

## I'm approved for the Paycheck Protection Program! NOW WHAT?

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The Paycheck Protection Program has been greatly successful through the partnership with lenders - bringing money QUICKLY to those businesses that need it the most. The program launched in unprecedented time but left several components of the Act up for interpretation. Mississippi SBDC has worked to compile and disseminate the most up to date information from the SBA to provide a guide to tracking of expenditures and maximizing forgiveness.

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The current SBA guidance requires that once a lender approves the PPP loan, it must disburse the full loan proceeds within 10 days. On the day the loan is disbursed, the clock begins to tick for the 8 week forgiveness period. (ie "covered period".) SBA has issued guidance that a business may select an alternative 8 week "covered period" to align with a business's first payroll period after disbursement. For example, if the Borrower received its PPP loan proceeds on Monday, April 20, and the first day of its first pay period following its PPP loan disbursement is Sunday, April 26, the first day of the Alternative Payroll Covered Period is April 26, and the last day of the Alternative Payroll Covered Period is Saturday, June 20.

### **To obtain forgiveness, the borrower must:**

1. Spend at least 75% of the expenses on eligible payroll costs. The other 25% must be for the additional eligible uses.
2. Restore the number of full time equivalent employees to the baseline level by June 30, 2020.
3. Restore payroll level to average level per the loan application.
  - a. Forgiveness is also reduced for payments to highly compensated employees (annual compensation over \$100,000) in the amount over \$15,385 for the eight week period and/or Compensation of Employees whose principal residence is outside of the USA.

### **Defining Forgiveness Terms:**

1. What are "eligible payroll costs"?
  - a. Salary, wage, commission, or similar compensation (Compensation for an employee over \$15,385 must be excluded and Compensation of Employees whose principal place of residence is outside of the USA must be excluded)
  - b. Payment of cash tip or equivalent
  - c. Payment for vacation, parental, family, medical, or sick leave (note that you may not utilize the Paid Leave Credit under the FFCRA and count the leave as an eligible payroll cost)
  - d. Allowance for dismissal or separation
  - e. Payments required for the provisions of group health care benefits, including premiums
  - f. Payment of any retirement benefit
  - g. Payment of state or local tax assessed on the compensation of the employee (Note: Federal withholding taxes are not included- Employer may be eligible for an Employee Retention Tax Credit- this prevents "doubling up")

2. What are “additional eligible uses”?
  - a. Mortgage Interest (Not principal) for loans incurred prior to Feb. 15, 2020
  - b. Rent Payment for leases incurred before Feb. 15, 2020 (includes real or personal property).
  - c. Utilities for agreements incurred before Feb. 15, 2020.
  
3. How do I calculate “full time equivalent employees” and the “baseline period”?
  - a. The CARES Act defined the “**Full Time Equivalent Employee**” (hereinafter “FTE”) with a vague definition of average headcount. SBA released additional guidance on FTE calculations on May 16, 2020. It states, “For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used at the election of the Borrower. This calculation will be used to determine whether the Borrower’s loan forgiveness amount must be reduced due to a statutory requirement concerning reductions in full-time equivalent employees. Borrowers are eligible for loan forgiveness for certain expenditures during the Covered Period or the Alternative Payroll Covered Period. However, the actual loan forgiveness amount that the Borrower will receive may be less, depending on whether the Borrower’s average weekly number of FTE employees during the Covered Period or the Alternative Payroll Covered Period was less than during the Borrower’s chosen reference period. The Borrower is exempt from such a reduction if the FTE Reduction Safe Harbor applies.”

Option 1 for All	Average FTE in the covered period (8 weeks after loan proceeds disbursed)	Divided by	Average number of FTEs per month employed by the eligible recipient during the period beginning Feb. 15, 2019 and ending June 30, 2019
Option 2 for All	Average FTE in the covered period (8 weeks after loan proceeds disbursed)	Divided by	Average number of FTEs per month employed by the eligible recipient during the period beginning Jan. 1, 2020 and ending Feb. 29, 2020
Option 3 for Seasonal Employers	Average FTE in the covered period (8 weeks after loan proceeds disbursed)	Divided by	Average number of FTEs per month employed by the eligible recipient during the period beginning Feb. 15, 2019 and ending June 30, 2019 or a 12 week consecutive period between May 1, 2019 and September 15, 2019.

