

PPP Forgiveness FAQ Library

Version 2. Updated 6/2/20 with new questions in red.

The FAQ library is categorized to make navigating this information as easy as possible. Should you have any additional questions about the Forgiveness process, please forward your question to pppsolutions@americanbb.bank. We will tabulate these questions semiweekly, share with Armanino, and provide an updated FAQ library every Tuesday and Friday. Questions deemed specific to individual businesses will receive a direct response the following respective Tuesday or Friday.

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- You have indicated that Profit-Sharing contributions for 2019 are not forgivable, but what about for the current year? Could we allocate 2 months' worth of what we contributed in 2019?
- For employees who were making more than the \$100,000 maximum allowance for PPP, do they have to be reinstated to their full payroll amount by June 30 (even if that amount was, for instance, \$250,000)?
- Our loan funded on April 20. Do I need to use the funds by June 14 (56 days), or, since my first payroll and use of the funds was for an April 30 payroll, does the 56 days start then?
- I came away from the last webinar with the understanding that only 75% of the amount that I spend on payroll could be eligible to be forgiven. Am I correct on this?
- For those whose income exceeds \$100,000 annually, do I use the 8/52 formula or, since I'm a semi-monthly payer, do I divide by the 24 equal payments I make over the course of the year?

- Can we include the entire April 30 payroll toward our forgiveness because it was paid after disbursement April 29, even though it includes payroll records for time worked prior to disbursement?
- Short-term and long-term disability are not allowable expenses, correct?
- We have union payroll and union benefit costs that we incur during our eight-week window that expires on June 10. Are both the union health and the union pension benefit qualified expenditures for payroll costs?
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- I drew down my line of credit and am making regular interest payments against that during the Covered Period. Can I use PPP funds to make those payments and will that be a forgivable expense?

Rent and Other Lease Expenses (pp. 15-16)

- My business pays rent every month to another business that I own which holds the real estate in an LLC. Can I include in my forgivable expenses my related party rent?
- My landlord charges me not only for the space that I occupy, but also for my portion of the building's property taxes, maintenance and common area charges. Can I include those in my rent cost?
- My business rents off-site storage to hold files and other business materials. Can I include the rent for that storage facility in my forgivable expenses?
- Can I prepay my third-quarter rent during the Covered Period and include it in my forgiveness request?
- Can I include leases that I pay for personal property, like copiers, in rental costs?
- My business leases several vehicles that we use for delivery and other purposes. Can I include the cost of those leases in my rental expense?

- We pay car leases and gas as monthly auto expenses for our sales team, all of which were in effect before PPP and are still active. Does this qualify for forgiveness either under leased equipment or transportation?
- We have leases on delivery trucks and the drivers who drive those trucks. We get charged weekly for the truck leases, mileage, diesel fuel and the hourly rate for the drivers. Can I include both the leasing costs for the truck as well as the leased employees? We pay a weekly bill to our transportation provider that includes the charges mentioned above.
- Our rent statement shows both base rent and expense recovery. Can I only use PPP funds to pay the base rent or can I also include expense recovery?

Utilities (pp. 17)

- What costs can be included in transportation expense for forgiveness purposes?
- My staff has been working from home where they have incurred internet access and telephone costs on behalf of my business. Can I reimburse them for that and include it in my forgiveness costs?
- Internet costs are forgivable. Can I include as part of that my software costs, dues, licenses, subscriptions, etc.?
- Can I pay for third-party IT Support and include it in internet costs and utilities?
- Are we allowed to include expenses related to disposal of all wastes/trash in our calculations for utilities?
- We received our PPP funds on April 20 and have an electric bill for generation from the period March 21 through April 20. This bill was paid with a check on May 11. Is this eligible for PPP funding based on paid date, or should we hold off for the payment that would coincide with generation from April 21 through May 20?
- Can we include the monthly charge for a company that is housing our servers for access through the "cloud", which includes the lease and the storage, as well as IT services (help desk) and licenses?

Self-employment (pp. 18)

- What is the wage maximum for people who are self-employed?
- Are owner distributions to S Corp owners and LLC members forgivable and included in income for owners on the loan forgiveness application?
- Can I include pay to my spouse in my loan forgiveness calculation?
- Are health insurance premiums for owners considered forgivable benefits expense?
- What is the definition of an owner who cannot submit their benefits expense as part of their loan forgiveness?
- Does the limitation on owner benefits apply to leaders in a not-for-profit organization?
- On the forgiveness application it specifically says that the owner's compensation should not go on table 1 or table 2 of Schedule A and should be listed elsewhere. Doesn't that hurt me when it comes to forgiveness calculations and possible Safe Harbor?
- The owners of the company make more than the capped \$15,385 for the eight weeks, so does this mean I should automatically not include their net healthcare costs and employer 401(k) contributions in the payroll costs for the forgiveness amount?

Disallowed Costs or Costs That Are Not Included in Payroll Costs (pp. 19-20)

- Can I include the costs for workers comp insurance, long-term care insurance or disability insurance?
- Can I include the cost of childcare benefits that I pay for my employees?
- Can I include educational reimbursements covered under Section 127?
- Can I include prepaid wages in payroll costs?
- Am I allowed to include in payroll costs the employer part of Social Security tax?
- Do I include in payroll costs the amount of benefits costs that I deduct from my employees' gross pay?
- Do I include in employer paid benefits costs the amount of benefits that my employee pays that I deduct from their paychecks?
- Can I submit my entire health insurance bill as a covered cost?
- I have many temporary employees who are part of my business but paid by a staffing agency. Can I include their costs?
- I am a not-for-profit that receives money in the form of a grant to pay for certain jobs that I have filled. Can I include those wages in my PPP forgiveness?
- I am required to pay union dues each pay cycle that include health insurance and non-health benefits for my union employees. Can I deduct all the union dues?
- Many of my salespeople earn commissions during the Covered Period, but they won't be paid until later. Can I include those accrued commissions as earned by the employee but not yet paid in my forgiveness calculation?
- Can I prepay health insurance premiums and count them in forgiveness costs?

