

Paycheck Protection Program (PPP) – Loan Forgiveness FAQ

(updated as of May 18, 2020)

The U.S. Treasury Department and the U.S. Small Business Administration released the SBA PPP Forgiveness Application, at the end of the day on May 15, 2020. We have updated our Forgiveness FAQ to reflect our best interpretation of new information in the SBA Forgiveness Application, and anticipate SBA and Treasury will issue additional guidance to clarify remaining open questions. The SBA Forgiveness Application confirms that the portion of your PPP loan used for forgivable purposes during the 8-week period following the date you received your PPP loan will be forgiven if you (i) use at least 75% for Payroll Costs as defined in the CARES Act, (ii) maintain your employee and compensation levels, and (iii) provide all required documentation. To be eligible for forgiveness of all or part of your PPP loan, you must comply with 1-3 below:

1. Use your PPP loan proceeds for forgivable purposes during your Covered Period.
 - At least 75% of the amount of your PPP loan for which you request forgiveness must be used for Payroll Costs as defined in the CARES Act (note, you are allowed to use all of your PPP loan for Payroll Costs); and
 - Up to 25% of the amount of your PPP loan for which you request forgiveness may be used for the following eligible expenses (if the obligation existed prior to February 15, 2020):
 - payments of interest on mortgage obligations on real or personal property of the borrower,
 - rent payments on lease obligations on real or personal property of the borrower, and
 - utility payments owed by the borrower.

2. Maintain your employee and compensation levels.
 - Your loan forgiveness will be reduced if you decrease your full-time equivalent employee headcount. (If you reduced your staff prior to receiving your PPP loan, you may refill those positions to maintain eligibility for forgiveness.)
 - Your loan forgiveness will also be reduced if you decrease salaries and wages by more than 25%.

3. Maintain documentation and certify your use of PPP loan funds. After the 8-week period following the date your PPP loan is funded (or earlier if you use all loan funds prior to that date), you may contact Self-Help to process your forgiveness request. Your forgiveness request must include:
 - *SBA PPP Forgiveness Application*;
 - SBA PPP Loan Forgiveness Calculation Form;
 - SBA PPP Borrower Representations and Certifications;
 - SBA PPP Schedule A – List of All Employees and Compensation Amounts;
 - SBA PPP Borrower Demographic Information Form – Optional;
 - Documentation of Payroll Costs for your Covered Period (or Alternative Payroll Covered Period);
 - Documentation of the number of full-time equivalent employees for your pre-COVID period;
 - If you are requesting forgiveness for PPP funds used for non-Payroll Costs:
 - Documentation verifying that the mortgage, lease, and utility obligations existed prior to February 15, 2020; and
 - Documentation of funds used for these obligations during your Covered Period.

Your PPP loan will not be fully forgivable if (i) you are not able to document that you have complied with 1-3 above, (ii) you use loan proceeds for eligible purposes that are not forgivable, such as refinance of an SBA Economic Injury Disaster Loan that was not used for payroll costs during your Covered Period, or (iii) you use PPP loan proceeds for any ineligible purpose (use for any ineligible purpose may subject you to prosecution by the federal government for fraud). Any portion of your PPP loan that does not meet SBA's forgiveness requirements will be repayable under the terms of your Note.

FREQUENTLY ASKED QUESTIONS

Q: What constitutes PPP forgivable Payroll Costs?

A: Forgivable Payroll Costs include:

- Salary, wage, commission, or similar compensation (not in excess of an annualized salary of \$100,000).
- Cash tip or equivalent.
- Vacation, parental, family, medical, or sick leave.
- Payment required for the provision of group health care benefits, including insurance premiums.
- Payment of any retirement benefit.
- Payment of state or local taxes (but not federal) assessed on the compensation of employees.

The total sum of Payroll Costs must be at least 75% and may be as high as 100% of the amount of your PPP loan for which you request forgiveness.

Updated May 17, 2020: Q: What constitutes PPP forgivable non-Payroll Costs?

