of FTE employees no later than June 30, 2020, continue to Factor 3.

2. **If you failed the test above, and you had a reduction in workforce from 2/15/2020-4/26/2020 that you did not eliminate by 6/30/2020** in general, the amount of loan forgiveness shall be reduced, but not increased, by multiplying the funds eligible for forgiveness (as calculated in Factor 1) by the quotient obtained by dividing:
 - a. Your average number of full-time equivalent employees (FTE) per month for the 8-week period; by
 - b. One of the following:
 - i. your average number of FTE employees per month during the period beginning on February 15, 2019 and ending on June 30, 2019; **or**
 - ii. your average number of FTE equivalent employees per month during the period beginning on January 1, 2020 and ending on February 29, 2020.

The average number of FTE employees shall be determined by calculating the average number of FTE employees for each pay period falling within a month.

Example showing reduction in amount of forgiveness

Time period	Avg Number FTE	Percent of funds eligible for forgiveness	Disallowed portion

8-week period	16		
2/15/2019-6/30/2019	22	72.7%	27.3%
1/1/2020-2/29/2020	20	80%	20%

In the example above, choosing the dates of 1/1/2020-2/29/2020 would reduce the amount of loan forgiveness by 20%.

Example showing no reduction in amount of forgiveness

Time period	Avg Number FTE	Percent of funds eligible for forgiveness	Disallowed portion
8-week period	16		
2/15/2019-6/30/2019	16	100%	0%
1/1/2020-2/29/2020	20	80%	20%

In the example above, choosing the dates of 2/15/2019-6/30/2019 would result in no reduction of funds eligible for forgiveness due to FTE employee count.

Factor 3: Reduction in loan forgiveness amount due to reduction in salaries or wages.

Once the eligible amount of loan forgiveness is calculated (Factor 1 above), in addition to any reduction due to the number of FTE employees (Factor 2 above), the eligible amount of loan forgiveness amount may be reduced if you reduced salary or wages of any employee (applicable only for employees with salary/wage of \$100,000 or less per year).

- 1. Exemption if employer has eliminated the reduction in the salary or wages of employees.** If you had a reduction in salary/wages for any employee during the period beginning on February 15, 2020 and ending on April 26, 2020 and you eliminated the reduction no later than June 30, 2020, there will not be a reduction in the amount eligible for forgiveness.

Example showing test being passed (no reduction in forgiveness applied)

Annual Employee Salary as of 2/15/2020 <i>Starting point</i>	\$40,000	
Annual Employee Salary 2/15/2020 – 4/26/2020 <i>decrease</i>	\$35,000	<i>Salary</i>
Annual Employee Salary as of 6/30/2020 <i>Test passed</i>	\$40,000	

Example showing test failed (reduction in forgiveness may apply, see #2 below)

Annual Employee Salary as of 2/15/2020 <i>Starting point</i>	\$40,000	
Annual Employee Salary 2/15/2020 – 4/26/2020 <i>decrease</i>	\$30,000	<i>Salary</i>

Annual Employee Salary as of 6/30/2020 <i>Test failed</i>	\$35,000
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If you pass the test above, and you eliminated any reduction in the salary or wages of any employee earning \$100,000 or less per year no later than 6/30/2020, there are no further reductions (assuming Factors 1 and 2 have been considered).

- 2. If you failed the test above, and you had a reduction in the salary/wage of any employee from 2/15/2020-4/26/2020 that you did not eliminate by 6/30/2020** in general, the amount of loan forgiveness shall be reduced by the amount of any reduction in total salary or wages of any employee (with an annual salary of \$100,000 or less) during the eight-week period that is in excess of 25% of the total salary or wages of the employee during the most recent full quarter during which the employee was employed before the covered period.

- **Example 1 – no reduction in amount of loan forgiveness:** Employee A's annualized salary in Q1 of 2020 was \$52,000 (\$1,000 per week). During the eight-week period, Employee A's annualized salary was \$41,600 (\$800 per week). This was a decrease of 20% $[(\$52,000 - \$41,600) / \$52,000]$ and would not result in a reduction in the amount of loan forgiveness.
- **Example 2 – reduction in amount of loan forgiveness:** Employee B's annualized salary in Q1 of 2020 was \$62,400 (\$1,200 per week). During the eight-week period, Employee B's annualized salary was \$36,400 (\$700 per week). This was a decrease of 41.7% $[(\$62,400 - \$36,400) / \$62,400]$ and would result in a reduction in the amount of loan forgiveness of \$668 as illustrated below
 - $(41.7\% - 25\%) \times (62,400 - 36,400) = \$4,342$
 - $\$4,342 \times (8 \text{ weeks} / 52 \text{ weeks}) = \668

Information is provided as a courtesy and is not considered legal, business, or tax advice.