Forgiveness Reduction Factors

Salary Reduction Calculation (pp. 21-22)

- Which employees do I put on table 1 and which employees do I put on table 2 of the PPP Schedule A worksheet? (correction noted)
- How do I figure out if the employee made more than \$100,000 in any one pay period in 2019?
- If I cut people's pay by less than 25%, does that count as a wage reduction?
- I cut people's pay by 30%. Do I have to take the entire 30% as my salary reduction calculation?
- How do I count overtime pay in the salary reduction factor calculation?
- Which periods do I compare for purposes of the salary reduction calculation?
- If we fired an employee during the loan period, but replaced them, do we have to take a salary reduction penalty for the employees we let go, even though our employee count remained constant?
- When looking at Step 1 of the Instructions for the PPP Schedule A Worksheet to determine if pay was reduced more than 25%, both line A and line B say to enter the hourly wage during the Covered Period. That seems to be asking for the wage per hour versus the total of all wages. We did not change anyone's hourly rate but did reduce weekly hours from 55 to 40 hours per week. In comparing 1Q20 versus the Covered Period, are we looking at overall wages OR the hourly rate a person was getting during that time regardless of the number of hours?

FTE Reduction Factor (pp. 23-24)

- Our work week is 35 hours and we consider that full-time. Do we still need to use 40 hours as an FTE?
- I have two employees who asked for and were granted reduced work schedules during the Covered Period. Does that count as a headcount reduction?
- I had an employee go out on disability and another one take maternity leave. Does that count against me as an FTE reduction?
- I had to terminate two individuals for cause during the Covered Period. Does that count against my FTE reduction?
- I had an employee resign. I tried to replace them during the Covered Period but did not succeed in finding a qualified candidate. Will this count against me as an FTE reduction?
- I furloughed employees but did not lay them off. Does that count against my FTE reduction factor?
- I had several employees who went out on leave under the Families First Coronavirus Relief Act. Do I have to count those people as reduced FTEs?
- When do you use the alternative FTE method of 1.0 and 0.5?
- Can I use the calculation method for part-time employees to determine FTEs if they work more than 20 hours per week and use the 0.5 simplified method for any part-time employees who work less than 20 hours per week?
- Can I use one method for the Covered Period and a different method for the baseline period for purposes of comparing my FTE reduction calculation?
- Can I just use my employee count that I used for my loan application?
- **Our eight-week period for the PPP loan ends on June 14. Based on this would it be safe to make staff reductions as of June 15? Or do we need to wait until June 30?**
- **Do I calculate FTE by taking the total hours worked across the entire eight weeks and dividing by eight? Or do I use only the last week of the eight weeks? Or something else?**
- **What happens if, now that work has not returned, employees are let go after June 30?**

Safe Harbor for Forgiveness Reduction Factors (pp. 25)

- If I rehire people by June 30 does that get me Safe Harbor from the FTE reduction calculation?
- I reduced my staff on May 1 and my Covered Period began May 5. After receiving my PPP funds, I hired my staff back on June 1 and kept them through June 30. Does that give me Safe Harbor?
- Do I qualify for Safe Harbor if I restore my FTE count on June 29?
- If I hire more people and didn't reduce any wages, do I have to fill out the salary and hourly wage reduction and FTE reduction calculations in the application?

Safe Harbor for Demonstrating Need for the Loan (pp. 26)

- My loan was for less than \$2 million. Does that mean I will not get audited?
- I borrowed more than \$2 million. I understand that means I will absolutely be audited, but what do I need to do to prepare for that?

Other (pp. 27-28)

- What do they mean when they say, “paid and incurred”?
- What documentation will I be required to submit to the bank with my forgiveness application?
- I’ve heard that a best practice for a business is to keep the PPP money in a separate bank account. Is this required, or could I just put my money into a separate cash account in my general ledger and keep track of it that way?
- There are many changes to the PPP program being suggested in the HEROES Act, specifically extensions on the time to use funds. When do you think those changes will come into effect and will it affect me?
- How much time do I have after the end of my Covered Period to file my forgiveness application?
- If I don’t use all my money, do I have to give it back?
- Can I prepay my loan balance?
- Are there any restrictions on the use of any money that I have left over during the remainder of the two-year term of the loan?
- Is the amount of the loan that I have forgiven considered taxable income?
- **Our Covered Period started on a Friday. What constitutes a week?**
- **Should I still consider my initial 56 days as the deadline for my spending or should I count on the new bill to pass, extending the eight weeks to 24 weeks?**
- **In the webinar, the forgiveness calculation examples for ABC Co. and XYZ Co. included three potential forgiveness figures, of which the lowest would be the forgiven amount. Since one of these forgiveness figures was based solely on the payroll costs, does this mean that rent and utilities can never be included in the final forgiven figure?**

Other CARES Act Loans (pp. 29)

- Am I eligible for Title IV, also known as Main Street loans, if I have a PPP loan and when can I get one?
- I have a PPP. Can I also have an EIDL loan?

FAQ LIBRARY

Allowable Expenses

Payroll Costs

What is allowed in payroll costs?

Gross wages without any other deductions for benefits or for taxes that the employee pays, state tax expense paid by the employer, health insurance benefits paid by the employer, and retirement plan benefits paid by the employer.

Can you clarify covered payroll costs? Are they based on the date that the money was disbursed from the employer's cash account, or is it the date that the employees earned the money? Or is it the date on which the employee actually received their paycheck?

