



## **PPP Loan Update & Maximizing Forgiveness**

### *Webinar Summary*

#### ***Tracking PPP Loan Payouts***

- Amount received from loan must be spent within 8 weeks of the deposit date
- Tracking is based on when amount was paid out, not when the expense is incurred. At the end of the forgiveness period banks will want cancelled checks, receipts etc. to support how funds were paid out

#### ***Bank Account Set Up***

- Separate checking/savings account should be set up for funds received from loan (little or no fee account with ability to transfer money in/out, track expenditures easily etc.)
- You can put any EIDL money in this account also, but you will only have to report on expenses paid out by the difference received through PPP. (Money received through an SBA Disaster Loan [different from the EIDL grant] does not need to be tracked and therefore does not need a separate bank account.)
- Confirm with banker details of how new account must be set up. Will you have control over account or is it set up similar to a monitored line of credit account?
- Payments will most likely not have to be paid out of the new account that the loan was deposited into (however individual bank requirements will supersede any previous guidelines – check with your bank)
  - Direct deposit/Payroll accounts, utility/rent ach accounts will not have to be changed. Fund allocation will just need to be tracked.

## ***Cash Flow & Forgiveness Estimator Spreadsheet***

- Enter loan amount & funding date - Dates of ending weeks will automatically update when funding date is entered
- If you do payroll bi-weekly/bi-monthly, you can just put the payroll in the week that the payroll hits. To make it easier, you may want to move to weekly payroll for these 8 weeks.
- Enter in the expenses incurred each of the 8 weeks for the categories listed – if you are not sure how to allocate some of the transactions, ASK YOUR ACCOUNTANT.
- Payroll costs which include gross wages and state unemployment due only
  - Payroll costs are prior to any medical, 401k etc. deductions. Includes any bonuses, commissions etc. paid out
  - Employees making over \$100,000 per year will need to be capped for the 8 weeks (1923.00/week) However if an employee has an unusually higher paid week within the 8 weeks, earning more than 1923.00, due to bonuses or commissions and the employee generally does not make over \$100,000 per year the employee should not be capped that week. It has not been confirmed but bonuses and commission will not be annualized in the same way as regular earnings
  - For S Corps, owner's draws do not count towards payroll cost
  - For Partnerships, Sole Proprietorships etc. owner draws will be considered their payroll amount. The amount entered on the PPP application will be used to determine the owner's weekly salary during the 8 weeks
  - For sole proprietors, wages would be the amount of income subject to self-employment taxes from 2019. You can get this number off your Sch. C from 2019 taxes.

- Cost of employee health insurance cost (only amount paid by business)
- Cost of employee retirement plan (only amount paid by business)
- Rent (if you rent to landlord or yourself the amount can be included)
  - Must have been paying rent prior to 2/15/20
  - Should have lease available; if no lease is available it is recommended to have one created and signed
  - Can include reimbursement amounts for back rent
  - Rent amount must match amount stated on lease
  - Cannot include funds allotted for pre-paid rent
- Utilities
  - Utilities include gas, water, electricity (phone, security, waste mgmt., internet, gas and transportation expenses may be able to be included. However because there is no clear language about this the forgiveness amount shouldn't be reliant upon these expenses)
  - If utilities are paid using a credit card, a check must be written directly to the credit card company for the utility amount. Check memo must state all of utility payment details
- Interest on covered mortgages
  - If property is owned by operating entity and no rent is paid, the interest portion paid on the mortgage may be considered a qualifying expense
  - Only interest paid on real estate mortgages may be considered a qualifying expense

### ***Best Practices***

- After 2-3 weeks it is recommended to use the data from those weeks to forecast expense amount for the rest of the 8 weeks to get an estimate of what amount (if any) won't be forgiven

- If a shortfall is projected reexamine utilities, 401k etc. for additional amounts that can be forgiven. Wages can also be increased to increase forgiveness amount (wage increase must not cause employee's earnings to exceed 100k per year). Better to spread out increases across the board. Other ways to use up funds: Fund your 401k or IRA match, consider a new tech signing bonus if new people were brought on.
- Any employees let go should be brought back on. If an employee can't or won't come back on, add spouse/kids to payroll. Just make sure to maintain same number of employees as when applied.
- Employee totals during the covered weeks should match the employee count entered on PPP application
- Payroll must make up at least 75% of the forgiven amount; utilities, rent, insurance, etc. expenses must not exceed 25% of the forgiveness amount
- At the end of the 8 weeks the shortfall (unforgiven amount) will be considered a 24-month loan at 1% interest rate
- This loan is 100% tax free income, whether you have an unforgiven balance or not.