A: Forgivable non-Payroll Costs include:

- Interest payments on any business mortgage obligation of the borrower on real or personal property (provided the mortgage obligation was in place before 2/15/20). Note: You may not include payment (or prepayment) of principal.
- Business rent or lease payments pursuant to lease agreements of the borrower for real or personal property (provided the lease agreement was in place before 2/15/20).
- Business utility payments of the borrower for a service for the distribution of electricity, gas, water, transportation, telephone, and internet access (provided the service began before 2/15/20).

The total sum of non-Payroll Costs may be as low as 0% and as high as 25% of the amount of your PPP loan for which you request forgiveness.

Q: What is excluded from forgivable Payroll Costs?

- Compensation of an employee whose principal place of residence is outside the United States.
- Compensation paid to an employee in excess of an annualized salary of \$100,000.
- Federal employment taxes.
- Qualified sick and family leave wages for which a credit is allowed under the Families First Coronavirus Response Act.

Updated May 17, 2020: Q: I am a sole proprietor (I file my business taxes on IRS Schedule C). What amount of my own income can I include as a forgivable Payroll Cost?

A: As a sole proprietor who files a Schedule C, you may use loan proceeds for up to 8 weeks of the 2019 net profit shown on your 2019 Schedule C (or 8/52 of your 2019 Schedule C net profit); provided you do not exceed cash compensation of \$100,000 annualized (\$15,385 total). Although the previous guidance was unclear as to whether a sole proprietor could obtain forgiveness for PPP funds used to increase your own salary (for example, hazard pay or a cost-of-living increase from 2019), the SBA PPP Forgiveness Application makes clear that any increase to cash compensation over your average 2019 amount (up to \$15,385 total) will not be forgiven.

Added May 17, 2020: Q: May I increase the compensation I pay to my employees (for example, hazard pay or a cost-of-living increase from 2019)?

A: For non-owner employees, there is no prohibition on paying your employees a higher amount during your Covered Period (or Alternative Payroll Covered Period, if applicable) than they were paid in your pre-COVID period; provided you do not exceed cash compensation of \$100,000 annualized per employee (\$15,385 total). For owners, general partners, or self-employed individuals, however, the SBA PPP Forgiveness Application

makes clear that any increase to cash compensation over your average 2019 amount (up to \$15,385 total) will not be forgiven.

Q: My business hires 1099 and independent contractor workers. May I include payments to 1099 and independent contractors for purposes of loan forgiveness?

A: No. Independent contractors can include their 1099 income as their own payroll costs, so entities that hire independent contractors cannot include those amounts.

Updated May 17, 2020: **Q: When does the 8-week forgiveness period (my Covered Period) start?**

A: Your Covered Period begins on the date you receive your PPP loan (the date the funds were deposited into your bank account). The day you receive your PPP loan is the first day of your Covered Period. SBA provided the following example: if your PPP funds were deposited into your bank account on April 20, then the first day of your Covered Period is April 20 and the last day of your Covered Period is June 14.

- With respect to Payroll Costs only: Although the language is not entirely clear, it appears that Payroll Costs must be incurred during your Covered Period or your Alternative Payroll Covered Period (provided that Payroll Costs incurred but not paid during the applicable Period either must be paid during the applicable period, or must be paid on or before the next regularly scheduled payroll date immediately following your applicable Period to be included). Payroll Costs are incurred the date the employee pay is earned. Borrowers with a biweekly (or more frequent) payroll schedule have the option to align your Covered Period with the first regularly scheduled payroll period after your PPP funds were received (your Alternative Payroll Covered Period). SBA provided the following example: if you received your PPP funds on April 20, and the first day of your next regularly scheduled pay period was April 26, then for Payroll Costs only, you may choose an Alternative Payroll Covered Period starting on April 26 and ending on June 20.
- With respect to Eligible Non-Payroll Costs: Other eligible costs are eligible for forgiveness if they are incurred or paid during your Covered Period (provided costs incurred but not paid during the Covered Period must be paid on or before your next regularly scheduled billing date to be included). Whether you choose an Alternative Payroll Covered Period to align Payroll Costs with your scheduled pay period or not, you must use your standard Covered Period for all non-Payroll Costs for which you will request forgiveness.