All three of those things can apply, providing you never pay an employee twice for the same hour or same period:

- Any payroll cost paid during the Covered Period may be included in the forgiveness application (example: I received my funds on April 28. I paid my payroll on April 30 covering the period of April 15 to April 30.) This is allowable under the rule that allows costs based on the date that the paychecks were distributed.
- At the end of your Covered Period, you may include payroll costs that have been paid to the payroll provider but not yet paid to your employees (example: your Covered Period ends June 14, with a payroll due on June 15, and you funded the payroll to your payroll provider on June 12.) This too is allowable.
- At the end of your Covered Period, your employees have earned pay that has not yet been paid but will be in your next regular payroll run. (example: you pay your payroll semi-monthly on the 15th and 30th, and your Covered Period ends June 24. You may include in your forgiveness application the payroll costs incurred, but not yet paid, for the period from June 15 to June 24.)

The alternative payroll schedule is an option that people can choose. Who is an eligible employer to choose the alternative payroll schedule?

Eligible employers have either a bi-weekly payroll schedule or one that is more frequent, such as weekly. Bi-weekly means that you pay payroll every two weeks, or 26 pay periods per year. This does not apply to employers that have fewer than 26 pay periods per year, such as semi-monthly (example: payday on the 15th and last day of the month) or monthly payers.

If I choose an alternative Covered Period for my payroll costs, how do I calculate my payroll schedule for the forgiveness application?

The alternative payroll schedule ensures you don't have to move your pay dates to match your Covered Period and enables you to more easily calculate costs for the forgiveness application. If your payroll schedule starts four days after your loan is funded, you can start counting your eight-week covered payroll on the first day of the next pay period (example: your loan funds on May 6 and your next pay period starts on May 11, you can start your eight-week Covered Period on May 11 for Payroll Cost purposes only). You may not change your Covered Period dates for non-payroll costs.

I have employees who have earned pay between the time of my last payroll and the end of my Covered Period. Can I count that cost in my payroll costs?

Yes.

What is the process I should use to accrue wages and other payroll costs at the end of my Covered Period that will be paid in the next payroll following the Covered Period?

To properly accrue for and document earned wages at the end of your loan period that have not been paid but will be paid in the next payroll cycle, you should prepare a schedule that shows:

- For hourly workers: hours worked in that accrual period and rate of pay
- For salaried workers: their annual rate of pay divided by 365 to get their daily pay rate, then multiplied by the number of days between the final payroll and the end of the Covered Period

In calculating payroll costs is there a maximum I can apply to any one person?

Yes. The wage maximum is \$100,000 annually per person, or, prorated for the eight-week Covered Period, \$15,385 per person on the forgiveness application.

Does that \$100,000 maximum per person include other fringe benefit costs?

Fringe benefits are not included in the \$100,000 cap. The \$100,000 annual maximum (or \$15,385 during the Covered Period) applies only to the gross salary or wages earned by the employee and does not include any benefits or other additional payroll costs.

Many of my employees have earned a bonus beyond their salaries during the Covered Period. Can I pay those?

Yes. Any regular payments of wages, commissions, or bonuses can be included and may be forgiven up to the \$100,000 per person annual limit prorated for the eight weeks, meaning maximum pay during the Covered Period of \$15,385 per person.

Can I change my policy and begin paying 100% of my employees' health benefits?

Yes. Technically you could cover a larger share of your employees' health benefits during the Covered Period and submit it for forgiveness.

I pay state taxes on compensation that I paid to my employees. Can I include that in the forgiveness calculation?

Yes. State taxes that are the employer's cost can be included in the forgiveness calculations.

I laid people off during the Covered Period and paid them severance and their accrued PTO. Can I include that in the payroll costs for forgiveness?

Yes. Paid time off and severance payouts to employees can be included in wages up to the limit of \$15,385 per person in the eight-week period. However, keep in mind that eliminating those positions will also affect your FTE count in determining forgiveness reductions.

If I don't spend 75% on payroll during the Covered Period, am I eligible for any forgiveness at all?

Yes, you are. One of the calculations that's required to determine your forgiveness amount is to take the total amount that was spent on payroll and divide by 0.75. You compare this amount to your modified forgiveness total that was calculated through other processes and choose the smaller of the two to determine your total forgiveness amount.

Do I have to spend 75% of my forgiveness expenses on payroll or 75% of my total loan expenses on payroll, or both?

According to guidance from the SBA interim final rules, the answer is both. The guideline is 75% or more of the forgiveness amount, which is the amount spent during the Covered Period, must be spent on payroll in order to maximize forgiveness. A separate interim final rule notice also specifies that 75% of the total loan proceeds are to be spent on payroll. This would apply to any loan amount that is carried over beyond the Covered Period.

I had accrued bonuses from my fiscal year end of February 29. For decades, we have paid those bonuses out in early May. Since our PPP loan got funded in late April, should I back out all of those bonuses for loan forgiveness since they were actually earned in February, but will show up during my eight-week PPP payroll records?

You should include them as a normal business practice which you can demonstrate through historical records.

You have indicated that Profit-Sharing contributions for 2019 are not forgivable, but what about for the current year? Could we allocate 2 months' worth of what we contributed in 2019?

Yes, but only if you make the Profit-Sharing contribution during the Covered Period or in the next pay cycle following the Covered Period.

For employees who were making more than the \$100,000 maximum allowance for PPP, do they have to be reinstated to their full payroll amount by June 30 (even if that amount was, for instance, \$250,000)?

No. Those employees are not subject to the salary reduction factor because they made more than \$100,000 in 2019.

Our loan funded on April 20. Do I need to use the funds by June 14 (56 days), or, since my first payroll and use of the funds was for an April 30 payroll, does the 56 days start then?