We recommend utilizing a spreadsheet in calculating FTE and baseline provided **HERE**:  
[https://drive.google.com/file/d/1\\_3JY7Xi81hz4zKFvB3moXF435PZrCqMs/view?usp=sharing](https://drive.google.com/file/d/1_3JY7Xi81hz4zKFvB3moXF435PZrCqMs/view?usp=sharing)

## **FTE SAFE HARBOR RULES:**

### **What if my employees refuse to return, requested a reduction in hours, or voluntarily resigned?**

This type of reduction would fall under a the FTE Safe Harbor: Indicate the FTE of (1) any positions for which the Borrower made a good-faith, written offer to rehire an employee during the Covered Period or the Alternative Payroll Covered Period which was rejected by the employee; and (2) any employees who during the Covered Period or the Alternative Payroll Covered Period (a) were fired for cause, (b) voluntarily resigned, or (c) voluntarily requested and received a reduction of their hours. In all of these cases, any FTE reductions in these cases do not reduce the Borrower's loan forgiveness.

### **Is there a safe harbor if I reduced my employees due to the COVID-19 disaster and was not able to restore my employee headcount during the 8 week covered period?**

A safe harbor under applicable law and regulation exempts certain borrowers from the loan forgiveness reduction based on FTE employee levels. Specifically, the Borrower is exempt from the reduction in loan forgiveness based on FTE employees described above if both of the following conditions are met: (1) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and (2) the Borrower then restored its FTE employee levels by not later than June 30, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020.

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### **Accounting for PPP Proceeds**

It is very important to keep detailed records of the uses of the PPP loan proceeds. These records will be submitted to your Lender, and the Lender will complete an application for forgiveness. Borrowers should keep the supporting documents for at least 6 years.

Tracking the expenses separately with appropriate documentation is necessary to maximize forgiveness and ensure compliance. We recommend utilizing a spreadsheet tracker such as the example provided **HERE**.

<https://drive.google.com/file/d/1E7faMyWXfj-oIEpOtc37ZiNgOBBFS92-/view?usp=sharing>

### **Record Keeping Tips for PPP**

The AICPA has provided tips in record keeping to ensure maximum forgiveness and compliance.

The following are records that should be kept by the employer to demonstrate eligible uses:

1. Payroll Tax Reports (2020 941 filing for the 8 week period)
2. Compensation Reports for the 8 week period, including General Ledger Reports and/or paystubs
3. Properly Identify and exclude employees that are compensated over \$15,385 or whose principal residence is outside of the USA
4. State and Local Tax Filings (SUTA) during the 8 week period
5. Average FTE calculation with applicable payroll records and/or time cards
6. Group Health Insurance Benefits paid by the Company (do not include those deducted from employee compensation)
7. Retirement Benefits paid by the Company (do not include those deducted from the employee compensation)
8. Utility Statements, Lease, and/or Mortgage Statement
9. Canceled checks, receipts, account statements or other documentation of payment for other eligible costs incurred and paid during the covered period such as mortgage interest, lease payments, utility payments. Note: these types of expenses must have been deducted on the 2019 Form 1040 Schedule C to be eligible for forgiveness.

### **Applying for Forgiveness:**

You must apply through your lender for forgiveness on your loan. In this application, you must include:

1. Documentation verifying the number of employees on payroll and pay rates, including IRS payroll tax filings and State income, payroll and unemployment insurance filings.
2. Documentation verifying payments on covered mortgage obligations, lease obligations, and utilities.
3. Certification from a representative of your business or organization that is authorized to certify that the documentation provided is true and that the amount that is being forgiven was used in accordance with the program's guidelines for use.

### **What if the entire amount of loan proceeds are not eligible for forgiveness?**

If any of the loan proceeds are not forgiven, they will carry forward as an ongoing loan. As set by the SBA, the current maturity and interest rate of the PPP loan is 2 years and 1% interest. Principal and interest will continue to be deferred, for a total of 6 months to a year after disbursement of the loan. The clock does not start again.

### **Can my 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. The actual amount of loan forgiveness will depend, in part, on the total amount of payroll costs, payments of interest on mortgage obligations incurred before February 15, 2020, rent payments on leases dated before February 15, 2020, and utility payments under service agreements dated before February 15, 2020, over the eight-week period following the date of the loan. However, not more than 25 percent of the loan forgiveness amount may be attributable to nonpayroll costs.

**The SBA has released the Paycheck Protection Program Forgiveness Application. The Application includes guidance and calculation methods in applying for forgiveness.**

<https://www.sba.gov/document/sba-form--paycheck-protection-program-loan-forgiveness-application>

**For Additional Guidance, please refer to SBA's Frequently Asked Questions.**

<https://www.sba.gov/document/support--faq-lenders-borrowers>