



5 Steps to Prepare for Paycheck Protection Program Loan Forgiveness

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One of the most attractive features of the SBA's Paycheck Protection Program is that the entire loan may be forgiven if you meet specific requirements within eight weeks after receiving your funds. For purposes of loan forgiveness, you will have to document loan proceeds used for payroll costs and other use of loan proceeds in order to determine the amount of forgiveness. You will be responsible to calculate the amount of loan forgiveness supported by your documentation and certifications. If you need assistance with loan forgiveness, you should consult your own advisors, such as a CPA or attorney. The SBA and California Bank & Trust will be relying on your certifications and documentation you will provide to support loan forgiveness. If your certifications or documents are incorrect or untrue, you may be subject to penalties under the Paycheck Protection Program or other federal laws making it unlawful to submit false information to a bank or federal agency in connection with a loan.

Specific details regarding the process for applying for loan forgiveness have not yet been released by the SBA. However, there are a few things you can be doing now to prepare for this important process.

While it is your responsibility to comply with, document and calculate Paycheck Protection Program loan forgiveness, **here are five key steps you might consider.**

These steps are provided for informational purposes only. To the extent any information outlined below is inconsistent with the Paycheck Protection Program and its rules, regulations and guidelines, published by the SBA, the SBA's Paycheck Protection Program rules, regulations and guidelines shall supersede any conflicting information in this letter. You should review and follow all Paycheck Protection Program guidelines, rules, regulation, definitions and procedures from the SBA relating to loan forgiveness.

PPP Loan Forgiveness Step #1: Allocate your loan towards forgivable purposes. Under current SBA guidance, to be eligible for loan forgiveness, funds must be used for the following purposes:

- At least 75% of funds must be used on payroll, which includes wages and salaries capped at \$100,000 on an annualized basis per employee, vacation, health benefits or parental, family, medical or sick leave, and state and local taxes assessed on compensation. Payments to independent contractors may not be included as part of your payroll costs.
- If your covered lease, mortgage and utility service were active before Feb. 15, 2020, up to 25% of your total loan proceeds may be used for rent, utilities, and mortgage interest.

PPP Loan Forgiveness Step #2: Avoid pitfalls that could reduce your loan forgiveness. Because the Paycheck Protection Program is intended to keep employees on the payroll, your ability to receive loan forgiveness will be *reduced* by the following actions:

- Allocating more than 25% of your total loan proceeds to non-payroll costs. If this takes place, your forgivable amount will equal payroll costs divided by .75 less any additional reductions provided by the Paycheck Protection Program.



- Reducing any employee's salary by 25% or more during the eight-week period following receipt of your loan. This will be calculated on an individual basis for each employee that did not receive more than \$100,000 in 2019 annualized pay.
- Reducing your head count. This will be calculated by comparing your average number of full-time equivalent employees before Feb. 15, 2020, either for the period beginning on February 15, 2019 and ending on June 30, 2019 or January 1, 2020 and ending on February 29, 2020, with the average number of employees on your payroll during the eight-week period following receipt of your loan.

If your goal is to obtain complete loan forgiveness, you have until the end of the eight-week period after you received your loan to rehire staff or reinstate pay that was decreased by more than 25%.

Treasury Secretary Steven Mnuchin announced a couple of weeks ago that the SBA will be conducting a "full review audit" of loans obtained through the Paycheck Protection Program in excess of \$2 million. Audits may, however, be conducted on any loan received through the program. Details regarding the scope or mechanics of these audits have not been released.

Under SBA rules for the Paycheck Protection Program, borrowers are responsible for determining and certifying whether they are eligible to apply for and receive a loan, and specific guidance is offered in question #31 of the SBA's frequently asked questions: "Lenders may rely on a borrower's certification regarding the necessity of the loan request. Any borrower that applied for a PPP loan prior to the issuance of this guidance and repays the loan in full by *May 14, 2020**, will be deemed by SBA to have made the required certification in good faith." (NOTE: The original date was May 7, but the SBA extended it to May 14, as per [SBA FAQ #43](#).) If in doubt of your eligibility, seek the advice of your CPA or attorney.

PPP Loan Forgiveness Step #3: Document your use of loan proceeds. It's ideal to keep your Paycheck Protection Program funds in a dedicated bank account, which will make it easier to track how they are used. To obtain loan forgiveness, you'll need to carefully outline how the funds were appropriated, including documents that verify:

- Number of employees on payroll and their salary or wages for the period your loan was used to pay them. Eligible documents could include payroll tax filings, reports from a payroll company, or income, payroll or unemployment insurance filings from your state.
- Payments of rent, utilities and mortgage interest such as account statements or payment receipts.

PPP Loan Forgiveness Step #4: If it's beneficial, align your payroll cycles with the date you received your loan. Because you only have eight weeks to use your loan proceeds, it's important to capitalize on this short window. Payroll made after eight weeks of receiving the loan will not count towards loan forgiveness. Upon advice from your own adviser, CPA or attorney, change your payroll date to maximize your payroll cycles in this time frame.

PPP Loan Forgiveness Step #5: Be familiar with, understand and follow current loan forgiveness rules, regulations and guidance under the Paycheck Protection Program from the SBA. In addition, watch for continued updates from the SBA. The SBA has published important information about the Paycheck Protection Program. This information is updated frequently, and we recommend you refer to it periodically. [Click here](#) to visit the Treasury website (to which SBA information is posted), including Frequently Asked Questions posted under Program Rules, as well as other resources. Loan forgiveness may be very complex



for your business. If you face complicated loan forgiveness questions, we strongly advise you to seek guidance from your CPA or attorney.

Additional important guidance regarding the loan forgiveness process is anticipated from the SBA in the coming days. Please watch for these updates.

Although it takes effort to complete the steps required for loan forgiveness, the payoff is worthwhile. Every dollar you save can be strategically allocated toward helping keep your business afloat.