As a semi-monthly payer, you do not have access to the Alternative Covered Period concept. Your 56 days began the date you received the funds for both payroll and non-payroll costs.

I came away from the last webinar with the understanding that only 75% of the amount that I spend on payroll could be eligible to be forgiven. Am I correct on this?

No, that is incorrect. At least 75% of the amount you spend must be on payroll in order to maximize forgiveness. If you spend less than 75% on payroll costs, the non-payroll costs portion of your forgiveness amount will be reduced to a level that makes the payroll costs equal to 75% of your revised forgiveness total. Every payroll dollar will count toward forgiveness except for any amounts paid in excess of \$15,385 to any single employee.

For those whose income exceeds \$100,000 annually, do I use the 8/52 formula or, since I'm a semi-monthly payer, do I divide by the 24 equal payments I make over the course of the year?

Use the 8/52 formula for each employee regardless of your payroll schedule. This amount maximizes the forgivable total of salary or wages for each employee at \$15,385.

Can we include the entire April 30 payroll toward our forgiveness because it was paid after disbursement (April 29), even though it includes payroll records for time worked prior to disbursement?

Yes, any payroll paid during the Covered Period counts toward forgiveness.

Short-term and long-term disability are not allowable expenses, correct?

This is correct.

We have union payroll and union benefit costs that we incur during our eight-week window that expires on June 10. Are both the union health and the union pension benefit qualified expenditures for payroll costs?

Yes, all contributions to health insurance and pension programs for your employees are to be included in payroll costs for the forgiveness calculation.

In the webinar, there was discussion around the \$100,000 maximum annual compensation and when to include it in certain calculations. I'm confused as to whether the \$100,000 should be subtracted altogether or just the amount over \$100,000?

There are two places where this comes into play: payroll costs and the salary reduction factor. For purposes of calculating payroll costs, you include all employees no matter what they are paid, but for those paid over \$100,000 you may only count gross salary paid up to \$15,385 during the Covered Period. Any pay over that amount will not be forgiven. For purposes of calculating the salary reduction factor, you exclude those highly paid employees from the calculation altogether.

Retirement

Do contributions to an employee stock ownership plan, or ESOP, qualify as retirement benefits when computing the forgivable amount of a PPP loan?

In general, yes. Contributions to an ESOP are considered tax contributions to a qualified retirement plan. Contributions should be forgivable if paid within the eight-week Covered Period.

What types of tax-deductible ESOP contributions may be considered retirement benefits for forgiveness?

ESOP contributions may include cash contributed to the plan, which is used to make a payment on a loan, or cash contributed to the plan for any purposes permitted under the plan document, or stock contributions to the plan.

How much of the ESOP contribution paid within the eight-week period counts toward forgiveness?

There isn't clear guidance on this yet. It's unknown if the full amount of the ESOP contribution is forgivable, or if only a pro-rated eight weeks of an annual contribution will be forgiven. It's possible the SBA will issue further guidance on this in the coming weeks.

Can I make my profit-sharing contribution for 2019 in the Covered Period and include it in my forgiveness calculation?

No. To be forgivable, any profit-sharing contributions that you make should be related to the eight-week Covered Period. Our interpretation is that retirement plan expenses should be both paid and incurred in the eight-week period that is covered.

How about a defined benefit plan paid at the end of the year as an annual payment?

A defined contribution plan is just like any other retirement plan, and if you can allocate the portion that is attributable to the eight-week period now, if it's calculable, you could do that. You could put it in your forgiveness calculation, but you would also have to fund it and pay it so that it was both earned and paid in the Covered Period.

Can owner retirement contributions be included in the forgiveness calculations?

For self-employed people generally, the answer is no. If an owner is on payroll in a corporation, receives a W-2, contributes to their own retirement and the company matches their contributions, the portion that is the employer matching expense can be included in the forgiveness calculation.

Will my matching 401(k) contributions to my employees count for forgiveness?

Yes. The employer cost that is 401(k) match expense can be included.

Can I prepay during my Covered Period future 401(k) matching contributions and get forgiveness?

No. The 401(k)-match expense should be applicable to the eight-week Covered Period and not to a future period.

Mortgage and Other Debt

Are mortgage expenses allowable?

Yes, so long as they were in place prior to February 15, 2020 for real estate or other personal property associated with the business.

I see my mortgage payment is an allowable use of PPP funds; however, what portion of that is actually forgivable?

You may use PPP funds to pay eligible mortgage expenses; however, only the interest portion of that will be considered a forgivable expense. All principal payments made with the PPP money will not be forgiven.

I have some non-mortgage debt. Can I use PPP funds to pay interest on payments to a former owner that I'm paying off or buying out?

Payments of other business debt that is non-mortgage related is an allowable use of PPP funds; however, none of those payments will be considered forgivable expenses.

I drew down my line of credit and am making regular interest payments against that during the Covered Period. Can I use PPP funds to make those payments and will that be a forgivable expense?

Yes. You may use PPP funds to pay non-mortgage related debt; however, none of those payments will be included in forgivable expenses.

Rent and Other Lease Expenses

My business pays rent every month to another business that I own which holds the real estate in an LLC. Can I include in my forgivable expenses my related party rent?

Yes. That is a forgivable rent expense so long as:

- There is a written agreement
- It has not changed during the course of the Covered Period
- It was in place prior to February 15, 2020

My landlord charges me not only for the space that I occupy, but also for my portion of the building's property taxes, maintenance and common area charges. Can I include those in my rent cost?

No. Only rent is an allowable and forgivable expense. If the bill from the landlord clearly includes maintenance, common area maintenance charges, property taxes and insurance, those charges should be stripped out of the PPP request for forgiveness.

