

Calculating Your Loan Forgiveness Under the Paycheck Protection Program*

One of the most complex parts of the Paycheck Protection Program (PPP) is calculating loan forgiveness. [SBA/Treasury's Interim Final Rule is available here.](#)

While we are still awaiting clarification on some specifics, here is what we know so far:

Payments Eligible for Forgiveness

Only costs incurred and payments made for qualifying expenses **during the eight-week "covered period" beginning on the date of the PPP loan advance** will result in forgiveness. For businesses with weekly or biweekly payroll periods, this means eight or four full pay periods included. The following qualifying expenses will be eligible for forgiveness during the covered period:

- Payroll costs** – Has the same meaning as payroll for purposes of determining the amount of the loan, including salaries (compensation up to \$100,000 per employee), group health care benefits, retirement benefits, and state/local taxes on employee compensation.
- Mortgage interest - Any payment of interest on mortgage obligation (not including any prepayment of or payment of principal on a mortgage obligation) that was incurred before February 15, 2020.
- Rent - Any payment of rent under a leasing agreement in force before February 15, 2020.
- Utilities - Any utility payment, including payment for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020.
- Interest on other obligations - Interest on any other debt obligations incurred before February 15, 2020.
- Refinance Economic Injury Disaster Loan – Refinancing of an SBA EIDL made between January 1, 2020 and April 5, 2020.¹

**At least 75% of the PPP loan proceeds must be spent on payroll costs, regardless of timing.

How Forgiveness May be Reduced

There are at least five scenarios where your loan forgiveness could be reduced:

1. **If all loan proceeds are not spent in the 8- week covered period** – Any loan proceeds that exceed qualifying expenses incurred during the 8-week covered period will not be forgiven.
2. **If you don't spend 75% of loan proceeds on payroll.** At least 75% of the PPP loan proceeds must be spent on payroll costs, regardless of timing.
3. **If you reduce the number of full-time equivalent employees** – This scenario is a bit more complicated. First, determine the average of how many full-time equivalent employees (FTEEs) are employed during each pay period in the 8-week covered period. The average is then compared to a base period. Employers may choose to use either (a) February 15, 2019 – June 30, 2019 or (b)

¹ If an EIDL loan is used for payroll costs, the PPP loan must be used to refinance the EIDL. Proceeds from any advance up to \$10,000 on the EIDL emergency grant will be deducted from the loan forgiveness amount on the PPP loan.

January 1, 2020 – February 29, 2020 as a base period. The amount of loan forgiveness is then reduced proportionately to the drop in FTEEs.

Example: An employer applies for and receives a \$100,000 PPP loan. The employer had 10 FTEEs from February 15, 2019 – June 30, 2019, and 20 FTEEs from January 1, 2020 – February 29, 2020. During the 8-week covered period, the employer drops down to an average of 6 FTEEs. The employer chooses to use the February 15, 2019 – June 30, 2019 base period because it is more beneficial. The employer is eligible to have $6/10 = 60\%$ of its \$100,000 loan forgiven, or \$60,000.

Note: We are still awaiting clarification on how to calculate FTEEs.

4. If employee wages are cut by more than 25% – This step requires you to break out a calculator and look at every employee who made less than \$100,000 in 2019 individually. Currently, the CARES Act uses a 12-week base period to compare to the 8-week covered period, which seems like a likely drafting error. Our interpretation of the calculation here assumes an 8-week base period instead:

- Determine the allowed reduction in salary/wages up to 25%. An employee earning \$1,000/wk. could have their salary reduced to \$750 before a loan forgiveness reduction. An hourly employee earning \$20/hr. could have their wages reduced by \$5/hr. before a loan forgiveness reduction.
- If the reduction in wages exceeds the allowed amount, calculate the penalty as: (total reduction in pay – allowed reduction in pay) * 8 weeks. For example, a salaried employee earning \$1,000/wk. has their pay reduced to \$500/wk. during the covered period. Loan forgiveness would be reduced by: $(\$500 - \$250) * 8 \text{ weeks} = \$2,000$.

5. You received an EIDL advanced grant – If you received an advance up to \$10,000 on the EIDL loan, it will be subtracted from the PPP loan forgiveness amount.

Can I Avoid Forgiveness Reduction?

You can avoid forgiveness reduction by eliminating any reduction in FTEEs and/or wages by June 30, 2020. This is another provision where we are awaiting clarification by the SBA for more details.

** This alert was developed by NFIB based on the information currently available regarding the PPP loan program and our best interpretation of the CARES Act, the SBA Interim Final Rule, and related guidance; however, the PPP loan program is evolving rapidly and future guidance from Treasury or the SBA may alter the interpretation of the CARES Act, the Interim Final Rule, and the analysis set forth in this alert. NFIB cannot provide legal or tax advice and is not responsible for any errors or omissions related to an individual business's situation.*

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