

# Paycheck Protection Program: Loan Forgiveness



## Frequently Asked Questions September 25, 2020

### Purpose

These FAQs are provided as a high-level summary to assist our PPP customers. For more detailed FAQs, please see the official SBA document [“Frequently Asked Questions on PPP Loan Forgiveness” dated August 11, 2020.](#)

### What must I do to apply for forgiveness?

Log on to our portal and complete an online application.

Upload supporting documentation as needed to show you paid eligible expenses that were incurred during a 24-week period following the date we disbursed your loan proceeds. SBA refers to this as your “covered period.”

- If your loan was approved prior to June 5, you may elect to use an 8-week covered period or 24 weeks.
- Regardless of length, your covered period must end no later than December 31, 2020.

### When should I apply?

Most borrowers will want to apply for forgiveness once they’ve used all the loan proceeds for which they are requesting forgiveness and prior to their first loan payment coming due. The SBA allows you to apply prior to the end of your covered period.

### What is forgivable and what is not?

Subject to several important limitations, forgivable expenses include:

- Payroll costs
  - Salary, wages, commissions, or similar compensation for employees
  - Cash tips or the equivalent
  - Payment for leave (vacation, parental, family, medical, sick)
  - Allowance for employee separation or dismissal
  - Payment for employees’ group health insurance premiums and retirement plans

- Payment of state and local taxes assessed on employee compensation
- For sole proprietors – wages, commissions, income or net earnings from self-employment or similar compensation
- *At least 60% of loan proceeds must be used for payroll costs in order to qualify for forgiveness*
- Nonpayroll costs
  - Interest payments on business mortgage obligations for real or personal property that were originated prior to February 15, 2020
    - *But not any prepayment of interest or payment of principal*
  - Payments on business rent obligations under a lease agreement in force before February 15, 2020
  - Business utility payments for electricity, gas, water, transportation, telephone or Internet access for services that began before February 15, 2020
  - The amount of loan forgiveness for nonpayroll costs may not include any amount attributable to the business operation of a tenant or sub-tenant of the PPP borrower or, for home-based businesses, household expenses

To be forgiven, expenses must be incurred and paid during the covered period. Payroll costs are generally incurred on the day an employee’s pay is earned (i.e., the day they worked).

#### **Can I use an alternative covered period?**

SBA recognizes the covered period may not align with a borrower’s payroll cycle.

- In those cases, a borrower with a biweekly (or more frequent) cycle may use an “alternative covered period” that begins on the first day of the first payroll cycle in the covered period.
- If payroll costs are incurred during this alternative period but paid after the end of the period, they will be eligible for forgiveness if they’re paid no later than the next regular payroll date.

Nonpayroll costs must be incurred and paid during the covered period or on the next regular billing cycle if that cycle falls outside the end of the covered period.

#### **What is forgivable for Schedule F filers with no employees?**

Loan forgiveness for these self-employed sole proprietors is limited to the following:

- When you applied for a PPP loan, the maximum amount available was equal to your 2019 Net Farm Income (capped at \$100,000) divided by 12 and multiplied by 2.5 months to result in an SBA approved loan of up to \$20,833.
- SBA has indicated the full amount of \$20,833 is forgivable if you use a 24-week covered period in your application.

- If your loan was approved prior to June 5, you have the option of using a shorter 8-week covered period instead of 24 weeks. In that case, SBA will cap your forgiveness at \$15,383.

We strongly encourage Schedule F filers who have no employees to use a 24-week covered period when applying for forgiveness. This simplifies the process for you and maximizes the amount of forgiveness you can request. When SBA forgives a loan, they forgive the principal as well as the accrued interest.

### **What about compensation for other business types?**

The amount of owner-employee compensation that is eligible for forgiveness depends on each borrower's business type and the length of your covered period.

The amount of forgiveness is capped at \$20,833 per individual in total across all businesses in which you have an ownership stake; when using an 8-week covered period, the cap is \$15,385.

An owner-employee in a C- or S-corporation who has less than a 5 percent ownership stake will not be subject to the owner-employee compensation rule. This exemption is intended to cover owner-employees who have no meaningful ability to influence decisions over how loan proceeds are allocated.

C-corporation owner-employees are eligible for forgiveness for a percentage of their 2019 cash compensation (2.5/12). They also are eligible for forgiveness of payments made for employer state and local taxes assessed on their compensation, and for employer retirement and health insurance contributions made on their behalf; these payments other than for cash compensation do not count toward the \$20,833 cap per individual.

S-corporation owner-employees are handled in the same way with the exception of employer health insurance contributions made on their behalf; these are not eligible for forgiveness because they are included in their W2 cash compensation.

General partners are capped at 2.5/12 of their 2019 net earnings from self-employment (reduced by claimed section 179 deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235, with no additional forgiveness for employer compensation taxes or for employer retirement or health insurance contributions made on their behalf.

### **When is forgiveness reduced?**

Forgiveness amounts will be reduced by the amount of any advance made on an EIDL (Emergency Injury Disaster Loan).

Reductions in employee headcount and/or reductions of more than 25 percent in employee salaries will result in a reduction of loan forgiveness. That said:

- If a borrower attempts but is unable to rehire people who were employees as of February 15, and is unable to hire similarly qualified people for the unfilled positions on or before December 31, those employee reductions won't impact their forgiveness amount provided they maintain documentation of their attempts.
- Further, their forgiveness calculation will not be reduced if they're able to document an inability to return to the same level of business activity they were operating at before February 15 due to compliance with mandatory federal, state and/or local guidelines.

### **What documentation do I need to provide?**

This will vary based on each borrower's particular business structure and usage of PPP funds.

Sole proprietors without employees will need to provide a copy of their 2019 Schedule C / Schedule F if not already submitted with their original loan application. They will also need to provide documentation (i.e., a copy of a check) showing they paid themselves the requested amount of owner compensation replacement allowed by SBA under the 24-week or 8-week covered period.

Borrowers with employees will need to provide more detailed documentation. While not all-inclusive, the following are common situations and likely documentation requirements:

- Sole proprietors with employees
  - 2019 Schedule C / Schedule F
  - Copy of a check to document disbursement(s) of funds to owner(s)
  - Pertinent payroll records to reflect payments to employees
  - Documentation to support employer-paid health insurance, retirement or other employee benefits if applicable
  - Quarterly state payroll reporting for the covered period in support of employee numbers reported
- Corporations:
  - Pertinent payroll records to reflect payments to employees
  - Documentation to support employer-paid health insurance, retirement or other employee benefits if applicable
  - Quarterly state payroll reporting for the covered period in support of employee numbers reported
  - Documentation demonstrating payment of non-payroll expenses included in forgiveness amount requested, e.g., mortgage interest expense, rent expense and utilities expense.
    - Examples include cancelled checks, lease agreements, account billing statements showing costs incurred and paid

### **What if my loan is not fully forgiven?**

If your loan amount exceeds the amount that is eventually approved for forgiveness, you will have a remaining balance repayable in accordance with your original loan terms at 1% interest.

### **How long will forgiveness take?**

Once you complete your application, FCSAmerica will have 60 days to perform a good-faith review of your calculations and supporting documents and render our preliminary decision to SBA to forgive or deny your request in whole or in part. If we recommend denial, we will notify you right away.

SBA will then have 90 days to accept our decision and remit funds to us.

SBA retains the right to review any loan of any size for up to 6 years to verify a borrower's eligibility and forgivable loan amounts.