My business rents off-site storage to hold files and other business materials. Can I include the rent for that storage facility in my forgivable expenses?

Yes, so long as the storage unit rental was in place prior to February 15, 2020. Remember to provide your rental agreement for that storage space as documentation.

Can I prepay my third-quarter rent during the Covered Period and include it in my forgiveness request?

No. Remember, the intent of the program is to pay two months of rent, and the rent expense needs to be paid or incurred in this period.

Can I include leases that I pay for personal property, like copiers, in rental costs?

Yes. Leases of personal business property are included in the forgiveness calculation.

My business leases several vehicles that we use for delivery and other purposes. Can I include the cost of those leases in my rental expense?

Yes. Business vehicle leases are an acceptable use of PPP funds and are included in the PPP calculations for forgiveness.

We pay car leases and gas as monthly auto expenses for our sales team, all of which were in effect before PPP and are still active. Does this qualify for forgiveness either under leased equipment or transportation?

Yes, but in separate categories. The car leases should go in the Rent and Other Lease Expenses category while the gas expense should go under Transportation in the Utilities category.

We have leases on delivery trucks and the drivers who drive those trucks. We get charged weekly for the truck leases, mileage, diesel fuel and the hourly rate for the drivers. Can I include both the leasing costs for the truck as well as the leased employees? We pay a weekly bill to our transportation provider that includes the charges mentioned above.

Trucks and fuel are okay, leased employees are not. If all costs are combined into one amount without any supporting detail, you will need to provide an estimate for the amount that relates strictly to the truck lease and fuel costs.

Our rent statement shows both base rent and expense recovery. Can I only use PPP funds to pay the base rent or can I also include expense recovery?

You can only include the Base Rent in the forgiveness calculation, not the Expense Recovery portion of your monthly payment.

Utilities

What costs can be included in transportation expense for forgiveness purposes?

The only SBA guidance that has been issued thus far relates to self-employed individuals, and it states that gas which is used for driving a business vehicle is a forgivable use of PPP loan proceeds. There has been no further guidance to define the transportation costs, such as vehicle maintenance expense or other costs associated with owning a vehicle. Those have not been defined as being either forgivable or not forgivable yet.

My staff has been working from home where they have incurred internet access and telephone costs on behalf of my business. Can I reimburse them for that and include it in my forgiveness costs?

In terms of forgiveness, you can submit for those costs providing that was your habit before February 15, 2020 as well.

Internet costs are forgivable. Can I include as part of that my software costs, dues, licenses, subscriptions, etc.?

No.

Can I pay for third-party IT Support and include it in internet costs and utilities?

No.

Are we allowed to include expenses related to disposal of all wastes/trash in our calculations for utilities?

No, these costs are not specified as a utility expense.

We received our PPP funds on April 20 and have an electric bill for generation from the period March 21 through April 20. This bill was paid with a check on May 11. Is this eligible for PPP funding based on paid date, or should we hold off for the payment that would coincide with generation from April 21 through May 20?

Because you paid the bill during the Covered Period, even though it was for a consumption period that pre-dated your Covered Period, you are allowed to include this cost.

Can we include the monthly charge for a company that is housing our servers for access through the "cloud", which includes the lease and the storage, as well as IT services (help desk) and licenses?

No. Utilities costs guidance specifies that only internet access costs are to be included for IT.

Self-employment

What is the wage maximum for people who are self-employed?

Self-employed people are also subject to the \$100,000 per year maximum, or \$15,385 for the forgiveness application. If a self-employed person filed a Schedule C on their 2019 tax return (meaning that they're a sole proprietor or a single member LLC), the net profit on the Schedule C for that self-employed person is used to calculate the maximum allowable payroll cost for forgiveness. The rule allows for 8/52 of 2019 net profit, up to the maximum \$15,385. The 2019 Schedule C is required documentation for loan forgiveness in this instance.

Are owner distributions to S Corp owners and LLC members forgivable and included in income for owners on the loan forgiveness application?

No. Only self-employment income is to be included in the loan forgiveness.

Can I include pay to my spouse in my loan forgiveness calculation?

If your spouse is truly an employee and performing duties to the organization, the answer is yes. Be prepared to show that your spouse was a part of your staff before the loan was given to you or show that your spouse is filling in for someone who has refused employment.

Are health insurance premiums for owners considered forgivable benefits expense?

No, not for self-employed persons who report their income on a Schedule C because they're sole proprietors, nor for those who report their self-employment earnings on an S Corp return, or those who are owner-members of an LLC.

What is the definition of an owner who cannot submit their benefits expense as part of their loan forgiveness?

The definition here applies specifically to LLC owners, S Corp owners and sole proprietorships, specifically pass-through entities.

Does the limitation on owner benefits apply to leaders in a not-for-profit organization?

No, because technically not-for-profit organizations do not have owners.

On the forgiveness application it specifically says that the owner's compensation should not go on table 1 or table 2 of Schedule A and should be listed elsewhere. Doesn't that hurt me when it comes to forgiveness calculations and possible Safe Harbor?

The amount paid to owner employees or self-employed individuals or general partners does not go in either table 1 or table 2 of the PPP Schedule A worksheet; instead, that compensation is listed on line 9 of the PPP Schedule A under the heading "Compensation to Owners" and is included in total payroll costs which are summed on the next line.

The owners of the company make more than the capped \$15,385 for the eight weeks, so does this mean I should automatically not include their net healthcare costs and employer 401(k) contributions in the payroll costs for the forgiveness amount?

This is correct, though it is not dependent on the amount the owners are paid. Regardless of their pay, their healthcare costs and 401(k) contributions are not to be included in payroll costs unless they are owners in a C corporation who are paid as employees.

