

CARES Act:

SBA Paycheck Protection Loan and Forgiveness Program

Paycheck Protection Loan Forgiveness Overview



Learn how loan forgiveness works for emergency loans and steps to maximize the forgiveness amount



What portions of my loan can be forgiven?

The Paycheck Protection Program is part of the recently signed CARES Act. It's overseen by the Small Business Administration (SBA) and it aims to help eligible companies keep their staff employed by offering low interest, federally backed loans that are partially forgivable under a debt forgiveness program.



Payroll costs as defined by the Paycheck Protection Program may be considered for loan forgiveness. Additional expenses may be also be included or excluded from loan forgiveness.



Included – Any interest (not principal) on existing mortgages or loans, rent, utility (electricity, gas, water, transportation, telephone, or internet access) which was in force prior to Feb 15, 2020.



Excluded – Wages in excess of an annualized \$100k per person (eg $100k \times 8 / 52 = \$9,615$ per person) and FFCRA sick pay tax credits.



Maximum forgiveness is calculated by adding the Payroll costs plus the above included expenses incurred for 8 weeks after the loan has been funded by the lender. The loan can be funded for 2.5 months of just "Payroll Costs" but loan forgiveness is for 8 weeks of all the above expenses following the funding of the loan.

Keep in mind

The amount forgiven is not considered income.

Double Tax Savings Potential:
Not taxed on the forgiveness amount but may take credit for the underlying expenses.

How do layoffs impact the amount of loan forgiveness?

The amount of loan forgiveness will be reduced based on two tests:

- **Test one:** Reduction in Full Time Employees (FTE)
- **Test two:** Reduction in total salary or wages on an employee by employee basis

Test one:

Loan forgiveness based on the percentage of Average Full Time Equivalent (FTE) count is calculated by dividing the employees paid during the 8 weeks prior to the funding of the loan by any of these numbers, at your discretion:

1. The average number of FTEs paid 2/15/19-6/30/19
2. The average number of FTEs paid 1/1/20 – 2/29/20
3. If you are determined to be a seasonal business, you would have to use 2/15/19 – 6/30/19

Test two:

Loan forgiveness will also be reduced by the total dollar amount of any salary or wage reductions to each employee. Follow these steps to calculate:

- Ignore any employees that made over \$100k/yr in 2019
- Compare the salary/wages for the 8 weeks following the funding of the loan compared to the last full quarter the employee was paid (eg Q1 2020 or Q4 2019 for each employee)

Please note, you get a 25% buffer per employee before you have to count any reduction (ie. ignore the first 25% in reduced wages).

Examples of loan forgiveness reduction

Test one:

- You had 20 FTE 2/15/2019 through 6/30/2019
- You have 16 FTE in the 8-week period following the loan origination date
- Forgiveness is reduced 20% (4 out of 20)

The forgiveness would be reduced by \$15k from the salary test on top of the 20% reduction from the FTE test

Test two:

As an example, assume 4 employees had their wages reduced during the 8-week window:

1. Employee 1 went from \$110k to \$60k (45.5% reduction)
 2. Employee 2 went from \$50k to \$37.5 (25% reduction)
 3. Employee 3 went from \$60k to \$40k (33.3% reduction)
 4. Employee 4 went from \$80 to \$50k (37.5% reduction)
- Employee 1 would be ignored because they made more than \$100k in 2019.
 - Employee 2 would be ignored because the reduction didn't exceed 25%.
 - Add Employee 3 and Employee 4 excess reduction (8.3% of \$60k + 12.5% of \$80k = \$5k + \$10k = \$15k).

Preserving or regaining loan forgiveness

If you have already laid off employees, both reduction tests in forgiveness listed above will not penalize you for any reductions in FTE or salary/wages if you take the following actions:

- Rehire laid off employees by June 30, 2020
- Restore reduced salary or wages by June 30, 2020

How do other programs impact loan forgiveness?

There are currently 3 programs that are relevant:

FFCRA tax credit

The FFCRA tax credit against 941 taxes (credited on each invoice) for sick pay paid – You can use this even if you are applying for debt forgiveness, but any FFCRA tax credit will reduce the amount of loan you can take and the amount of forgiveness received.

Tax Deferment of SS tax

Qualified businesses can defer 50% their SS tax obligation through the rest of the year. 50% of deferred amount has to be repaid by 12/31/21 and the other 50% by 12/31/22. This program is unavailable if you want to take advantage of the loan forgiveness.

Employee Retention tax credit

The Employee Retention tax credit of up to \$10k per employee (up to 50% of wages) can be applied to employment taxes (and refunded if in excess of employment taxes) for employers significantly affected. This credit is also unavailable if you want to take advantage of the loan forgiveness.

How do I apply for loan forgiveness?

Because loan forgiveness depends on wages as paid through June, or later based on when you get the loan, you can't apply for it yet. Your SBA lender will help you apply when loan forgiveness applications are available.

Need more guidance? Please see our additional SBA Paycheck Protection Loan and Forgiveness Program resources [here](#).

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