



## PP&Co Action Alert

### You've Got Your PPP Loan Funds...Now What???

Although the PPP looks simple at first glance, it is not. There are nuances with respect to loan funding, the use of funds and loan forgiveness. In addition, not all of the rules regarding forgiveness have been released and other PPP Loan rules have been modified by the SBA, creating a fluid situation. It is important to note that, in some instances, there are criminal penalties if the funds are misused; therefore, it's critical to pay attention to the details.

**Now that your PPP Loan has been funded, how should you spend and track it? Remember that at least 75% of the PPP Loan proceeds must be used for payroll costs and not more than 25% of the PPP Loan proceeds can be used for non-payroll costs. Using less than 75% for payroll costs will require repayment.**

According to [guidelines provided by Congress and the SBA](#), PPP Loan funds must be used to pay for allowable costs, consisting of "payroll costs" and "non-payroll costs."

- Payroll costs include:
  - Compensation to U.S. employees in the form of salary, wages, commissions, cash tips, vacation, parental, family, medical, or sick leave
  - Severance pay
  - Employee benefits consisting of group health care coverage (including insurance premiums)
  - Retirement benefits
  - State and local payroll taxes
- Non-payroll costs include:
  - Mortgage interest payments (but not mortgage prepayments or principal payments) on debt obligations that were incurred before February 15, 2020
  - Rent payments on rent/lease agreements in place prior to February 15, 2020
  - Utility payments on services that were that were in place before February 15, 2020
  - Interest payments on any other debt obligations that were incurred before February 15, 2020
  - Refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020

Although eligible for the use of funds, not all of these expenditures are eligible for forgiveness.

Recommendations for how to administer and track your PPP Loan funds:

- Deposit your PPP Loan funds into a new bank account created solely for this purpose (PPP Account).
- Use the PPP Loan funds to pay only the allowable payroll costs and non-payroll costs listed.
- When you transfer the funds from your PPP Account, compile detailed documentation in support of the eligible uses. In this way, you'll be fully prepared when applying for forgiveness. Examples include:
  - Payroll report from your payroll provider showing your payroll costs
  - Monthly mortgage statements showing the interest charges for the month
  - Monthly rental invoice from your landlord or a copy of the page in your lease showing the rental charges
  - Copies of invoices from your utilities providers
- Each payment or transfer should add up to the totals supported by the documentation.

#### Loan Forgiveness

One of the most attractive features of the PPP is loan forgiveness. Specifically, the loan can be forgiven up to the full principal amount, including any accrued interest, provided the loan funds are used for eligible costs in the appropriate percentages **and** employee headcount and compensation levels are maintained.

The SBA will issue additional guidance on loan forgiveness, but here's what we know now. Tracking the use of the PPP Loan funds (described above) is required to calculate and apply for forgiveness. We can't emphasize this enough! Your lender and/or the SBA will require that you provide documentation to prove how and on what the PPP Loan Funds were spent.

The amount of loan forgiveness will depend on these factors during the 8-week period immediately after the loan is funded:

1. Did the business use the PPP Loan funds for eligible payroll and non-payroll costs?
2. Did the business use at least 75% of the PPP Loan funds for payroll costs?
  - a. If not, the amount of loan forgiveness will be reduced proportionally.
3. Did the number of full-time equivalent employees (FTE) decrease during the 8-week period after the loan was funded compared to prior periods?
  - a. If FTEs decreased, the amount of loan forgiveness will be reduced proportionally.
  - b. The business has until June 30, 2020 to mitigate this loan forgiveness reduction by hiring/rehiring and bringing their FTE count to February 15, 2020 levels.
4. For each employee who made less than \$100,000 in 2019, did their wages during the 8-week period decrease by more than 25% compared to their first quarter 2020 wages?
  - a. If their wages decreased, the amount of forgiveness is reduced dollar for dollar.
  - b. Again, the business has until June 30, 2020 to mitigate this loan forgiveness reduction by restoring employees' compensation to February 15, 2020 levels.

The devil in is the details. Have questions or need help? We're here for you.

Contact us at [info@ppandco.com](mailto:info@ppandco.com) or (408) 287-7911 for assistance.

For more information and updates, check out our [COVID-19 Resources & Updates](#) webpage.

Our focus. Your **freedom.**