

# GUIDE TO TRACKING YOUR PAYCHECK PROTECTION LOAN AND EXPENSES

Updated as of May 1, 2020

## TRACKING YOUR PPP LOAN AND EXPENSES

The Paycheck Protection Program can be 100% forgiven—if you meet certain criteria. To **insure** that your loan is forgiven it is extremely important to keep accurate records. It is recommended that you **open a separate bank account so you can more easily track your expenses**. Applications for loan forgiveness will be processed by your lender. After you submit your application for forgiveness, your lender is required by law to provide you with a response within 60 days.

## DOCUMENTS REQUIRED FOR FORGIVENESS CHECKLIST\* \*PPP forgiveness application

Documents verifying the number of full-time equivalent employees on payroll and their pay rates, for the periods used to verify you met the staffing and pay requirements:

- ✓ Payroll reports
- ✓ Payroll tax filings (Form 941)
- ✓ Income, payroll, and unemployment insurance filings from your state
- ✓ Documents verifying any retirement and health insurance contributions
- ✓ Documents verifying your eligible interest, rent and utility payments (canceled checks, payment receipts, account statements)
- ✓ Documentation and proof of payment, bank statements and canceled checks (It is recommended that you open a separate bank account to keep track)
- ✓ Your lender may have additional requirements

If you're a sole proprietor, you can have eight weeks of the loan forgiven as a replacement for lost profit. But you'll need to provide documentation for the remaining two weeks' worth of cash flow, proving you spent it on mortgage interest, rent, lease, and utility payments.

Keeping good records and being diligent with your bookkeeping will be essential for loan forgiveness—you'll need to track eligible expenses along with their accompanying documentation and proof of payment over the eight weeks. *Take the time to scan any paper documents and keep backups of your digital records.*

# KEY ELEMENTS OF PPP TO REMEMBER

## USE OF PPP FUNDS:

- ✓ **PAYROLL** – salary, wage, vacation, parental, family, medical, or sick leave, health benefits
- ✓ **COMMERCIAL MORTGAGE INTEREST** – as long as the mortgage was signed before February 15, 2020
- ✓ **COMMERCIAL RENT** – as long as the lease agreement was in effect before February 15, 2020
- ✓ **COMMERCIAL UTILITIES** – as long as service began before February 15, 2020

All of these expense categories are eligible for forgiveness.

## SIX CONDITIONS FOR FORGIVENESS

### 1 EIGHT CONSECUTIVE WEEKS OF COVERAGE

Eligible expenses are those that are incurred over eight weeks, starting from the day the first payment was made by your lender.

### 2 THE 75/25 RULE

At least 75% of your loan must be used for payroll costs. Payments to independent contractors cannot be included in the payroll costs.

### 3 STAFFING REQUIREMENTS

You must maintain the number of employees on your payroll.

To determine if you have met this requirement you can use the following calculation:

First, determine the average number of full-time equivalent employees you had for the following three periods:

- The 8-week period following your initial loan disbursement, (A)
- February 15, 2019 to June 30, 2019, (B1)
- and January 1, 2020 to February 29, 2020. (B2)

Take A and divide that by B1. Do the same with B2. Take the largest number you obtain. If you're a seasonal employer, you must divide by B1.

- If you get a number equal to or larger than 1, you successfully maintained your headcount and meet this requirement.
- If you get a number smaller than 1, you did not maintain your headcount and your forgivable expenses will be reduced proportionately.

### 4 PAY REQUIREMENTS

You must maintain at least 75% of total salary.

This requirement is individually assessed for every employee that did not receive more than \$100,000 in annualized pay in 2019. If the employee's pay over the 8 weeks is less than 75% of the pay they received during the most recent quarter in which they were employed, the eligible amount for forgiveness will be reduced by the difference between their current pay and 75% of the original pay.

### 5 REHIRING GRACE PERIOD

You can rehire any staff that were laid off or put on furlough and reinstate any pay that was decreased by more than 25% to meet the requirements for forgiveness. You have until June 30th to do so.

>> What to do if an employer offers a job to a former employee who is receiving unemployment compensation benefits and the applicant refused the job offer. Section 402(a) of Pennsylvania Unemployment Compensation Law provides, in part, that an employee shall be ineligible for compensation for any week in which their unemployment is due to failure, without good cause, to accept suitable work; provided that the employer who offers the work notifies the department of the refusal within seven days from when the offer is made. The department has created a new form, UC-1921W, so employers can notify the department that suitable work was refused. The form can be saved, printed, and submitted directly to the department online.

### 6 ATTESTATION

The lender is required to have the borrower sign a certification that states that all documents submitted for forgiveness are true and accurate. The SBA ruling states the following: **If you knowingly use the funds for unauthorized purposes, you will be subject to additional liability such as charges for fraud. If one of your shareholders, members, or partners uses PPP funds for unauthorized purposes, SBA will have recourse against the shareholder, member, or partner for the unauthorized use.**

# FORGIVENESS FOR SELF-EMPLOYED INDIVIDUALS

Self-employed individuals are entitled to use the PPP loan to replace lost compensation due to the impacts of COVID-19. However, you are not entitled to use the full amount to replace pay.

## **Eight weeks' worth of your 2019 net profit will be eligible for forgiveness.**

If you have commercial mortgage interest, rent for your business, or utilities expenses for your business, you must have claimed or be entitled to claim a deduction for those expenses on your 2019 Form 1040 Schedule C in order to claim them for forgiveness.

## HOW TO INITIATE FORGIVENESS

You can submit a request to the lender that is servicing the loan. The request will include documents that verify the number of full-time equivalent employees and pay rates, as well as the payments on eligible mortgage, lease, and utility obligations. You must certify that the documents are true and that you used the forgiveness amount to keep employees and make eligible mortgage interest, rent, and utility payments. The lender must make a decision on the forgiveness within 60 days

## FREQUENTLY ASKED QUESTIONS

### **Can I prepay my rent or mortgage?**

No, prepayment is not an allowed use of the PPP and is not eligible for forgiveness.

### **What counts as mortgage interest?**

Any interest paid on mortgage on property used for business purposes is an eligible expense that the PPP can be used for, and qualifies for forgiveness.

For example:

- Mortgage interest on a storage building housing equipment or inventory
- Interest on a car loan that is used to make business deliveries

### **How is eight weeks of net profit from 2019 calculated?**

Your net profit that was reported on your Form 1040 Schedule C is multiplied by 8 then divided by 52.

### **What happens if I'm not approved for forgiveness?**

Your lender may allow you to provide additional documentation so they can reevaluate your request. Otherwise, your outstanding balance will continue to accrue interest at 1%, for the remainder of the 2-year period.

*There is no prepayment penalty.* You can pay off the outstanding balance at any time with no additional fees.

For additional guidance contact the Small Business Development Center closest to you by visiting: [pasbdc.org/centers](https://pasbdc.org/centers)



Funding support and resources are provided through a cooperative agreement with the U.S. Small Business Administration, by the Commonwealth of Pennsylvania through the Department of Community and Economic Development; and through support from Wilkes University. All services are extended to the public on a non-discriminatory basis. Special arrangements for persons with disabilities can be made by calling (570)408-4340. All opinions, conclusions or recommendations expressed are those of the author(s) and not necessarily the views of the SBA.