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PPP Loan Uses & Forgiveness: A Guide to Track Expenditures

Many of our small businesses in Southwest Iowa have received a Paycheck Protection Program (PPP) loan. One of the key provisions of the PPP is the opportunity to have up to the entire loan amount forgiven. Some of the guidance related to forgiveness is still unclear at this time. However, we know that small businesses must document qualifying expenses to receive forgiveness. Below is guidance on tracking the PPP expenses to optimize forgiveness. The information is based on HR 748 CARES ACT sections 1101, 1102 and 1106 and on subsequent information published and updated on www.Treasury.gov. To the best of our knowledge, information in this document is current as of 5/7/20, but federal clarification of particular points regarding forgiveness is still being issued and some of this information may change.

Also Included within this document is

1. [Excel Spreadsheet Template for tracking PPP expenses](#)
2. [QuickBooks Guidance for tracking PPP expenses](#)

Paycheck Protection Program Overview.

The maximum loan amount is based on a business's average monthly payroll cost (931s and/or line 31 of Schedule C Form 1040). Eligible borrowers are able to receive 2.5x the monthly payroll amount based either on average payroll of previous 12 months or average of 2019. This is to help cover eight weeks of payroll and eight weeks of mortgage interest, rent and utilities. At least 75% of the PPP funds should be used on payroll.

The Funds from the PPP can be used for the following purposes for the eight-week period beginning after the first disbursement of funds.

- **Payroll** – salary, wages, commissions, cash tips and equivalents (not in excess of \$100K per employee) plus employer contributions of vacation, parental, family, medical or sick leave and health benefits. Employer-side payroll taxes are excluded. Salary for Sole Proprietor filers would be line 31 divided by 12.
- **Mortgage Interest** – as long as the mortgage was signed before February 15, 2020.
- **Rent** – as long as the lease agreement was in effect before February 15, 2020 **and** you claimed rent expenses on 2019 tax returns.
- **Utilities** – as long as service began before February 15, 2020 **and** you claimed utilities expenses on 2019 tax returns.

Generally, expenses that fall under the permissible uses categories are eligible for forgiveness; but there may be some exceptions. The following conditions will also apply:

- **EIDL Advances** - are deducted from the amount of a PPP loan that is eligible for forgiveness.
- **Eight 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.

- **The 75/25 rule** - At least 75% of your loan must be used for payroll costs. Independent contractors cannot be included in the payroll costs.
- **Staffing requirements** - You must maintain the number of FTE equivalent employees on your payroll relative to the average of the preceding 12 months or calendar year 2019 or must restore payroll to that number by June 30th. We are still waiting for final guidance SBA on what that equation looks like.

Exemption to Forgiveness Reduction When Employees Reject Offer of Rehire

Employees who were laid off or put on furlough many not wish to be rehired onto payroll. IF an employee rejects your re-employment offer, you may be allowed to exclude this employee when calculating forgiveness. In order to be eligible for this exemption you will need to document the following:

- You must have made a written offer to rehire in good faith.
- You must have offered to rehire for the same salary/wage and number of hours as before they were laid off.
- You must have documentation of the employee's rejection of the offer.
- Note that employees who reject offers for re-employment may no longer be eligible for continued unemployment benefits.

Pay Requirements

- Eligible employee compensation is capped at \$100,00 in annualized pay in 2019.
- Salaries must be maintained at 75% otherwise the amount of forgiveness will be reduced.
- Only employees whose principle residence is in the United States are covered.

Forgiveness of self-employed individuals

- You are entitled to use the PPP loan to replace lost compensation due to the impacts of COVID-19. However, you are may not be able to use the full amount to replace pay. Eight weeks (56 days) worth of your 2019 net profit will be eligible for forgiveness. (Line 31 divided by 365 days = daily average. Take daily average times 56 days.)
- If you have mortgage interest, rent, or utilities expenses, 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.

Applying for loan forgiveness

Your lender will provide you with instructions on how and when to apply for forgiveness, pending further guidance from SBA. It will be important to pay attention to the timing of your forgiveness application.

After you submit your application for forgiveness, your lender is required by law to provide you with a response within 60 days.

Recordkeeping and required documents for forgiveness

These are the required documents you will need to collect to provide with your PPP forgiveness application. Your lender may have additional requirements.

- 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 from your payroll provider
- 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)

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

Record Keeping Guidance

Good recordkeeping and bookkeeping will be critical for getting your loan forgiven—you need to keep track of eligible expenses and their accompanying documentation over the eight weeks.

Suggestions for keeping track of PPP expenses:

- Create a new account in your bookkeeping program for just PPP Funds. WE have created a guide for recording the PPP in QuickBooks [here](#)
 - Keeping track in an accounting software program will allow you to run separate reports and automatically link documentation for each expense.
- Manually Track in a Spreadsheet If you do not use a program for bookkeeping or prefer to manually track expenses and have your accountant record it later, you can manually track the funds using a spreadsheet such as Microsoft Excel. We have created an Excel Template [here](#)
 - If using a spreadsheet, you will want to have all of your documentation in digital versions and link them to the excel sheet for easy access.
- If you received other funds for COVID-19 (e.g., EIDL Advance or Iowa Relief Funds) set up separate accounts in your software program or separate sheets in your spreadsheet to carefully track uses for these as well.

Find a sample Excel Template [Here](#)

Find QuickBooks Guidance for recording the PPP [Here](#)