Q: What will reduce the loan amount eligible for forgiveness?

A: The amount eligible for forgiveness will be reduced when a borrower reduces its number of full-time equivalent employees or tipped workers, or reduces an employee's salary by more than 25%.

Q: Do I have to restart operations and put my employees back to work?

A: No, there is no requirement that you restart operations at this time. The intent of the CARES Act is to continue paying your employees, whether you currently have work for them to do or not. This allows your employees to continue to receive income and benefits during the next 8 weeks. This also benefits your organization by keeping your trained employees on your payroll; when you reopen, you will not need to hire and train new employees before you can resume operations.

Q: If I already had to reduce staff, am I still eligible for forgiveness?

A: Yes, if you refill those positions and otherwise meet forgiveness requirements.

Q: Some former employees are no longer available. May I refill those positions with new employees?

A: Yes. There is no requirement that you rehire the same employees, provided you maintain the same number of full-time equivalent positions.

Added May 5, 2020: Q: If I already had to lay off an employee, and offer to rehire that employee but they refuse, will my forgiveness amount be reduced?

A: No. Laid-off employees will be excluded from the forgiveness reduction calculation if you have made a good faith, written offer of rehire and you document the employee's rejection of that offer. You should make the employee aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.

Added May 17, 2020: Q: What is the date by which I need to rehire or replace employees to avoid a reduction in forgiveness?

A: You must rehire or replace by the earlier of (i) the end of your Covered Period (or Alternative Payroll Covered Period) and (ii) June 30, 2020. (But see also the FAQ above regarding employees who reject offers of re-employment.)

Q: Do reductions in compensation affect the amount of loan forgiveness?

A: Yes. Any reduction in employee compensation in excess of 25% will reduce the amount of your loan which can be forgiven. (Reduction in the salary of an employee down to \$100,000 annualized, however, will not reduce forgiveness.) If you already had to reduce salaries, if you restore those salaries you should qualify for forgiveness.

Added May 17, 2020: Q: What time period will SBA use to determine whether I have reduced total FTEs or employee compensation?

A: SBA will compare your Covered Period (or Alternative Payroll Covered Period, if applicable) average FTE employees and compensation to your pre-COVID average FTE employees and compensation. You may choose one of the following time periods for your pre-COVID period:

- February 15, 2019 to June 30, 2019;
- January 1, 2020 to February 29, 2020; or
- For seasonal businesses only, you may choose either of the above periods, or any consecutive 12-week period between May 1, 2019 and September 15, 2019.

Added May 17, 2020: Q: How do I calculate average FTE employees?

A: You may calculate average FTE employees in either of the following ways, provided you use the same method for your pre-COVID calculation and for your Covered Period (or Alternative Payroll Covered Period, if applicable) calculation:

- For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth; provided no employee may count as more than 1.0 FTE.
- Count each employee that works 40 hours or more per week as 1.0 FTE, and count each employee that works fewer than 40 hours per week as 0.5 FTE.

Q: Can I defer payments on my PPP loan?

A: You are not required to make any payments for six months following the date of your PPP Note. Interest will continue to accrue during this six-month deferment. If 100% of your PPP loan is forgiven, you will never be required to make payments on your loan.

Q: Am I responsible for interest on the forgiven loan amount?

A: No. You are not responsible for accrued interest on the portion of the loan that is forgiven.