Disallowed Costs or Costs That Are Not Included in Payroll Costs

Can I include the costs for workers comp insurance, long-term care insurance or disability insurance?

No. You cannot include workers comp, long-term care or voluntary paid disability insurance.

Can I include the cost of childcare benefits that I pay for my employees?

No.

Can I include educational reimbursements covered under Section 127?

No. Those are not taxable wages.

Can I include prepaid wages in payroll costs?

No. Wages included should be earned and/or paid in the applicable loan coverage period. It would be inappropriate, for example, to prepay fourth-quarter wages in the loan coverage period.

Am I allowed to include in payroll costs the employer part of Social Security tax?

No. The employer part of Social Security tax (also known as FICA) is not to be included in the expenses for payroll when considering loan forgiveness.

Do I include in payroll costs the amount of benefits costs that I deduct from my employees' gross pay?

Those costs are already included in their gross pay and should not be deducted from your forgiveness calculation.

Do I include in employer paid benefits costs the amount of benefits that my employee pays that I deduct from their paychecks?

No. In this category, you only include the portion of benefits that are actually paid by the employer. The employee portion paid via a payroll deduction is already included in the employee's gross pay calculation.

Can I submit my entire health insurance bill as a covered cost?

No. The bill should be apportioned between the part that is employer cost, which is covered, and employee cost, which is already included in their gross pay calculated elsewhere. Counting the entire health insurance cost would result in "double-dipping" by counting the employee portion twice.

I have many temporary employees who are part of my business but paid by a staffing agency. Can I include their costs?

No. That is a vendor bill and not an employee payment. You can only include W-2 employees that are on your Form 941 payroll returns.

I am a not-for-profit that receives money in the form of a grant to pay for certain jobs that I have filled. Can I include those wages in my PPP forgiveness?

No, because those wages have been covered and earmarked and will be reported as paid for by another entity, they should not be part of your PPP forgiveness.

I am required to pay union dues each pay cycle that include health insurance and non-health benefits for my union employees. Can I deduct all the union dues?

No. Only include the portion of union dues that relate to employee benefit costs for health, retirement and leave. You cannot include other costs such as membership, apprenticeship or industry advancement costs that are also part of the union dues you pay.

Many of my salespeople earn commissions during the Covered Period, but they won't be paid until later. Can I include those accrued commissions as earned by the employee but not yet paid in my forgiveness calculation?

You may include those costs only if the commissions are paid during the next payroll cycle following the end of the Covered Period.

Can I prepay health insurance premiums and count them in forgiveness costs?

No. The intent of this program is to cover health insurance premiums related to wages paid during the Covered Period and not in other periods.

Forgiveness Reduction Factors

Salary Reduction Calculation

Which employees do I put on table 1 and which employees do I put on table 2 of the PPP Schedule A worksheet?

Only put on table 1 those employees who, during *any* pay period in 2019, earned less than \$100,000 at an annualized rate. Also list any employees hired during 2020 on table 1. All employees who earned more than \$100,000 annualized in *any* pay period in 2019 go in table 2. (NOTE: This response includes a correction to our previous answer. The correction changes table 1 to reflect those employees who earned “less than” \$100,000 in 2019.)

How do I figure out if an employee made more than \$100,000 in any one pay period in 2019?

For each employee, find the maximum amount that they earned in any pay period in 2019 and multiply that gross wage by the number of pay periods that you had in 2019. For example, exclude anyone who:

- Earned more than \$8,333 in any pay period for a monthly payer (12 pay cycles)
- Earned more than \$4,167 in any pay period for a semi-monthly payer (24 pay cycles)
- Earned more than \$3,846 in any pay period for a bi-weekly payer (26 pay cycles)
- Earned more than \$1,923 in any pay period for a weekly payer (52 pay cycles)

If I cut people's pay by less than 25%, does that count as a wage reduction?

Only salary and wage reductions that were greater than 25% need to be calculated for purposes of the salary reduction factor.

I cut people's pay by 30%. Do I have to take the entire 30% as my salary reduction calculation?

No. You only count the portion that was greater than the 25% cut. So, in this example you would only use 5% (30% minus 25%) and not the full 30%.

How do I count overtime pay in the salary reduction factor calculation?

Overtime pay and standard time pay are equivalent in this calculation. For salaried people, salary and bonus compensation are also equivalent for purposes of the salary reduction. The calculation is looking at total compensation on an average basis during the Covered Period versus total compensation during the baseline period and comparing the two.

Which periods do I compare for purposes of the salary reduction calculation?

Compare the average salary and wage made for each employee during the Covered Period with the average salary or wage that they earned during the first quarter of 2020 from January 1 through March 31.

If we fired an employee during the loan period, but replaced them, do we have to take a salary reduction penalty for the employees we let go, even though our employee count remained constant?

While there is no specific guidance yet issued on this point, our interpretation is no. Employees who were fired for cause are excluded from the FTE reduction calculation if the position was not backfilled — they get listed at the bottom of Table 1 on the Schedule A Worksheet. If the position was backfilled, then there is not a significant impact to the number of FTEs. It follows that this should be the case for the salary reduction factor as well, in consideration of the spirit of the CARES Act.

When looking at Step 1 of the Instructions for the PPP Schedule A Worksheet to determine if pay was reduced more than 25%, both line A and line B say to enter the hourly wage during the Covered Period. That seems to be asking for the wage per hour versus the total of all wages. We did not change anyone's hourly rate but did reduce weekly hours from 55 to 40 hours per week. In comparing 1Q20 versus the Covered Period, are we looking at overall wages OR the hourly rate a person was getting during that time regardless of the number of hours?

