

You Received Your PPP Loan, Now What?

Applying for PPP Loan Forgiveness -

Applications for loan forgiveness will be processed by your lender. They'll provide you with instructions on where and how to apply. Your lender is required to respond to you within 60 days. If you are initially not approved or partially approved, you may request to provide additional documentation for their reconsideration. For any amount not forgiven, your outstanding balance will continue to accrue interest at 1%, for the remainder of the 2-year period. You can pay off the outstanding balance at any time with no prepayment penalty or additional fees



Forgivable Amount

You are eligible for forgiveness equal to sum of the following amounts expended during the Covered Period:

- Payroll costs—salary, wage, vacation, parental, family, medical, or sick leave, health benefits. (Payments to independent contractors cannot be included in the payroll costs).
- Mortgage interest—as long as the mortgage was signed before February 15, 2020 (does not include prepayment of or payment of principle).
- Rent—as long as the lease agreement was in effect before February 15, 2020.
- Utilities—as long as service began before February 15, 2020.

All expenses that fall under those categories **are eligible** for forgiveness. The Cares Act expressly excludes the PPP loan forgiveness from Federal taxable income.

Covered Period

The 8-week period for eligible expenses begins on the day the first payment was made by your lender. This is not necessarily the date on which you signed your loan agreement. You can only use the proceeds on eligible expenses incurred during the 8-week period. (Ex. You cannot use it to pay payroll for any work days prior to the date of funding.)

Reduction #1 - Based on the 75/25 Rule

Eligible non-payroll costs should not exceed 25% of your total PPP loan proceeds during the 8-week period. If your non-payroll costs exceed 25%, your forgivable amount will be reduced proportionately.

Reduction #2 - Based on Employee Headcount

You must maintain the same average number of full-time equivalent (FTE) employees per month for the 8-week period as you did in a prior period (See Exemption for Re-Hires below).

To calculate this amount you first need to determine the average number of FTE employees for each of the following periods:

- (1) The 8-week period,
- (2) February 15, 2019 to June 30, 2019, or
- (3) January 1, 2020 to February 29, 2020.

Divide (1) by (2) and then divide (1) by (3). Whichever gives you the greater number is your Quotient. (If you're a seasonal employer, you must divide by (1) by (3).

- If your Quotient is equal to or greater than 1 there will be no reduction.
- If your Quotient is a percentage less than 1 your forgivable amount will be reduced proportionately.

Reduction #3 - Based on Salary and Wages

The forgivable amount will be reduced by any reduction in total payroll determined on an employee by employee basis. The rule-of-thumb is you must maintain at least 75% of total salary or wages (not including employees that received more than \$100,000 in annualized pay in 2019) as compared to February 15, 2020. (See Exemption for Re-Hires below).

The reduction will be the amount equal to the difference between an employee's pay over the 8-week period and 75% of the pay they received during the most recent quarter in which they were employed.

Exemption - Re-Hires

In the event: 1) You reduced the number of FTE employees (through termination or furlough) during the period between February 15, 2020 and April 26, 2020 (as compared to February 15, 2020) and you hire and/or re-hire the same number of FTE employees by no later than June 30, 2020, Reduction #2 will be computed without regard to those re-hired FTE employees.

In the event: 2) You reduced the salary or wages of any one employee during the period between February 15, 2020 and April 26, 2020 (as compared to February 15, 2020) and you restored those salaries or wages no later than June 30, 2020, Reduction #3 will be computed without regard to those re-hired FTE employees.

Forgiveness For Self-Employed Individuals

You are entitled to use the PPP loan proceeds to replace lost self-employment income. The forgivable payroll cost amount will be equal to the eight weeks worth of your 2019 net profit, and will be eligible for forgiveness.

As for your eligible non-payroll cost, you must have claimed rent, mortgage interest, or utilities expenses as a deduction on your 2019 Schedule C (If you are currently working at home now, you are not eligible to claim home mortgage interest payments for forgiveness).

Records and Document to Substantiate Forgiveness

Good record-keeping and bookkeeping is essential for PPP loan forgiveness. You will need to keep track of your eligible payroll and non-payroll costs during the 8-week period. Some of the documents and reports you will need to provide with your PPP loan forgiveness application are (your lender may have additional requirements):

- Documents and reports confirming the number of FTE employees on payroll and their salary and wages:
 - Detailed payroll journals (if you use a payroll provider they will supply it for you)
 - Payroll tax filings (Form 941)
 - Income, payroll, and unemployment insurance filings from your state
 - Invoices and reports substantiating any retirement and health insurance contributions
- Records substantiating and validating any rent, mortgage interest and utility payments (canceled checks, payment receipts, account statements)

If you're a sole proprietor, you will need to provide your 2019 Schedule C. You'll also need to provide documentation proving the amount you spent on mortgage interest, rent, lease, and utilities.

Feel free to reach out to our team of experts with any questions or concerns.

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