

PPP Loan – best practice recommendations and calculating the loan forgiveness

If you successfully applied and received approval for the Payroll Protection Program loan (PPP loan), Congratulations! You will receive the funds within 10 business days of the approval. Now, for the job of accounting for these funds so that you can maximize the forgiven portion as much as possible. The day the loan is funded is day 1 of the 8-week covered period.

We have outlined a few recommendations to consider in order to document the use of the loan proceeds, including a calculator to determine how much will be forgiven.

1. Hold funds in a separate account: the bank will deposit the loan proceeds into your account, likely an operating account. We recommend you move the loan proceeds into a separate account completely separate from all other company funds.
2. Immediately identify the 8-week covered period and plan accordingly to maximize the qualified expenses within this period. Create a budget considering the following:
 - a. How many payroll cycles will occur?
 - b. Are any employees owed commissions or bonuses that can be paid out (see compensation cap in #3)
 - c. Do you want to restore reduced compensation to employees that may have taken pay cuts as a result of the COVID-19 crisis?
3. Understand what expenses can be paid for with the PPP loan: this loan is very restrictive.
 - a. Payroll costs included gross wages (capped at \$100,000 annualized compensation), benefits (health insurance, retirement contributions, state payroll taxes); LESS any payroll tax credits taken for the required COVID-19 related sick or family leave time
 - b. Rents, utilities, and mortgage interest
 - c. Interest on debts incurred prior to February 15, 2020
 - d. Note – 75% of the funds MUST be used for payroll
 - e. If you received a \$10,000 “grant” connected with the EIDL loan from SBA, it reduces your forgiveness
 - f. If any of the funds from the PPP loan are used for an unauthorized purpose, they must be repaid. We assume immediately.
4. Pay for the qualifying expenses using your normal method. Then, once you figure out the qualified portion (such as with payroll – the entire payroll cost does not qualify such as the employer portion of the FICA taxes), then transfer the funds out of the PPP loan account (see #1) into your operating account. This transfer should be penny for penny. This creates an audit trail in the event you need to prove your spending.
5. Be diligent and keep your records and schedules in a file – your lender will require documentation to apply for the loan forgiveness on your behalf.
6. Avoid using other CARES Act relief programs that nullify participating in PPP, including:
 - a. The Employee Retention Credit
 - b. Deferral of Payroll Taxes
7. Understand how the loan forgiveness is calculated – as best as you can. There are a lot of questions on this part that warrant additional guidance. Be sure to communicate with your bank to keep current on any changes. In general, loan forgiveness may be reduced if either of the following occurs:

- a. Employees who made less than \$100,000 of compensation in 2019 have their compensation reduced by 25% or more; OR
 - b. The number of full-time employee equivalents is less than the same number of employees during; either February 15, 2019, through June 30, 2019; OR January 1, 2020, through February 29, 2020—you might be able to choose the more favorable period to apply.
 - c. Here is a link to a law firm that created a calculator – may be worth using for now if you are facing possible layoffs or pay reductions during the 8-week period.
<https://www.nutter.com/trending-newsroom-publications-3-steps-calculator-determine-forgiveness-ppp-loan> (See “PPP Loan Forgiveness Calculator” link in the 2nd paragraph; contact us if you have any problems accessing).
8. If you also used the EIDL SBA loan – discuss the impact that loan may have on the PPP loan. If the EIDL loan was used to pay for payroll costs, you may be required to use part of the PPP loan to pay down the EIDL loan.
 9. Any portion of the loan that is not forgiven is repaid within 2 years at 1% interest. Payments are deferred for up to 6 months.
 10. There is no penalty for paying it off early. However, considering the low 1% interest rate, you may want to hold onto the cash for a while until you feel the Company has stabilized after this crisis.
 11. Be diligent regarding the use of the funds. Business owners using the funds for fraudulent purposes are subject to criminal charges.
 12. Make sure unpermitted use of the funds does not inadvertently occur due to scheduled payments or transfers out of the account the loan funds were deposited.

Please contact us if you have any questions. Please do not rely solely on this memorandum on this subject matter. SBA has been and continues to issue modifications and clarifications on a regular basis. This memorandum was accurate and up to date when it was written, however it may not be current by the time you are reading it.

Be Safe and Healthy,

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