Correct, it asks for "hourly wage", meaning the rate per hour that you pay. Because you did not lower anyone's hourly rate during the Covered Period as compared to Q1 2020, there is no Safe Harbor necessary or available to you. Furthermore, you had no employees with their hourly wage reduced by over 25%, so you will have no reduction factor to apply. On the other hand, had you actually had some employees whose average rate per hour did decline by more than 25%, then you would need to go through the Safe Harbor calculation (to see if you have that available to you), and if not, you'd have to go through the salary/wage reduction factor calculation which is where the impact of your Q1 overtime hours would show up — In this calculation, you multiply the amount of the hourly rate that exceeds a 25% reduction by the average hours worked during Q1, not during the Covered Period.

FTE Reduction Factor

Our work week is 35 hours and we consider that full-time. Do we still need to use 40 hours as an FTE?

Yes. The definition of FTE for purposes of the forgiveness application is a 40-hour work week; however, you are also calculating FTEs in a baseline period for comparison in the FTE reduction calculation. In both cases, if an employee worked 35 hours in the baseline period and 35 hours in the Covered Period, they would equal each other at 0.875, or rounded to 0.9 FTEs, which would not result in a reduction.

I have two employees who asked for and were granted reduced work schedules during the Covered Period. Does that count as a headcount reduction?

Any employee who voluntarily requested and received a reduction of their hours does not count as an FTE reduction. You should list them at the bottom of table 1 on the line that says "FTE reduction exceptions" in box two and include their average FTE prior to the reduced work schedule going into place. For example, they worked 32 hours per week on average normally, but following their voluntary reduction they were down to 16 hours a week. You should enter 0.8, or 32/40 in box two for that employee.

I had an employee go out on disability and another one take maternity leave. Does that count against me as an FTE reduction?

There is not specific guidance that has been issued to date in either the FAQs, the IFRNs or the loan forgiveness application itself that specifically addresses disability and maternity leaves. It is possible that these qualify as "voluntarily reduced hours" but that is not clear. We expect additional guidance to be forthcoming.

I had to terminate two individuals for cause during the Covered Period. Does that count against my FTE reduction?

Any employees who were fired for cause or voluntarily resigned and were not backfilled during the Covered Period will not count against your FTE reduction calculation. You should enter those positions as an FTE reduction exception at the bottom of table 1 for box 2 if during any period in 2019 they did not earn an annualized rate greater than \$100,000.

I had an employee resign. I tried to replace them during the Covered Period but did not succeed in finding a qualified candidate. Will this count against me as an FTE reduction?

No. In the case of an individual fired for cause or who voluntarily resigned, it will not count against you if the position was not filled by a new employee. In such case you should enter the position as an FTE reduction exception at the bottom of table 1 and count the FTE value in box 2 only if the person who left earned less than \$100,000 on an annualized basis during any single pay period in 2019.

I furloughed employees but did not lay them off. Does that count against my FTE reduction factor?

Yes, it counts. Furloughs and layoffs are given equal treatment in the Paycheck Protection Program for purposes of the FTE reduction calculation.

I had several employees who went out on leave under the Families First Coronavirus Relief Act. Do I have to count those people as reduced FTEs?

No, you do not. You would put those down as FTE reduction exceptions at the bottom of table 1 in box 2, so long as those people earned in any pay period in 2019 an annualized amount less than \$100,000.

When do you use the alternative FTE method of 1.0 and 0.5?

This is the borrower's choice. You may do the average calculations on each FTE to determine the FTE count of your part-time employees or you may simply adopt 0.5 for each part-time employee and total those. Choose the larger of the two for your FTE reduction calculation.

Can I use the calculation method for part-time employees to determine FTEs if they work more than 20 hours per week and use the 0.5 simplified method for any part-time employees who work less than 20 hours per week?

No. You can only use one method.

Can I use one method for the Covered Period and a different method for the baseline period for purposes of comparing my FTE reduction calculation?

No. You may only use one method for both periods.

Can I just use my employee count that I used for my loan application?

No. You have to use an FTE count in this analysis for forgiveness. Headcount is not the same as FTE count.

Our eight-week period for the PPP loan ends on June 14. Based on this would it be safe to make staff reductions as of June 15? Or do we need to wait until June 30?

You would be safe to reduce staff on June 15 without impact to your forgiveness calculations.

Do I calculate FTE by taking the total hours worked across the entire eight weeks and dividing by eight? Or do I use only the last week of the eight weeks? Or something else?

Something else. You can only use a maximum of 40 hours per week for each employee, so overtime does not count. Total those hours and divide by eight to get the average work week. Take this number and divide by 40 to get the FTE calculation for each employee.

What happens if, now that work has not returned, employees are let go after June 30?

Layoffs after June 30 will not affect your forgiveness calculations.

Safe Harbor for Forgiveness Reduction Factors

If I rehire people by June 30 does that get me Safe Harbor from the FTE reduction calculation?

The Safe Harbor rule for FTE reduction applies only to the average FTEs that a borrower had between February 15 and April 26 and compares that number to the FTEs that the business had during the February 15 pay period. If the average during the February 15 to April 26 period is less than the February 15 FTE amount, then the Safe Harbor applies if the February 15 FTE count was restored as of June 30.

I reduced my staff on May 1 and my Covered Period began May 5. After receiving my PPP funds, I hired my staff back on June 1 and kept them through June 30. Does that give me Safe Harbor?

No. The Safe Harbor only applies to the calculation related to FTEs from February 15 to April 26 being less than FTEs at February 15. Those are the only dates that apply to Safe Harbor.

Do I qualify for Safe Harbor if I restore my FTE count on June 29?

Yes, so long as your FTE count between February 15 and April 26 on average is less than your FTE count at February 15.

If I hire more people and didn't reduce any wages, do I have to fill out the salary and hourly wage reduction and FTE reduction calculations in the application?

