



Paycheck Protection Program

You've got the loan... now what?

How you can spend the proceeds

<p>1. What expenses are allowed?</p>	<p>For the entire duration of the loan, the Act ONLY allows proceeds to be used on:</p> <ul style="list-style-type: none"> • Payroll costs (as defined in the Act and in Interim Rule 2.f. These costs include gross wages, retirement benefits, group health care benefits, and state unemployment tax.) • Real or personal property mortgage interest payments (but not mortgage prepayments or principal payments) • Rent payments (from existing leasing arrangements) • Utility payments • Interest payments on any other debt obligations that were incurred before February 15, 2020
<p>2. What's the time period to spend the proceeds?</p>	<p>You have 8 weeks to spend the funds. The eight-week period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The lender must make the first disbursement of the loan no later than ten calendar days from the date of loan approval.</p>

How the loan gets forgiven

<p>3. What expenses qualify for forgiveness?</p>	<p>All expenses listed above in question #1, EXCEPT "interest payments on any other debt obligations that were incurred before February 15, 2020." Interest payments on non-mortgaged property will not qualify for forgiveness.</p>
<p>4. What amount can be spent on non-payroll items?</p>	<p>The SBA's interim rule states that 75% of the qualifying expenses in the 8 week period needs to be spent on payroll costs. Therefore, expenses such as rent, utilities, and mortgage interest can only account for 25%.</p>
<p>5. What would reduce the amount forgiven?</p>	<p>The amount forgiven would be reduced if...</p> <ul style="list-style-type: none"> • More than 25% of the proceeds are spent on non-payroll costs (as noted above), • The average FTEs during the 8-week period was reduced compared to either the average from 2/15/19 – 6/30/19 OR the average from 1/1/2020 – 2/29/2020 (the borrower chooses the time period), or • Employee compensation is reduced more than 25% during the 8-week period compared to the most recent full quarter before that 8-week period.



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<p>6. What is the required payroll portion?</p>	<p>Since payroll is the biggest driver in the loan forgiveness calculation, it is important to know the number of FTEs you need to maintain as well as the minimum amount you need to spend on payroll if you're aiming to forgive 100% of the loan. For example, if you received a \$100,000, you would need to spend \$75,000 on payroll costs while maintaining 100% of your workforce in order to qualify for maximum loan forgiveness. There may be some strategies to maximize this amount in regards to the timing of pay dates and amount of gross wages. Please reach out so we can help you plan to get the most forgiven.</p>
<p>7. What amt. can be spent on other allowable expenses?</p>	<p>At this time, there is no guidance restricting prepayment of any non-payroll cost other than mortgage interest. For example, can you prepay a rent payment to maximize loan forgiveness? It's not clear at this time, but if you were going to pay the expense anyway, it may be advantageous to get that payment into the 8-week period. We anticipate further guidance on this particular issue.</p>

How to document the required forgiveness info

<p>8. What guidance currently exists re: documents?</p>	<p>The CARES Act expressly requires that borrowers be able to adequately document the use of the funds in order to obtain forgiveness and prohibits any forgiveness without such documentation. At this point, specific guidance is lacking, but if we have learned anything from the past, it's that once the initial chaos subsides and regulators have more time, they will focus their attention on creating stricter documentation requirements. Here's what the Act currently requires...</p> <ul style="list-style-type: none"> • Verification of FTEs on payroll and pay rates for the 8-week period AND the period chosen in question #5, including 941s and state unemployment returns. • Cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on expenses eligible for forgiveness. • Any other documentation the SBA determines necessary. <p>See our checklist here for the most recent listing.</p>
<p>9. What do I need to do with my accounting?</p>	<p>Because documentation is critical to the forgiveness piece, we suggest that borrowers segregate the funds and take steps to ensure that proper accounting mechanism are in place.</p> <ul style="list-style-type: none"> • Some banks may require opening a new bank account for the funds. This can be helpful for tracking all the qualified expenses and ensuring loan funds aren't comingled with operating funds. • For a number of reasons, it may not make sense to open a separate account. That's not a problem. One strategy you can employ is to utilize your accounting software to track the qualified expenses. For example, in QuickBooks, we suggest creating a sub-bank account in the Chart of Accounts. Click here for our summary of PPP best practices in QuickBooks.

Specific guidance has not been issued by SBA or the Treasury Department on the mechanics of the PPP loan forgiveness calculations. This document has been prepared based on information known at this time and is subject to change when such guidance is issued. Please reach out to one of our staff to assist in your loan strategies. Email info@skdocpa.com.