Updated May 17, 2020: **Q: How (and when) do I apply to get forgiveness on my PPP loan?**

A: You will need to contact Self-Help to request forgiveness for your PPP loan. You may request forgiveness at any time following the end of your Covered Period (or Alternative Payroll Covered Period, if applicable) by providing Self-Help with a completed, signed SBA PPP Forgiveness Application (including all required documents). SBA has not provided a deadline for forgiveness requests, but we recommend you apply for forgiveness as soon as you have met all forgiveness eligibility requirements, to ensure SBA has approved your request prior to the end of your PPP loan 6-month deferral. Self-Help will provide you with an update prior to June 30 containing specific instructions on how to submit your forgiveness request securely. In the meantime, you may continue to submit your questions to Self-Help at postclosing-ppp@self-helpfcu.org.

Updated May 17, 2020: **Q: What documents do I need to apply for loan forgiveness?**

A: You will need to provide:

- [*SBA PPP Forgiveness Application*](#);
- SBA PPP Loan Forgiveness Calculation Form;
- SBA PPP Borrower Representations and Certifications;
- SBA PPP Schedule A – List of All Employees and Compensation Amounts;
- SBA PPP Borrower Demographic Information Form – Optional;
- Documentation of Payroll Costs for your Covered Period (or Alternative Payroll Covered Period);
- Documentation of the number of full-time equivalent employees for your pre-COVID period;
- If you are requesting forgiveness for PPP funds used for non-Payroll Costs:
 - Documentation verifying that the mortgage, lease, and utility obligations existing prior to February 15, 2020; and
 - Documentation of funds used for these obligations during your Covered Period.

Updated May 17, 2020: **Q: When will the debt forgiveness be applied to the loan?**

A: The forgiveness should be applied by SBA within 60 days of Self-Help's receipt of all required forgiveness request documentation. To ensure forgiveness is applied prior to the end of your 6-month deferral period, be sure to submit your complete forgiveness request package to Self-Help no later than 4 months after the date of your PPP Note.

Updated May 17, 2020: **Q: What happens if there is any unforgiven balance on my PPP loan?**

A: Any balance remaining on your loan will be due under the terms of your PPP Note (amortizing payments over the remaining two-year term at 1% interest). If you prefer, you may choose to prepay your PPP Note in full (there is no prepayment fee on your PPP loan.)

Q: What happens if I use my PPP loan funds for purposes that are not eligible?

A: SBA will direct you to repay misused amounts. If you knowingly use the funds for unauthorized purposes, you may be subject to additional liability and charges of fraud. SBA (and Treasury) will also have recourse against all shareholders, members, partners or owners of the borrower if funds were knowingly used for unauthorized purposes.

Q: Are forgiven PPP dollars considered cancellation-of-indebtedness income for federal tax purposes?

A: No. Unlike normal circumstances where canceled debt is considered as taxable income, forgiven PPP loan amounts will not be considered as taxable income.

Added May 5, 2020: Q: Can I include forgiven payroll costs and expenses as deductible expenses in calculating my taxable income?

A: No. Under IRS Notice 2020-32, forgiven PPP loan amounts may not be included as deductions from income on your tax return. For example, if you use PPP loan proceeds to pay eligible rent for May and June, and receive forgiveness for those payments, you may not include May and June rent payments as rent expense on your tax return.

Updated May 17, 2020: Q: Will I have to provide documentation to support my certification that current economic uncertainty makes my PPP loan request necessary to support ongoing operations?

A: This depends on the size of your PPP loan.