Yes. Do not leave this section blank. You would simply put a 1.0 indicating Safe Harbor was met on line 13 of the Schedule A, and you would put zero on line 3 in Schedule A for the salary and hourly wage reduction and check the box in the line 3 text.

Safe Harbor for Demonstrating Need for the Loan

My loan was for less than \$2 million. Does that mean I will not get audited?

The \$2 million Safe Harbor rule applied only to the certification of need for the loan at the time that you applied for the loan. That Safe Harbor rule does not apply to any review or audit that may be conducted on the use of funds during the Covered Period or subsequent forgiveness.

I borrowed more than \$2 million. I understand that means I will absolutely be audited, but what do I need to do to prepare for that?

You need to be prepared to show your rationale for the original loan application, because you will need to certify that you had a need for the funds due to economic uncertainty. Separately, you should also gather and keep all the documentation necessary to substantiate your use of funds because that is a separate audit which you're also likely to undergo. You need to keep all of this documentation for six years.

Other

What do they mean when they say, “paid and incurred”?

Expenses paid during the covered loan period are eligible for forgiveness provided they are paid *or* incurred. If you have paid something related to the eight-week period, it's covered. If there is an expense that is incurred at the end of your loan coverage period which you pay in the next payment cycle, you can also get that expense covered.

What documentation will I be required to submit to the bank with my forgiveness application?

The bank will provide you a very specific list along with instructions for completing the application for forgiveness near the end of your Covered Period. According to the forgiveness application produced by the SBA, on page 10 there's a complete list of documents that each borrower must submit with the application as well as other documents that the borrower must maintain but is not required to submit. This documentation includes support for payroll costs, including tax forms such as a 941, as well as documentation for FTE calculations and all non-payroll costs.

I've heard that a best practice for a business is to keep the PPP money in a separate bank account. Is this required, or could I just put my money into a separate cash account in my general ledger and keep track of it that way?

It is not required to set up a separate bank account to hold your PPP money. You can keep track of it in your accounting records to provide a clean audit trail.

There are many changes to the PPP program being suggested in the HEROES Act, specifically extensions on the time to use funds. When do you think those changes will come into effect and will it affect me?

There are several pieces of proposed legislation being discussed in Washington, including the HEROES Act, that could have a significant impact on the terms of the PPP program, such as an extension of the time you have to use your funds. It is currently unclear what, if any, changes will come to the PPP program. At this time, the bank suggests that you follow the rules and timelines that have been published and, as any additional guidance or laws are published that could affect the PPP program, we will alert you to the changes and potential impacts.

How much time do I have after the end of my Covered Period to file my forgiveness application?

There has been no guidance given on the time borrowers have to submit their forgiveness application to the bank. The application that was published by the Treasury Department carries an expiration date of October 31, 2020, but there has been no guidance given that this is a deadline for borrowers to submit. However, once the borrower does submit the forgiveness application to the bank, the bank has 60 days to make a decision and notify the borrower of the final approved forgiveness amount.

If I don't use all my money, do I have to give it back?

Any money not spent during the Covered Period will convert into the remaining principal of your note which amortizes at one percent over two years. You will not be required to make any payments against that note until six months after the date the loan funded.

Can I prepay my loan balance?

Yes. There are no prepayment penalties if you prefer to prepay the balance.

Are there any restrictions on the use of any money that I have left over during the remainder of the two-year term of the loan?

According to the interim final rule dated April 14, 75% of all loan proceeds need to be used for payroll costs, which includes any loan proceeds that are left over after the Covered Period and the forgiveness. There has been no guidance yet issued as to the use of the remaining non-payroll funds.

Is the amount of the loan that I have forgiven considered taxable income?

The forgiven loan proceeds are not taxable as income. At present, the IRS has ruled that the forgiven expenses are not going to be deductible. There is considerable debate about this issue in Congress. Further guidance is expected.

Our Covered Period started on a Friday. What constitutes a week?

In your case, your weeks are Friday through Thursday for eight weeks. In other words, your Covered Period totals 56 days, so the Friday you got the funds through the Thursday eight weeks later.

Should I still consider my initial 56 days as the deadline for my spending or should I count on the new bill to pass, extending the eight weeks to 24 weeks?

Until such time as a new law is signed into effect, we advise sticking with the current guidance.

In the webinar, the forgiveness calculation examples for ABC Co. and XYZ Co. included three potential forgiveness figures, of which the lowest would be the forgiven amount. Since one of these forgiveness figures was based solely on the payroll costs, does this mean that rent and utilities can never be included in the final forgiven figure?

No, this is an incorrect interpretation. The forgiveness amount that is based solely on the payroll costs comes into play when less than 75% of the spent amount is used for payroll costs. In that case, the gross-up calculation (dividing by 0.75) serves to limit the amount of forgiveness you can get for the non-payroll costs like rent and utilities. For example, \$300,000 of the \$500,000 spent during the Covered Period was used for payroll, meaning \$200,000 was spent for non-payroll costs. Because this company only spent 60% of the money on payroll, the forgiveness amount will be limited to just \$400,000 — the \$300,000 payroll spend divided by 0.75. Put another way, only \$100,000 of the \$200,000 that was spent on non-payroll costs will be included in the forgiveness amount.

Other CARES Act Loans

Am I eligible for Title IV, also known as Main Street loans, if have a PPP loan and when can I get one?

Yes. You should be eligible for Title IV or Main Street loans. Guidance has not been released yet.

I have a PPP. Can I also have an EIDL loan?

Yes. You can get an EIDL loan provided you use the EIDL loan proceeds for different purposes than you use the PPP loan proceeds; for example, you can pay July payroll costs with EIDL money after you used PPP money to pay June payroll costs. While they're both payroll costs, they are separate purposes because they are covering separate points in time.