



**Calculating Your
Loan Forgiveness Under
the Paycheck Protection Program***

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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](#), and [the Loan Forgiveness Application is located here](#).

While SBA and Treasury have continually provided updates regarding the PPP, we are still awaiting clarification on some specifics. Here is what we know so far:

Payments Eligible for Forgiveness¹

Only costs incurred and/or payments made for qualifying expenses **during the eight-week "covered period"** will result in forgiveness. The covered period normally begins on the date the borrower receives the loan disbursement. For payroll costs only, the borrower may choose an **"alternative payroll covered period"** beginning on the first day of the first pay period following the disbursement date. 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 (annual compensation up to \$100,000 per employee or a maximum of \$15,384 per employee during the covered period), group health care benefits, retirement benefits, state/local taxes on employee compensation, paid leave, and allowances for dismissal or separation.
- **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.

1 The PPP loan may also be used for [interest on any other debt obligations incurred before February 15, 2020](#) and to [refinance an Economic Injury Disaster Loan \(EIDL\) made between January 1, 2020 and April 5, 2020](#), but these are not forgivable expenses.

- **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.

Non-payroll costs must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period.

**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 used must be spent on payroll costs, regardless of timing, or loan forgiveness will be capped. Divide payroll costs by .75 to determine the maximum amount eligible for forgiveness. For example, if payroll costs are \$100,000, then the maximum amount of eligible forgiveness is \$133,333.33 ($100,000/.75$).

3. If you reduce the number of full-time equivalent employees – This scenario is a bit more complicated. First, determine the average number of full-time equivalent employees (FTEEs) 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) January 1, 2020 – February 29, 2020 as a base period. The amount of loan forgiveness is then reduced proportionately to the drop in FTEEs.

To calculate the number of FTEEs a business employs, for each employee, divide the total number of hours worked per week by 40 and then round to the nearest tenth. For example, an employee who works 40 hours a week would count as 1.0 FTEE ($40/40=1.0$).

An employee who works 30 hours a week would count as 0.75 (30/40), which is then rounded up to 0.8. Alternatively, borrowers may choose to use a simplified method that assigns a 1.0 for employees that work 40 or more hours a week and 0.5 to employees that work fewer than 40 hours a week.

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.

Additionally, if the borrower makes a good faith offer to rehire an employee during the covered period and is rejected by the employee, that reduction in FTEEs will not count. Similarly, employees that are (a) fired for good cause, (b) voluntarily resigned, or (c) voluntarily requested and received a reduction in hours will not count as a reduction in 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. Each employee's average salary/hourly wage between January 1, 2020 and March 31, 2020 is compared to the 8-week covered period, prorated to a 52-week pay scale for salaried employees, to see if there was a reduction in salary by more than 25%.

- 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 is applied. An hourly employee earning \$20/hr. could have their wages reduced to \$15/hr. before a loan forgiveness reduction is applied. Note that for hourly employees, overtime pay is factored into the calculation as well.
- 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 restoring any reduction in FTEEs and/or wages by June 30, 2020. If a borrower reduced FTEEs during the covered period, the reduction may be cured if they restore the number of FTEEs to the number of FTEEs employed before February 15, 2020 OR January 1, 2020. If a borrower reduced average wages, the reduction may be cured if they restore average wages to their pre-February 15, 2020 level.

** 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, the Loan Forgiveness Application, 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, the Loan Forgiveness Application, 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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