- **For loans less than \$2 million:** Your good faith certification made at the time you applied for your PPP loan does not require additional documentation. SBA has determined that any borrower that received a PPP loan of less than \$2 million (including PPP loans to affiliates) will be deemed to have made the required certification in good faith. SBA has determined that this safe harbor is appropriate because borrowers with loans below this threshold are generally less likely to have had access to adequate sources of liquidity in the current economic environment, and because it will promote economic certainty for borrowers with more limited resources as they endeavor to retain and rehire employees.
- **For loans of \$2 million or more:** Your good faith certification made at the time you applied for your PPP loan may require supporting documentation at the time of your forgiveness request. SBA will review your loan for compliance with program requirements, including the basis for your certification that current economic uncertainty makes the PPP loan necessary to support ongoing operations, based on individual circumstances and SBA guidance. While there was initially no guidance provided to applicants with respect to this certification, SBA recently issued guidance that “large companies with adequate sources of liquidity to support the business’s ongoing operations” should carefully assess whether they can make this certification, “taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business.” Treasury noted that “it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith,” and subsequently clarified that this standard also applies to private companies. If SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification, SBA will seek repayment of the outstanding PPP loan balance and the loan will not be eligible for forgiveness. If the borrower repays the loan after receiving notification from SBA, then SBA will not pursue further administrative enforcement or referrals to other agencies with respect to this certification. (Note, SBA also extended its safe harbor date to May 18, but the May 13 update allowing borrowers to repay a loan at the time of SBA’s review appears to replace the need for a safe harbor deadline.)

Added May 17, 2020: Q: If I received an SBA Economic Injury Disaster Loan (EIDL) Advance, does the amount of the EIDL Advance reduce my PPP forgiveness amount?

A: If your PPP loan refinanced an EIDL that you used for Payroll Costs, then the amount of your EIDL Advance will reduce your PPP forgiveness amount. If your PPP loan did not refinance an EIDL because you used your EIDL proceeds to pay other business expenses, then it is unclear whether your EIDL Advance will reduce your PPP forgiveness amount. Despite clear language in the CARES Act that an EIDL Advance is not required to be repaid, current SBA guidance on this point appears to be contradictory.

Added May 17, 2020: Q: What if SBA determines I was ineligible for a PPP loan?

A: SBA may direct a lender to deny your forgiveness request if SBA determines that the borrower was ineligible for a PPP loan.

Added May 17, 2020: Q: What representations and certifications will I be required to make as part of my forgiveness request?

A: SBA requires you to make the following representations and certifications as part of your forgiveness request:

- The dollar amount for which forgiveness is requested:
 - was used to pay costs that are eligible for forgiveness (Payroll Costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments);
 - includes all applicable reductions due to decreases in the number of FTE employees and salary/hourly wage reductions;
 - does not include non-Payroll Costs in excess of 25% of the amount requested; and
 - does not exceed eight weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
- I understand that if the funds were knowingly used for unauthorized purposes, the federal government may pursue recovery of loan amounts and/or civil or criminal fraud charges.
- I have accurately verified the payments for the eligible Payroll Costs and non-Payroll Costs for which I am requesting forgiveness.
- I have submitted to Self-Help Federal Credit Union the required documentation verifying Payroll Costs, the existence of obligations and service (as applicable) prior to February 15, 2020, and eligible business mortgage interest payments, business rent or lease payments, and business utility payments.
- The information provided in this application and the information provided in all supporting documents and forms is true and correct in all material respects. I understand that knowingly making a false statement to obtain forgiveness of an SBA-guaranteed loan is punishable under the law, including 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000. (Please note that Self-Help Federal Credit Union is a federally insured institution.)
- The tax documents I have submitted to Self-Help Federal Credit Union are consistent with those I have submitted (or will submit) to the IRS and/or state tax or workforce agency. I also understand, acknowledge, and agree that Self-Help Federal Credit Union can share the tax information with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of ensuring compliance with PPP requirements and all SBA reviews.
- I understand, acknowledge, and agree that SBA may request additional information for the purposes of evaluating the borrower's eligibility for the PPP loan and for loan forgiveness, and that the borrower's failure to provide information requested by SBA may result in a determination that the borrower was ineligible for the PPP loan or a denial of the borrower's loan forgiveness application.

Self-Help will provide you with additional forgiveness guidance issued by Treasury or SBA as it becomes available and will work with you to help you obtain forgiveness for your loan. You may also check for updates to our Forgiveness FAQ at [PPP Forgiveness FAQ](#). Please reach out to us at postclosing-ppp@self-helpfcu.org if you have further questions about the use of your PPP loan proceeds or forgiveness requirements.